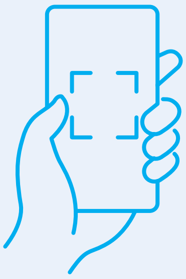
بنك الجزيرة
BANK ALJAZIRA

# Enriching Lives Through Financial Wellbeing

ANNUAL REPORT
2022

بنك الجزيرة
BANK ALJAZIRA



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بسم الله الرحمن الرحيم

**IN THE NAME OF ALLAH,**

THE MOST GRACIOUS, THE MOST MERCIFUL

My primary goal is to create an exemplary and leading nation in all aspects, and I will work with you in achieving this endeavour.

**King Salman bin Abdulaziz Al Saud**
Custodian of the Two Holy Mosques

Our real wealth lies in the ambition of our people and the potential of our younger generations.

**HRH Prince Mohammad bin Salman Abdulaziz Al Saud,**
The Crown Prince, Prime Minister, the chairman of the Council of Economic and Development Affairs and chairman of the Council of Political and Security Affairs

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بنك الجزيرة
BANK ALJAZIRA

# We innovate for the **Future**...
# We succeed through **Partnership**

Digital transformation is inevitable in today's technologically advanced and ever-changing environment. For banks, digital transformation forces them to innovate in order to stay relevant. Providing innovative and transparent financial services will enable you to live a borderless and effortless life. Together, let's embrace a new era.

# Financial Highlights 2022

Financing, net
70,599
SAR Million

Total assets
115,849
SAR Million

Customer deposits
86,023
SAR Million

Total Liabilities
102,240
SAR Million

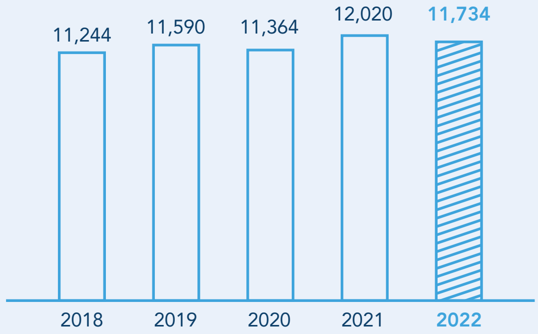
Shareholders' equity
11,734
SAR Million

Net income before Zakat and income tax
1,297
SAR Million

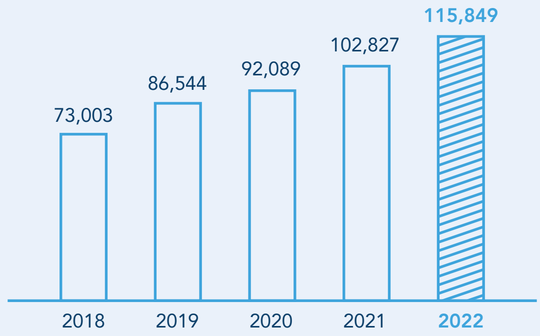
Net income after Zakat and income tax
1,109
SAR Million

Total Operating income
3,495
SAR Million

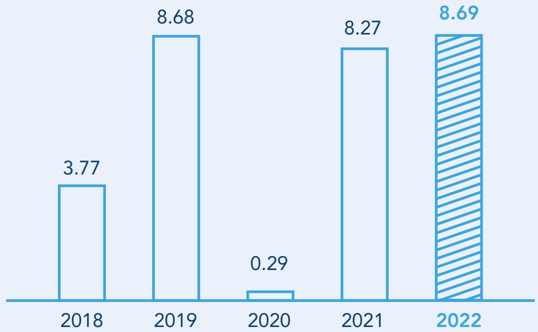
## Shareholders' equity



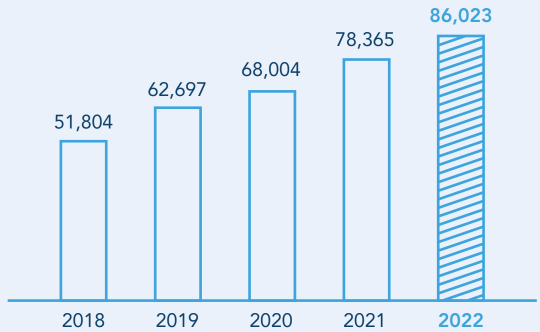

## Total Assets




## Return on average shareholder's equity (%)




## Customer deposits




The net income after Zakat & Income Tax saw a high increase of SR **1,109** million, registering a whopping **10.24%** rise. It rose from SR 1,006 million in 2021

# Our purpose and values

## Our Purpose

Enriching lives through financial wellbeing

## Our Values

We innovate for the Future…
We succeed through Partnership

# Chairman's Statement

# Praises be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers.

**Dear shareholders of Bank AlJazira,**

It gives me great pleasure, on behalf of the members of the Board of Directors of Bank AlJazira to present the Annual Report of Bank AlJazira for the fiscal year (FY) 2022. This report highlights the Bank's performance during the post-COVID-19 recovery period.

Vision 2030 has brought about a significant change in Saudi Arabia's economy, presenting many opportunities for the financial services sector through Vision's programs, which aims to be one of the key players in this process. The pandemic accelerated the shift towards transformation, which has increased the emergence of financial technology and the world's adoption of digital banking.

The strong recovery in oil sector GDP coupled with a strong expansion in the non-oil sector led to the growth of the economy in 2022 by 9.9% which is a strong incentive for us to make further progress in 2023. Also, listed Saudi banks increased their total assets by the end of the third quarter of 2022 by 12.96% year-on-year, an increase equivalent to 382.01 billion Saudi riyals over their value at the end of the same quarter last year.

In line with the Bank's strategic objectives to support digital growth, and in pursuit of enriching lives through financial well-being, we continue to expand and support automation and business process re-engineering by adopting new technologies such as artificial intelligence, machine learning and other solutions. This was made possible through the efforts of Bank AlJazira's automation and robotics team and the targeted partnerships with fintech companies aimed at enhancing the customer experience, improving the quality of the products and services offered to them, as well as fulfilling development plans and contributing positively to the objectives of Vision 2030.

Bank AlJazira carries on its journey towards achieving sustainability and social responsibility through continuous support for various projects that promote the principles of sustainability and social responsibility, which reflects a positive image of the bank as a responsible financial institution that is working on effective plans and projects that help achieve a positive impact on the economy, environment and social aspects, through various partnerships with non-profit entities, NGOs, the private sector and the government sector.

During this year, the system for sustainability was established at BAJ after the approval of the Board of Directors to issue annual sustainability reports, and the name of the Social Responsibility Group was changed to "Sustainability & Social Responsibility Group" in addition to changing the name of the Social Responsibility Committee to "Sustainability & Social Responsibility Committee", thus establishing the role of sustainability through sustainable practices and drawing a sustainability roadmap for BAJ to work on initiatives, indicators and implementation mechanisms by initiating the transformation leadership and forming links between different sectors centered around knowledge.

In this context, the Bank contributed through sustainability and social responsibility programs in the field of sustainability and the environment by sponsoring the Social Responsibility and Green Economy Forum under the title "The Road to Carbon Neutrality" to promote a culture of reducing carbon emissions. In addition to that, Bank AlJazira sponsored the "Environmental Conservation is a Pledge and a Promise" initiative, which contributed to promoting a culture of preserving the cleanliness of touristic wild parks, as well as implementing an orientation program for leaders of environmental associations in the Kingdom.

Bank AlJazira contributes - through the program "Khair AlJazira Le Ahl AlJazira"- in the implementation of a number of unprecedented projects in the field of


In line with the Bank's strategic objectives to support digital growth, and in pursuit of enriching lives through financial well-being, we continue to expand and support automation and business process re-engineering by adopting new technologies such as artificial intelligence, machine learning and other solutions

community service and meeting the aspirations of those communities in all regions of the Kingdom, which amounted to more than 107 community projects in more than 40 cities, governorates and centers, resulting in more than 20,970 beneficiaries throughout the year 2022.

Following the publication of the Arabic edition of the book "Bank AlJazira's experience in transformation into Islamic Finance" last year, the Shariah Group translated and printed this book

Bank AlJazira carries on its journey towards achieving sustainability and social responsibility through continuous support for various projects that promote the principles of **sustainability and social responsibility**

in English and French and distributed it to financial institutions and parties interested in Islamic finance industry.

Bank AlJazira has received a number of local and international awards and recognitions that reflect the integrity and professionalism of the bank and its efforts in providing exceptional products and services to its valued customers, most notably the Most Innovative Islamic Bank Award and the Best CSR Bank Award in the Kingdom of Saudi Arabia for the year 2022, which were awarded by International Finance Magazine.

On behalf of the Board of Directors and shareholders, I would like to express our appreciation and gratitude for the continuous support of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, HRH Prince Mohammed bin Salman bin Abdulaziz Al Saud, Crown Prince and Prime Minister, Chairman, Council of Political and Security Affairs, Council of Economic and Development Affairs, and all government ministers for guiding us commendably through these tumultuous times. I thank the Board of Directors, the BAJ Executive management team, and all our staff for their support and efforts as we continue our journey in serving the needs of our clients and country, by creating a strong and profitable bank for our shareholders.

The Board also takes this opportunity to express its sincere thanks and appreciation to the Bank's shareholders and customers for their continued confidence and support. The Bank's management and all the staff members also deserve our heartfelt thanks and congratulations for giving their best performance and achievements.
Lastly, we pray to the Lord Almighty for prosperity and fulfillment to achieve more success, and prayers upon our Messenger, Prophet Mohammed – May peace be upon him, his descendants and all his followers.

Peace and blessings upon you,

**Engr. Tarek Othman Al-Kasabi**
Chairman of the Board of Directors
Bank AlJazira


> Bank AlJazira has received a number of local and international awards and recognitions that reflect the integrity and professionalism of the bank and its efforts in providing exceptional products and services to its valued customers, most notably the Most Innovative Islamic Bank Award and the Best CSR Bank Award in the Kingdom of Saudi Arabia for the year 2022, which were awarded by International Finance Magazine

# Board of Directors

**Engr. Tarek bin Othman Al-Kasabi**
Chairman of the Board

**Engr. Abdulmajeed bin Ibrahim Al-Sultan**
Deputy Chairman of the Board

**Mr. Ibrahim bin Abdul-Aziz Al-Shaia**
Member

**Mr. Naif A. Al-Abdulkareem**
Member

**Mr. Adil Saud Dahlawi**
Member

**Mr. Abdulwahab Abdulkarim Albetari**
Member

**Mr. Saad Ibrahim Almushawah**
Member

**Mr. Mohammed Saad Bindawood**
Member

**Mr. AbdulLatif K. Al Melhem**
Member

# CEO and Managing Director Statement

# Praises be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers,

**Dear Bank AlJazira Shareholders, Greetings….**

On behalf of my honorable fellow members of the Board of Directors, it gives me great pleasure to present to you Bank AlJazira's annual report, which sums up the development of the financial performance and operating activities of the bank for the year 2022.

The year 2022 was filled with challenges and difficult repercussions, which undoubtedly affected the inflation rate and contributed to a significant decline in global growth. In turn, by the grace of God Almighty and the vision of our wise leadership, the Saudi economy recorded a positive shift among all sectors during 2022, mainly in the financial sector, which led to achieving a growth rate of 8.7%, the highest among the world's largest economies in the G20, according to the latest reports issued by the World Bank. Alongside this growth, Bank AlJazira continues to achieve its strategy towards growth and excellence in order to contribute effectively to advancing the economic development in the Kingdom and fulfilling the aspirations of the shareholders.

This report comprises a detailed overview of Bank AlJazira's performance for the year 2022, where positive indicators continue to show in the Bank's various main business operations. The great efforts made by the executive management and employees of Bank AlJazira, as well as the competencies and the capabilities of the Bank's various departments alongside the leadership of the Bank's business operations, helped achieve strong financial performance and sustainable returns on investments during 2022.

In terms of the Bank's financial performance, net income at the end of the year increased by 10.24%. – After deducting Zakat and income tax – and within the same context, net financing increased to reach SAR 70.6 billion by the end of 2022, achieving an increase of 13%, and during the same period, the investment portfolio grew by 10.2% compared to the previous year. Earnings per share amounted to SAR 1.26 for the year 2022, total assets increased by 12.7% compared to the previous year, and total deposits reached SAR 86.0 billion, achieving an increase of SAR 7.7 billion by the end of 2022, amounting to 9.7%.

And within the framework of the Executive Management's commitment to respond to the dynamic market trends, Bank AlJazira continued to enhance the role of governance through annual reviews of all internal policies, updating all the Bank's governance regulations, as well as the work regulations of the Board and related committees and policies, in accordance with the principles of sound corporate governance. Bank AlJazira is always seeking to implement continuous improvements to the governance of operational activities, benefiting from the latest tools and technologies, including building a strong customer base in order to make a positive impact in support of Vision 2030, the Financial Sector Development Program (FSDP), and achieving digitalization through bold partnerships with numerous Fintech companies, which will lead to further growth in the volume of the bank's business operations.

During the past year, Bank AlJazira continued to provide financial plans that enable its customers to save, invest and plan for their future, and the Bank looks forward to providing valuable and unique offers, enriching

Bank AlJazira continued during 2022, within the framework of the "Tawteen Program" and based on the senior management's confidence in national competencies, to work on increasing the Saudization rate, by offering the **"Future Leaders"** Program to attract the top Saudi talents and opening internship opportunities for university students.

Net income increased by

10.24%

(after Zakat and income tax)

Financing, net

70.6

SAR Billion

Customer deposits

86.0

SAR Billion

Bank AlJazira continued to provide financial plans that enable its customers to save, invest and plan for their future, and the Bank looks forward to providing valuable and unique offers, enriching lives through financial well-being

lives through financial well-being, focusing on the market and small and medium enterprises, supporting them with "Kafalah" programs, and to be a bank that focuses on individuals and combines the power of one bank, between AlJazira Capital and the Private Banking and Wealth Management Group.

And because success is based on the human capital, after the grace of the Almighty, which represents the real wealth of any successful institution, Bank AlJazira continued during 2022, within the framework of the "Tawteen Program" and based on the senior management's confidence in national competencies, to work on increasing the Saudization rate, by offering the "Future Leaders" Program to attract the top Saudi talents and opening internship opportunities for university students. The number of training days reached 10,255 days in various fields during 2022, which contributed to increasing the Saudization rate to reach 95.77%, in addition to enhancing women's participation in the workforce, as the percentage of females increased to 21.3% during the past year. In addition to that, Bank AlJazira launched a comprehensive transformation project for elevating the human capital's culture in order to achieve the best work environment, and to provide the skills required to support the Bank's strategy aimed at improving the self-services of the human capital system, enabling us to achieve the goal of efficiency of daily operations.

From this standpoint, I can only extend, on behalf of all Bank AlJazira employees and members of the Board of Directors, my gratitude and appreciation to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud – may God protect him – and to the visionary and patron of Vision 2030, His Royal Highness Prince Mohammed bin Salman bin Abdulaziz Al Saud, Crown Prince and Prime Minister, for their support, concern and interest in all government and private sectors, which is reflected in our financial and economic position globally.

I would also like to extend my thanks and appreciation to the Ministry of Finance, the Saudi Central Bank, and all concerned authorities, for their unlimited support to the Saudi financial sector, which we have seen directly during the past years. Also, a special thanks to all the shareholders and distinguished customers of Bank AlJazira who gave us their trust, which reflected positively on the results of the bank's business operations, and we promise them to continue to exert maximum efforts to be worthy of this precious trust in the years to come.

Last but not least, I would like to thank my esteemed colleagues and members of the Board of Directors for their expertise and advice, which undoubtedly contributed in strengthening Bank AlJazira's position at the local and international levels, and to all my fellow employees – success partners – who tirelessly exerted the highest efforts to achieve the aspirations of all stakeholders.

Wishing our prestigious financial organization further development, growth and prosperity to achieve the best results during 2023 and beyond.

Regards,

**Mr. Naif A. Al Abdulkareem**
CEO & Managing Director
Bank AlJazira

# Executive Management

**Mr. Naif A. Al Abdulkareem**
CEO and Managing Director

**Mr. Khalid Al-Othman**
Senior Vice President and Head of Retail Banking Group

**Mr. Ahmed S. Al-Hassan**
Senior Vice President and Chief Operating Officer

**Mr. Osama K. Al-Ibrahim**
Senior Vice President and Chief Risk Officer

**Dr. Fahad A. Al-Elayan**
Senior Vice President and Head of Sharia and Social Responsibility Group

**Mr. Abdulaziz Al-Zammam**
Senior Vice President and Chief Internal Audit Executive

**Mr. Hamad I. Al-Essa**
Senior Vice President and Chief Compliance & Anti Financial Crime Officer

**Mr. Faisal M. Al-Mansour**
Senior Vice President and Head of Human Capital Group

**Mr. Sami J. Al-Mehaid**
Senior Vice President and Head of Corporate and Institutional Banking Group

**Mr. Hani S. Noori**
Senior Vice President and Chief Financial Officer

**Mr. Nahim Y. Bassa**
Senior Vice President and Head of Strategy & Digital Transformation Group

**Mr. Hani A. Araki**
Senior Vice President and Head of Treasury Group

**Mr. Sultan S. Al-Qahtani**
Senior Vice President, Board Secretary & Head Of Corporate Governance Group

**Mr.Badr A. Al-Rashodi**
Vice President and Head of Customer Experience and Protection Division

# Board of Directors' Report

The Board of Directors is pleased to submit to the shareholders the annual report of Bank AlJazira for the financial year ended on 31 December 2022.

## Introduction

Bank AlJazira here-in-after referred to as "the Bank" or "BAJ" is a joint Stock Company incorporated in the Kingdom of Saudi Arabia and established pursuant to Royal Decree No. 46/M dated Jumada Al-Thani 12, 1395H (i.e. June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of the National Bank of Pakistan's (NBP) branches in the Kingdom of Saudi Arabia.

The Bank operates under commercial registration No. 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The issued and fully paid up share capital of the Bank amounts to SAR 8.2 billion divided into 820 million shares of SAR 10 each.

The objective of the Bank is to provide a full range of Shari'ah compliant banking products and services to Retail and Corporate customers including: current accounts, saving accounts, Murabaha, Istisna'a, Ijarah, Tawarruq, Musharaka, Wa'ad foreign exchange, credit cards and Sukuk which are approved and supervised by an independent Shari'ah Committee.

The Bank conducts its business through the Bank's departments and branches all over the Kingdom and has no branches operating abroad.

The Bank is recognized as one of the leading Shari'ah compliant fast-growing financial institution in Saudi Arabia, which provides individuals, businesses and institutions with innovative Shari'ah compliant financial services through professional and dedicated staff.

## Five-year financial highlights

**The table below depicts the five-year historical financial performance of the Bank:**

**Financing, net:** Totaled SAR 70.6 billion at 2022 year-end, registering an increase of 13.1% compared to SAR 62.4 billion in 2021. The Bank continued to further diversify the financing portfolio over various economic sectors and broadened the client base, thus lowering the risk of concentration.

**Due from banks and other financial institutions:** Total outstanding amount as at the end of 2022 was SAR 1.7 billion versus SAR 0.7 billion in 2021. This is a short-term activity and represents the day to day liquidity / cash flow management.

**Investment Book:** The investment portfolio comprises of Sukuks, investment in equities and mutual funds. Total portfolio at 2022 year-end was SAR 34.6 billion versus SAR 31.4 billion in 2021, an increase of 10.2%. This increase is mainly due to additional investment in government and corporate Sukuks.

**Total Assets:** Total assets amounted to SAR 115.8 billion at the end of 2022, as compared to SAR 102.8 billion in 2021, representing an increase of 12.7% over the previous year.

**Customer Deposits:** Customer deposits increased by 9.8% to SAR 86.0 billion as at the end of 2022, compared to SAR 78.4 billion in 2021. The increase is mainly due to increase in customers' time investments by 21.2 % from SAR 37.1 billion to SAR 44.9 billion.

**Total Liabilities:** Amounted to SAR 102.2 billion as at the end of 2022, compared to SAR 88.9 billion in 2021, representing an increase of 15.0% over the previous year

## Geographical analysis of income:

The bank realizes its operational income from its activities in the Kingdom of Saudi Arabia and has no branches operating abroad. The table below depicts region-wise analysis of the total operating income of the bank. The operating profit of

**Financial highlights**

| (SAR millions, except as otherwise indicated) | 2018 | 2019 | 2020 | 2021 | **2022** |
|---|---|---|---|---|---|
| Financing, net | 40,897 | 49,660 | 53,961 | 62,434 | **70,599** |
| Total assets | 73,003 | 86,544 | 92,089 | 102,827 | **115,849** |
| Customer deposits | 51,804 | 62,697 | 68,004 | 78,365 | **86,023** |
| Total Liabilities | 61,759 | 74,955 | 80,724 | 88,932 | **102,240** |
| Shareholders' equity | 11,244 | 11,590 | 11,364 | 12,020 | **11,734** |
| Net income before Zakat and income tax | 1,000 | 1,122 | 31 | 1,153 | **1,297** |
| Net income after Zakat and income tax | 378 | 991 | 34 | 1,006 | **1,109** |
| Total Operating income | 2,665 | 2,977 | 3,287 | 3,547 | **3,495** |
| Net income growth (%) | (54.42) | 161.98 | (96.59) | 2880.61% | **10.24** |
| Total Operating income growth (%) | 3.30 | 11.72 | 10.41 | 7.91 | **(1.46)** |
| Return on average shareholders' equity (%) | 3.77 | 8.68 | 0.29 | 8.27 | **8.69** |
| Return on average assets (%) | 0.54 | 1.24 | 0.04 | 1.03 | **1.01** |
| Earnings per share (SAR) | 0.50 | 1.21 | 0.04 | 1.18 | **1.26** |

**Notes:** Earnings per share and other ratios for the current and prior years have been calculated based on net income for the year after Zakat and income tax (adjusted for Tier 1 Sukuk related costs). Starting from the quarter ended June 2019 the Bank changed its accounting policy for reporting zakat and income taxes and has reported zakat and income tax through the statement of income for the year-ended 2019 and restated the year-ended 2018. Previously zakat and income tax were reported in the statement of changes in equity.

Bank AlJazira includes the operational income of AlJazira Capital (100 % subsidiary of the bank) which amounted to SAR 341 million as of the end of for 2022.

SAR '000

| Regions | Central | Eastern | Western | Total |
|---|---|---|---|---|
| Total Groups Operating Income | 1,197,565 | 329,257 | 1,968,488 | 3,495,310 |

## Main Business Segments

The Bank's activities consist mainly of the following business lines:

| | |
|---|---|
| **Personal banking** | Deposit, credit and investment products for individuals. |
| **Corporate banking** | Financing, deposits and other credit products for corporate, small to medium sized business and institutional customers. |
| **Treasury** | Treasury includes money market, foreign exchange, trading and treasury services. |
| **Brokerage and asset management** | Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company). |
| **Others** | Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate. |

Customer deposits increased by **9.8%** to **SAR 86.0 billion** as at the end of 2022, compared to SAR 78.4 billion in 2021. The increase is mainly due to increase in customers' time investments by 21.2 % from SAR 37.1 billion to SAR 44.9 billion.

The table below depicts total operating income, total operating expenses, and net profit before zakat and income tax for each operating segment:

(SAR'000)

| 2022 | Personal Banking | Corporate Banking | Treasury | Brokerage and Asset Management | Others | Total |
|---|---|---|---|---|---|---|
| Total operating income | 1,816,030 | 807,534 | 814,893 | 340,530 | (283,677) | 3,495,310 |
| Total operating expenses | (1,353,642) | (473,788) | (189,575) | (190,774) | 2,098 | (2,205,681) |
| Share in net income of associates | - | - | - | 1,004 | 6,022 | 7,026 |
| Net income/(loss) before zakat and income tax | 462,388 | 333,746 | 625,318 | 150,760 | (275,557) | 1,296,655 |

Total Operating income
**3,495,310**
SAR Thousand

Total Operating expenses
**2,205,681**
SAR Thousand

Share in net income of associates
**7,026**
SAR Thousand

Net income/(loss) before Zakat and income tax
**1,296,655**
SAR Thousand

## Subsidiaries and Associates

The following table summarizes the names of subsidiaries/associate, their share capital, the Bank's holding percentage, their main business, their principal country of operation and country of incorporation as at 31st December 2022:

| Subsidiaries / Associate | Country of incorporation | Country of operation | Nature of business | Share Capital | Ownership |
|---|---|---|---|---|---|
| **Subsidiaries:** | | | | | |
| AlJazira Capital Company (Closed Joint-Stock Company) | Saudi Arabia | Saudi Arabia | Brokerage and asset management | SAR 500 million | 100% |
| Aman Development and Real Estate Investment Company (Limited-Liability Co.) | Saudi Arabia | Saudi Arabia | Holding and management of real estate collaterals on behalf of the Bank | SAR 1 million | 100% |
| Aman Insurance Agency Company (Limited Liability Co.) [ under liquidation – note (a) below] | Saudi Arabia | Saudi Arabia | Acting as an agent for bancassurance activities on behalf of the Bank | SAR 500 Thousand | 100% |
| Al Jazira Securities Limited (Limited Liability Co.) | Cayman Islands | Saudi Arabia | Carry out Shari'ah compliant derivative and capital market transactions | Authorized capital: USD 50,000 Paid up capital: USD 100 | 100% |
| BAJ Sukuk Tier 1 Limited (Limited Liability Co.) | Cayman Islands | Saudi Arabia | Trustee for issuance of Tier 1 Sukuk certificates | Authorized capital: USD 50,000 Paid up capital: USD 250 | 100% |
| **Associate:** | | | | | |
| AlJazira Takaful Ta'awuni Company (Listed Joint-Stock Company) | Saudi Arabia | Saudi Arabia | Shari'ah compliant protection and saving products | SAR 550 million | 26.03% |

The issued share capital of AlJazira Capital Company amounts to SAR 500 million divided into 50 million shares of SAR 10 each. The issued share capital of Aman Development and Real Estate Investment Company amounts to SAR 1 million divided into 100 shares of SAR 10,000 each. The issued share capital of Aman Insurance Agency Company amounts to SAR 500,000 divided into 50,000 shares of SAR 10 each. The authorized capital of Al Jazira Securities Limited amounts to USD 50,000 and its paid-up capital is USD 100 divided into 100 shares of USD 1 each. The authorized capital of BAJ Sukuk Tier 1 Limited amounts to USD 50,000 and its paid-up capital is USD 250 divided into 250 shares of USD 1 each. The issued share capital of AlJazira Takaful Ta'awuni amounts to SAR 550 million divided into 55 million shares of SAR 10 each.

The Bank confirms that there were no debt securities in issue for any of these subsidiaries.

Note (a): During financial year 2021, Aman Insurance Agency Company (the Company) applied for its license renewal from Saudi Central Bank ("SAMA"), however, it was not renewed, as SAMA had issued rules governing bancassurance activities during May 2020 which require the banks to carry out Bancassurance business directly. This, as a result, restricted the ability of the Company to carry out business activities and therefore, management of the Company decided to initiate the winding up procedures which are in process as at 31 December 2022.

## Bank's Profitability and growth of financial assets and liabilities

The Bank has recorded a net income before zakat and income tax of SAR 1,296.7 million for the year ended December 31, 2022. This represents an increase of SAR 143.5 million or 12.4% compared to SAR 1,153.2 million during the financial year 2021. The net profit after zakat and income tax for the year ended December 31, 2022 was SAR 1,109.1 million. This represents an increase of SAR 103.0 million or 10.2% compared to SAR 1,006.1 million for the financial year 2021. Net income has increased by SAR 103.0 million or 10.2 % due to a decrease in total operating expenses by SAR 235.7 million or 9.7%, from SAR 2,441.4 million to SAR 2,205.7 million. The reduction in total operating expenses is mainly due to a decrease in net impairment charge for financing and other financial assets which for the year ended December 31, 2022 was SAR 286.3 million compared to SAR 624.6 million in the previous year, representing a decrease of 54.2%. This was partially offset by an increase in other general and administrative expenses by SAR 108.8 million, or 21.7% from SAR 502.6 million to SAR 611.4 million.

On the other hand, Total operating income has decreased by 1.5% during the current year. This was mainly due to a decrease in net financing and investment income by SAR 109.8 million, or 4.0% from SAR 2,717.1 million to SAR 2,607.4 million, net gains on de recognition of financial assets at amortized cost by SAR 70.0 million from SAR 95.5 million to SAR 25.5 million and Fees from banking services, net by SAR 58.3 million from SAR 546.4 million to SAR 488.1 million. This decline was partially offset by an increase in net gain on FVIS financial instruments by SAR 62.3 million, from a loss of SAR 11.6 million to a gain of SAR 50.7 million, other operating income by SAR 52.2 million, from SAR 12.1 million to SAR 64.3 million, dividend income by SAR 44.2 million, from SAR 0.8 million to SAR 45.0 million and exchange income, net by SAR 34.8 million, from SAR 172.6 million to SAR 207.4 million.

The increase in net income was also partially offset due to higher zakat charge by SAR 40.4 million, from SAR 138.4 million to SAR 178.8 million and absence of a one-time gain on deemed disposal of an associated company amounting to SAR 39.4 million that was recorded in 2021.

Earnings per share were SAR 1.26 for the year ended 31 December 2022 against SAR 1.18 for the financial year 2021. Total assets were SAR 115.8 billion as at 31 December 2022, compared to SAR 102.8 billion as at 31 December 2021, an increase of 12.7% or SAR 13.0 billion. Net financing to customers amounted to SAR 70.6 billion as at 31 December 2022, an increase of SAR 8.2 billion, or 13.1%, from SAR 62.4 billion as at 31 December 2021. The Bank's investment portfolio totaled SAR 34.6 billion as at 31 December 2022, an increase of SAR 3.2 billion or 10.2 % compared to SAR 31.4 billion as at 31 December 2021. Total liabilities were SAR 102.2 billion at 31 December 2022, compared with SAR 88.9 billion as at 31 December 2021, an increase of 15.0% or SAR 13.3 billion. Customer deposits totaled SAR 86.0 billion as at 31 December 2022, an increase of SAR 7.7 billion, or 9.8%, compared to SAR 78.4 billion as at 31 December 2021. Due to banks and other financial institutions totaled SAR 12.1 billion as at 31 December 2022, an increase of SAR 5.7 billion, or 89.0%, compared to SAR 6.4 billion as at 31 December 2021. There was no change in the Subordinated Sukuk (without transaction costs) balance during the year which totaled SAR 2.0 billion as at 31 December 2022.


## Borrowings and Sukuk in issue

In the course of normal business practices, the Bank exchanges borrowings and funds with other banks and SAMA, in accordance with the profit rates prevailing in the market and are appropriately disclosed in the consolidated financial statements of the Bank.

**SAR 1,875 million (denominated in US Dollars) Perpetual Tier 1 Sukuk**

During financial year 2021, the Bank through a Shariah compliant arrangement issued cross border Tier 1 Sukuk, amounting to SAR 1.875 billion (denominated in US Dollars). This arrangement was approved by the regulatory authorities and the Board of Directors of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukuk-holders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk agreement.

The applicable profit rate is 3.95% per annum from date of issue up to 2026 and is subject to reset every 5 years. The applicable profit on the Sukuks is payable semi-annual 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 non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

This Sukuk has been treated as "Equity" instrument in line with the requirements of IAS 32- 'Financial Instruments: Presentation' and shown as part of total equity in the consolidated financial statements of the Bank.

**SAR 2,000 million 10-year subordinated sukuk (Tier 2 Sukuk)**

On December 08, 2021, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SAR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 155 basis point per annum and payable semi-annually in arrears on December 08 and June 08 each year until December 08, 2031, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after December 08, 2026 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with Saudi Exchange (Tadawul).

| As at 31 December 2022 | SAR'000 |
|---|---|
| SAR 2,000 million 10-year subordinated sukuk | 2,000,000 |
| **Total** | **2,000,000** |

Note: In the financial statements the amount has been shown at amortised cost in line with IFRS requirements

## Borrowing from Banks and other financial institutions

Total outstanding at the end of 2022 were SAR 12.1 billion versus SAR 6.4 billion in 2021, higher by SAR 5.7 billion or 89.0%. This is a short-term activity and represents day to day liquidity / cash flow management.

## Disclosure of details of the treasury Shares held by the Bank and details of uses of these Shares

The Bank does not hold treasury shares.

## Staff Benefits and Schemes

To be in line with the supervisory directives issued by SAMA and the principles of the Financial Stability Board (FSB), the bank is conducting a periodic researches to ensure consistency of compensation structure of the employees which is being submitted to be revised by the Nomination and Remuneration Committee.

Compensation and benefits levels and amounts are determined by conducting periodic research that includes salary benchmark surveys and through other means of market pay intelligence, in order to enable Bank to keep abreast of the local and regional market conditions relating to bank staff employed in the Kingdom, which are contrasted to cyclical performance levels, and mitigated for any associated risks.

The distribution of compensation is composed of a pay mix of fixed and variable pay, allowances, periodic reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to the Labor Law of the Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefits are due for payment at the end of a staff service period.

The total accrued amount of End of Service Benefits outstanding at the end of December 2022 totaled SAR 291.8 million.

## Key Risks Faced by The Bank

Bank AlJazira (BAJ) has adopted a robust, transparent and prudent approach towards Risk Management and thus continues to invest into building an infrastructure that is able to proactively identify, assess, measure and control the risks the Bank is faced with on an Enterprise Wide basis. As a core risk management practice, the management keeps a close track of the top and emerging risks that are expected to emanate and challenge not only the International economies and financial markets but also their ripple effects on the Saudi Economy and thus the Financial Industry.

Some of the most prominent national and global issues, opportunities and considerations are as follows:

- According to the IMF's World Economic Outlook Update, Russia's invasion of Ukraine, and the rising interest rates all weigh heavily on the outlook. Global growth is forecast to slow to 3.2% percent in 2022 and 2.7% in 2023. Global inflation is forecast to rise to 8.8% in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024.
- As reported by OPEC, oil demand will rise in 2023 by 2.5%. This is expected to lead to a global economy's recovery that is estimated to result in yearly and quarterly increases in oil consumption.
- The strong recovery in oil GDP along with the robust expansion in the non-oil sector lead to an economic growth in 2022 by 9.9%. The Public Investment Fund (PIF) is expected to continue to provide additional stimulus to the KSA economy.
- The annualized real Gross Domestic Product growth was the quickest since 2011, in oil-related economic activity in the Kingdom - Opec's biggest crude producer, grew by 23% on an annual basis. Non-oil economic activity rose to 8.2%, revised higher by (GASTAT) from its 5.4% flash estimates. The Kingdom's economy is set to grow at the quickest pace in a decade and could be one of the world's fastest-growing economies.
- Saudi Arabia's balance of payment position is expected to improve and strengthen over the medium term. This will be fueled by a rebound in oil exports and an increasing share of non-oil exports, as well as higher tourist receipts and both direct and portfolio investments.
- The Financial Sector Development Program (FSDP), one of the 12 Vision Realization Programs, has seen significant development in critical areas. SME lending, capital markets, and digital banking and financial services have all seen remarkable progress.

### 1. Maintenance of Capital Adequacy:

Management ensured that the Bank continues to maintain adequate levels of quality capital, allowing it to support and maintain the envisaged growth in Risk Weighted Assets (RWA) and also meet the regulatory capital adequacy expectations. In this regard, the Bank has implemented a well thought out capital enhancement strategy, which takes into consideration the underlying advantages, limitations, cost of capital generation and implementation timelines.

In its endeavor to fortify the Bank's capital position, the management continues to remain vigilant and has strategized optimal scenarios which would ensure not only the quantity of capital but also the quality of the capital whilst meeting the regulatory expectations. The Bank is fully geared towards implementation of Basel III PCR (Basel IV) which is set to take effect across The Kingdom by Q1 2023. Necessary projects are already underway to deliver the related functionalities and capital adequacy reforms envisaged under the new regime.

### 2. Liquidity Management:

One of the key risks emanating from the recent global events and their impact on the regional and local financial markets has been the generation of liquidity / funds at a cost that does

The Bank has given due focus to ensure that the quality of assets, across its lines of business remains of a satisfactory quality

not outweigh the inflow of economic benefits derived from the financed assets. BAJ's management is cognizant of its liquidity requirements after taking into consideration the current and planned business requirements. Therefore, the Bank has put in place a robust liquidity management framework which ensures a proactive identification of current and assessed liquidity requirements and gauges the same against the cost of such liquidity. The Bank's ALCO team remains focused on ensuring that funding / liquidity remains at reasonable costs while providing the Bank an opportunity to finance the growth of high yielding assets. The Bank has also implemented a comprehensive ILAAP (Internal Liquidity Adequacy Assessment Process) regime in accordance with regulatory mandate. ILAAP primarily focuses on the Bank's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with liquidity events.

### 3. Asset Quality:

The Bank has given due focus to ensure that the quality of assets, across its lines of business remains of a satisfactory quality, thus rationalizing any unwarranted classifications, provisioning and / or write-offs. The Bank has generally remained selective across all business segments and has approached its target customer segments with a well-defined approach based on:

- A clearly spelled out Credit Policy which has been recently revised.
- Well defined Target Market, and Risk Acceptance Criteria
- Identified industry segments in terms of risks, rewards, regulatory requirements and their performance trends.
- Risk Appetite Framework to ensure risk associated with a particular Business line is duly reflected in the underlying Risk Appetite Matrices to be monitored, reviewed and reported in accordance with Board approved limits.
- Maintenance of a Target Obligor Risk Rating across its business segments and portfolios to ensure that the same supports the planned asset quality growth, probability of default and cost of credit estimates. The Bank has implemented IFRS-9 through a structured approach to adopt IFRS-9 Expected Credit Losses (ECL) framework in line with the regulatory mandate.

## Market Risk Management

The Bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macroeconomic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The Bank continuously monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits. Market Risk is subject to the following drivers:

- Maximum Cumulative Outflow of the Balance Sheet.
- Economic Value of Equity (EVE) and Stressed EVE (ΔEVE)
- Liquid Assets Ratio (SAMA Liquidity Ratio).
- Net Stable Funding Ratio (NSFR)
- Liquidity Coverage Ratio (LCR)
- Loan-to-Deposit Ratio (LDR)
- Concentration of Funding Sources
- Market Risk Factors

### Market Risks

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices.

### Management of Market Risks

Delegated by the Board, the Market Risk Policy Committee (MRPC) is responsible for the policies, limits and controls used in managing market risks. The Bank has an approved Market Risk Policy and Treasury Limits Package that clearly defines policies, procedures, and limits of market risk exposures.

The primary objective is to manage volatility in earnings and highlight the market risk and liquidity risk profile to Senior Management, Management Risk Committee, Asset and Liability Committee (ALCO), Board Risk Committee (BRC), the Board of Directors and SAMA.

### Foreign Exchange Risks

Foreign Exchange risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The MRPC has set limits on Net Open Positions by currency. There are limits for USD, Other G10 Currencies, GCC Currencies, and currencies in other regions. The Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a limited extent in United States Dollars (USD) or in USD-pegged currencies.

### Equity Price Risk

Equity price risk refers to the risk of a decrease in fair values of the Bank's investments in equities. The Bank's portfolio of securities is regularly marked to market and positive/ negative changes are taken into the Bank's equity or income statement.

### Capital Treatment for Market Risk

Bank AlJazira computes the minimum capital requirements against market risk using the Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk and liquidity risks are covered under BASEL Pillar 2 risk assessments which are the primary risk factors experienced in the Bank's activities. For the next year (2023) The Bank has initiated various projects to implement the Basel IV reform. Accordingly in line with SAMA requirements, the Bank will adopt the new mandated approach under Market Risk for calculating Market Risk charge.

### Stress Testing

The Bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the Bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal market conditions using multiple scenarios, and undertake the appropriate measures. Given the current economic environment, a broad spectrum of scenarios including liquidity and impact on sources of funding are considered in line with applicable regulatory guidelines. These scenarios are updated and may be redefined on an ongoing basis. The Stress Test results are reported to Senior Management, Board Risk Committee, Management Risk Committee, the Board and SAMA to facilitate and manage risk resilience with more transparency.

**Liquidity Risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the Bank maintains an adequate balance of cash and cash equivalents. The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

**Liquidity Risk Management Approach**

In terms of day-to-day liquidity management, Treasury Business Group ensures sufficient funding is available to meet the Bank's payment and settlement obligations on a timely basis. The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short term and long term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix which is also considered as part of Contingency Funding Plan (CFP) and tested on a regular basis;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR are maintained above the required levels.
- Conducting regular liquidity stress testing under various scenarios as part of prudent liquidity planning to examine the effectiveness and robustness of the liquidity plans.
- Instituting ILAAP (Internal Liquidity Adequacy Assessment Process) regime in accordance with regulatory mandate to focus on the Bank's Liquidity Risk Assessment.

All liquidity policies and procedures are governed by the Market Risk Policy Manual which is subject to review and approval every year by the Market Risk Policy Committee. In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities in the form of cash and liquid assets which can be converted into cash within a period not exceeding 30 days. The bank is currently holding an investment portfolio, with a large portion of it comprising of Government and Corporate Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-100% depending on instrument) through SAMA's repo window.

## Operational Risks

### Introduction

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk has an enterprise wide presence and can arise from any activity within the Bank.

### Management of Operational Risks

The Operational Risk Framework is designed to establish an effective association between the risk management and the risk owners represented by various Business & Support groups within the Bank. Business & Support groups are responsible to manage the activities and risks within their respective groups, however processes have been established to involve the Operational Risk Management Division (ORMD) to facilitate risk identification, measurement, assessment and control.

In preparation for and before commencing the risk identification and assessment activity across the Bank, a comprehensive Risk Profiling program is being carried out involving management, risk champions and respective risk owners.

Assessment of risks and categorizing them into levels of significance is conducted in consultation with business/ support groups to draw their attention to risks that require management consideration.

The tools used to manage and monitor operational risks are as follows:

### Risk & Control Self-Assessment (RCSA)

Risk & Control Self-Assessment (RCSA) is a tool used to monitor the performance of controls within a process. A risk register with controls is maintained and updated regularly on an ongoing basis. The RCSA review cycle involves discussions with the business/ support groups and periodic submissions to the Management Risk Management Committee (MRC) to seek directions on risk acceptance and treatments including decision for taking actions to review and to improve the control environment.

The Bank's comprehensive RCSA program involves facilitation of workshops by ORMD to identify risks and control within each business and support function level. The controls are periodically assessed to ensure the processes are functioning as per the design.

The Bank has also established a Policy and Product Review Committee to oversee the development of new or existing policies and products. Responsibility of the committee is to challenge the policy or product owners on various aspects of risks to ensure they are adequately addressed before operationalization.

### Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) are a metric to measure how risky a process is through early warning signals developed to indicate increasing risk exposures within the enterprise. KRI provides a trend of risk exposure by comparing it against the thresholds defined and accepted by the Bank.

KRIs for business and support groups are defined through workshops and periodically monitored by ORMD. Trends highlighting risk exposures over the defined thresholds are analyzed and discussed with respective business or support groups to develop appropriate corrective action plans.

### Loss Data Management (LDM)

Loss Data Management is a centralized process to methodically record loss incidents occurring in the Bank to enable analysis of control failures and ensure such incidents do not recur.

The Bank has established an internal loss data collection process through which incidents are reported to ORMD for the purpose of recording and further management reporting. A comprehensive Loss Database from 2013 till date is maintained by ORMD.

### Business Continuity Management (BCM)

The bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices and SAMA requirements and its scope extends to include:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond and manage adverse events. The results are minimized negative impacts, enhanced performance and reputation, and compliance with regulatory requirements.

### Outsourcing

Complying with SAMA regulations on outsourcing, the Bank has a dedicated department handling outsourcing and supplier activities. ORMD is involved in reviewing agreements related material outsourcing of banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

### Measurement of Operational Risk (OR) Capital Charge

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL III regime. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Bank. The Bank will be migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The Bank is already in the process of implementing the new approach as per the timelines suggested by the regulator. The Bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

## Capital Adequacy under BASEL II and BASEL III

The Saudi Central Bank (SAMA) has been at the forefront of ensuring that the Saudi Banking Sector adopts and implements the best practices that Bank for International Settlements (BIS) proposes and has accordingly issued various guidelines to that effect. As per SAMA guidelines, BASEL III became effective January 1, 2013 and has brought significant amendments to the computation of regulatory capital and Pillar I risk weighted assets. Furthermore, the Pillar II and Pillar III requirements have also undergone an enhancement under this revised framework.

During 2017, Basel Committee on Banking Supervision (BCBS) issued comprehensive reforms to the existing Basel III framework which are mandated by SAMA to be implemented by Q1 2023.

These new reforms seek to restore credibility in the calculation of Risk Weighted Assets (RWAs) and improve the comparability of bank's capital ratios. BCBS reforms seek revision to the standardized approaches for calculating Credit Risk, Market Risk, Credit Valuation Adjustment (CVA) and Operational Risk to bring about greater risk sensitivity and comparability. Constraints on using internal models aim to reduce unwarranted variability in banks' calculations of RWAs.

RWAs are an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses. A prudent and credible calculation of RWAs is an integral element of the risk based capital framework. With the foregoing in mind, the Bank therefore, monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios. Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ current and planned capital requirements.

The capital adequacy disclosures have been prepared in accordance with the Basel disclosure guidelines, as issued by SAMA from time to time and as applicable to the Bank.

The Saudi Central Bank (SAMA) also requires that Banks develop the Internal Liquidity Assessment Plan (ILAAP) document. The purpose of the ILAAP is to inform the Board of the Bank as well as the regulator of an assessment of the Bank's liquidity risks and the impact on regulatory requirements and capital, where relevant.

ILAAP is a tool that enables the Bank to systematically assess its liquidity requirements given its strategies, business plans, risks and policies. The Bank duly follows ILAAP guidelines and complies with regulatory guidelines in this regard.

## Accounting Standards

The Bank maintains proper books of accounts and records in an accurate manner. The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"), and in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank

The accounting policies used in the preparation of annual consolidated financial statements for the year ended December 31, 2022 are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2021. Based on the adoption of new standards, interpretations, amendments and in consideration of current economic environment, certain accounting policies as disclosed in the consolidated financial statements are applicable effective January 1, 2022 replacing, amending or adding to the corresponding accounting policies set out in 2021 annual consolidated financial statements.

## Appointment of External Auditors

The External Auditors are responsible for the annual audit and quarterly review of the Bank's financial statements. The Bank's Annual General Meeting held on 19 April 2022 (corresponding to 18th Ramadan, 1443H) approved the recommendation of the Board of Directors and the Audit Committee to re appoint PWC and EY as the external Auditors of the Bank for the financial year ended 31 December 2022.

## Statutory Payments

The statutory payments paid by the bank in the year 2022 consisted mainly from zakat, taxes and amounts payable to GOSI as staff contributions. The following table includes details of such payments.

The Bank has made the following payments during 2022 in respect of the mentioned captions:

| Type of Statutory Payments | SAR in million |
|---|---|
| Zakat (related to 2021) | 149.07 |
| Income Tax (related to 2021) | 9.20 |
| Value Added Tax & Withholding Tax & RETT | 96.52 |
| Zakat, VAT, WHT for previous periods* | 113.14 |
| Advance Tax Payment for 2022 | 4.60 |
| GOSI (including Bank and the employees) | 83.76 |
| Visa, Iqama and related services, Municipality | 5.65 |

The bank announced on 20 December 2018 that it has agreed with Zakat, Tax and Customs Authority on the settlement of zakat liabilities due for the previous periods up to the end of the fiscal year 2017 against payment of SAR 551 million. An advance payment of this settlement (20%) has been was paid in 2018, and the balance will be paid on five equal instalments within five years commencing on 1 December 2019G and ending on 1 December 2023G (4th instalment of SAR 88.2 million was paid in 2022).

*This amount includes SAR 88.2 million as 4th instalment of the agreement made with Zakat, Tax and Customs Authority for settlement of Zakat assessments payable for the previous years up to the end of the fiscal year 2017.

As per SAMA guidelines, BASEL III became effective January 1, 2013 and has brought significant amendments to the computation of regulatory capital and Pillar I risk weighted assets. Furthermore, the Pillar II and Pillar III requirements have also undergone an enhancement under this revised framework

## Penalties, fines and Regulatory Restrictions

The bank acknowledges its full commitment to enforce all banking instructions and systems and the regulatory rules and regulations issued by the supervisory authorities in the conduct of its daily business. The following tables reflect details of the penalties imposed against the bank:

**Saudi Central Bank penalties**

| Subject of violation | 2021 Fiscal year | | **2022 Fiscal year** | |
|---|---|---|---|---|
| | Number of Penalties | Total amount of Penalties SAR | **Number of Penalties** | **Total amount of Penalties SAR** |
| Violation of SAMA supervisory instructions | 15 | 3,320,500 | 18 | 10,974,781 |
| Violation of SAMA instructions for protecting customers | 2 | 332,000 | Nil | - |
| Violation of SAMA instructions related due diligence | Nil | - | Nil | - |
| Violation of SAMA instructions regarding the level of performance of ATMs and point of sale machines | Nil | - | 1 | 15,000 |
| Violation of SAMA instructions for due diligence in Anti money laundering and the financing of terrorism | 3 | 1,780,000 | 4 | 1,739,000 |

## Other Penalties, fines and Regulatory Restrictions

Some Municipalities and other government related entities have imposed fines on the Bank with a total of SAR 218.52 thousand during 2022 most of them are related to the municipals regulations in regard to the Bank ATMs and branches as specified below, The Bank has taken care to enhance the handling of various aspects of regulations:

| Name of Authority | SAR '000 |
|---|---|
| Eastern Province Municipality | 5.00 |
| Royal Commission for Jubail and Yanbu | 0.20 |
| Ministry of Municipal and Rural Affairs | 0.50 |
| Saudi Payments | 50.82 |
| Jeddah Municipality | 0.70 |
| Riyadh Municipality | 160.30 |
| Jazan Municipality | 1.00 |
| **Total** | **218.52** |

## Related Party Transactions

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

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

| | **2022 SAR '000** | 2021 SAR '000 |
|---|---|---|
| **Subsidiary companies** | | |
| Investments | **501,480** | 501,480 |
| Customer deposits | **41,128** | 13,937 |
| Due from banks and other financial institutions | **1,409,149** | 1,331,550 |
| Due to banks and other financial institutions | **290,854** | 290,658 |
| Receivables and other assets | **102,755** | 175,999 |
| Payables and liabilities | **17,145** | 16,341 |
| Contingencies and commitments | **30,247** | 530,247 |
| Notional values of outstanding shari'ah compliant contracts | **6,138,303** | 4,271,339 |
| **Associate and affiliate entities with significant influence** | | |
| Investments | **217,871** | 211,143 |
| Customer deposits | **243,788** | 87,223 |
| Contingencies and commitments | **7,280** | 7,280 |

| | **2022 SAR '000** | 2021 SAR '000 |
|---|---|---|
| Directors, key management personnel, other major shareholders and their affiliates | | |
| Financing | **395,442** | 441,221 |
| Customers' deposits | **7,237,109** | 5,341,214 |
| Contingencies and commitments | **26,237** | 6,948 |

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

| | **2022 SAR '000** | 2021 SAR '000 |
|---|---|---|
| Mutual Funds under subsidiary's management | | |
| Investments | **1,118,059** | 255,823 |
| Customers' deposits | **114,032** | 519,901 |
| Receivables | **214** | 214 |

Income, expenses and other transactions with related parties included in the consolidated financial statements:

| | 2022 SAR '000 | 2021 SAR '000 |
|---|---|---|
| Income from investments and financing | **179,344** | 77,559 |
| Return on deposits and financial liabilities | **301,982** | 180,620 |
| Fees income | **1,455** | 2,537 |
| Fee expense | **9,980** | 9,053 |
| Exchange loss | **2,244** | - |
| Insurance premium | **60,371** | 50,329 |
| Claims received | **31,667** | 32,277 |
| Directors' remuneration | **9,088** | 8,134 |
| Income under shared service agreements | **2,751** | 3,391 |
| Operating expenses | **24,335** | - |
| Reimbursement of expense to a subsidiary | **38** | 37 |
| Reimbursement of building related expense | **6,250** | 6,971 |
| Rent expense for branches | **768** | 768 |
| Dividend paid | **15** | 7 |
| Participation in DMO sukuk auction for an associate | **-** | 99,251 |
| Face value of bonus shares received | **-** | 20,649 |
| Purchase of Sukuks | **530,000** | - |
| Foreign currency dealing | **500** | - |

Total amount of remunerations paid to directors and key management personnel during the year:

| | 2022 SAR '000 | 2021 SAR '000 |
|---|---|---|
| Short-term employee benefits | **119,413** | 105,480 |
| Termination benefits | **37,146** | 39,314 |

Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

The contracts and dealings between the Bank and AlJazira Takaful Ta'awuni Company (AJT) in the year 2022 amounted to SAR 94.2 million. Whereas,

- Eng. Abdulmajeed Al Sultan has an indirect interest in these as he is the Vice Chairman of Bank AlJazira Board of Directors and the Chairman of the Board of Directors of AJT
- Mr. Naif Al Abdulkareem has an indirect interest in these as he is the CEO & Managing Director of Bank AlJazira and the Vice Chairman of Board of Directors of AJT

SAR '000

| Nature of Contract | Period of the Contract | Transaction amount in 2022 |
|---|---|---|
| Personal Dinar Insurance Policy | One Year | 21,673 |
| Mortgage Insurance Policy | One Year | 27,393 |
| Group Life Insurance Policy | One Year | 2,198 |
| Staff Credit Cover Policy | One Year | 537 |
| Property All Risk- Mortgage Employee | One Year | 34 |
| Property All Risk- Mortgage Customer | One Year | 1,906 |
| Property All Risk –Own Property | One Year | 330 |
| Banker Blanket bond | One Year | 6,300 |
| Bancassurance Distribution Agreement | One Year | 659 |
| Return on time deposits investments | Dealings | 1,483 |
| Claims received | One Year | 31,667 |
| Dividend paid | Dealings | 15 |
| **Total** | | **94,195** |

The contracts and dealings between the Bank and AlJazira Capital (AJC) in the year 2022 amounted to SAR 53.1 million. Whereas:

- Eng. Tarek bin Othman Al Kasabi has an indirect interest in these transactions as he is the Chairman of Bank AlJazira Board of Directors and the Chairman of the Board of Directors of AJC
- Mr. Naif Al Abdulkareem has an indirect interest in these transactions as he is the CEO & Managing Director of Bank AlJazira and the Vice Chairman of Board of Directors of AJC

SAR '000

| Nature of Contract | Period of the Contract | Transaction amount in 2022 |
|---|---|---|
| Service Level Agreement | Effective, unless terminated | 2,751 |
| Return on time deposits investments | Dealings | 275 |
| Financing income earned on money market placements | Dealings | 30,957 |
| Fees and commission income | Dealings | 676 |
| Custody fee expense | Effective, unless terminated | 7,337 |
| Investment advisory fee | Dealings | 2,642 |
| Rent and building related expense | Effective, unless terminated | 6,250 |
| Loss on foreign exchange contracts | Dealings | 2,244 |
| **Total** | | **53,132** |

List of rental contracts where the below listed members of board directors may have direct or indirect interest:

SAR '000

| Contractor | Name of the related party | Relationship | Nature of Contract | Term of Contract | Amount in 2022 |
|---|---|---|---|---|---|
| Mr. Ahmed bin Othman Al Kasabi | Eng. Tarek bin Othman Al Kasabi | Brother of Mr. Ahmed bin Othman Al Kasabi | Rental for Al-Hassan Bin Ali Road branch | 10 years | 316 |
| Dallah Health Care Holding Company | 1) Eng. Tarek bin Othman Al Kasabi<br>2) Adil Dahlawi | Board member in Dallah Health Care Holding Company | Rental for ATM in Riyadh | 5 years | 35 |
| Consolidated Brothers Company | Eng. Abdul Majeed bin Ibrahim Al Sultan | Board member & Owns part of Consolidated Brothers Company | Rental for Al-Rehab Branch | 12 years | 417 |
| | | **Total** | | | **768** |

Note: The amounts above include VAT where applicable.

Information relating to any competing business with the Bank or any of its activities that any member of the Board is engaging in or was engaging in such competing businesses, including the names of persons in relation, the nature, conditions of such competing businesses:

| | Board Member | Competing Businesses | Main Activity |
|---|---|---|---|
| 1 | Mr. Abdulwahab Abdulkarim Albetari | Impact46 Company | A Company Managing Private Non-Real-Estate Investment Funds, Managing Sophisticated Investor Portfolios, and arranging activities in the securities business. |
| | | Osool & Bakheet Investment Company (OBIC) | A Company dealing as principle and agent, Investment Fund Management, Discretionary Portfolio Management and Custody. |
| 2 | Mr. Mohammed Saad Bindawood | Alpha Capital | A Company Dealing, Managing (Managing investment and operating funds), Arranging (Financial advisor/Corporate finance advisor), Advising (Investment advisor). |
| | | Dar Al Tamleek Company | A Company Specialized in providing housing finance solutions in the Kingdom of Saudi Arabia. |
| | | The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (MEDGULF) | A Company providing comprehensive choices of cooperative Health, Motor, Property and other insurance and reinsurance services. |


## Board of Directors assurance

The Board of Directors assures shareholders and other stakeholders that to the best of their knowledge, and in all material aspects:

- Proper books of account have been maintained,
- The system of internal control is sound in design and has been effectively implemented,
- There are no significant doubts concerning the bank ability to continue as a going concern,
- There are no business or contracts in which the bank is a party, or in which any board member, the CEO, Managing Director, Senior Financial Officer, or senior executives of the bank, or any party directly related to them, hold large interests, except as otherwise disclosed in the (Related Parties Transactions) herein and in the Note 37–(Transactions with related parties) of the audited financial statements for 2022.
- The Board of Directors did not recommend replacement of the bank's auditors prior to their term of appointment, and there was no contradiction between the recommendations of the Audit Committee and the Board resolutions.

## 2022 Dividends

Based on the authorization of the Ordinary general meeting held on Monday, 15 November 2021 distributing interim cash dividends to the shareholders for the first half of 2022 to the Board of directors to distribute provisional dividends on half-yearly/quarterly basis for 2022, the Board of Directors resolved on Thursday, 01/08/2022 Corresponding to 03/01/1444 to distribute cash dividends for the first half of 2022, of SAR 328 million (net of Zakat) to shareholders, at the rate of SAR 0.40 per share, which represents 4% of the share nominal value. These dividends were distributed to shareholders effective Monday 17th Muharram 1444H (As per Ummul Qura), corresponding to 15 August 2022.

## Proposed way to distribute dividends for the year 2022:

In 2022, an interim cash dividend of SAR 328 million equal to SAR 0.40 per share (net of Zakat) was distributed to the shareholders of the Bank for the first half of the financial year 2022. This was distributed based on eligible shares for distribution which equal to 820 million shares.

## Dividend Distribution Policy

In line with the bank's updated Articles of Association as approved at the General Assembly Meeting held on Wednesday, 15 Jummada I, 1442H (30 Dec 2020G) and BAJ Governance document, the bank's dividends policy complies with the Banking Control Law and the rules and regulations issued by the regulatory authorities. The Bank pays approved dividends to shareholders, after deduction of overheads and other expenses, formation of reserves as necessary to meet doubtful debts, investment losses and contingent liabilities as deemed necessary by the board of directors and required under the banking control law provisions, as follows:

- Sums required for payment of the Zakat due on Saudi shareholders and the tax due on non-Saudi shareholders shall be calculated according to the laws and regulations in force in Kingdom of Saudi Arabia. Such sums shall be paid by the bank to the competent authorities. Zakat paid on behalf of Saudi shareholders shall be deducted from their share in the net profits, and tax paid on behalf of non-Saudi shareholders will be deducted from their share in the net profits.
- 25% of the remainder of annual net profits, after deduction of zakat, will be transferred to statutory reserve until this reserve is equal to the paid-up capital of the bank, at least.
- Out of the remainder of the profit after deduction of the statutory reserve and Zakat and tax, a sum of not less than 2.5% of the paid-up capital shall be allocated for distribution to Saudi and non-Saudi shareholders in proportion to the paid-up part of the shares of the Saudi and non-Saudi shareholders as recommended by the Board of Directors and endorsed by General Meeting. In case the remainder of the profits payable to the shareholders concerned is not sufficient for paying such dividend, shareholders may not be entitled to claim the payment thereof in the following year or years. The General Meeting may not resolve to pay a percentage of the dividends which exceeds the percentage that is recommended by the Board of Directors.
- The remainder after the sums set forth in paragraph (a), (b), (c) herein have been allocated shall be utilized in the manner recommended by the Board of Directors and approved by the General Meeting.
- The respective percentage of shareholding of each of the Saudi and non-Saudi shareholders shall be maintained (observed) when calculating the sum to be allocated as statutory reserve and other reserves out of the net profit (after Zakat and Tax). Each of the two categories of shareholders shall participate in the transfer to such reserves on a pro-rata basis of their shareholding in the capital provided their contributions will be deducted from their shares in the net profits.
- Without prejudice to (a), (b), (c), (d) and (e)hereof, the bank may, after having obtained the Saudi Central Bank's (SAMA) no-objection, and in line with the relevant regulatory rules, may pay provisional dividends to shareholders, half-yearly or quarterly, if any

## Credit Ratings

The strength of the credit rating is a sign of the bank's relative financial strength and enhances the Bank's ability to access optimal sources of financing, particularly as credit ratings take into account the financial strengths, liquidity position and reputation of Bank AlJazira taking into consideration the local sovereign rating. The table below reflects the bank's latest credit assessment:

| Rating | Moody's | Fitch Rating | Islamic Int'l Rating Agency |
|---|---|---|---|
| | **Nov-2022** | **Nov-2022** | **Aug-2022** |
| Credit Rating - Long Term | Baseline Credit Assessment BCA **BAA3** | Issuer Default Rating IDR **BBB+** | |
| Outlook | **Stable** | **Positive** | **Positive** |
| Deposits Rating | **BAA1/P-2*** | Issuer Default Rating IDR **F2** Short Term | |
| International Scale | | | **A-/A2** |
| National scale | | | **A+(sa) / A1 (sa)** |
| Counterparty Risk Assessment CR | **A3(cr)/P-2(cr)** | | |
| Overall Fiduciary Rating Score | | | **76-80** |
| Long Term Local Currency IDR | | BBB+ | |
| Support Rating Floor | | BBB+ | |
| Viability Rating | | BB+ | |
| National Long Term Rating | | **AA-(sau)** | |

## Local regulatory and supervisory requirements and international standards:

In line with local regulatory and supervisory requirements and international standards, Bank AlJazira has taken several actions to monitor its business to comply with the instructions of the Saudi Central Bank (SAMA), the Capital Market Authority, and other legislators, in addition to international best practices. The Bank rely on the Compliance and Anti-Financial Crime Group, which plays an active role in assisting the Bank and enabling it to achieve its strategic objectives which were established in accordance with standards and regulations related to compliance and Anti-Financial Crimes.

In pursuing to ensure the implementation of regulations published by regulators, Bank AlJazira has set controls at the level of the bank and its various business groups or Departments, and worked to raise employees' awareness of Non-compliance risks through intensive training courses for its Employees, As well as reviewing all policies, procedures, products and services and ensuring their effectiveness and to be complied with updated regulations and instructions. Moreover, the bank emphasizes monitoring on non-compliance risks and money laundering and terrorist financing and other financial crimes including fraud, bribery and corruption.

## Anti-Fraud Management Program

The Bank has assessed the Anti-Fraud Risk Management framework in line with SAMA guidelines and international best practices. The updated Anti-Fraud Risk Management framework has addressed the following aspects:

- Reviewed the counter Fraud Risk Management Governance structure and associated strategy across the Bank.
- Developed, reviewed and updated counter Fraud Risk Management policies, procedures, processes and Manuals.
- Conducted and upgraded Fraud Risk Assessments and diagnosis.
- Implementing comprehensive Fraud Prevention and Detection solution across the bank.

## Board of Directors General Secretariat and Governance Group:

The General Secretariat of the Board of Directors assumes the organizing of the business of the Board of Directors and its committees. It undertakes the preparations for and holding of the board meetings, maintains related records and files, receives incoming correspondence, and documents the decisions relevant to the work of the Board and committees and following up on their implementation. It also assumes all the tasks and responsibilities entrusted thereto by the chairman and members of the Board. The Board of Directors Secretariat is also responsible for the work and reports concerning the bank's various business courses and reports to the Board of Directors and committees for decisions.

Furthermore, the Group is responsible for leading and managing the bank's governance matters in line with the Governance Principles issued by the Saudi Central Bank (SAMA), Corporate Governance Rules issued by CMA and other supervisory directives. The Group has formed and aligned the bank's governance framework and complementing policies relating to conflict of interests, disclosure and related parties transactions, terms of reference of the board and subcommittees and management committees to ensure these are aligned with the rules and regulations in force. This is in addition to the Groups' contribution to the development, assessment frameworks, suitability and training of the Board and committees' members.

## Principles of Corporate Governance

Bank AlJazira is aware of the positive implications of adopting the principles of governance that require the bank to observe highest professional and ethical standards in its business by implementing compliance, disclosure and transparency rules, thereby contributing to the strengthening and improvement of the efficiency of the bank's business and relations with its stakeholders. The Bank believes that the adoption of these principles will enhance investors and stakeholders confidence in the Bank and positively reflect on the integrity of the banking industry in the Kingdom of Saudi Arabia. In the Bank's endeavors to enhance channels of communication with its shareholders, the Bank continued its initiatives to urge shareholders holding share certificates, who did not receive their dividends for the past period, to contact the bank in order to update their information and arrange their share rights. A search engine has been provided on the bank's electronic website for this purpose. The Bank's Articles of Association and Governance Document guarantee shareholders' right to dividends and to attend, discuss and vote at the general meeting assemblies, and dispose of their shares whether in person or in any means of modern technology. Based on the bank's disclosure policy, information and data relating to general meetings, balance sheets, financial statements and directors annual report are provided to shareholders on a continuous basis, published in newspapers, The Saudi Stock Exchange website (Tadawul) and posted on the Bank's electronic website.

In its keenness to comply with the recent supervisory requirements, the Bank has, in 2022, made the necessary amendments to the relevant Board and Subcommittees' terms of reference as follows:

### a. Terms of reference of the board of directors and subcommittees and governance policies

At its meetings held in 2022, the Board of Directors approved the updates to the Bank's Governance Policies after they were aligned with the key governance principles issued by the Saudi Central Bank (SAMA) in June 2021. These policies included, for example, Conflict of Interest Policy, the policy Regulating Relationships with Stakeholders, Related Party Transaction Policy, Subsidiaries Oversight Policy, the Procedural Policies and Standards for membership in the Board of Directors and its Subcommittees and the Governance Manual. The Board also approved the updated and amended terms of reference of the Board and its Subcommittee's after the same have been aligned with key governance principles issued by the Saudi Central Bank, including for example, the Sharia Committee, Sustainability and Social Responsibility Committee, Risk Committee and Executive Committee.

The Bank's shareholders ordinary general assembly, at its meeting held on 19 April 2022, approved the updated and amended terms of reference of the Audit Committee, after the same have been aligned with the key principles of governance for the financial institutions supervised by the Saudi Central Bank.

### b. Evaluation of the effectiveness of the board, board members and board committees:

As per the supervisory directives contained in the Governance Principles document, the Corporate Governance Rules and Bank AlJazira Governance document, the board of directors evaluates, on an annual basis, the effectiveness of its members and the volume of their participation in its business, both individually and as a group, as well as the effectiveness of the board sub-committees. In the third quarter of 2022, under the directives of the Remuneration and Nomination Committee, the Human Capital Group conducted and supervised an assessment process of the members of the board and committees, and the results and recommendations of this process were conveyed to the Remuneration and Nomination Committee who presented same to the Board of Directors. The bank seeks to rotate the evaluation process of board and committees to an external consultant to be conducted once every three years.

### c. Training courses to board and sub-committee members:

In its keenness to enhance the skills of the members of the board member in all aspects of banking industry, direct training and physical learning programs were designed for the whole board during the term (Jan 2022 – Dec 2024). These programs cover all members of the board. In 2022 all members of the Board have physically attended a full day deep dive development session drafted and implemented by INSEAD business school as a leadership development program. Board members also received a one-day development program by CCL Academy on how to avoid risk in various global economic situations. In addition to sessions in line with Saudi Central Bank (SAMA) requirements, sessions were reviewed by the members and subsequently confirmed. The sessions covered the following points:

| | |
|---|---|
| • Aspects of Effective Governance | • Decision Making |
| • Methods of Addressing Obstacles of Governance | • Cyber Security |
| • Sharia Governance | • Performance and Risk Management |
| • Business Continuity | • Fraud & Money Laundering |

### d. Shareholders rights

Under the related supervisory directives, and as a general rule, the bank is keen to enable shareholders to exercise their legal rights relating to the shares, including the submission of comments and suggestions regarding the bank and performance. To this effect, the Phone number 012 609-8394 or 011 215-7325 and e-mail address (SSU@bankaljazira.com) were assigned to receive inquiries from all shareholders, and the board was informed of all such inquiries and feedback. In addition, and as per the Bank's practices, the board addressed all questions and inquiries of shareholders raised at the bank's general meetings held in the year 2022 and through the shareholders unit. The board reviews such comments and reacts appropriately to them.

**Shareholders registry submissions**

In 2022, submissions to shareholders registry were made as per following details:

| No. of Submissions Made to Shareholders Register | Submission Date | Reasons |
|---|---|---|
| (1) | 09/01/2022 | Others |
| (2) | 08/02/2022 | Dividends File |
| (3) | 27/02/2022 | Others |
| (4) | 13/04/2022 | Others |
| (5) | 22/06/2022 | Others |
| (6) | 02/08/2022 | Dividends File |
| (7) | 04/10/2022 | Others |

In general, Bank Al-Jazira complies in letter and spirit with all mandatory provisions and directives contained in the CMA Corporate Governance Rules, except for what stated below, which compliance is reflected by incorporating such mandatory requirements in the bank's articles of association, governance document and terms of reference of the board of directors and its sub-committees. Such requirements were also incorporated in the policies and governance frameworks of Bank Al-Jazira, and in the internal policies and business directories regulating the business of the bank's various departments. These requirements provide for guarantee of shareholders right to the shares and to participate in the general meetings and be provided with all information that enable them to exercise such rights; disclosure of financial and non-financial information; full compliance with transparency requirements within the legal limits; determination of the duties of the board and liabilities of its members and the formation of its various sub-committees in line with its terms of reference which are consistent with the regulatory directives.

| Article | Requirements | Reasons for bank non-compliance |
|---|---|---|
| 92 | Formation of Governance Committee (Guidance Article) | As per its terms of references, the Board supervises all aspects of governance the bank. |
| 90 Subparagraph(b) From paragraph (4) | Disclosure of senior Executive bonuses | Data is included in the aggregate. |

## Notification relating to shareholding of major shareholders:

The Bank did not receive any notifications from shareholders and related parties regarding change of their shareholding in the bank as per the provisions of article 68 of the requirements for securities issuance and continuous liabilities issued by the Capital Market Authority. The following tables include description of the interests of major shareholders, board directors and senior executives and their spouses and children in the bank's shares or debt instruments:

**Description of any interest, securities or subscription right held by major shareholders:**

| S | Name of interested person | Beginning of the year 2022 | | End of the year 2022 | | Net Change | % Change |
|---|---|---|---|---|---|---|---|
| | | No. of Shares | Debt Instruments | No. of Shares | Debt Instruments | | |
| 1 | Consolidated Brothers Development Company | 54,070,295 | | 41,000,000 | | -13,070,295 | -24.17% |
| 2 | Mr. Ibrahim Abdulrahman Mohammed Al Qunaibet | 41,002,903 | | 41,002,903 | | 0 | 0% |

**Description of any interest, securities and subscription rights held by the directors of the Board and their spouses and children:**

| Name | Relation | Shares Balance Beginning of the year 2022 | Shares Balance End of the year 2022 | Net Change | % Change |
|---|---|---|---|---|---|
| Eng. Tarek Bin Othman Al Kasabi | Self | 1,000 | 1,000 | 0 | 0.00% |
| Mrs. Manal Tarek Bin Othman Al Kasabi | Board Member Daughter | 30,000 | 28,000 | -2,000 | -6.67% |
| Eng. Abdulmajeed bin Ibrahim Al Sultan | Self | 2,731 | 2,731 | 0 | 0.00% |
| Consolidated Brothers Co | Board Member Partner | 54,070,295 | 41,000,000 | -13,070,295 | -24.17% |
| Mr. Saad Ibrahim Al Mushawah | Self | 2,000 | 2,000 | 0 | 0.00% |
| Mr. Abdulwahab Abdulkareem Al Betari | Self | 65,000 | 65,000 | 0 | 0.00% |
| Mrs. Fahdah Fayz Fahad Al Gusaaibi | Board Member Wife | 2,500 | 2,500 | 0 | 0.00% |
| Mr. Adil Bin Saud Dahlawi | Self | 10 | 0 | -10 | -100.00% |
| Mr. Ibrahim Bin Abdulaziz Al Shaia | Self | 0 | 10,000 | 10,000 | 100.00% |
| General Organization for social Insurance | Representative | 7,390,992 | 40,180,000 | 32,789,008 | 443.63% |
| Hassana Investment Company | Representative | 5,748,600 | 0 | -5,748,600 | -100.00% |
| Mr. Abdullatif Bin Khalifa Al Mulhem | Self | 3,799,040 | 3,799,040 | 0 | 0.00% |
| Mr. Khalifa Al Mulhem | Father of Board Member | 300,000 | 280,000 | -20,000 | -6.67% |
| Mr. Naif Bin Abdulkareem Al Abdulkareem | Self | 1,000 | 1,000 | 0 | 0.00% |

**Description of any interest, securities and subscription rights held by senior executives, their spouses and children:**

| Name | Relationship | Shares Balance Beginning of the year 2022 | Shares Balance End of the year 2022 | Net Change | % Change |
|---|---|---|---|---|---|
| **Mr. Naif Bin Abdulkareem Al Abdulkareem**<br>CEO & Managing Director | Self | 1,000 | 1,000 | 0 | 0 |
| **Dr. Fahad Bin Ali Al Elayan**<br>Senior Vice President and Head of Shariah Group and Sustainability & Social Responsibility Group | Self | 30,000 | 30,000 | 0 | 0 |
| **Mrs. Haneen Fahad Bin Ali Al Elayan** | Daughter of Executive | 0 | 800 | 800 | 100 % |
| **Mr. Faisal Mashhour Al Mansour**<br>Senior Vice President and Head of Human Capital Group | Self | 1,563 | 0 | -1,563 | -100% |
| **Mr. Osama Al Ibrahim**<br>Senior Vice President & Group Head of Risk Management | Self | 5,102 | 5,102 | 0 | 0 |

## Composition of the board of directors and membership categories

As per the provisions of the Bank's articles of association, the board of directors of Bank AlJazira consists of 9 members. On 15 November 2021, the bank's general meeting convened to select and elect the board directors for a new term from 01 January 2022 to 31 Dec 2024 based on the accumulative voting method. In accordance with the supervisory directives and after having obtained the consent of the regulatory authorities, a Chairman, Deputy Chairman and a managing director were elected from among the board members.

The Board of directors has also selected and appointed the chairmen and members of the board sub-committees for the board term starting from 01 Jan 2022 to 31 Dec 2024, as follows:

| SN | Director's name | Membership Classification (Executive – Non-Executive – Independent) |
|---|---|---|
| 1 | Eng. Tarek Bin Othman Al Kasabi | Non-Executive |
| 2 | Eng. Abdul Majeed Bin Ibrahim Al Sultan | Non-Executive |
| 3 | Mr. Naif Bin Abdulkareem Al Abdulkareem | Executive |
| 4 | Mr. Abdulwahab Bin Abdulkareem Al Betari | Non-Executive |
| 5 | Mr. Adil Bin Saud Dahlawi | Non-Executive |
| 6 | Mr. Mohammed Bin Saad Bindawood | Non-Executive |
| 7 | Mr. Abdullatif Bin Khalifa Al Mulhem | Independent |
| 8 | Mr. Ibrahim Bin Abdulaziz Al Shaia | Independent |
| 9 | Mr. Saad Bin Ibrahim Al Mushawah | Independent |

**The Board of Directors also took into account the selection and appointment of the chairmen and members of the Board sub-committees for the Board term starting from 01 January 2022 to 31 December 2024, which were formed as follows:**

1. Executive Committee
2. Risk Committee
3. Remuneration and Nomination Committee
4. Sustainability & Social Responsibility Committee
5. Audit Committee (which members appointment was ratified by the general meeting (63) held on 15 Nov 2021)

## 1) Names of board directors, board committee members and executive management and their present and past positions, qualifications and experience:

### a. Board directors:

### Eng. Tarek bin Othman Al-Kasabi

#### Present Positions

1. 1995 - Chairman of the Board of Directors of Dallah Health Care Company.
2. 2006 - Member of the Board of Directors of Kingdom University Company (Kingdom of Bahrain).
3. 2008 - Chairman of the Board of Directors of Rozam Investment Company.
4. 2010 - Chairman of the Board of Directors of Ataa Educational Company.
5. 2013 Chairman of the Board of Directors - NEBA.
6. 2016 - Chairman of the Board of Directors of Bank AlJazira.
7. 2017 Chairman of the Board of Directors of Dallah Pharma Company.
8. 2020 - Chairman of the Board of Directors of Dar'a AlRiayah Holding Co.
9. 2022 Al Jazira Securities Company – Chairman of the Board of Directors.

#### Past Positions

1 1981 - 1989 Vice President of Kara Contracting Establishment.

2 1989 - 1990 General Manager of Makkah Company for Reconstruction and Development.

3 1990-2007 Vice President - Dallah Al Baraka Holding Company.

4 1998 – 2015 Member of the Board of Directors of Bank AlJazira.

5 2007-2019 Vice Chairman of the Board of Directors of Aseer Company for Trade, Tourism and Industry.

6 2008-2013/2015-2016 Chairman of the Board of Directors – Al Jazira Securities Company.

7 2018-2021 Member of the Board of Directors of Al-balad Al-Ameen Property Development Company.

8 2018 – 2021 Member of the Board of Directors of Dahiat Sumou Co.

9 2019 -2021 General Organization for Social Insurance.

#### Qualifications

Bachelor of Civil Engineering, King Saud University - 1976.

#### Experience

- Member of the Board of BAJ since 1998, member of Executive Committee, Previous Chairman of Risk Committee.
- Chairman and member of the Boards of Directors of many investment companies in and out of the Kingdom of Saudi Arabia.

### Eng. Abdul Majeed bin Ibrahim Al-Sultan

#### Present Positions

1. 1993 - Member of the Board of Directors of the Brothers Union Company.
2. 2004 – Member of the Board of Directors of Bank AlJazira.
3. 2009 – Chairman of the Board of Directors of Olat Development Company.
4. 2013 - Chairman of the Board of Directors of Al-Jazira Takaful Cooperative Company.
5. 2013 – Chairman of the Board of Directors of Al-Durra Development Company.

#### Past Positions

1. 1990 – 1993 Corporate Account Management at the National Commercial Bank.
2. 1991-2007 Member of the Board of Directors of the Marafeq Construction Company.
3. 1991-2007 Chairman of the Board of Directors of the Packaging Materials Manufacturing Company - FIPCO.
4. 1993-2000 General Manager of the Construction Facilities Company.
5. 1994-2021 CEO of Brothers Union Company.
6. 1998-2018 Member of the Board of Directors of Qassim Cement Company.

#### Qualifications

1989 – Bachelor of Engineering – King Saud University, Riyadh

#### Experience

- Member of the Board of BAJ since 2004, Chairman of Jazira Takaful Taawuni Committee.
- Chairman and member of the Boards of Directors of many investment companies in and out of the Kingdom of Saudi Arabia.

## Mr. Naif Bin Abdulkarim Alabdulkarim

### Present Positions

1. 2020 – CEO of Bank AlJazira.
2. 2020 Member of the Nomination and Remuneration Committee - Al Jazira Securities Company.
3. 2020 Member of the Board of Directors of Aljazira Capital.
4. 2021 Managing Director of Bank AlJazira.
5. 2021 Member of the Executive Committee of Bank AlJazira.
6. 2020 Member of the Nomination and Remuneration Committee Saudi Credit Bureau (SIMAH).
7. 2020 Member of the Executive Committee Saudi Credit Bureau (SIMAH).
8. 2022 Member of the Board of Directors Aljazira Takaful.
9. 2022 Member of the Investment Committee Aljazira Takaful.
10. 2022 Member of the Executive Committee Aljazira Takaful.

### Past Positions

1. 2001 – 2004 Credit Relations Manager – Riyad Bank.
2. 2004 – 2011 Regional Manager of Retail Banking – Ahli Bank.
3. 2012 Head of Private Banking – SABB Bank.
4. 2012-2013 General Manager of Branches & Wealth Management – SABB Bank.
5. 2012 – 2018 Chairman of the Board of Directors – SABB Insurance Agency.
6. 2014-2017 Member of the Board of Directors / Member of the Executive Committee – SANID.
7. 2014-2019 General Manager of Retail Banking & Wealth Management – SABB Bank.
8. 2016-2018 Board Member / Executive Committee Member – SABB Takaful.
9. 2017-2019 Member of the Board of Directors – HSBC Saudi Arabia.
10. 2017-2020 Member of the Board of Directors – SIMAH.
11. 2019-2020 Deputy General Manager of Retail Banking and Wealth Management – SABB Bank.

### Qualifications

- 1995 Bachelor of Finance- King Saud University. 2001 Master of Business
- Administration – University of Illinois, USA.

### Experience

Past and present experience in commercial banks.

## Mr. Abdulwahab Bin Abdulkareem Al Betari

### Present Positions

1. 2004 Member of the Board of Directors - Manafez Company for Ambulance Vehicles and Disabled.
2. 2013 Member of the Board of Directors - Alhimmah Partnership Company Ltd.
3. 2014 Chairman of the Board of Directors - Osool & Bakheet Investment Company.
4. 2014 Co-founder – Watar Business Partners Trading Co. Ltd.
5. 2015 Vice Chairman – Alujain Company.
6. 2015 Member of the Board of Directors - Sunbulah Group.
7. 2019 Member of the Board of Directors - Riyadh Cable Group Company.
8. 2020 Vice Chairman of the Board of Directors – National Petrochemical Industries Company (NATPET).
9. 2022 member of the Risk Committee, Bank AlJazira.
10. 2022 Member of the Board of Directors of Saudi Airlines Catering Company.
11. 2022 Member of the Board of Directors of Tarabot Company.

### Past Positions

1. 1999 – 2004 Investment Portfolio Manager – Saudi American Bank (SAMBA).
2. 2004 - 2014 - Co-founder / Member of the Executive Committee - Family Office Company - Wealth Management / Bahrain.
3. 2018-2020 - Vice Chairman of the Advisory Committee - Capital Market Authority.
4. 2020 Member of the Risk Committee - Bank AlJazira.

### Qualifications

- 2010 – Masters of Business Administration, London Business School.
- 2000 Bachelor in Finance - King Fahd University of Petroleum and Minerals.
- 2021 General Certificate in Dealing in Securities (CME-1) & Stock Brokers Certification Exam (CME-3) - Capital Market Authority.

### Experience

Various past experience in accounting and auditing in financial and investment companies in and out of the Kingdom.

## a. Board directors:

### Mr. Ibrahim Bin Abdulaziz Al Shaia

**Present Positions**

1. 2014 Director General of Financial Affairs – General Organization for Social Insurance.
2. 2016 Member of the Board of Directors of Bank AlJazira.
3. 2016 Member of the Audit Committee Hassana Investment Company.
4. 2019 Member of the Board of Directors of Masdar Data Solutions.
5. 2020 Member of the Executive Committee - Bank AlJazira.
6. 2020 Member of the Nomination and Remuneration Committee - Bank AlJazira.

**Past Positions**

1. 2002-2004 External Auditor - Al-Rashid Accountants, Auditors and Legal Consultants.
2. 2010-2013 Member of the Audit Committee – Allianz Saudi Fransi Cooperative Insurance Company.
3. 2011-2014 Director of Budget Department – General Organization for Social Insurance.
4. 2011-2015 Member of the Board of Directors of Al-Safwa Cement Company.
5. 2013-2015 Chairman of the Audit Committee - Al-Safwa Cement Company.
6. 2014-2021 Director General of Financial Affairs - General Organization for Social Insurance.
7. 2016-2020 Chairman/Member of the Risk Committee – Bank AlJazira.

**Qualifications**

2004: Bachelor of Accounting, King Saud University.

2008: Master of Professional Advanced Accounting, University of Queensland For Technology, Australia.

**Experience**

Past and present varied experience in a number of financial and investment companies in accounting and auditing fields.

### Mr. Adil Bin Saud Dahlawi

**Present Positions**

1. 2017 Founding Director, Mauthouq Financial Consultancy.
2. 2019 Member of the Board of Directors of Bank AlJazira.
3. 2021 Member of the Board/Executive Committee and the Nomination and Remuneration Committee in Taajeer Group.
4. 2021 CEO Counsel – Dallah Al Baraka Investment Holding Company.
5. 2022 Chairman of Risk Committee of Bank AlJazira.

**Past Positions**

1. 1994-2002 Corporate Banking Relations Officer –Saudi Fransi Bank.
2. 2002 – 2006 Team Leader Samba Corporate & Investment Services – Samba Financial Group.
3. 2006-2011 Assistant Chief Investment Officer – Dallah Al Baraka Holding Company.
4. 2011 – 2017 Managing Director and CEO – Itqan Capital.
5. 2018 – 2020 Assistant Chief Investment Officer - Dallah Al Baraka Holding Company.
6. 2019 -2021 Member Board/Audit / Executive Committee - Bank AlJazira.
7. 2019 – 2021 Member of the Board of Directors – Sharma Dallah Health Services.
8. 2020-2022 Managing Director - Dallah Investment Holding Company.

**Qualifications**

1993 – Bachelor of Medical Science, King Saud University

**Experience**

- Commercial banks
- Corporate Credit – Investment Management.
- Banking Investment.
- Financial Consultation.

## Mr. Saad Bin Ibrahim Al Mushawah

### Present Positions

1. 2010 Member and Chairman of the Audit Committee in Qassim Cement Company.
2. 2016 Member of the Board of Directors of Qassim Cement.
3. 2017 Member of the Supervisory Board / Audit Committee of the Center for Building Productive Families (Jana) - one of the branches of Sulaiman Al-Rajhi Finance Corporations.
4. 2019 Member of the Board of Directors of Creative Closets Company.
5. 2019 Member of the Audit Committee of Fawaz Alhokair Company, Public Joint Stock Company.
6. 2019 Member of Thobe Al-Aseel Co Audit Committee.
7. 2021 Member and Chairman of the Executive Committee at Qassim Cement Company.
8. 2021 Member of the Audit Committee of Chemanol Company.
9. 2021 Member of the Audit Committee of Al-Durra Sugar Company.
10. 2022 Member of the Audit Committee of Luna Foods Company.
11. 2022 Member of the Audit Committee of Bank AlJazira.

### Past Positions

1. 1985-2003 Head of the lending team of the Saudi Industrial Development Fund.
2. 2003-2019 Chief Executive Officer of Gulf Union Foods Company.
3. 2013-2016 Member of the Board of Directors / Chairman of the Audit Committee of Al Jazira Takaful Company.
4. 2014-2016 Member of the Audit Committee of Alissa Industries.
5. 2020 Member and Chairman of the Nomination and Remuneration Committee at Qassim Cement Company.
6. 2020 Member of the Nomination and Remuneration Committee at Raza Company, an institution affiliated to the Pension and Retirement Authority.

### Qualifications

- - 1985- Bachelor of Industrial Engineering King Fahd University For Petroleum and Minerals.
- - 1987 - Specialized course in financial management and investment - Chase Manhattan Bank - United States of America.
- -1990 - Specialized Course - Finance / Economics - United States / Harvard.

### Experience

Previous and current experience in joint stock companies and management in several fields, including banking, finance, auditing, and industry.

## Mr. Abdullatif Bin Khalifa Al Mulhem

### Present Positions

1. 2016 Saudi Industrial Development Fund.
2. 2019 Member of the Board of Directors of the manufacturing company.
3. 2022 Bank AlJazira Risk Committee.
4. 2022 Bank AlJazira Nomination and Remuneration Committee.
5. 2022 Member of the Board of Directors / Executive and Strategy Committee / Nomination and Remuneration Committee of Walaa Insurance Company.

### Past Positions

1. 2013-2015 Flour company, Saudi Arabia.
2. 2016 Saudi Industrial Development Fund.

### Qualifications

2013 - Bachelor- Industrial Engineering- Concordia University - Montreal

### Experience

Multi experiences in different administrative sectors

## a. Board directors:

### Mr. Mohammed Bin Saad Bindawood

**Present Positions**

1. 2014 Member of the Board of Directors / Audit Committee of Mohammed Abdulaziz Al-Rajhi & Sons Investment Company.
2. 2014 Member of the Board of Directors of Manafea Investment Company.
3. 2015 Member of the Board of Directors / Risk Committee of Dar Al Tamleek Company.
4. 2018 Member of the Board of Directors of Alpha Capital.
5. 2019 Member of the Board of Directors / Executive Committee of the Saudi Real Estate Company.
6. 2019 Member of the Board of Directors of the Saudi Chemical Company.
7. 2020 Member of the Board of Directors of Oqalat Company Ltd.
8. 2020 Member of the Board of Directors / Governance Committee of Thiqa Company.
9. Member of the Risk Committee of the Ground Services Company.
10. Chairman of the Investment Committee of Abdullatif Alissa Holding Group.
11. 2022 Member of the Board / Executive Committee of Bank AlJazira.

**Past Positions**

1. 2004-2013 Deputy General Manager of Corporate Banking at Arab National Bank.
2. 2009-2013 Member of the Board of Directors of Al-Araby Investment Company.
3. 2009-2013 Member of the Board of Directors of Al-Araby Heavy Equipment Company.
4. 2012 – 2014 Member of the Board of Directors of the Saudi Home loans Company.
5. 2013-2014 General Manager of Corporate Banking Services at The Saudi British Bank.
6. 2013-2014 Member of the Board of Directors of SABB Takaful Company.
7. 2014 - 2018 CEO/Member of the Board of Directors of Mohammed Abdulaziz Al-Rajhi & Sons Investment Company.
8. 2015 – 2018 Member of the Board of Directors of Falcon Plastic Industries.
9. 2015-2018 Member of the Board of Directors of Al-Jazirah Home Appliance Co.
10. 2015-2019 Member of the Board of Directors of the International Refreshments Company.
11. 2015 – 2020 Member of the Board of Directors of Fiberglass Oasis Company.
12. 2016 Member of the Board of Directors – Investment Committee Real Estate Development Fund.
13. 2017-2018 Member of the Industrial Committee of the Riyadh Chamber.
14. 2019 Member of the Board of Directors / Chairman of the Investment Committee of the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (Med Gulf Insurance).
15. 2019 Member of the Board of Directors of Al Rajhi Steel Industries Company.
16. 2021 Member of the Board of Directors / Member of the Executive Committee of Abdullah Al-Othaim Investment Company.

**Qualifications**

1996- Bachelor – Accounting – King Saud University.

**Experience**

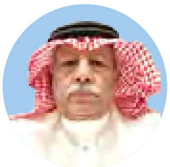
Past experience in the investment and banking sector.

## b. Board subcommittee members:

| S | Name | Present memberships | Past memberships | Qualifications | Experience |
|---|---|---|---|---|---|
| 1 | **Eng. Tarek Bin Othman Al Kasabi**<br> | 1. Chairman of the Executive Committee - Bank AlJazira.<br>2. Chairman of the Investment and Financing Committee and member of the Nomination and Remuneration Committee at Dallah HealthCare Company.<br>3. Member of the Nomination and Remuneration Committee – Ataa Educational Company.<br>4. Chairman of the Executive Committee and Investment of Care Shield Holding Company. | 1. 1998-2015 Member of the Executive Committee of Bank AlJazira.<br>2. 2013-2015, Chairman of the Risk Management Committee - Bank AlJazira. | Bachelor of Civil Engineering, King Saud University - 1976. | Member of the Board of BAJ since 1998, member of Executive Committee, Previous Chairman of Risk Committee.<br>Chairman and member of the Boards of Directors of many investment companies in and out of the Kingdom of Saudi Arabia. |
| 2 | **Eng. Abdul Majeed Bin Ibrahim Al Sultan**<br> | 1. 2016 Member of the Executive Committee – Bank AlJazira.<br>2. 2019 Chairman of the Social Responsibility Committee (Khair Al-Jazira Program) - Bank AlJazira.<br>3. 2020 Member of the Nomination and Remuneration Committee - Bank AlJazira.<br>4. Member of the Executive Committee/Investment Committee of Dar Al Tanmya Company. | 1. 2004-2009 Chairman of the Audit Committee - Bank AlJazira. | 1989 – Bachelor of Engineering – King Saud University, Riyadh | Member of the Board of BAJ since 2004, Chairman of Jazira Takaful Taawuni Committee.<br>Chairman and member of the Boards of Directors of many investment companies in and out of the Kingdom of Saudi Arabia. |
| 3 | **Mr. Naif Bin Abdulkareem Al Abdulkareem**<br> | 1. 2021 Member of the Executive Committee of Bank AlJazira.<br>2. 2020 Member of the Nomination and Remuneration Committee - Al Jazira Securities Company.<br>3. Member of the Nomination and Remuneration Committee and the Executive Committee of SIMAH Saudi Credit Bureau.<br>4. 2020 Member of the Nomination and Remuneration Committee - SIMAH Saudi Credit Bureau Company.<br>5. 2022 Member of the Board of Directors Aljazira Takaful.<br>6. 2022 Member of the Investment Committee Aljazira Takaful.<br>7. 2022 Member of the Executive Committee Aljazira Takaful. | 1. 2021 Member of the Executive Committee of Bank AlJazira.<br>2. 2020 Member of the Nomination and Remuneration Committee - Al Jazira Securities Company.<br>3. Member of the Nomination and Remuneration Committee and the Executive Committee of SIMAH Saudi Credit Bureau.<br>4. 2020 Member of the Nomination and Remuneration Committee – SIMAH Saudi Credit Bureau Company.<br>5. 2020 Member of the Executive Committee – SIMAH Saudi Credit Bureau Company. | 1995 Bachelor of Finance- King Saud University.<br>2001 Master of Business Administration – University of Illinois, USA. | Past and present experience in commercial banks. |

## b. Board subcommittee members:

| S | Name | Present memberships | Past memberships | Qualifications | Experience |
|---|---|---|---|---|---|
| 4 | **Mr. Saad Bin Ibrahim Al Mushawah**<br> | 1. 2010 Member and Chairman of the Audit Committee in Qassim Cement Company.<br>2. 2017 Member of the Supervisory Board and the Audit Committee of the Center for Building Productive Families (Jana) - one of the branches of Sulaiman Al-Rajhi Finance Corporation.<br>3. 2019 Member of the Audit Committee of Fawaz Alhokair Company, Public Joint Stock Company.<br>4. 2019 Member of the Thobe Al-Aseel Audit Committee.<br>5. 2020 Member and Chairman of the Nomination and Remuneration Committee of Qassim Cement Company.<br>6. 2020 Member of the Nomination and Remuneration Committee at Raza Company, an institution affiliated to the Pension and Retirement Authority<br>7. 2022 member of the Audit Committee at Bank AlJazira. | 1. 2013-2016 Management of Al Jazira Takaful Company and Chairman of the Audit Committee.<br>2. 2014-2016 Member of the Audit Committee of Alissa Industries. | - 1985- Bachelor of Industrial Engineering King Fahd University For Petroleum and Minerals.<br>- 1987 - Specialized course in financial management and investment - Chase Manhattan Bank - United States of America.<br>-1990 - Specialized Course - Finance / Economics - United States / Harvard. | Previous and current experience in joint stock companies and management in several fields, including banking, finance, auditing, and industry. |
| 5 | **Mr. Ibrahim Bin Abdulaziz Al Shaia**<br> | 1. 2016 Member of the Audit Committee from outside the Board of Hassana Investment Company.<br>2. 2020 Member of the Executive Committee of Bank AlJazira.<br>3. 2020 Chairman of the Nomination and Remuneration Committee - Bank AlJazira. | 1. 2010-2013 Member of the Audit Committee, Allianz Saudi Fransi Cooperative Insurance Company.<br>2. 2013-2015 Chairman of the Audit Committee – Al-Safwa Cement Company.<br>3. 2016-2020 Chairman/ Member of the Risk Committee – Bank AlJazira. | 2004: Bachelor of Accounting, King Saud University.<br>2008: Master of Professional Advanced Accounting, University of Queensland For Technology, Australia. | Past and present varied experience in a number of financial and investment companies in accounting and auditing fields. |
| 6 | **Mr. Adil Bin Saud Dahlawi**<br> | 1. 2022 Chairman of the Risk Committee Bank AlJazira.<br>2. Member of the Executive Committee and the Nomination and Remuneration Committee of Taajeer Group. | 1. 2019-2021 Member of the Executive Committee of Bank AlJazira.<br>2. 2019-2021 Chairman of the Audit Committee of Bank AlJazira. | 1993 – Bachelor of Medical Science, King Saud University | - Commercial banks<br>- Corporate Credit – Investment Management.<br>- Banking Investment.<br>- Financial Consultation. |

| S | Name | Present memberships | Past memberships | Qualifications | Experience |
|---|---|---|---|---|---|
| 7 | **Dr. AbuBaker Bin Ali BaGabir**<br> | 1. 2022 Member of the Audit Committee – Bank AlJazira.<br>2. Member of the Audit Committee of SABB Takaful.<br>3. Member of the Audit Committee of Cisco.<br>4. Member of the Audit Committee of Nahdi Medical Company.<br>5. Member of the Audit Committee of Abdullatif Jameel Finance. | 1. 1974-2012 Several management positions – National Commercial Bank. | 1972 - Bachelor of Accounting - University of Khartoum - Sudan.<br>1979 - Master of Accounting - University of Birmingham - Britain.<br>1984 - PhD in Accounting and Financial Management - University of Straslyde - Britain.<br>Fellowship of British Certified Public Accountants.<br>- 1989 Chartered Accountant in Britain - Association of Chartered Certified Accountants - London.<br>Member of the British Chartered Accountants- Association of Chartered Certified Accountants - London - 1984. | Current and previous experience in the fields of auditing, finance and commercial banks in the Kingdom. |
| 8 | **Mr. Fawzi Bin Ibrahim Al Hobayb**<br> | 1. Member of the Audit Committee of the Packaging Materials Manufacturing Company (FIPCO).<br>2. Member of the Audit Committee of Qassim Cement Company.<br>3. 2022 member of the Risk Committee of Bank AlJazira. | 1. Progression in auditing - Ernst & Young.<br>2. Head of Internal Audit Department - Arab National Bank.<br>3. Head of Follow-up and Enforcement Department - Head of Internal Audit Department – Capital Market Authority.<br>4. Founding and managing WACAD Financial Consulting Office (non-securities). | 1989 Bachelor of Accounting, King Abdulaziz University.<br>1993 - Fellowship of Chartered Accountants (CPA) - USA.<br>Advanced Management Program – Wharton – University of Pennsylvania – 1997 | Membership in audit committees, and has experience in account management, internal audits, and financial advisory for banks and the Capital Market Authority. |
| 9 | **Mr. Abdullatif Bin Khalifa Al Mulhem**<br> | 1. 2016 Saudi Industrial Development Fund.<br>2. 2019 Member of the Board of Directors of the manufacturing company.<br>3. 2022 Bank AlJazira Risk Committee.<br>4. 2022 Bank AlJazira Nomination and Remuneration Committee.<br>5. 2022 Member of the Board of Directors / Executive and Strategy Committee / Nomination and Remuneration Committee of Walaa Insurance Company. | 1. 2013-2015 Flour company, Saudi Arabia.<br>2. 2016 Saudi Industrial Development Fund. | 2013 - Bachelor- Industrial Engineering- Concordia University- Montreal | Multi experiences in different administrative sectors |

## b. Board subcommittee members:

| S | Name | Present memberships | Past memberships | Qualifications | Experience |
|---|---|---|---|---|---|
| 10 | **Mr. Mohammed Bin Saad Bindawood**<br> | 1. Chairman of the Investment Committee of the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company. (Med Gulf Insurance).<br>2. Member of the Risk Committee of the Ground Services Company.<br>3. Member of the Risk Committee at Dar Al Tamleek Company.<br>4. Member of the Audit Committee at Mohammed Abdulaziz Al-Rajhi & Sons Investment Company.<br>5. Chairman of the Investment Committee of Abdullatif Al-Essa Holding Group.<br>6. Member of the Executive Committee of Abdullah Al-Othaim Investment Company.<br>7. Member of the Governance Committee of Thiqa Company.<br>8. Member of the Executive Committee of the Saudi Real Estate Company.<br>9. 2022 Member of Executive Committee of Bank AlJazira. | 1. 2017 – 2018 Member of the Industrial Committee of the Riyadh Chamber. | 1996- Bachelor – Accounting – King Saud University. | Past experience in the investment and banking sector. |
| 11 | **Mr. Abdullah Bin Ibrahim Al Hagbani**<br> | 1. 2020 Chairman of the Remuneration and Nomination Committee at the Health Cluster (Riyadh).<br>2. Remuneration and Nomination Committee in Health Cluster (Jeddah - Al-Jouf).<br>3. 2022 Member of the Nomination and Remuneration Committee – Bank AlJazira.<br>4. Member of the Remuneration and Nomination Committee at Smart Marinas Management and Development Company.<br>5. Member of the Remuneration and Nomination Committee at the Saudi Post. | 1. 2001-2004 Training & Development Officer- Silki La Silki.<br>2. 2005-2018 Director, Human Resources- Capital Market Authority "CMA".<br>3. 2018 –2021 Senior Human Capital Advisor - Executive Office of H.E Minister Ahmed Alkhateeb.<br>4. 2019-2020 chief Human Capital – Ministry of Tourism.<br>5. 2021 -Present - Chief Executive & External Affairs - Saudi Tourism Authority. | 2001 – Bachelor – Human Resources – University of Eastern Washington – USA.<br>2005 - Master of Business Administration - Lebanese American University - Lebanon.<br>2008 - Diploma - Training and Development - Lingivin Training Facility - United States of America. | More than 18 years of experience in human Recourses. |

| S | Name | Present memberships | Past memberships | Qualifications | Experience |
|---|---|---|---|---|---|
| 12 | **Mr. Abdulwahab Bin Abdulkareem Al Betari**  | 2020 Member of the Risk Committee - Bank AlJazira. | 1. 2004-2014 Member of the Executive Committee - Family Office Company / Bahrain.<br>2. 2018-2020 Vice Chairman of the Advisory Committee - Capital Market Authority. | 2010 – Masters of Business Administration, London Business School. | Various past experience in accounting and auditing in financial and investment companies in and out of the Kingdom. |
| 13 | **Mr. Abdulaziz Bin Ibrahim Al Hadlaq**  | 2013 Member of the Social Responsibility Committee (Khair Al-Jazira le ahl AlJazira Program) - Bank AlJazira. | 1. Member of the Standing Committee – Ministry of Foreign Affairs.<br>2. 1994 Member of the National Committee in the Kingdom of Saudi Arabia for the Family International Year.<br>3. 1995 Member of the National Committee in charge of preparing the national report of the World Summit for Social Development - Copenhagen, Denmark.<br>4. 1996-1998 Assistant General Manager -International Organizations Affairs- Ministry of Labour and Social Affairs.<br>5. 1998-2005 General Manager -International Organizations Affairs, Ministry of Labour and Social Affairs.<br>6. 1996-2005 Member of the Board - International Work Organization.<br>7. 2005-2006 General Supervisor of Public Affairs and Social Media Department -Ministry of Social Affairs.<br>8. 2005-2007 Director of International Cooperation - Ministry of Social Affairs for Social Development.<br>9. 2007-2011 Deputy Assistant Minister -Ministry of Social Affairs For Social Development.<br>10. 2001-2013 Deputy Minister - Ministry of Social Affairs for Social Development.<br>11. 2014-2015/2015-2016 Chairman of the Social Affairs, Family and Youth Committee in the Shura Council.<br>12. 2016-2017 Deputy Chairman of the Social Affairs, Family and Youth Committee in the Shura Council. | - 1982: Bachelor of Social Services, King Saud University.<br>- 1984: Diploma of Community Development, Research and Training Center.<br>- 1991: Diploma of International Development, Missouri Columbia University, USA.<br>- 1992: Masters of Community Development, Missouri Columbia University, USA. | Past experience in the departments of Ministry of Social Affairs and membership of many international organizations involved in community services. |

## b. Board subcommittee members:

| S | Name | Present memberships | Past memberships | Qualifications | Experience |
|---|---|---|---|---|---|
| 14 | **Dr. Fahad Bin Ali Al Elayan**<br> | 1. 2018 Member of the Social Responsibility Committee (Khair AlJazira le ahl AlJazira Program) - Bank AlJazira.<br>2. 2021 Member of the Sustainability Committee – General Council for Islamic Financial Institutions.<br>3. Member of the Board of Directors - Awareness and Rehabilitation Association (WAIE)<br>4. Member of the Board of Directors - AlShabab Club.<br>5. Member of the Sustainability Committee – General Council for Islamic Banks and Financial Institutions.<br>6. Member of the Board of Directors of Tayiba Educational City for Special Education. | 1. Member of the Social Responsibility Committee of the Chamber of Commerce in Riyadh.<br>2. Faculty member, Education and Social Science College - Al Imam Mohammed Bin Saud Islamic University.<br>3. Vice Dean of the University Center for Community Service and Continuing Education - Al Imam Mohammed bin Saud Islamic University.<br>4. Part time consultant - Ministry of Education.<br>5. Director of the National Cultural Project - King Abdul Aziz Public Library. | 1990 - Bachelor Degree Sharia College – Al Imam University.<br>1995 - Master Degree Applied Linguistics - Al Imam University.<br>2001 - PhD Ohio University, United States of America. | He has multiple experiences in the academic and educational fields, research and studies, memberships related to development, cultural and scientific participations. |

## C. Executive Management

### Mr. Naif A. Al Abdulkareem

**Position: Chief Executive Officer and Managing Director**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| King Saud University | Financial Management | Bachelor Degree | 1995 |
| University of Illinois | Business Administration | Master Degree | 2001 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Riyadh Bank | Credit Relationship Manager | 2001 –2004 |
| Banks and Financial Services | Listed Joint-Stock Company | NCB | Regional Manager – Retail Banking | 2004 –2011 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB | Head of Private Banking | 2012 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB | GM Branches & Wealth Management | 2012 –2013 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB | GM Retail & Wealth Management | 2014 –2019 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB | DMD-Retail & Wealth Management | 2019 |
| Banks and Financial Services | Listed Joint-Stock Company | SANID | Board Member/Excom Member | 2014 –2017 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB Insurance Agency | Chairman of the Board | 2012 –2018 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB Takaful | Board Member/Excom Member | 2016 –2018 |
| Banks and Financial Services | Listed Joint-Stock Company | HSBC-SA | Board Member | 2017 –2019 |
| Banks and Financial Services | Listed Joint-Stock Company | SIMAH | Board Member | 2017 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Chief Executive Officer and Managing Director | 2020 |

## Mr. Hani S. Noori

**Position: Chief Financial Officer**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| Baker College, USA | Business Administration - Accounting | Bachelor Degree | 2002 |
| Central Michigan University, USA | Science - Information Systems | Master Degree | 2003 |
| Association of Certified Public Accountants, Colorado State, USA | General Accounting | Member (CPA) | 2012 |
| The Saudi Organization for Chartered and Professional Accountants, Saudi Arabia | General Accounting | Member (SOCPA) | 2021 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | NCB | Financial Controller | 2003 - 2009 |
| Banks and Financial Institution | Listed Joint Stock Company | NCB | VP, Senior Financial Controller | 2009 - 2014 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | VP, Head of Financial Controllers | 2014 - 2016 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | VP, Chief Accounting Officer | 2016 - 2021 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Chief Financial Officer | 2021 |

## Mr. Khalid Al Othman

**Position: Head of Retail Banking Group**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| London Business School - UK | Business Administration | Master Degree | 2012 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Banque Saudi Fransi | Head of Retail Banking in Central Region | 2003 - 2006 |
| Banks and Financial Services | Listed Joint-Stock Company | NCB | Head of Retail Banking in Central Region | 2006 – 2008 |
| Banks and Financial Services | Listed Joint-Stock Company | Al Bilad Bank | Head of Retail Banking Branches | 2008 - 2010 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Retail Banking Branches | 2010 – 2011 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Retail Banking Group | 2011 |

## C. Executive Management

### Mr. Ahmed Al Hassan
**Position: Chief Operating Officer**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| King Saud University - Kingdom of Saudi Arabia | Computer Sciences | Bachelor Degree | 2002 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Governmental | Governmental Body | SAMA | Systems Analyst | 2002- 2005 |
| Governmental | Governmental Body | SADAD | IT Director | 2005-2009 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB | Director of Banking Channels Development | 2009-2011 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Logistics Transformation Department | Feb 2011-Jun 2011 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of IT Department | Jun 2011-2017 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Chief Operations Officer | 2017 |

### Mr. Ibrahim A. Al Omar
**Position: Chief Operating Officer**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| New York Institute Of Technology | Management Information System (MIS) | Bachelor Degree | 2006 |

**Previous Positions**

| Sector | Legal Entity | Company/Organization | Position | Duration of Service |
|---|---|---|---|---|
| Education | Governmental Organization | KFUPM | Computer Graphics Art Designer | 1996-1998 |
| Commercial | Private Company | FAMA Holdings | MIS Manager – Business Development Manager | 1999-2007 |
| Media | Listed Joint-Stock Company | SRMG | IT Department Manager | 2007-2009 |
| Health and Care Services | Governmental Organization | National Unified Procurement Medical Supplies Company (NUPCO) | IT Manager | 2009-2013 |
| Technology Provider | Private Establishment | Higility (CR is closed) | Founder and CEO | 201٢-201٨ |
| Banks and Financial Services | Listed Joint-Stock Company | Al Rajhi Bank | Chief Technology Officer (CTO) | 2013-2017 |
| Financial Sector | Governmental Organization | Social Development Bank (SDB) | Chief Operations Officer (COO) | 2017-2022 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Chief Operations Officer | 2022 |

## Mr. Faisal M. Al Mansour

**Position: Head of Human Capital Group**

### Educational and Professional Qualifications

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| King Fahad university of Petroleum and Minerals | MIS | Bachelor | 2007 |

### Previous Positions

| Sector | Legal Entity | Company/Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | The Saudi British Bank (SABB) | HR Assistant Relationship Manager | April 2009 – October 2009 |
| Banks and Financial Institution | Listed Joint Stock Company | The Saudi British Bank (SABB) | HR Relationship Manager | 2009 - 2012 |
| Banks and Financial Institution | Listed Joint Stock Company | The Saudi British Bank (SABB) | HR Senior Manager Relationship | 2013 - 2015 |
| Banks and Financial Institution | Listed Joint Stock Company | The Saudi British Bank (SABB) | Head of Resourcing | 2016 - 2017 |
| Banks and Financial Institution | Listed Joint Stock Company | The Saudi British Bank (SABB) | Head of Resourcing and HR Service Delivery | 2017 - 2018 |
| Banks and Financial Institution | Listed Joint Stock Company | The Saudi British Bank (SABB) | Head of Learning and Talent | 2018 - 2020 |
| Government | Governmental Body | Tourism Development Fund | Chief Human Capital Officer | 2020 |
| Health | Governmental Body | Ministry of Health, Cluster | Member of Board Nomination and Remuneration Committee | 2020 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | SVP, Head of Human Capital Group | 2021 |

### Current Positions

| Sector | Legal Entity | Company/Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Head of Human Capital Group | 2021 |

## Mr. Sami J. Al Mehaid

**Position: Head of Corporate and Institutional Banking Group**

### Educational and Professional Qualifications

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| King Faisal University | Business Management | Bachelor | 2021 |
| ICC- Manchester University | International Compliance | International Diploma in Compliance | 2011 |
| Institute of Public Administration | Banking Business | Diploma in Banking Business | 2000 |

### Previous Positions

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | SAMBA | Corporate Banking Customer Service Professional | 2000 - 2003 |
| Banks and Financial Institution | Listed Joint Stock Company | Saudi Hollandi Bank | Customer Experience Management | 2003 - 2004 |
| Banks and Financial Institution | Listed Joint Stock Company | Saudi Hollandi Bank | Senior RM Corporate Banking | 2004 - 2008 |
| Banks and Financial Institution | Listed Joint Stock Company | SABB | Senior Relationship Corporate Manger /Team Leader | 2008 - 2009 |
| Banks and Financial Institution | Listed Joint Stock Company | Saudi Hollandi Bank | Compliance Specialist (Senior Manager) | 2009 - 2011 |
| Banks and Financial Institution | Listed Joint Stock Company | Al-Rajhi Bank | Head of AML / CTF | 2011 - 2013 |
| Banks and Financial Institution | Listed Joint Stock Company | SABB | Chief Compliance Officer | 2013 - 2019 |
| Insurance Services | Listed Joint Stock Company | SABB Takaful | - Board Member and Vice Chairman<br>- Chairman of the Board Risk Committee | 2019-2020 |
| Securities Services | Saudi Closed Joint Stock Company | HSBC Saudi Arabia | - Audit Committee Member | 2018-2020 |
| Banks and Financial Institution | Listed Joint Stock Company | SABB | CRO Designate | 2019 -2020 |
| Banks and Financial Institution | Listed Joint Stock Company | Saudi Fransi Bank | Chief Compliance Officer | 2020 - 2021 |

### Current Positions

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Head Of Corporate and Institutional Banking Group | 2021 |

## C. Executive Management

### Mr. Osama Al Ibrahim

**Position: Chief Risk Officer**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| King Fahd University of Petroleum and Minerals | Industrial Management | Bachelor Degree | 1994 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | SAMBA | Customer Relations Manager and Head of Customer Relations | 1996-2006 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Corporate Banking Division - Central Region | 2006-2008 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Corporate Banking Division - KSA | 2008-2014 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Chief Risk Officer | 2017 |

### Dr. Fahad Al Elayan

**Position: Head of Sharia, Sustainability & Social Responsibility Group**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| Sharia College – Al Imam University | Education | Bachelor Degree | 1990 |
| Applied Linguistics - Al Imam University | Education | Master Degree | 1995 |
| Ohio University, United States of America | Education | PhD | 2001 |

**Previous Positions**

| Sector | Legal Entity | Company/Organization | Position | Duration of Service |
|---|---|---|---|---|
| Charity | Charity Foundation | King Abdul Aziz Public Library | Director of the National Cultural Project | 2003 |
| Education | Governmental Organization | Ministry of Education | Part time consultant | 2003-2007 |
| Education | Governmental Organization | Al Imam Mohammed bin Saud Islamic University, Saudi Arabia | Vice Dean of the University Center for Community Service and Continuing Education | 2005-2008 |
| Education | Governmental Organization | Al Imam Mohammed Bin Saud Islamic University | Faculty member, Education and Social Science College | 2001 -2018 |

**Current Positions**

| Sector | Legal Entity | Company/Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Social Responsibility | 2008 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Sharia, Sustainability & Social Responsibility Group | 2015 |
| Charity | Charity Foundation | Awareness and Social habilitation Society | Member of Board of Directors | 2017 |
| Sport and Youth | Governmental Organization | Al Shabab Club | Member of Board of Directors and Supervisor of Social Responsibility | 2018 |
| Non-Profit Organization | Specialized Organization | CIBAFI Sustainability Working Group (SWG) | Member of the General Council Sustainability Working Group | 2020 |

## Mr. Abdulaziz Al Zammam
**Position: Chief Audit Executive**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| University of London – Royal Holloway - UK | Information Security | Masters of Science | 2007 |
| King Saud University | Computer Science | Bachelor Degree | 2001 |

**Previous Positions**

| Sector | Legal Entity | Company/Organization | Position | Duration of Service |
|---|---|---|---|---|
| Government | Government | SAMA | Banking Inspector | 2002 - 2010 |
| Semi Government | Governmental Body | Ministry of Communication and IT | Audit and Compliance | 2010 - 2013 |
| Banking and Financial Services | Listed Joint Stock Company | Riyad Bank | VP – Audit Division Head | 2013 - 2019 |

**Current Positions**

| Sector | Legal Entity | Company/Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banking and Financial Services | Listed Joint Stock Company | Bank AlJazira | Chief Audit Executive | March 2019 |

## Mr. Hamad Al Essa
**Position: Chief Compliance & Anti Financial Crime Officer**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| King Saud University | Computer Science | Bachelor Degree | 2002 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlBilad | Chief Compliance & Anti-Money laundering officer | 2016 - 2020 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Chief Compliance & Anti Financial Crime Officer | 2020 |

## C. Executive Management

### Mr. Hani A. Araki

**Position: Head of Treasury Group**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| King Abdulaziz University | Business Administration | Bachelors | 1995 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Samba | Senior Supervisor Operation and Technology Group | 1995 - 2000 |
| Banks and Financial Institution | Listed Joint Stock Company | Samba | Credit Member Corporate Banking Group | 2000 - 2001 |
| Banks and Financial Institution | Listed Joint Stock Company | Samba | Product Development Islamic Banking Group | 2001 - 2002 |
| Banks and Financial Institution | Listed Joint Stock Company | Samba | Unit Head for Money Market | 2002 - 2011 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Head of Money Market & ALM | 2011 - 2021 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Head of Treasury Group | 2021 |

### Mr. Sultan S. Al Qahtani

**Position: Board Secretary & Head of Corporate Governance Group**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| Imam University | Science of Sociology | Bachelor | 1998 |
| Florida Institute of Technology – USA | Science of Management | Master | 2003 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Agricultural | Limited Lability Company | Takamul National Agriculture Company | Relationship Manager- HR | 1990 - 1993 |
| Banks and Financial Institution | Listed Joint Stock Company | United Saudi Bank | Customer Service Representative | 1993 - 1994 |
| Banks and Financial Institution | Listed Joint Stock Company | NCB | Recruitment Manager | 2003 - 2006 |
| Banks and Financial Institution | Listed Joint Stock Company | NCB | Senior Relationship Private Banking | 2006 - 2008 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | HR Relationship Manager | 2008 - 2009 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | VP. Chairman Office Manager | 2009 - 2015 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | VP, Head of Corporate Governance | 2016 - 2019 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | VP, Deputy Board Secretary & Governance Group | 2019 - 2021 |

**Current Positions**

| Sector | Legal Entity | Company/Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Board Secretary & Head Of Corporate Governance Group | 2021 |

## Mr. Nahim Y. Bassa

**Position: Head of Strategy & Digital Transformation Group**

### Educational and Professional Qualifications

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| University of Witwatersrand | Digital Business | Masters | 2021 |
| University of Kwazulu-Natal | Business Management | Post-Graduate (Diploma) | 2004 |
| University of Kwazulu-Natal | Economics | Post-Graduate (Honors) | 2003 |
| University of Natal | Commerce | Bachelor | 2001 |

### Previous Positions

| Sector | Legal Entity | Company/Organization | Position | Duration of Service |
|---|---|---|---|---|
| Financial Consultations | | Accenture | Management Consultant | 2004-2012 |
| Financial Consultations | | Barclays Africa | Strategy Lead | 2013-2015 |
| Financial Consultations | Shareholding Company | Absa Group | Director: Strategic Initiatives & Digital Transformation | 2016-2019 |
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Head of Digital Banking Division | 2020 |

### Current Positions

| Sector | Legal Entity | Company/Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Head of Strategy & Digital Transformation Group | 2021 |

## Mr.Badr A. Al Rashodi

**Position: Head of Customer Experience and Protection Division**

### Educational and Professional Qualifications

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| Alimam Mohammed Ibn Saud Islamic University | Law | Bachelor Degree | 2020-2021 |
| EF International Language Schools- California | Language | Diploma | 2001 |
| Churchill House school - UK | Language | Diploma | 1996-1997 |

### Previous Positions

| Sector | Legal Entity | Company/Organization | Position | Duration of Service |
|---|---|---|---|---|
| Non-profit sector | Specialized Organization | Sultan bin Abdulaziz Humanitarian City | Interpreter | 2002 |
| Banks and Financial Institution | Listed Joint Stock Company | SABB | Customer Care Representative | 2003-2005 |
| Postal and logistic services | Governmental Organization | Saudi Post | Supervisor | 2007-2009 |
| Postal and logistic services | Governmental Organization | Saudi Post | Manager of Customer Service | 2009-2010 |
| Postal and logistic services | Governmental Organization | Saudi Post | Special products deputy Manager | 2010 |
| Postal and logistic services | Governmental Organization | Saudi Post | Special products center operation Manager | 2010 |
| Postal and logistic services | Governmental Organization | Saudi Post | VIP Customers office Manager | 2011 |

### Current Positions

| Sector | Legal Entity | Company/Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Institution | Listed Joint Stock Company | Bank AlJazira | Head of Customer Experience and Protection Division | 2021 |

## C. Executive Management

### Mr. Mohammed Al Faris

**Position: Head of Private Banking and Wealth Management Group**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| American University in Washington DC | Finance | Master Degree | 2003 |

**Previous Positions**

| Sector | Legal Entity | Company/Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | NCB | Senior Corporate Banker | 2003-2008 |
| Banks and Financial Services | Listed Joint-Stock Company | SABB | Senior Manager Commercial Banking | 2008-2013 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Private Banking and Wealth Management Regional head | 2012-2022 |

**Current Positions**

| Sector | Legal Entity | Company/Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | Head of Private Banking and Wealth Management Group | 2022 |

### Name: Mr. Khalid R. Al Shabanat

**Position: Head of Fawri Banking Services Group (Acting)**

**Educational and Professional Qualifications**

| University | Field of Specialty | Qualifications | Year |
|---|---|---|---|
| Imam Mohammed Ben Saud University | Sciences | Bachelor | 2003 |

**Previous Positions**

| Sector | Legal Entity | Company/ Organization | Position | Duration of Service |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint-Stock Company | AlRajhi Bank | Customer Services Specialist | 1997-1999 |
| Banks and Financial Services | Listed Joint-Stock Company | AlRajhi Trading | Branch Manager | 2000-2005 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlBilad | Head of Quality & Business Development Department | 2005-2013 |
| Banks and Financial Services | Listed Joint-Stock Company | Bank AlJazira | VP .Head of Business Development Division | 2013-2021 |

**Current Positions**

| Sector | Legal Entity | Company/ Organization | Position | Appointment Date |
|---|---|---|---|---|
| Banks and Financial Services | Listed Joint – Stock Company | Bank AlJazira | Head of FAWRI Banking Services Group (Acting) | 2022 |

## 2) Brief description of the responsibilities and functions of board committees:

### 1 - Board Executive Committee

As per the bank's articles of association and its terms of reference, the executive committee of Bank AlJazira consists of 5 board members chosen by the board of directors and chaired for the board term by the chairman of the board of directors. The board of directors determines the authorities and powers of this committee. It is the responsibility of the executive committee, in accordance with the delegated powers, to monitor the implementation of the strategy and policies set by the board of directors, risk management and control of the bank's performance, recommend the balance sheet and action plan submitted for the fiscal year, and ensure proper Implementation of the policies of the board of directors, in addition to monitoring the efficiency of internal control standards and policies implementation. The committee holds 6 meetings at least per year. The board of directors at its meeting No. 226 held on 29 Jumada I, 1443H (corresponding to January 02, 2022). Re-formed the executive committee for the board term starting from 01 Jan 2022 to 31 Dec 2024, to consist of Eng. Tarek Bin Othman Al Kasabi (Chairman) and Eng. Abdulmajeed Bin Ibrahim Al Sultan, Mr. Naif Bin Abdulkareem Al Abdulkareem, Mr. Mohammed Bin Saad Bin Dawood, Mr. Ibrahim Bin Abdulaziz Al Shaia, (members).

The committee held 9 meetings during 2022 which were attended by members of the committee as described in the table below:

| S | Name | Function | 1st meeting 26/01/2022 | 2nd meeting 28/02/2022 | 3rd meeting 23/03/2022 | 4th meeting 19/04/2022 | 5th meeting 18/05/2022 | 6th meeting 23/06/2022 | 7th meeting 27/09/2022 | 8th meeting 15/11/2022 | 9th meeting 07/12/2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Eng. Tarek Bin Othman Al Kasabi | Chairman | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| 2 | Eng. Abdul Majeed bin Ibrahim Al Sultan | Member | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| 3 | Mr. Naif Bin Abdulkareem Al Abdulkareem | Member | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| 4 | Mr. Mohammed Bin Saad Bindawood | Member | √ | √ | √ | √ | √ | √ | √ | √ | √ |
| 5 | Mr. Ibrahim Bin Abdulaziz Al Shaia | Member | √ | √ | √ | √ | √ | √ | √ | √ | √ |

### 2 - Audit Committee:

As per its terms of reference, the audit committee of Bank AlJazira consists of 3-5 members. This committee plays a key role in helping the Board of Directors to meet its supervisory duties regarding the integrity of the bank's financial statements and the independency and qualifications of auditors, effectiveness of disclosure controls and procedures, effectiveness of the internal audit and external auditors, adequacy of the Bank's internal accounting systems and financial controls, supervision of the bank's compliance department and evaluation of its alignment with the ethical policies and regulatory and supervisory requirements.

The ordinary general assembly, in its 64 meeting held on 19 April 2022 endorsed to adjust the terms of reference and duties of the audit committee to comply with regulatory requirements. The committee reviews the quarterly financial statements and assists the board of directors in carrying out the evaluation and annual review of the efficiency of internal controls, identifying potential risks and development of strategic plans to mitigate them.

The results of the annual audit of effectiveness of the bank's internal control procedures have reflected reasonable assurance in terms of covering the important control aspects that materially affect the bank's achievement of its objectives. In this regard, BAJ adopts all policies and procedures required by the various statutory bodies and best international practices.

The audit committee membership consists of the chairman to be chosen from among the Independent members of the board of directors and two independent members at least from outside the board. The committee holds 4 meetings at least per year, and the meetings of audit committee are attended by the Chief Internal Audit and the Chief Financial Officer on a regular basis. The meetings are also attended by the CEO and senior executives as required. The audit committee was re-formed for the board term starting from 01 Jan 2022 to 31 Dec 2024, to consist of Mr. Saad Bin Ibrahim Al Mushawah (Chairman) and Mr. Fawzi Bin Ibrahim Al Hobayb and Dr. AbuBaker Bin Ali BaGabir (members) which composition was endorsed by General Assembly in its meeting held on 15 November 2021. The committee held 5 meetings during 2022 which were attended by the chairman and members, as shown in the table below:

| S | Name | Function | 1st. meeting 31/01/2022 | 2nd. meeting 09/02/2022 | 3rd. meeting 24/04/2022 | 4th. meeting 31/07/2022 | 5th. meeting 19/10/2022 |
|---|---|---|---|---|---|---|---|
| 1 | Mr. Saad Bin Ibrahim Al Mushawah | Chairman of Audit Committee | √ | √ | √ | √ | √ |
| 2 | Mr. Fawzi Bin Ibrahim Al Hobayb | Member of Audit Committee | √ | √ | √ | √ | √ |
| 3 | Dr. AbuBaker Bin Ali BaGabir | Member of Audit Committee | √ | √ | √ | √ | √ |

### 3 - Nomination and Remuneration Committee

The board of directors, based on its powers and authorities, forms the Remuneration and Nomination Committee which consists of 3-5 members appointed by the board after having obtained Saudi Central Bank's (SAMA) no-objection. The functions and duties of the committee focus on recommending nominations to the Board of Directors as per the approved policies and standards, performing annual reviews on the skills required for the membership of the board of directors, performing reviews of the board of directors 'structure and recommending those changes that could be carried out. The committee is also responsible for ensuring the independence of independent members and lack of any conflict of interests in case any director was a member in any other company's board, ensuring recommended appointment is commensurate with the proper skills and required qualifications, and development and review of remuneration for the directors and senior executives.

The ordinary general meeting, in its 63rd meeting held on 15 November 2021 ratified to adjust the terms of reference and duties of the Remuneration and Nomination Committee to comply with regulatory requirements. The committee holds two meetings at least per year.

The members of the Remuneration and Nomination Committee were appointed for the present board term at the board's meeting No. 226 held on 29 Jumada I, 1443H (corresponding to January 02, 2022). The committee was re-formed for the board term starting from 01 Jan 2022 to 31 Dec 2024, to consist of Mr. Ibrahim Bin Abdulaziz Al Shaia (Chairman) and Eng. Abdulmajeed Bin Ibrahim Al Sultan, Mr. Abdullatif Bin Khalifa Al Mulhem and Mr. Abdullah Bin Ibrahim Al Hagbani (members). The Committee held 4 meetings during 2022 which were attended by the chairman and members of the committee as reflected in the table below:

| S | Name | Function | 1st meeting 24/02/2022 | 2nd meeting 30/10/2022 | 3rd meeting 17/11/2022 | 4th meeting 15/12/2022 |
|---|---|---|---|---|---|---|
| 1 | Mr. Ibrahim Bin Abdulaziz Al Shaia | Chairman of the Nomination and Remuneration Committee | √ | √ | √ | √ |
| 2 | Eng. Abdulmajeed Bin Ibrahim Al Sultan | Member of the Nomination and Remuneration Committee | √ | √ | √ | √ |
| 3 | Mr. Abdullatif Bin Khalifa Al Mulhem | Member of the Nomination and Remuneration Committee | √ | √ | √ | √ |
| 4 | Mr. Abdullah Bin Ibrahim Al Hagbani | Member of the Nomination and Remuneration Committee | √ | √ | √ | √ |

### 4 - Board Risk Committee

As per its terms of reference, the Risk Committee of Bank AlJazira consists of 3-5 board members and holds 4 meetings at least per year. This committee assists the board of directors in fulfilling the responsibilities of overseeing the risks in the bank's businesses and controls.

Its duties and responsibilities are focused on the supervision and control, review of the banks' ability to manage and undertake risks based on appropriate analysis, and formulation of appropriate risk management policies. It also approves the credit rating system in the bank and risk policies for assets and liabilities management as developed by the Assets and Liabilities Committee.

The committee measures the exposures to financial risks and other significant exposures as well as the steps taken by the management to monitor, control and report cases of risks, including, but not limited to, review of credits, market, liquidity, reputational, operational, fraud and strategic risks in addition to evaluating exposures, tolerance levels and approval of appropriate transactions or commercial restrictions. The Committee also reviews the scope of risk management and the targeted activities related to the functions of the Bank's risk management.

The members of the board risk committee for the current term have been appointed at the board of directors' meeting No. 226 held on 29 Jumada I, 1443H (corresponding to January 02, 2022). The committee was re-formed for the board term starting from 01 Jan 2022 to 31 Dec 2024, to consist of Mr. Adil Bin Saud Dahlawi (chairman) and Mr. Abdullatif Bin Khalifa Al Mulhem, and Mr. Abdulwahab Bin Abdulkareem Al Betari (members). The Committee held 4 meetings during 2022 which were attended by the chairman and members as stated in the table below:

| S | Name | Function | 1st meeting 21/02/2022 | 2nd meeting 22/05/2022 | 3rd meeting 27/09/2022 | 4th meeting 07/12/2022 |
|---|---|---|---|---|---|---|
| 1 | Mr. Adil Bin Saud Dahlawi | Chairman of the Board Risk Committee | √ | √ | √ | √ |
| 2 | Mr. Abdullatif Bin Khalifa Al Mulhem | Member of the Board Risk Committee | √ | √ | √ | √ |
| 3 | Mr. Abdulwahab Bin Abdulkareem Al Betari | Member of the Board Risk Committee | √ | √ | √ | √ |

## 5 - Sustainability & Social Responsibility Committee

As per its terms of reference, the Social Responsibility Committee of Bank AlJazira consists of 3-5 board members and holds 3 meetings at least per year. This committee plays an important role in assisting the board of directors in the fulfillment of its social responsibilities Related to the 'Khair AlJazira le Ahl AlJazira' program. It is responsible for the formulation of policies and procedures related to the activities and social responsibility programs, approval of the annual budget for 'Khair AlJazira le Ahl AlJazira' program, approval of the annual plan for the program, creating solutions for the obstacles that might hinder the social responsibility programs and review of the objectives of the program by highlighting the bank's role in the community service. It also contributes and participates actively in many social responsibility programs in the Kingdom, builds cooperation and communication between the bank and the authorities related to those programs and establishes specific partnerships with associations and charities in the kingdom which contribute to highlighting the role of private sector in enhancing the process of social responsibility. The Committee also strives to create an appropriate environment to help the youth and rehabilitate them for the market, and it provides distinctive programs for rehabilitating disabled people. The committee of the 'Khair AlJazira le Ahl AlJazira' program reports annually to the Board of Directors about the activities and functions of Sustainability & Social Responsibility program.

The members of the social responsibility committee for the current term have been appointed at the board of directors' meeting No. 226 held on 29 Jumada I, 1443H (corresponding to January 02, 2022), to consist of Eng. Abdulmajeed Bin Ibrahim Al Sultan (Chairman), Dr. Fahd Bin Ali Al Elayan and Mr. Abdulaziz Bin Ibrahim Al Hadlaq (members). The committee held 4 meetings during 2022 which were attended by the chairman and members as stated in the table below:

| s | Name | Function | 1st meeting 30/01/2022 | 2nd meeting 17/04/2022 | 3rd meeting 12/09/2022 | 4th meeting 18/12/2022 |
|---|---|---|---|---|---|---|
| 1 | Eng. Abdulmajeed Bin Ibrahim Al Sultan | Chairman of the Board Risk Committee | √ | √ | √ | √ |
| 2 | Dr. Fahd Bin Ali Al Elayan | Member of the Board Risk Committee | √ | √ | √ | √ |
| 3 | Mr. Abdulaziz Bin Ibrahim Al Hadlaq | Member of the Board Risk Committee | √ | √ | √ | √ |

## 3) Details of the entities in/out of the Kingdom, in which members of BAJ Board of Directors hold/held board membership or management positions, excluding BAJ membership:

| Director's name | Names of the companies in which members of the Bank Board hold present board membership or management positions | In /out of the Kingdom | Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc." | Names of companies in which members of the Bank Board held past board membership or management positions | In /out of the Kingdom | Company type (Listed joint stock/unlisted joint-stock/ limited liability, etc." |
|---|---|---|---|---|---|---|
| **Eng. Tarek Bin Othman Al Kasabi**  | 1. 1995 - Chairman of the Board of Directors of Dallah Health Care Company | Inside the Kingdom | Listed Joint Stock | 1. 1981 - 1989 Vice President of Kara Contracting Establishment. | Inside the Kingdom | Limited Liability Company |
| | 2. 2006 - Member of the Board of Directors of Kingdom University Company (Kingdom of Bahrain). | Outside the Kingdom | Limited Liability | 2. 1989 - 1990 General Manager of Makkah Company for Reconstruction and Development. | Inside the Kingdom | Listed Joint Stock |
| | 3. 2008 - Chairman of the Board of Directors of Rozam Investment Company. | Inside the Kingdom | Closed Joint Stock | 3. 1990-2007 Vice President - Dallah Al Baraka Holding Company. | Inside the Kingdom | Limited Liability Company |
| | 4. 2010 - Chairman of the Board of Directors of Ataa Educational Company. | Inside the Kingdom | Listed Joint Stock | 4. 1998 – 2015 Member of the Board of Directors of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock |
| | 5. 2013 Chairman of the Board of Directors - NEBA. | Outside the Kingdom | Closed Joint Stock | 5. 2007-2019 Vice Chairman of the Board of Directors of Aseer Company for Trade, Tourism and Industry. | Inside the Kingdom | Listed Joint Stock |
| | 6. 2016 - Chairman of the Board of Directors of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 6. 2008-2013/2015-2016 Chairman of the Board of Directors – Al Jazira Securities Company. | Inside the Kingdom | Listed Joint Stock |
| | 7. 2017 Chairman of the Board of Directors of Dallah Pharma Company | Inside the Kingdom | Limited Liability | 7. 2018-2021 Member of the Board of Directors of Al-balad Al-Ameen Property Development Company. | Inside the Kingdom | Closed Joint Stock |
| | 8. 2020 - Chairman of the Board of Directors of Dar'a AlRiayah Holding Co. | Inside the Kingdom | Closed Joint Stock | 8. 2018 – 2021 Member of the Board of Directors of Dahiat Sumou Co Company. | Inside the Kingdom | Limited Liability |
| | 9. 2022 Al Jazira Securities Company – Chairman of the Board of Directors. | Inside the Kingdom | Listed Joint Stock | 9. 2019 – 2021 General Organization for Social Insurance. | Inside the Kingdom | Government entity |

| Director's name | Names of the companies in which members of the Bank Board hold present board membership or management positions | In /out of the Kingdom | Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc." | Names of companies in which members of the Bank Board held past board membership or management positions | In /out of the Kingdom | Company type (Listed joint stock/unlisted joint-stock/ limited liability, etc." |
|---|---|---|---|---|---|---|
| **Eng. Abdulmajeed Bin Ibrahim Al Sultan**  | 1. 1993 - Member of the Board of Directors of the Brothers Union Company. | Inside the Kingdom | Closed Joint Stock Company | 1. 1990 – 1993 Corporate Account Management at the National Commercial Bank. | Inside the Kingdom | Listed Joint Stock |
| | 2. 2004 – Member of the Board of Directors of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock Company | 2. 1991-2007 Member of the Board of Directors of the Marafeq Construction Company. | Inside the Kingdom | Listed Joint Stock |
| | 3. 2009 – Chairman of the Board of Directors of Olat Development Company. | Inside the Kingdom | Limited Liability Company | 3. 1991-2007 Chairman of the Board of Directors of the Packaging Materials Manufacturing Company - FIPCO. | Inside the Kingdom | Listed Joint Stock |
| | 4. 2013 - Chairman of the Board of Directors of Al-Jazira Takaful Cooperative Company. | Inside the Kingdom | Listed Joint Stock Company | 4. 1993-2000 General Manager of the Marafeq Construction Company. | Inside the Kingdom | Listed Joint Stock |
| | 5. 2013 – Chairman of the Board of Directors of Al-Durra Development Company. | Inside the Kingdom | Limited Liability Company | 5. 1994-2021 CEO of Brothers Union Company. | Inside the Kingdom | Closed Joint Stock Company |
| | | | | 6. 1998-2018 – Member of the Board of Directors of Qassim Cement Company. | Inside the Kingdom | Listed Joint Stock |
| **Mr. Naif Bin Abdulkareem Al Abdulkareem**  | 1. 2020 for the CEO of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 1. 2001 – 2004 Credit Relations Manager – Riyad Bank. | Inside the Kingdom | Listed Joint Stock |
| | 2. 2020 Member of the Nomination and Remuneration Committee - Al Jazira Securities Company. | Inside the Kingdom | Closed Joint Stock | 2. 2004 – 2011 Regional Manager of Retail Banking – Ahli Bank. | Inside the Kingdom | Listed Joint Stock |
| | 3. 2020 Member of the Board of Directors of Aljazira Capital. | Inside the Kingdom | Listed Joint Stock | 3. 2012 Head of Private Banking – SABB Bank. | Inside the Kingdom | Listed Joint Stock |
| | 4. 2021 Managing Director of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 4. 2012-2013 General Manager of Branches & Wealth Management – SABB Bank. | Inside the Kingdom | Listed Joint Stock |
| | 5. 2021 Member of the Executive Committee of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 5. 2012 – 2018 Chairman of the Board of Directors – SABB Insurance Agency. | Inside the Kingdom | Listed Joint Stock |
| | 6. 2020 Member of the Nomination and Remuneration Committee Saudi Credit Bureau (SIMAH). | Inside the Kingdom | Limited Liability Company | 6. 2014-2017 Member of the Board of Directors / Member of the Executive Committee – SANID. | Inside the Kingdom | Closed Joint Stock |
| | 7. 2020 Member of the Executive Committee Saudi Credit Bureau (SIMAH). | Inside the Kingdom | Limited Liability Company | 7. 2014-2019 General Manager of Retail Banking & Wealth Management – SABB Bank. | Inside the Kingdom | Listed Joint Stock |
| | 8. 2022 Member of the Board of Directors Aljazira Takaful. | Inside the Kingdom | Public Joint Stock | 8. 2016-2018 Board Member / Executive Committee Member – SABB Takaful. | Inside the Kingdom | Listed Joint Stock |
| | 9. 2022 Member of the Investment Committee Aljazira Takaful. | Inside the Kingdom | Public Joint Stock | 9. 2017-2019 Member of the Board of Directors – HSBC Saudi Arabia. | Inside the Kingdom | Closed Joint Stock |
| | 10. 2022 Member of the Executive Committee Aljazira Takaful. | Inside the Kingdom | Public Joint Stock | 10. 2017-2020 Member of the Board of Directors –Saudi Credit Bureau Company SIMAH. | Inside the Kingdom | Government |
| | | | | 11. 2019-2020 Deputy General Manager of Retail Banking and Wealth Management – SABB Bank. | Inside the Kingdom | Listed Joint Stock |

| Director's name | Names of the companies in which members of the Bank Board hold present board membership or management positions | In /out of the Kingdom | Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc." | Names of companies in which members of the Bank Board held past board membership or management positions | In /out of the Kingdom | Company type (Listed joint stock/unlisted joint-stock/ limited liability, etc." |
|---|---|---|---|---|---|---|
| **Mr. Abdulwahab Bin Abdulkareem Al Betari**  | 1. 2004 Member of the Board of Directors - Manafez Company for Ambulance vehicles and Disabled. | Inside the Kingdom | Mixed Liability Company | 1. 1999 – 2004 Investment Portfolio Manager – Saudi American Bank (SAMBA). | Inside the Kingdom | Listed Joint Stock |
| | 2. 2013 Member of the Board of Directors - Alhimmah Partnership Company Ltd. | Inside the Kingdom | Limited Liability Company | 2. 2004 - 2014 - Co-founder / Member of the Executive Committee - Family Office Company - Wealth Management / Bahrain. | Outside the Kingdom | Closed Joint Stock |
| | 3. 2014 Chairman of the Board of Directors - Osool & Bakheet Investment Company. | Inside the Kingdom | Closed Joint Stock | 3. 2018-2020 - Vice Chairman of the Advisory Committee - Capital Market Authority. | Inside the Kingdom | Government entity |
| | 4. 2014 Co-founder – Watar Business Partners Trading Co. Ltd. | Inside the Kingdom | Limited Liability Company | 4. 2020 Member of the Risk Committee - Bank AlJazira. | Inside the Kingdom | Listed Joint Stock |
| | 5. 2015 Vice Chairman – Alujain Company. | Inside the Kingdom | Closed Joint Stock | | | |
| | 6. 2015 Member of the Board of Directors - Sunbulah Group. | Inside the Kingdom | Closed Joint Stock | | | |
| | 7. 2019 Member of the Board of Directors - Riyadh Cable Group Company. | Inside the Kingdom | Closed Joint Stock | | | |
| | 8. 2020 Vice Chairman of the Board of Directors – National Petrochemical Industries Company (NATPET). | Inside the Kingdom | Listed Joint Stock | | | |
| | 9. 2022 member of the risk Committee Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | | | |
| | 10. 2022 Member of the Board of Directors of Saudi Airlines Catering Company. | Inside the Kingdom | Closed Joint Stock | | | |
| | 11. 2022 Member of the Board of Directors of Tarabot Company. | Inside the Kingdom | Private Company | | | |
| **Mr. Ibrahim Bin Abdulaziz Al Shaia**  | 1. 2014 Director General of Financial Affairs – General Organization for Social Insurance. | Inside the Kingdom | Government Entity | 1. 2002-2004 External Auditor - Al-Rashid Accountants, Auditors and Legal Consultants. | Inside the Kingdom | Limited Liability Company |
| | 2. 2016 Member of the Board of Directors of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 2. 2010-2013 Member of the Audit Committee – Allianz Saudi Fransi Cooperative Insurance Company. | Inside the Kingdom | Closed Joint Stock |
| | 3. 2016 Member of the Au dit Committee Hassana Investment Company. | Inside the Kingdom | Closed Joint Stock | 3. 2011-2014 Director of Budget Department – General Organization for Social Insurance. | Inside the Kingdom | Government Entity |
| | 4. 2019 Member of the Board of Directors of Masdar Data Solutions. | Inside the Kingdom | Limited Liability Company | 4. 2011-2015 Member of the Board of Directors of Al-Safwa Cement Company. | Inside the Kingdom | Listed Joint Stock |
| | 5. 2020 Member of the Executive Committee - Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 5. 2013-2015 Chairman of the Audit Committee - Al-Safwa Cement Company. | Inside the Kingdom | Listed Joint Stock |
| | 6. 2020 Member of the Nomination and Remuneration Committee - Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 6. 2014-2021 Director General of Financial Affairs - General Organization for Social Insurance. | Inside the Kingdom | Government Entity |
| | | | | 7. 2016-2020 Chairman/Member of the Risk Committee – Bank AlJazira. | Inside the Kingdom | Listed Joint Stock |

| Director's name | Names of the companies in which members of the Bank Board hold present board membership or management positions | In /out of the Kingdom | Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc." | Names of companies in which members of the Bank Board held past board membership or management positions | In /out of the Kingdom | Company type (Listed joint stock/unlisted joint-stock/ limited liability, etc." |
|---|---|---|---|---|---|---|
| **Mr. Adil Bin Saud Dahlawi**<br> | 1. 2017 Founding Director, Mauthouq Financial Consultancy. | Inside the Kingdom | Incensed Office | 1. 1994-2002 Corporate Banking Relations Officer –Saudi Fransi Bank. | Inside the Kingdom | Listed Joint Stock |
| | 2. 2019 Member of the Board of Directors of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 2. 2002 – 2006 Team Leader Samba Corporate & Investment Services – Samba Financial Group. | Inside the Kingdom | Listed Joint Stock |
| | 3. 2021 Member of the Board/Executive Committee and the Nomination and Remuneration Committee in Taajeer holding. | Inside the Kingdom | Closed Joint Stock | 3. 2006-2011 Assistant Chief Investment Officer – Dallah Al Baraka Holding Company. | Inside the Kingdom | Limited Liability Company |
| | 4. 2019 Member of the Board of Directors and Chairman of the Investment Committee - Al AlBuhaira Investment Company. | Inside the Kingdom | Hidden name company | 4. 2011 – 2017 Managing Director and CEO – Itqan Capital. | Inside the Kingdom | Listed Joint Stock |
| | 5. 2019 Chairman of the Board of Directors – New Spanish Restaurant Company. | Outside The Kingdom | Limited Liability company | 5. 2018 – 2020 Assistant Chief Investment Officer - Dallah Al Baraka Holding Company. | Inside the Kingdom | Limited Liability Company |
| | 6. 2022 Chairman of the Board of Directors - Qasr El Wurud Agadir Palace Company. | Outside The Kingdom | Closed Joint Stock | 6. 2020-2022 Managing Director - Dallah Investment Holding Company. | Inside the Kingdom | Closed Joint Stock company |
| | 7. 2022 Chairman of Risk Committee of Bank AlJazira. | Inside The Kingdom | Listed Joint Stock | 7. 2019 -2021 Member Board/Audit / Executive Committee - Bank AlJazira. | Inside the Kingdom | Listed Joint Stock |
| | | | | 8. 2019 – 2021 Member of the Board of Directors – Sharma Dallah Health Services. | Inside the Kingdom | Limited Liability Company |
| | | | | 9. 2022 Chairman of the Board of Directors - Qasr El Wurud Agadir Palace Company. | Outside The Kingdom | Closed Joint Stock company |
| **Mr. Abdulatif Bin Khalifah Al Mulhem**<br> | 1. 2016 Saudi Industrial Development Fund. | Inside the Kingdom | Government Entity | 1. 2013-2015 Flour company, Saudi Arabia. | Inside the Kingdom | Holding |
| | 2. 2019 Member of the Board of Directors of the manufacturing company. | Inside the Kingdom | Listed Joint Stock | 2. 2019 Member of the Board of Directors of the manufacturing company. | Inside the Kingdom | Listed Joint Stock |
| | 3. 2022 Bank AlJazira Risk Committee. | Inside the Kingdom | Listed Joint Stock | | | |
| | 4. 2022 Bank AlJazira Nomination and Remuneration Committee. | Inside the Kingdom | Listed Joint Stock | | | |
| | 5. 2022 Member of the Board of Directors / Executive and Strategy Committee / Nomination and Remuneration Committee of Walaa Insurance Company. | Inside the Kingdom | Listed Joint Stock | | | |

| Director's name | Names of the companies in which members of the Bank Board hold present board membership or management positions | In /out of the Kingdom | Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc." | Names of companies in which members of the Bank Board held past board membership or management positions | In /out of the Kingdom | Company type (Listed joint stock/unlisted joint-stock/ limited liability, etc." |
|---|---|---|---|---|---|---|
| **Mr. Mohammed Bin Saad Bindawood**  | 1. 2014 Member of the Board of Directors / Audit Committee of Mohammed Abdulaziz Al-Rajhi & Sons Investment Company. | Inside the Kingdom | Closed Joint Stock | 1. 2004-2013 Deputy General Manager of Corporate Banking at Arab National Bank. | Inside the Kingdom | Listed Joint Stock |
| | 2. 2014 Member of the Board of Directors of Manafea Investment Company. | Inside the Kingdom | Limited Liability Company | 2. 2009-2013 Member of the Board of Directors of Al-Araby Investment Company. | Inside the Kingdom | Listed Joint Stock |
| | 3. 2015 Member of the Board of Directors / Risk Committee of Dar Al Tamleek Company. | Inside the Kingdom | Closed Joint Stock | 3. 2009-2013 Member of the Board of Directors of Al-Araby Heavy Equipment Company. | Inside the Kingdom | Listed Joint Stock |
| | 4. 2018 Member of the Board of Directors of Alpha Capital. | Inside the Kingdom | Closed Joint Stock | 4. 2012 – 2014 Member of the Board of Directors of the Saudi Home loans Company. | Inside the Kingdom | Closed Joint Stock |
| | 5. 2019 Member of the Board of Directors / Executive Committee of the Saudi Real Estate Company. | Inside the Kingdom | Listed Joint Stock | 5. 2013-2014 General Manager of Corporate Banking Services at The Saudi British Bank. | Inside the Kingdom | Listed Joint Stock |
| | 6. 2019 Member of the Board of Directors of the Saudi Chemical Company. | Inside the Kingdom | Listed Joint Stock | 6. 2013-2014 Member of the Board of Directors of SABB Takaful Company. | Inside the Kingdom | Listed Joint Stock |
| | 7. 2020 Member of the Board of Directors of Oqalat Company Ltd. | Inside the Kingdom | Limited Liability Company | 7. 2014 - 2018 CEO/Member of the Board of Directors of Mohammed Abdulaziz Al-Rajhi & Sons Investment Company. | Inside the Kingdom | Closed Joint Stock |
| | 8. 2020 Member of the Board of Directors / Governance Committee of Thiqa Company. | Inside the Kingdom | Limited Liability Company | 8. 2015 – 2018 Member of the Board of Directors of Falcon Plastic Industries. | Inside the Kingdom | Limited Liability Company |
| | 9. Member of the Risk Committee of the Ground Services Company. | Inside the Kingdom | Listed Joint Stock | 9. 2015-2018 Member of the Board of Directors of Al-Jazierah Home Appliance Co. | Inside the Kingdom | Limited Liability Company |
| | 10. Chairman of the Investment Committee of Abdullatif Alissa Holding Group. | Inside the Kingdom | Closed Joint Stock | 10. 2015-2019 Member of the Board of Directors of the International Refreshments Company. | Inside the Kingdom | Holding |
| | 11. 2022 Member pf the Board / Executive Committee of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | 11. 2015 – 2020 Member of the Board of Directors of Fiberglass Oasis Company. | Inside the Kingdom | Closed Joint Stock |
| | | | | 12. 2016 Member of the Board of Directors – Investment Committee Real Estate Development Fund. | Inside the Kingdom | Government entity |
| | | | | 13. 2017-2018 Member of the Industrial Committee of the Riyadh Chamber. | Inside the Kingdom | Government entity |
| | | | | 14. 2019 Member of the Board of Directors / Chairman of the Investment Committee of the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (Med Gulf Insurance). | Inside the Kingdom | Listed Joint Stock |
| | | | | 15. 2019 Member of the Board of Directors of Al Rajhi Steel Industries Company. | Inside the Kingdom | Limited Liability Company |
| | | | | 16. 2021 Member of the Board of Directors / Member of the Executive Committee of Abdullah Al-Othaim Investment Company. | Inside the Kingdom | Closed Joint Stock |

| Director's name | Names of the companies in which members of the Bank Board hold present board membership or management positions | In /out of the Kingdom | Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc." | Names of companies in which members of the Bank Board held past board membership or management positions | In /out of the Kingdom | Company type (Listed joint stock/unlisted joint-stock/ limited liability, etc." |
|---|---|---|---|---|---|---|
| Mr. Saad Bin Ibrahim Al Mushawah  | 1. 2010 Member and Chairman of the Audit Committee in Qassim Cement Company. | Inside the Kingdom | Listed Joint Stock | 1. 1985-2003 Head of the lending team of the Saudi Industrial Development Fund. | Inside the Kingdom | Government entity |
| | 2. 2016 Member of the Board of Directors of Qassim Cement. | Inside the Kingdom | Listed Joint Stock | 2. 2003-2019 Chief Executive Officer of Gulf Union Foods Company. | Inside the Kingdom | Closed Joint Stock |
| | 3. 2017 Member of the Supervisory Board / Audit Committee of the Center for Building Productive Families (Jana) - one of the branches of Sulaiman Al-Rajhi Finance Corporations. | Inside the Kingdom | Private | 3. 2013-2016 Member of the Board of Directors / Chairman of the Audit Committee of Al Jazira Takaful Company. | Inside the Kingdom | Listed Joint Stock |
| | 4. 2019 Member of the Board of Directors of Creative Closets Company. | Inside the Kingdom | Limited Liability Company | 4. 2014-2016 Member of the Audit Committee of Alissa Industries. | Inside the Kingdom | Listed Joint Stock |
| | 5. 2019 Member of the Audit Committee of Fawaz Alhokair Company, Public Joint Stock Company. | Inside the Kingdom | Listed Joint Stock | 5. 2020 Member and Chairman of the Nomination and Remuneration Committee at Qassim Cement Company. | Inside the Kingdom | Listed Joint Stock |
| | 6. 2019 Member of Thobe Al-Aseel Co Audit Committee. | Inside the Kingdom | Listed Joint Stock | 6. 2020 Member of the Nomination and Remuneration Committee at Raza Company, an institution affiliated to the Pension and Retirement Authority. | Inside the Kingdom | Government Entity |
| | 7. 2021 Member and Chairman of the Executive Committee at Qassim Cement Company. | Inside the Kingdom | Listed Joint Stock | | | |
| | 8. 2021 Member of the Audit Committee of Chemanol Company. | Inside the Kingdom | Listed Joint Stock | | | |
| | 9. 2021 Member of the Audit Committee of Al-Durra Sugar Company. | Inside the Kingdom | Listed Joint Stock | | | |
| | 10. 2022 Member of the Audit Committee of Luna Foods Company. | Inside the Kingdom | Listed Joint Stock | | | |
| | 11. 2022 Member of the Audit Committee of Bank AlJazira. | Inside the Kingdom | Listed Joint Stock | | | |

## 4) Statement of Shareholders General meetings held during the fiscal year 2022 and the names of attending directors:

The following agenda was discussed:

1. Approval on the Board of Directors Annual Report for the fiscal year ending 31 December 2021.
2. Approval on the Financial Statements for the year ending 31 December 2021.
3. Approval on the External Auditor's Report for the year ending 31 December 2021.
4. Approval on releasing the Board members from their liability for the fiscal year ending 31 December 2021.
5. Approval on appointing the Bank's External Auditors among the candidates based on the Audit Committee recommendation as to examine, review and audit the financial statements for the second and third quarters along with 2022 year end financials and the first quarter for the year 2023 and determining their fees.
6. Approval on the amendment of Audit committee charter.
7. Approval to delegate the Board of Directors with the authority of the General Assembly with the license mentioned in Section (1) of Article (71) of the Companies Law, for a one year period effective upon the AGM approval date or up to ending of the authorized Board term, whichever is earlier, in accordance with the Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies.
8. Approval on the participation and licensing for next year of the Board Member Mr. Abdulwahab Abdulkareem Al Betari, as he owns more than 5% of Impact Capital Company which is a Managing Private Non-Real-Estate Investment Funds, Managing Sophisticated Investor Portfolios, and Arranging activities in the securities business. This company competes with AlJazira Capital, a 100% owned company by the bank.
9. Approval on the participation and licensing for next year of the Board Member Mr. Abdulwahab Abdulkareem Al Betari, Chairman of the Board of Directors of Osool & Bakheet Investment Company which deals as principle and agent representation, Investment Fund Management, Discretionary Portfolio Management and Custody. This company competes with AlJazira Capital, a 100% owned company by the bank.

10. Approval on the participation and licensing for next year of the Board Member Mr. Mohammed Saad Bindawood, as he is a member of the Board of Directors of Alpha Capital Company which is a securities business (Dealing, Managing, Arranging, and advising) in investments. This company competes with AlJazira Capital, a 100% owned company by the bank.

11. Approval on the participation and licensing for next year of the Board Member Mr. Mohammed Saad Bindawood, as he is a member of the Board of Directors of Dar Al Tamleek Company which provides housing finance solutions in the Kingdom of Saudi Arabia. This company competes with Bank AlJazira.

12. Approval on the participation and licensing for next year of the Board Member Mr. Mohammed Saad Bindawood, as he is a member of the Board of Directors of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (MEDGULF) for insurance. This company competes with Bank AlJazira, as the bank markets insurance products to the company AlJazira Takaful Taawuni according to the agreement approved by the Saudi Central Bank (SAMA).

13. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This agreement is related to Personal Dinar Insurance Policy that amounted to SAR 21,519,831 MM in 2021 and were done without any preferential treatment.

14. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This agreement is related to Mortgage Insurance Policy that amounted to SAR 25,938,928 MM in 2021 and were done without any preferential treatment.

15. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This agreement is related to Group Life Insurance Policy that amounted to SAR 2,262,561 MM in 2021 and were done without any preferential treatment.

16. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This agreement is related to Staff Credit Cover Policy that amounted to SAR 607,228 in 2021 and were done without any preferential treatment.

17. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This transaction is related to return on Time Deposits Investments that amounted to SAR 40,857 in 2021 and were done without any preferential treatment.

18. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This transaction is related to Claim Received that amounted to SAR 32,276,533 MM in 2021 and were done without any preferential treatment.

19. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This transaction is related to Dividend Paid that amounted to SAR 7,048 in 2021 and were done without any preferential treatment.

20. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This transaction is related to Participation in Sukuk Auction for AlJazira Takaful Ta'awuni that amounted to SAR 99,251,103 MM in 2021 and were done without any preferential treatment.

21. Approval on the businesses and contracts that will take place between the Bank and AlJazira Cooperative Takaful Company which is considered a Related Party as Eng. Abdulmajeed Al Sultan, a BAJ member of the board of directors, has an indirect interest in it being a member of the board of directors of AlJazira Cooperative Takaful Company. This transaction is related to Face Value of Bonus Shares Received that amounted to SAR 20,648,810 MM in 2021 and were done without any preferential treatment.

22. Approval on the businesses and contracts that will take place between the Bank and AlJazira Capital Company which is considered a Related Party as Mr. Naif Al Abdulkareem, a BAJ member of the board of directors, has an indirect interest in it being a member of the board directors of AlJazira Capital Company. This is a Service Level Agreement that amounted to SAR 3,390,900 MM in 2021 and were done without any preferential treatment.

23. Approval on the businesses and contracts that will take place between the Bank and AlJazira Capital Company which is considered a Related Party as Mr. Naif Al Abdulkareem, a BAJ member of the board of directors, has an indirect interest in it being a member of the board directors of AlJazira Capital Company. This transaction is related to return on Time Deposits Investments that amounted to SAR 54,043 in 2021 and were done without any preferential treatment.

24. Approval on the businesses and contracts that will take place between the Bank and AlJazira Capital Company which is considered a Related Party as Mr. Naif Al Abdulkareem, a BAJ member of the board of directors, has an indirect interest in it being a member of the board directors of AlJazira Capital Company. This transaction is related to Financing Income Earned on Money Markets Placements that amounted to SAR 10,125,917 MM in 2021 and were done without any preferential treatment.

25. Approval on the businesses and contracts that will take place between the Bank and AlJazira Capital Company which is considered a Related Party as Mr. Naif Al Abdulkareem, a BAJ member of the board of directors, has an indirect interest in it being a member of the board directors of AlJazira Capital Company. This transaction is related to Joint Lead Manager, Book Runner and Arranging Fee Expense that amounted to SAR 3,125,000 MM in 2021 and were done without any preferential treatment.

26. Approval on the businesses and contracts that will take place between the Bank and AlJazira Capital Company which is considered a Related Party as Mr. Naif Al Abdulkareem, a BAJ member of the board of directors, has an indirect interest in it being a member of the board directors of AlJazira Capital Company. This transaction is related to Fees and Commission Income that amounted to SAR 928,716 in 2021 and were done without any preferential treatment.

27. Approval on the businesses and contracts that will take place between the Bank and AlJazira Capital Company which is considered a Related Party as Mr. Naif Al Abdulkareem, a BAJ member of the board of directors, has an indirect interest in it being a member of the board directors of AlJazira Capital Company. This transaction is related to Custody Fee Expense that amounted to SAR 5,928,054 MM in 2021 and were done without any preferential treatment.

28. Approval on the businesses and contracts that will take place between the Bank and AlJazira Capital Company which is considered a Related Party as Mr. Naif Al Abdulkareem, a BAJ member of the board of directors, has an indirect interest in it being a member of the board directors of AlJazira Capital Company. This transaction is related to Rent and Building Related Expense that amounted to SAR 6,971,222 MM in 2021 and were done without any preferential treatment.

The table below shows board director's attendance of the meeting:

| S | Name | 1st. EOGM (19.04.2022) |
|---|---|---|
| 1 | Eng. Tarek Bin Othman Al Kasabi | √ |
| 2 | Eng. Abdul Majeed Bin Ibrahim Al Sultan | √ |
| 3 | Mr. Naif Bin Abdulkareem Al Abdulkareem | √ |
| 4 | Mr. Abdulwahab Bin Abdulkareem Al Betari | √ |
| 5 | Mr. Adil Bin Saud Dahlawi | √ |
| 6 | Mr. Mohammed Bin Saad Bindawood | √ |
| 7 | Mr. Abdullatif Bin Khalifa Al Mulhem | - |
| 8 | Mr. Ibrahim Bin Abdulaziz Al Shaia | √ |
| 9 | Mr. Saad Bin Ibrahim Al Mushawah | √ |

## 5) Management Committees

The governance framework of Bank AlJazira is based on the structure of the board of directors, 5 board sub-committees and 14 management committees. The governance structure is also based on a series of governance empowerment factors which ensure achievement of required clarity and good discipline of governance, namely: Institutional values, design of organizational structure, Procedures and policies, bank's matrix of authorities as well as effective communication at internal and external levels. Bank AlJazira formed the following management committees to undertake specific tasks and responsibilities. Membership of these committees is restricted to the bank's employees and officials who are directly involved in the business of these committees:

1. Management Credit Committee
2. Micro small and medium enterprises Committee
3. Asset and Liabilities Committee
4. Transformation & Innovation Steering Committee
5. IT Steering Committee
6. Business Continuity Committee
7. Management Risk Committee
8. Market Risk Policy Committee
9. Product Policy Review Committee
10. Anti-Fraud High Level Committee
11. Information Security Management Committee
12. Fraud Control Committee
13. Real Estate Committee
14. Remedial Committee

## 6) Number and dates of Board meetings held in the last fiscal year, and attendance record detailing names of attending directors:

As per the bank's articles of association, the board shall hold 4 meetings per year at least. In the year 2022, the Board held 5 meetings. The table below reflects the meetings held and member's attendance record:

| S | Name | 1st meeting 02/01/2022 | 2nd meeting 28/02/2022 | 3rd meeting 23/05/2022 | 4th meeting 28/09/2022 | 5th meeting 19/12/2022 |
|---|---|---|---|---|---|---|
| 1 | Eng. Tarek Bin Othman Al Kasabi | √ | √ | √ | √ | √ |
| 2 | Eng. Abdul Majeed Bin Ibrahim Al Sultan | √ | √ | √ | √ | √ |
| 3 | Mr. Naif Bin Abdulkareem Al Abdulkareem | √ | √ | √ | √ | √ |
| 4 | Mr. Abdulwahab Bin Abdulkareem Al Betari | √ | √ | √ | √ | √ |
| 5 | Mr. Adil Bin Saud Dahlawi | √ | √ | √ | √ | √ |
| 6 | Mr. Mohammed Bin Saad Bindawood | √ | √ | √ | √ | √ |
| 7 | Mr. Abdullatif Bin Khalifa Al Mulhem | √ | √ | √ | √ | √ |
| 8 | Mr. Ibrahim Bin Abdulaziz Al Shaia | √ | √ | √ | √ | √ |
| 9 | Mr. Saad Bin Ibrahim Al Mushawah | √ | √ | √ | √ | √ |

## 7) Details of any arrangements or agreement under which any director of the board or senior executive of the bank has waived any remuneration or right:

The Bank is not aware of any arrangements or agreements for the waiver by any of the directors of the board or senior executives of any of their rights to any remuneration.

## 8) Details of any arrangements or agreement under which any shareholder of the bank has waived any right to dividends:

The Bank is not aware of any arrangements or agreements for the waiver by any of the bank shareholders of any of their rights to any dividends.

## 9) Actions taken by the Board to notify its members – particularly non-executives – of shareholders suggestions and comments regarding the bank and its performance:

In line with the relevant supervisory directives, and as a general rule, the bank is keen to facilitate shareholders exercise of their statutory rights relating to shares, including submission of suggestions and feedback regarding the bank and its performance. In line with the bank's practices, the board answered shareholders inquiries raised at the General Assembly meeting held in 2022, or through the shareholders' unit of the bank. The board reviews such feedback and comments and takes the appropriate actions in this regard.

## Payments to directors and key executives

### Compensation Policy:

The BAJ Rewards and Compensation Policy sets the framework of rewards and compensations payable to board and non-board members in line with the supervisory authorities guidelines and shall generally be subject to the provisions of the Companies Act, Key Principles of Governance for Banks operating in the Kingdom of Saudi Arabia and the compensation and Remuneration rules issued by the Saudi Central Bank (SAMA), and Corporate Governance rules and organizational procedures issued in enforcement Companies Act relating to listed joint-stock companies issued by CMA, in line with the Bank's Articles of Association and the circular of the Saudi Central Bank (SAMA), which provides that the remuneration, compensation and benefits payable to the Chairman and members of the Board of Directors shall not exceed the sum of SAR 500,000 per Director per annum, excluding the chairman and members of Audit Committee. In the year 2022, none of the members of the board or subcommittees have performed any work of technical or advisory nature, and therefore they did not get any consideration or special benefits in respect thereof. The table below shows the remunerations and compensations paid to the members of the Board of Directors, members of its committees and senior executives of the Bank during the year:

### Board Remuneration

For the year ending 31, Dec 2022

SAR

| | Fixed remunerations | | | | | | | Variable remunerations | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Specific Amount | Allowance for attending Board meetings | Total allowance for attending committee meetings committee | In-kind benefits | Remunerations for technical, managerial and consultative work | Remunerations of the chairman, Managing Director or Secretary, if a member | Total | Percentage of the profits | Periodic remunerations | Short-term incentive plans | Long-term incentive plans | Granted shares (insert the value) | Total | End-of-service award | Aggregate Amount | Expenses Allowance |
| **First: Independent Directors** | | | | | | | | | | | | | | | | |
| Mr. Saad Bin Ibrahim Al Mushawah * | | 450,000 | 175,000 | | | | 625,000 | | | | | | | | | |
| Mr. Ibrahim Bin Abdulaziz Al Shaya | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |
| Mr. Abdullatif Bin Khalifa Al Mulhem | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |
| Total | | 1,350,000 | 275,000 | | | | 1,625,000 | | | | | | | | | |
| **Second: Non-Executive Directors** | | | | | | | | | | | | | | | | |
| Eng. Tarek Bin Othman Al Kasabi | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |
| Eng. Abdul Majeed Bin Ibrahim Al Sultan | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |
| Mr. Adel Bin Saud Abdulhameed Dahlawi | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | 13,087 |
| Mr. Mohammed Bin Saad Bindawood | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |
| Mr. Abdulwahab Bin Abdulkareem Al Betari | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |
| Total | | 2,250,000 | 250,000 | | | | 2,500,000 | | | | | | | | | 13,087 |
| **Third: Executive Directors** | | | | | | | | | | | | | | | | |
| Mr. Naif Bin Abdulkareem Al Abdulkareem | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |
| Total | | 450,000 | 50,000 | | | | 500,000 | | | | | | | | | |

* This amount also contains the amount received for his membership in the Audit Committee

## Committees Members Remuneration

For the year ending 31, Dec 2022

SAR

| | Fixed Remuneration (Except for the allowance for attending Board meetings) | Allowance for attending Board meetings | Total |
|---|---|---|---|
| **Executive Committee members** | | | |
| **Eng. Tarek Bin Othman Al Kasabi** | | 50,000 | 50,000 |
| **Eng. Abdul Majeed Bin Ibrahim Al Sultan** | | 50,000 | 50,000 |
| **Mr. Naif Bin Abdulkareem Al Abdulkareem** | | 50,000 | 50,000 |
| **Mr. Adel Bin Saud Abdulhameed Dahlawi** | | 50,000 | 50,000 |
| **Mr. Ibrahim Bin Abdulaziz Al Shaya** | | 50,000 | 50,000 |
| **Total** | - | 250,000 | 250,000 |
| **Audit Committee members** | | | |
| **Mr. Saad Al Mushawah** | 100,000 | 25,000 | 125,000 |
| **Dr. Abubaker Bajabir** | 100,000 | 25,000 | 125,000 |
| **Mr. Fawzi Al Hobayb** | 100,000 | 25,000 | 125,000 |
| **Total** | **300,000** | **75,000** | **375,000** |
| **Remuneration and Nomination Committee members** | | | |
| **Mr. Ibrahim Bin Abdulaziz Al Shaya** | | 20,000 | 20,000 |
| **Eng. Abdul Majeed Bin Ibrahim Al Sultan** | | 20,000 | 20,000 |
| **Mr. Abdullah Al Hagbani** | 100,000 | 20,000 | 120,000 |
| **Mr. Abdullatif Bin Khalifa Al Mulhem** | | 20,000 | 20,000 |
| **Total** | **100,000** | **80,000** | **180,000** |
| **Risk Committee members** | | | |
| **Mr. Adel Bin Saud Abdulhameed Dahlawi** | | 20,000 | 20,000 |
| **Mr. Abdullatif Bin Khalifa Al Mulhem** | | 20,000 | 20,000 |
| **Mr. Abdulwahab Bin Abdulkareem Al Betari** | | 20,000 | 20,000 |
| **Total** | - | 60,000 | 60,000 |
| **Sustainability and Social Responsibility Committee members** | | | |
| **Eng. Abdul Majeed Bin Ibrahim Al Sultan** | | 20,000 | 20,000 |
| **Mr. Abdulaziz Bin Ibrahim Bin Saad Al Hadlaq** | 100,000 | 20,000 | 120,000 |
| **Dr. Fahd Bin Ali Al Elayan** | 100,000 | 20,000 | 120,000 |
| **Total** | **200,000** | **60,000** | **260,000** |

* The Audit Committee, Remuneration and Nomination Committee and Social Responsibility Committee includes members who are not Directors of the Board.

## Remunerations of Senior Executives

**For the year ended 31 December 2022**

**SAR**

| Senior Executives | Fixed remunerations | | | | Variable remunerations | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salaries | Allowances | In-kind benefits | Total | Periodic remunerations | Profits | Short-term incentive plans | Long-term incentive plans | Granted shares (insert the value) | Total | End-of service award | Total remunerations for Board executives, if any | Aggregate Amount |
| 5 senior executives including CEO and Senior Finance Officer | 12,040,000 | 290,000 | | 12,330,000 | 1,900,000 | | 10,413,926 | | | 12,313,926 | 2,501,862 | | 27,145,788 |

## Internal Audit Group

The Bank's Internal Audit Group performs independent audit and evaluating the control processes across the Bank, covering all businesses and functions. The group uses standardized internal audit methodologies in providing reasonable assurance and independent opinion in relation to assessment of governance, risks and internal control systems including the submission of recommendations and follow up to optimize the internal control systems' efficacy and enhance awareness of the efficiency and importance of the control environment. The Chief Audit Executive manages the Internal Audit group and the Audit Committee has an oversight responsibility for ensuring that the group's objectives are achieved.

Internal Audit Group pursues a risk-based approach in the planning and execution of audit engagements on risk-based prioritization. The scope of the internal audit activity encompasses all aspects of internal systems, governance and risk management frameworks.

The Internal Audit Group maintains a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activities in addition to an external assessment conducted by an independent qualified body on a periodic basis for conformance with the Institute of Internal Auditors standards

## Annual Review of the Effectiveness of Internal Control Procedures

Being a financial institution, the Bank gives high importance to the internal control environment.

At the Bank, effective internal control procedures are in place across the organization by applying the principle of three lines of defense. This is adopted based on their suitability to the work patterns of the bank taking into consideration industry best practices and international standards applicable in the banking and financial industry and by contracting with international organizations to provide advisory services to evaluate and optimize the efficiency of control systems, and their effectiveness is continuously monitored and tested by the control functions in the Bank, and additionally tested by the independent external auditors and regulatory inspection team.

The Board of Directors and its committees as well as the executive management play a vital role in the enhancement of internal control environment through direct supervision of the functions of the bank's control groups such as Compliance and Risk groups. The internal control process relies basically on the efficacy of the control systems in the bank. The effective internal control increases confidence in the financial reports and audit processes.

The results of the annual audit of the effectiveness of the internal control procedures of the Bank have reflected good and acceptable levels of controls.

## Audit Committee review of the adequacy of the bank's internal control systems.

During 2022, the Audit Committee reviewed various reports to assess and measure the adequacy of internal controls and systems, including the financial statements and risk reports.

The committee's discussions and resolutions are documented in the minutes of the meetings and issues that require attention are brought to the Board of Directors.

During the year, members of the Audit Committee held meetings with the heads of internal audit group, risks group, compliance group, Sharia group finance group and external auditors, where the Committee was briefed on the latest developments on issues requiring the committee's attention. The Committee also received internal audit reports, regulatory and supervisory reports, as well as the letters of external auditors made to the management during the year and reviewed the management's action plans for the issues filed.

The audit committee also reviewed the effectiveness of the internal control system, procedures for compliance with the Bank's internal policies and relevant regulatory and legal requirements in Saudi Arabia, and whether the management has fulfilled its duties in establishing an effective internal control system and seek independent confirmation by the internal audit for assessment of the adequacy and effectiveness of such internal controls.

The Audit Committee confirms to the Board of Directors and shareholders that, to their best knowledge and in all material respects, the bank's internal control system is adequate and effectively implemented. The committee also confirms that the recommendations relating to appointment, dismissal, assessment or fixing of the fees of the auditors were approved by the Board.

## Retail Banking Group

The Retail Banking Group continues to redefine banking services and reinforces BAJ position within the Saudi banking industry by offering innovative products and smart banking solutions with a nationwide distribution network of 79 branches, 1 Ladies section, 622 ATMs, and 22,044 Point of Sale devices. Our products and services are designed to meet the end-to-end needs of all customers from online account opening to time deposits, debit and credit cards to personal finance in addition to a wide range of mortgage finance products. Furthermore, enhancement on AlJazira app continues reaching more than 140 services that make BAJ application one stop shop for all banking transactions and having competitive offering by launching full suite of control for cards and improve the app usability and ability to bank immediately upon account opening via virtual cards. In addition to bringing new features to avoid customers visiting physical branches like issuing stamped document online instantly. Also, launching several methods of engagement with customers like tracking request and conducting campaigns via whatsapp. In addition to introduction of new capabilities and tools for investments like enabling Sukuk subscriptions for BAJ client as well as enabling Nomu IPOs for the users via the bank app. Overall, BAJ Liabilities portfolio has increased to reach SAR 49,073 million at the end of 2022. Meanwhile, the Group's Loans book has increased by 8% in 2022 to reach SAR 30,824 million from SAR 28,513 million in 2021.The Bank's real estate finance portfolio grew by 9% in 2022 compared to 2021, with a market share of 3% at the end 2022.

Continuing with Bank AlJazira's strategic direction to optimize its Branch network and better utilize valuable resources, ladies branches continue to merge.

## Private Banking and Wealth Management Group

The Private Banking Group serves the high net worth (HNW) Individuals segment by providing a comprehensive array of private Sharia- compliant banking product and services.

The Group devotes all of its experience and capabilities to deliver & achieve the financial goals and objectives of its customers in a professional and timely manner.

The Group serves its customers through 3 centers located in Riyadh, Jeddah and AlKhobar. These centers offer all services and banking transactions needed by HNW individuals through highly qualified Saudi staff.

In an effort to grow and develop the Group's services in light of the intense competition in the local market and to capture a larger segment of wealthy client, private companies and endowments, and in order to provide comprehensive and diversified services in wealth management, the Group has cooperated with Aljazira Capital to provide investment products and services through AlJazira Capital.

The Group, through its partnership with Aljazira Capital, aims to support Private Banking in developing sharia compliant wealth management proposition platform. This step comes in line with the bank's strategy, which was recently approved by BAJ Board of Directors.

As a result, a number of specialized funds in the field of alternative assets have been offered to Private Banking clients which contributed to the diversification and development of their investments.

In order to strengthen our relationship with our existing customers, the Group participates in events that are of interest to HNW customers, for example, but not limited to, the Group invited a group of its customers to the Formula 1 race in Jeddah, and a charity auction was sponsored on valuables in cooperation with one of the most prestigious charities in the city of Riyadh.

## FAWRI

With the advent of several fintech companies and innovative digital financial products, the landscape of money transfer business in the Kingdom has witnessed a significant shift in the customer behavior and business model primarily; affecting profit margins due to intense competition. Despite of all these challenges, FAWRI Division has successfully repositioned and aligned itself and continued to be one of the most trusted Remittance Service Providers in the Kingdom of Saudi Arabia.

In 2022, FAWRI Division achieved commendable success by focusing more on digital Channels and by exerting continuous efforts to enhance customer experience through Bank AlJazira


The Retail Banking Group continues to redefine banking services and reinforces BAJ position within the Saudi banking industry by offering innovative products and smart banking solutions with a nationwide distribution network of **79 branches, 1 Ladies section, 622 ATMs,** and **22,044 Point of Sale devices.**

digital Channels at a very competitive price. In addition, Fawri is gearing up to launch "FAWRI Smart App and FAWRI Online", which will allow customers to send money and make inquiries online in a simpler way and in 8 different languages thereby; adding more excellence to the customer experience and satisfaction.

On the other hand, Fawri centers maintained firm position and presence on ground against competition taking its tally to 54 locations at the end of year. With the ability to re-evaluate and take appropriate decisions to raise the efficiency of operations, six (6) centers were merged this year which also, coincided with the closure of two (2) centers due to ongoing development of old district in Jeddah. Necessary measures were taken to direct customers to nearby centers and serve them through alternate solution of Fawri cards for sending money.

Fawri continued to develop its relationship with key partners MoneyGram and RIA by providing value added services. Besides, FAWRI also continued to expand its reach across the world by adding four (4) new correspondent partners to its direct correspondent network.

## Enterprise Risk Management Group (ERMG)

During the year 2022 Bank AlJazira continued its drive to focus on strengthening the Risk Management culture and ensuring the same is institutionalized at an enterprise wide basis. With this objective set forth, the management remained committed to ensure that the bank adopts best in class risk management practices supported by necessary infrastructure, in terms of people, processes and systems.

The priority has been to strengthen the Enterprise Risk Management function with core emphasis on the following:

1. Building a robust architecture and risk strategy to facilitate not only the current business strategy but also to adapt to the changing business landscape and environment.

2. Investment in and development of risk analytics capabilities and technology to lay a strong foundation for the Risk Data Warehouse. In this regards the bank continues to invest in relevant technology infrastructure in line with Basel Committee on Banking Supervision (BCBS) 239 guidelines. The ultimate vision of the bank is aimed at developing a state of the art Risk Data Warehouse serving as the single source of truth for all risk data and analytics needs.

3. Delineation of the approvals and review processes, ensuring that Risk Approvers and Reviewers remain independent with an objective of strict adoption to Credit Committee Culture and minimum four eyes principle.

4. Enterprise Information Security Function, in line with the banks mission and strategy and also SAMA's Cyber Security Framework, continued its effort to strengthen, protect information and information systems to ensure that the confidentiality, integrity and availability of all information, is commensurate with mission needs, information value, and associated threats.

5. Alignment and strategizing Capital Adequacy process in sync with bank's strategic direction. The Internal Capital Adequacy Assessment Process (ICAAP) goals are being continually rationalized in accordance with the existing strategic focus and the business plan on an annual basis. Capital adequacy assessment has been carried out in accordance with the nature, size and complexity of the Bank's Business Model along with detailed documentation.

6. The Bank has also developed its Internal Liquidity Adequacy Assessment Process (ILAAP) Framework in accordance with regulatory mandate. ILAAP primarily focuses on the Bank's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with both, foreseeable and unforeseen liquidity events.

7. Implementation of the Basel IV Program is perceived as a critical opportunity to:

    a. Continuously update Pillar-1 reporting to ensure that these reports are accurate, timely and remain in line with the regulatory guidelines.

    b. Review, validate and improve the Pillar – 2 Risk Assessment Models, on a continuing basis, aligning them to the industry's best practices and SAMA guidelines and expectations.

    c. Upgrade and align the bank's risk management policies and procedures to ensure that the same are in line with the global best practices and local regulatory requirements.

    d. Develop, institutionalize and monitor detailed Risk Appetite Framework, which acts not only as a connection between the Board's strategy and Business execution of the same, but also serves as a feedback loop to ensure alignment of the strategy with the prevailing business and regulatory environment.

8. Refining and Strengthening the Stress Testing framework, prepared in light of best practices, SAMA and Basel guidelines enabling the bank to conduct Regulatory stress testing across various risk parameters and scenarios. Results of the stress testing are taken as a valuable feedback for business and capital planning purposes on a forward looking basis.

9. Ensuring that the bank remains compliant with Financial Institution under IFRS-9.

10. Implementation of an Operational Risk Policy/ Framework that is compliant with the recommendations of the Basel Committee and SAMA. This framework aims to promote and encourage a culture of risk awareness and loss prevention across the Bank. It lays down the principles of how operational risks are identified, assessed, mitigated, monitored & reported within the Bank.

11. Ensuring through validation and calibration that Bank's credit risk rating models and score cards maintain their forecasting power to assess the risk associated with default of a prospective and / or existing customer. The bank has been at the forefront in successfully validating and implementing its recalibrated risk rating models.

## Strategy and Digital Transformation Group:

The Strategy and Digital Transformation (S&DT) Group is a new capability within Bank AlJazira. Launched in May 2021, the Group's mandate is to turbo-charge our transformation efforts and deliver on the promise of enriching lives through financial well-being.

The Group brings together a combination of Strategy, Digital Transformation, Marketing and PR expertise to enhance our execution efforts, improve our digital capabilities and embed a culture of innovation. This will be done through the leveraging and adoption of new digital technologies such as Social Media, Artificial Intelligence, Cloud and Quantum Computing and the Internet-of-Everything.

The opportunity created by these technologies as well as the rapidly shifting customer demographics, emerging business models and regulatory changes requires the Bank to accelerate our digitalization efforts, by creating a robust and resilient operational backbone to improve our operations, engagement of BAJ customers through advance analytics like AI, Transformation of our products and services through co-creating value propositions and empowerment of BAJ employees through collaboration tools and workforce enablement.

Responding to dynamic market trends, leveraging the latest tools and technologies including building a community of customers, the Bank can be able to make a compelling and positive impact in supporting the 2030 Vision and the FSDP of entrenching partnerships with government, winning the digitalization challenge through aggressive and targeted partnership with fintech's and refining our value propositions and distribution models.

The S&DT plays an integral role in the above and will be a key enabler on delivering on our ambitions.

## Corporate and Institutional Banking Group (CIBG)

Vision 2030 ushered a significant change to the economy in Saudi Arabia, promising significant opportunities for the Financial Services Industry through its Vision Realization Program "VRPs", which is geared to be a key stakeholder in this process. The impact from the pandemic consequently accelerated the drive towards transformation, accentuated by the emergence of Fintech's and the universal adoption of digital banking services.

Despite challenges posed by the disruption of the global economy due to inflationary environments, supply chain disruptions, and interest rates hikes. CIBG exceeded their

The Strategy and Digital Transformation (S&DT) Group is a new capability within Bank AlJazira. Launched in May 2021, the Group's mandate is to turbo-charge our transformation efforts and deliver on the promise of enriching **lives through financial well-being** targeted budget by increasing the customer base providing unique Sharia-Compliant products and services that played a major role in enhancing the customer experience, while building strategic partnerships by offering unique banking propositions.

CIBG succeeded by undertaking an in-depth assessment of the potential gaps within its overall offerings and re-focusing on specific segments and sectors vis'-a'-vis' their competitors for adequate alignment to enrich customer expectations. This contributed to maximizing CIBG's share of wallet "SOW", increase its profitability, while sustaining the ultimate objective of a satisfactory Risk vs. Return-on-Assets (ROA) position.

As we move to 2023, CIBG aims to maintain its growth trajectory, by providing sharia compliant products and services that focus on fee-based income, cross-selling, and building a stronger presence in the market.

## Corporate Banking Group (CBG)

In 2022, CBG performed exceedingly well, achieving 29% growth in the total assets portfolio over the preceding year. The extensive efforts to acquire new prospects and businesses, to capture new financing opportunities, cross selling BAJ products & services are the key drivers behind CBG's performance.

CBG portfolio is well diversified as they apply a cautious and selective approach also by taking into consideration the overall macro-economic environment and developments, to ensure that the asset quality is adequately maintained at all times and that the risks of impairment are minimized.

As part of the overall strategy, focusing on Mid-corporate segments will lead to maximize their growth potential. CBG, by diversifying their portfolio efficiently, is geared to continue their growth momentum.

## Specialized Finance Division (SFD)

The Specialized Finance Division is tasked with providing structured financing solutions and participating in syndicated arrangements. This unit is proactively serving a sophisticated client base, and works with other leading banks in mega syndicated deals arranged on behalf of corporate and sovereign clients as well as maximizing opportunities with the crystallization of Vision 2030 VRPs. SFD also engages in offering their expertise in project finance solutions and providing agency functions to large corporate customers.

## Commercial Banking Services (CBS)

The growth and prosperity of MSMEs remains one of Bank Al Jazira' s major goals, as MSMEs are considered an important engine of economic growth and the backbone of the Kingdom's economy.

CBS provides a wide range of banking products and services to Micro, Small & Medium Enterprises (MSMEs) aligning its strategy with the Kingdom's 2030 Vision initiatives of increasing their contribution to GDP from current levels of 20% to 35%.

In 2022, CBS performed satisfactorily with minimal impacts to the portfolio and strong profits by focusing on growing its portfolio and improving their profitability by cross-selling the bank's products and services, and improving their offerings.

As part of CIBG strategy, CBS will continue their efforts to have a strong presence in the market backed up with cross-selling strategy, partnerships, and enhanced products and services backed by digitization that will result in a satisfactory growth momentum.

## Financial Institution Unit (FIU)

Financial Institutions Unit manages BAJ's domestic and international banks relationships as well as other financial institutions and supra-national entities by covering trade and cash management needs. FIU, with its ambitious aim of making BAJ as the partner bank of choice in the Kingdom, will continue working closely with other stakeholders to enhance the capabilities of the bank to meet customer requirements and facilitating the remittances and commercial transactions enabling BAJ to cater to its core clients' needs around the globe.

FIU also performs a key role by in the bank, serving other business stakeholders including CIBG, Retail, Private Banking, FAWRI, Treasury etc.

During 2022, FIU achieved significant growth in unfunded exposure of 622% with the introduction of strategies related to SABIC as well as Aramco and Maaden export LCs. They also recorded a Fee Income growth of 20% was recorded across numerous business streams, such as LC Confirmations, remittances, counter-guarantee issuances.

## Public Sector Unit (PSU)

Public Sector Unit manages the portfolio of government and quasi-government entities that operate in various sectors. PSU plays an essential role by providing superior and professional customer service in marketing and maintaining available Sharia Compliant products and services including but not limited to financing and investment services, cash management, and e-banking technologies, in addition to treasury based products.

## Global Transaction Services (GTS)

Global Transaction Services is supported by state-of-the-art technological platforms providing the commercial and financial institutions around the Kingdom with innovative and superior banking solutions that are cost-effective and efficient. Their services consist of online corporate banking channels such as "E-Corp" and "M-Corp", "E-trade", payroll services "Rawatebkom", cash pick-up, and delivery services.

GTS works with their clients to enhance its services and delivery, leveraging the current technological advancements in the banking industry as well as supporting all available products for CIBG segments in coordination with several departments among the bank such as point of Sale "POS", payment gateway, and corporate credit cards.

GTS growth is aligned with the changes and development of digitalization and process modernization and automation across all sectors in the Kingdom.

PSU plays an essential role by providing superior and professional customer service in marketing and maintaining available Sharia Compliant products and services including but not limited to **financing and investment services, cash management, and e-banking technologies,** in addition to **treasury based products**

## Micro, Small and Medium size Enterprises (MSMEs)

### Current approved definition of MSMEs

MSME clients are categorized in line with the regulatory guidance and internal policy of the Bank, and are segmented as follows:

| Entity Type | Annual Revenues (Sales)SAR MM | Number of Employees (Full Time)* |
|---|---|---|
| Micro Small | 0 to 3 | 01 to 05 |
| Small | 3 to 40 | 06 to 49 |
| Medium | 40 to 200 | 50 to 249 |

*Bank AlJazira considers Annual revenue as the main criteria, however, if this criteria is not available, then the number of full time employees becomes the main criteria for segmenting MSME clients.

### Initiatives for MSMEs taken by the Bank:

- BAJ have in place 3 dedicated centers for MSMEs located in the 3 main Regions (Central, Eastern & Western)
- Implement a specific Risk Acceptance Criteria/ Customer Selection Criteria which includes a scoring mechanism aimed to improve overall turnaround time.
- Operate a dedicated Call Centre (MSME Phone Banking) to serve existing and new prospect clients. Toll free number "800 244 9090"
- Put in place a sales unit mainly as a centralized unit for all corporate referrals and to also monitor the onboarding of clients from all BAJ banking partners such as SIDF, REDF, TDF,,etc.
- Implement a segmentation module within the bank core system to differentiate between MSME clients segments, relationship, needs etc.
- Actively monitor MSME activities/ performance on a monthly basis through a committee headed by the CEO.
- Continuous development of dedicated training programs for MSME RMs focusing on relationship, credit & risk management.
- Continue to support the Credit Card product for MSME clients.
- Launched a POS financing product mainly targeting MSME clients
- In the final stages of launching a new proposition called "AMAAL" which is a package of integrated banking and financial solutions specifically catered for MSME clients

### MSMEs unit and staff:

MSMEs are managed by our Commercial Banking Services division within the Corporate & Institutional Banking Group (CIBG). Currently, CBS has more than 40 dedicated staff members serving our valued MSME clients.

| Number of training and workshop for staff and customers : | |
|---|---|
| Number of training for Staff | 0 man-days |
| Number of training for Customer | - |

**Loans, Commitments and Contingencies granted to micro, small and medium enterprises:**

000 SAR

**2022**

| | Micro | Small | Medium | Total |
|---|---|---|---|---|
| **Loans to MSMEs on BS** | **854,796** | **2,031,435** | **2,279,776** | **5,166,007** |
| **Loans to MSMEs off BS** | **100,154** | **470,367** | **474,402** | **1,044,923** |
| **On BS MSMEs Loans as a % on Total BS Loans** | **1.4%** | **3.3%** | **3.7%** | **9.6%** |
| **Off BS MSMEs Loans as a % on Total BS Loans** | **0.2%** | **0.8%** | **0.8%** | **1.9%** |
| **Number of Loans on and Off** | **383** | **744** | **414** | **1541** |
| **Number of Customers for Loans** | **253** | **480** | **163** | **896** |
| **Number of Loans guaranteed by Kafalah program (on & Off)** | **32** | **44** | **10** | **86** |
| **Amount of Loans guaranteed by Kafalah program (on & Off)** | **23,862** | **38,267** | **15,628** | **77,757** |

**2021**

| | Micro | Small | Medium | Total |
|---|---|---|---|---|
| Loans to MSMEs on BS | 544,025 | 1,511,202 | 1,976,684 | 4,031,911 |
| Loans to MSMEs off BS | 125,557 | 312,317 | 888,628 | 1,326,502 |
| On BS MSMEs Loans as a % on Total BS Loans | 0.9% | 2.4% | 3.2% | 7.5% |
| Off BS MSMEs Loans as a % on Total BS Loans | 0.2% | 0.5% | 1.4% | 2.5% |
| Number of Loans on and Off | 422 | 623 | 339 | 1384 |
| Number of Customers for Loans | 309 | 456 | 216 | 981 |
| Number of Loans guaranteed by Kafalah program (on & Off) | 50 | 63 | 17 | 130 |
| Amount of Loans guaranteed by Kafalah program (on & Off) | 46,670 | 55,150 | 50,652 | 152,471 |

## Treasury Group:

For many years, our Treasury Group has been at the forefront of providing innovative Shari'ah-compliant solutions, including bespoke products based on customer demands across asset classes.

In the past few years, we have experienced a pandemic and a conflict in Ukraine, both of which have had an effect on the distribution of the essential economic components. The Treasury Group contributed 48% of the Bank's Net Income. This was accomplished through effort and perseverance despite rising inflation and recession concerns.

Treasury Group's strategic principles are founded on the notion that we are a cog in the larger scheme of things and Vision 2030. To this end, we conduct business with one eye on the big picture, recognizing that our commitment to the development of the financial system is essential while we compete with our peers to elevate the standard.

Moreover, it is with pleasure that we mention that Treasury Primary Dealer, which aims to widen the reach and distribution of Kingdom of Saudi Arabia Government Sukuk, achieved a milestone in coordination with NDMC by launching an electronic online platform that will further expand the reach.

On the same strategic mindset and principles, Treasury Money Market along with Treasury sales have effectively regulated the borrowing costs in an environment when market interest rates are at high levels as a result of Saudi Central Bank's inflation-fighting rate hikes.

## Human Capital Group

In 2022, the local market achieved a positive impact on activities and operations as a result of market recovery after following the general procedures for occupational safety and health requirements, in addition to following the precautionary instructions from the official authorities, which contributed to enabling Bank AlJazira to ensure a safe return of all employees to the offices.

The Human Capital Group succeeded in launching the human capital strategy, which contributed to in laying distinguished foundations as a starting point for launching the strategy for the coming years.

Human Capital Group launched a transformational project aimed at elevating the organization culture to achieve best environment and to enhance and provide the required skills to support BAJ strategy and continues to focus on streamlining technology to serve our ongoing development by introducing enhanced digital self-services to employees enabling more efficient mechanics of daily processes. Moreover, the group focused on elevating and developing governance levels for its policies and procedures.

Human Capital Group continued the Saudization programs in 2022, by attracting Saudi candidates and launching an ambitious program named "future leaders" to attract the best Saudi talents, which maintains the bank's continuous commitment to fill new jobs with the best competencies and opening prospects for internships for university students. These initiatives aim to create the best ways to attract competencies, which is reflected in a high Saudization success rate of more than 95.77%. In addition, the group worked to study the bank's current training needs, market requirements, and the requirements of the Saudi Central Bank to develop human capital, and accordingly provided a set of professional development programs through training courses and specialized professional certificates. Human Capital Group have organized more than 326 training programs and 6,836 training opportunities were provided, with a total of 10,255 working days, and establishing a program that supports achieving specialized professional certificates ( Badge Your Expertise- BYE).

## Staff ethical and professional principles:

Bank AlJazira has a proven track record in taking the right actions towards its employees, customers, shareholders, regulatory and supervisory bodies. The values of Bank AlJazira represent the basis on which the bank relies in working to achieve the bank's overall objectives.

The bank has adopted a number of ethical and professional principles as set out in the staff "Code of Conduct" which encourage the creation of an appropriate work environment and help achieve the aspired growth, under the existing protection systems against financial crime, bribery and corruption. The policies and standards embraced by the Bank AlJazira provide an appropriate framework for employees to conduct their business. These policies and standards help staff to take the best decisions in their endeavor to achieve long-term and sustainable growth. It is the responsibility of all the bank's employees to comply with these policies and to demonstrate the bank's values through their internal and external dealings and relations with colleagues, customers, regulators and the community as a whole at all times.

## Sharia Group:

### Shariah Quality:

Keeping in mind the satisfaction and expectations of customers and shareholders, the Shariah Group focuses on the Shariah quality control of Bank AlJazira services and products by conducting intensive review and audit of the bank's transactions to ensure all activities of the Bank and its subsidiaries are compliant with the Islamic Shariah rules. The group submits quarterly reports to the bank's Shariah Board, and its review of the bank's transactions and criteria for selection of samples is based on the international audit criteria for sample selection.

### Governance:

During the year, the Shariah Group enhanced the application of Sharia governance framework as issued by the Saudi Central Bank across all parts of the bank to ensure the full implementation of Sharia Governance Framework in cooperation with all bank groups.

The structure of the Shariah group has been amended by separating the Shariah audit from the Shariah compliance in two different sections. In addition, the Shariah Committee was reconfigured and the number of its members increased in anticipation of the implementation of Article 7, which prohibits committee's multiple members in other banking committees.

### Services and Products:

The Shariah Group believes that innovation and development derived from the Islamic Shariah Rules is an essential requirement to promote the Islamic banking industry so as to be able to grow, compete and meet the accelerating and renewable market requirements. To this effect, the group permanently cooperates with other business groups within the bank to innovate and develop their tools and services and helps in the automation of a lot of their processes to facilitate customer's transactions and enable them to achieve utmost investment of their time and avoid human errors as far as possible.

In this context, a committee was established to innovate and develop financial products compatible with Islamic Sharia comprising all the bank's groups, including the Sharia Group, with the aim of creating Islamic financial products that would enable the bank to continue its leadership in the field of Islamic banking.

### Research:

The group is aware that maintaining the Bank's leading position in the Islamic banking industry, requires collection of information and preparation of reports and surveys about Islamic banking market and products, extent of customers' satisfaction and aspects of competition, points of strength and weaknesses and customers' expectations.

The Research Department of Shariah Group continued to collect and analyze data and information, prepare various reports, particularly on Islamic finance in the Kingdom of Saudi

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Arabia. In this context, three reports on Islamic finance activity in the Saudi market have been updated and prepared namely:

1- Islamic banking in the Saudi market,
2- Insurance Industry in the Saudi market,
3- Sukuk market in the Kingdom of Saudi Arabia,

The Shariah Group has also established a program for cooperation with Shariah researchers to prepare Shariah research on some contemporary issues facing the bank. The first of this program was a research on (Ruling on the bank providing its services to clients who execute some non shariah transactions).

### Translating the book "Bank AlJazira's experience in transformation into Islamic Finance:

The Shariah Group translated and printed the book "Bank AlJazira's experience in transformation into Islamic Finance" in English and French. The book was distributed to financial institutions and parties interested in Islamic finance industry, after printed in Arabic earlier.

In this context, the Saudi Fikh Society, in cooperation with the Shariah Group, held a symposium on the bank's experience in transformation into Islamic Finance, in which His Excellency the Chairman of the Board of Directors of Bank AlJazira spoke about this pioneering experience, with the interventions of a number of eminence sheikhs and specialists in Islamic finance.

### Publication of Books and Academic Research Papers:

The Shariah Group has adopted a plan to spread knowledge through publishing and distribution of books and academic research papers which cater for the financial aspects, particularly the Islamic finance issues. Such published books and academic research papers are distributed to Specialists and those interested and financial institutions free of charge., namely:

- The waqf investment funds,
- The down-payment contribution and its contemporary applications,
- Provisions related to ethics in financial transactions.
- symposium: Islamic Banks .. Success Story "Bank AlJazira as a Model"

### Support to Islamic financial Industry:

The Bank, through its Sharia Group, continues its support to infra-structure organizations of Islamic Financial Industry, including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Council General of Islamic Banks and Financial Institutions (CIBAFI), Council of Islamic Financial Services (IFSB), based on the bank's belief in the importance of supporting such institutions to enable them to develop Islamic Financial Industry and achieve standardization. In spite of the exceptional circumstances dictated by COVID-19 pandemic this year, the Shariah Group participated in many of the conferences and workshops that were organized by such entities remotely via the electronic channels to cope with the latest developments in the Islamic finance industry,

The efforts of the Bank's Shariah Group have reflected positively on how the community and customers look at the bank and have also enhanced the level of confidence in the bank as an Islamic bank and contributed to the Bank's winning of many awards in the Islamic financial services domain.

Our excellence and leadership in the Islamic banking industry is due to the Bank's compliance, in all its businesses aspects, with the principles and rules of Islamic Shariah as well as with the decisions and advice of their honor the scholars, members of the bank's Shariah Board.

## Support Group

### Automation & Robotics Division

As an extension of the series of achievements we achieved last year, the automation and robotics team doubled its efforts in 2022, where more than 1,000 operations were evaluated within 10 groups and 54 departments, which raised productivity, as the number of robots launched so far reached 31, which led to the implementation of about 140,000 transactions and saving 28,000 man-hours. This helped reduce cost and reduce human errors, and raise efficiency and productivity. Most importantly, it raised the morale of employees to enable them to focus on high-value, non-routine activities.

In line with the bank's strategic goals to support digital growth, and in an effort to enrich life through financial well-being, the automation and robotics team continues to expand automation processes and reengineer and support operations through the adoption of new technologies such as artificial intelligence, machine learning and other solutions in line with this vision.

### Support Business Management

The Support Business Division works to improve the levels of quality and governance and contribute to the digital transformation process of the Support Group through close and continuous monitoring, follow-up, collecting information and data, performing data analysis, and prepare relevant reports.

Within the scope of business governance and quality, the Support Management Division monitored and followed up on 72 circulars issued by the Saudi Central Bank and contributed to achieving full compliance with them, which led to achieving a timely compliance rate of 87%.

The division also monitored and followed up all the Internal Audit observations related to the Support Group and contributed to the responsible divisions in closing them; as a result of these efforts, the on-time closing rate reached 99%. Within the scope of business quality, the Support Management Division worked on the financial management reports of the expenses of the Support Group's divisions, analyzing their data and contributing, in cooperation with the divisions, in rationing expenses; which led to achieving compliance with the group's budget of 100%.The Support Management division has also monitored and followed up on all the group's initiatives and projects included in the Digital Transformation project.

In addition to the above, the Support Management division has successfully monitored all the Key Performance Indicators of the group and has also monitored more than 31 other performance indicators.

## Project Management Office

The Project Management Office (PMO) provides support and organization for all annual projects of Bank AlJazira in alignment with the relevant business.

PMO has delivered all the projects required by the Saudi Central Bank, such as Tanfeeth Program - Wave 4, Early Warning Signs, SIMAH Affordability Model for individual Consumers, Entity Account Opening Phases (I) and (II).

In addition, PMO delivered other critical business projects such as Sakani - NHC Online Mortgage, SoftPOS, Online segregation, WhatsApp outbound solution, Equal Payment Plan (EPP) and Enrich Account Opening Enhancement.

## Logistics & Shared Services

Is a specialized Division that provides all services and logistical support to Aljazira Group in terms of professional advice, consultation on the designs and construction of the Banks network expansion program, (Branches, FAWRI centers, ATMs, premises, and others), enhancement of existing workplaces to be more compatible with business needs, provide clean environment and utility services to employees and customers in all branches and head office buildings, including the security and safety to staff, clients and properties at all times. To secure the continuity of business by ensuring that all government permits and licenses are valid, and to provide mailing services, storage, photocopying and archiving of daily banking transactions.

This year, the multi-parking building adjacent to the Head Office building in Jeddah was completed and inaugurated to provide 323 additional parking spaces for employees and customers.

Preparations have also begun for the construction of a multi-storey building on King Fahd Road in Riyadh for AlJazira Capital, Private Banking, a Training Center and a Branch for Retail Banking Services and Affluent Services, in addition to a multi-storey parking building attached to it to provide an additional number of parking spaces for employees and customers.

The implementation of all instructions of the Saudi Central Bank and the Ministry of Interior regarding security and safety has also been completed, the most important of which is the installation of IP cameras for all branch buildings and ATMs, where the installation of cameras was completed by the end of July 2022.

The main headquarters of Operations Division in Al Quds building in Riyadh has been completed after making the necessary improvements to the building and parking to accommodate all the employees of the Banking Operations Division.

In addition, the Tahlia branch was moved to the new and distinctive location after its construction was completed by November.

Moreover, 8 "Fawri" remittance centers have been closed due to the fact that some of these branches are located within the demolition area scope of some Jeddah neighborhoods, which were either removed at the direction of the government or closed at the request of the RBG management.

## Property Management

Property Management leads Contracts and Assets Management, Procurement and tender management unit, Business Continuity Management and AMAN Real Estate Development and Investment Company) including Real Estate valuation )

**Contracts and Assets Management Unit:**

Its main achievements are summarized in managing 39 real estate properties with a value of SAR 712 million and reviewing, signing and keeping 229 contracts worth SAR 211 million, covering and protecting bank interest & govern its relation with third parties while adhering to rules & instruction of SAMA.

In addition to managing Fixed Assets by adding 1,290 assets, transferring 1,238 disposing of 3,980 and as a result extracted a savings of SAR 32,600

**Procurement and tender management unit:**

Procurement had a remarkable role in achieving many of the bank's objectives, which was reflected through a number of axes as follows:

- 6,243 Purchase orders cost of SAR 779,919,560
- Total savings amounting SAR 23 million.
- Decreasing the insurance rates for some renewed Insurance Policies resulting in obtaining better pricing.
- Automation of Procurements and tender process.
- Develop the policies and procedures of Procurements and Tender Management in line with the bank strategy.

**Business Continuity Management Unit:**

The bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices and SAMA requirements and its scope extends to include; Crisis Management and response, Safety and Security, People continuity, Business recovery and IT Disaster Recovery.

The bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond and manage adverse events. The expected results is to minimized negative impacts, enhanced performance and reputation, and compliance with regulatory requirements. Conducting several experiment aimed at ensuring business continuity without interruption.

Through the Business Continuity, business continuity tests was conducted successfully for 24 critical / division in Riyadh and 29 in Jeddah, including In – house awareness training workshops for more than 95 employees.

**Aman Real Estate Development and Investment Company:**

Aman Real Estate and Investment Department has been able to carry several operations for the benefit of the bank as follows; 10 Ejarah Transactions, 2,275 Murabaha Transactions, 308 Real Estate Returns, 230 Third Party Sales, 37 Bayt Al Hassan, 38 POA's, 420 Authorization letters, 363 Redemption Release, 294 Corrections, 171 Corporate and 272 Miscellaneous.

In addition a number of 38 title deeds transferred to the Saudi Real Estate Refinance Company (SRC) under a contract for the sale of a real estate portfolio between the bank and the Saudi company (SRC).

Custody amendment of title deeds that placed in the custody of Executives and Implementation of all requests within the specified times by 100% in accordance with the SLA.

**Real Estate Evaluation Unit:**

The following has been the accomplishments of Real Estate Evaluation Unit; a total of 6,541 Valuation requests completed for RBG, 110 completed for CIBG, 20 completed for Human Capital Group, 52 for Private Banking and 26 requests for Asset Real Estate. Moreover maintaining the level of companies evaluation payment, finalizing the evaluation automation project phase 2, and full integration of the automation with LMS in the production.

**Information Technology Division**

Information Technology Division is continuing to build and maintain technology platform corresponding with the best technology standards to support existing and new development of solutions that support the bank's products and services. The provided technical solutions are built in accordance with the Banks' strategic goals and directions, and meant to meet business objectives, support expansions, regulatory mandates, business continuity as well as the delivery of banks' internal improvement initiatives.

Examples of major achievements in 2022, successfully concluded the Full DR Live test for all critical systems and operating for five business days from DRC, Switching ATMs Connectivity from Satellite to GSM 4G, Successful implementation of a Capacity Management Solution that monitors the capacity of all critical systems and Upgrade the 3D Secure system to the latest version. In addition to a number of enhancements and major changes in AlJazira Online systems and databases, which contributed immensely in correcting program design issues and minimizing service interruption to ensure service availability around the clock.

Not to mention its contribution in the implementation of key projects in partnership with the Project Management Office.

**Banking Operations**

In line with bank's new organizational structure and the merger into the Banking Operations Group of several departments, such as Card Operations, Cash Center Operations, Fawri Operations, ATM Feeding Operations and Cash Transit Operations, the Banking Operations Group has been restructured to align with the bank's strategic plans for provision of the necessary tools and technologies and use of appropriate and highly professional manpower to perform the Bank's operations with high quality and accuracy. Accordingly, the strategy of Operations Group has been reformed to focus on respect and appreciation and shall be based on four key elements:

- The right employee with the right environment (recruitment, training, development and qualification, motivation, and appreciation)
- Appropriate processes (review and development of internal work procedures)
- Appropriate technology
- Management and coordination of relations with the Bank's internal departments and outside partners.

Based on the new strategy, the Operations Group has been restructured to consist of the following departments:

**A. Operations Control Department:**

The task of this department is to re-examine the operations progress at all stages and to introduce the appropriate technology and update implementation based on the latest developments. The department directly coordinates with its partners in the technology, projects, and automation departments.

Also, this department is responsible for updating the work policies and processes in line with the instructions issued by the Central Bank as well as for follow-up to ensure the accuracy of implementation and compliance. It shall also monitor the management of banking accounts for individuals, companies and Fawri. The primary role of Financial Ruling Execution Department is to implement what is included in the requests received from the Saudi Central Bank.

Card Settlement is responsible for Settlement of Visa, MasterCard transactions, and Chargeback dep , Dispute amount for customers

**Achievement**

1. Merging Operational Excellence Department with Control Department, in order to develop the work mechanism
2. Launching the project WAVE 3 and 4 of TANFEETH B2B System
3. Unreconciled balance identified since 2016 in the settlements account it has been corrected and adjusted.

**B. Shared Operations Department:**

The tasks of this department focus on the implementation, control, and follow up on the domestic and global payment processes, clearing checks and collection processes as well as on the management of the relations of Credit Bureau companies. Bank AlJazira achieved top rank in the first six months for the quality and accuracy of credit reports issued to SIMAH. Also Bank AlJazira receives the Excellence Award for executing Straight Through Payments (STP) in US Dollars.

**C. Consumer Finance Operation Department:**

This department is responsible for reviewing the credit applications for Personal Finance, Mortgage Finance and Credit Cards with high accuracy and speed. It works in coordination with the Sales Department, Branch Network, Product Departments, and Risks Departments to achieve the bank's objectives and minimize human errors.

One of the most important goals achieved during the year is to pass all products through the scanner, which greatly contributed to reducing costs and speeding up completion to serve the bank's customers satisfactorily and distinctively.

**D. Corporate Operations Department:**

This department shall implement all treasury and corporate processes with high accuracy and professionalism, including the processes and operations relating to the purchase and sale of currencies, investment in Islamic Sukuk, trading in international capital markets, hedging using financial derivatives, issuance of guarantees and bank credits in addition to carrying out financing operations for companies.

1. Supported launching an online subscription service for NDMC auctions
2. Succeeded in processing new Equity Investments
3. Centralized all Letter of Guarantee issuance at Riyadh
4. Enabled new online Trade request s through Etimad Platform.
5. Developed a new corporate review and execution teams.

**E. Operations Support Department:**

This department coordinates with other departments within the Operations Group and other departments to facilitate the implementation of operations and exceptions and addresses complaints to achieve highest extent of excellence in customer service.

1. A mechanism was developed in coordination with the relevant departments to ensure that pending applications reach zero daily by 99% throughout the month, and close all complaints for a period not exceeding 24 hours.
2. Automated four main tasks in the department: (FAWRI support – Cards maintenance - ATM claims - personal finance support), which led to saving time and effort and being content with fewer employees.
3. Establishing a daily follow-up mechanism for transactions with high amounts and repeated requests, which led to the discovery of loopholes in the system. This procedure caused the bank to avoid an increase in losses after frauds were discovered.
4. Preserving the availability (SLA) and readiness rate of more than 98% for ATMs, according to the monthly report from SAMA.

**F. Cash Centers & Replenishment Services Department:**

This Department is responsible for providing cash to the branches - FAWRI - Offsite ATM & Deposit /Withdrawal of cash from/to SAMA including receiving surplus cash from Branches & FAWRI & ATM, also receive cash from the customers through the cash pickup services The ATM Replenishment service has been outsourced to SANID, one of the strongest companies in this field to minimize the operational risks and expenses. The ATM replenishment services was in-house by BAJ staff also we already outsourced Riyadh Cash Center to Multi Bank Cash Center for SANID Company. We are in progress to complete the process for outsourcing the remaining cash Centers (Jeddah-Hofouf –Madina and Qassim by the end of Q2/2023 as per the plan that was sent to SAMA.

## Sustainability & Social Responsibility Group

Bank AlJazira continues its journey in sustainability and social responsibility through continuous support for various projects that promote the principles of sustainability and social responsibility, which portrays a positive image of the bank as a responsible financial institution that is working on effective plans and projects that help achieve a positive impact on the economic, environmental and social aspects, through various partnerships with non-profit organizations, charities, private sector and the public sector, where the bank contributes -

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through the program (Khair Aljazira Le Ahl Aljazira) - in the implementation of a number of unprecedented projects in the field of community service and meeting the aspirations of those communities in all regions of the Kingdom, which amounted to more than (107) community projects in more than (40) cities, governorates and centers, resulting in more than (20,970) beneficiaries throughout the year 2022.

During this year, the system for sustainability was established at BAJ after the approval of the Board of Directors to issue annual sustainability reports, and the name of the Social Responsibility Group was changed to "Sustainability & Social Responsibility Group" in addition to changing the name of the Social Responsibility Committee to "Sustainability & Social Responsibility Committee", thus establishing the role of sustainability through sustainable practices and drawing a sustainability roadmap for BAJ to work on initiatives, indicators and implementation mechanisms by initiating the transformation leadership and forming links between different sectors, centered around knowledge. The Sustainability & Social Responsibility Group also contributed to updating the evaluation mechanism for measuring KPI in coordination with both the Human Capital Group and the Strategy & Digital Transformation Group.

The group has made the necessary arrangements to work on Bank AlJazira's annual sustainability report, which will provide information regarding the KPI of environmental, social and corporate governance practices, in addition to determining the group's approach and its strategic directions in this scope in accordance with international standards, as the bank's first sustainability & social responsibility report will be shared by the beginning of the new year, based on a comprehensive framework for sustainability practices at BAJ in the form of an annual report that meets the most important foundations, standards and regulations and also complies with the best practices according to benchmark comparisons.

In this context, the bank contributed through the "Khair Aljazira Le Ahl Aljazira" in the field of sustainability and the environmental awareness by sponsoring the Social Responsibility and Green Economy Forum under the title "The Road towards Carbon Neutrality" to promote the culture of reducing carbon emissions. In addition to that, BAJ sponsored the initiative "Environmental Conservation is a Covenant and a Promise", which contributed to promoting the culture of preserving the cleanliness of touristic wild parks, as well as implementing a rehabilitation program for the leaders of environmental associations on the scale of the Kingdom.

In addition to that, the societal role of Bank AlJazira stands out when it comes to contributing and focusing on the rehabilitation and empowerment of marginalized people in the society through support and assistance in financing micro-projects through the benevolent loans portfolio to support productive families in order to increase their income and improve their standard of living and education with the aim of achieving economic and social stability for the members of those families.

Bank AlJazira's program to support innovation "Mobtakeroon" is also one of the most prominent programs that helped enable creativity, innovation and entrepreneurship skills, as it was implemented twice as a business incubator for innovative projects in the field of digital montage and the field of smart cities, with the participation of a wide range of young

entrepreneurs. The first three places were rewarded with cash prizes to incentivize them to proceed in their innovation journeys, and BAJ did not neglect to support and empower the innovation skills amongst the younger generation aged (8-15) years, where the bank also held the "Mobdeoon" program in the technical and industrial fields and rewarded the first three places with cash prizes.

Based on the bank's concern towards people with disabilities, many specialized programs have been initiated for people with hearing, visual, motor and mental disabilities, with training, orientation and raising awareness for their families and those dealing with them.

The Bank's contribution is still ongoing in establishing and operating the Center for Autism, for the fourth consecutive year, where Saudi banks participated in establishing and operating it for the first five years.

Continuing to support young men and women, the Bank provides support to this group with the aim of education and professional training by providing them with many programs to prepare them for the labor market and help them acquire basic life skills.

The non-profit sector has great interest from Bank AlJazira for its key role in community work, where many agreements were signed, including the signing of a governance facilitation agreement with the National Center for Non-Profit Sector, as well as supporting many programs in the fields of health, environment and society by qualifying the leaders and establishing the infrastructure for many non-profit organizations by providing them with basic equipment, in addition to programs to spread financial, legal, health, cultural and other awareness in various regions and governorates of the Kingdom.

## Aljazira Capital:

AlJazira Capital (AJC) offers a comprehensive range of investment services to its institutional and retail clients, that include; brokerage, asset management, wealth management, investment banking, and custody services.

2022 was very significant for AlJazira Capital, as it was the year in which AJC executed its 5-year new strategy (approved in Q4 2021). The philosophy of the new strategy was to maintain leadership position in brokerage while creating a sustainable sources of revenues in other business lines. Hence, AJC's Strategy is structured around developing Asset & Wealth Management business and redeployment of AJC capital into investments with attractive yields.

Effective implementation of the new strategy is noticeable from AJC's financial results as, despite the decline in brokerage revenues versus 2021, AJC's revenues grew by 16% in 2022, driven by the strong growth in other business lines. AJC's net income before Zakat & income tax for 2022 amounted to SAR 154.3 million, which exceeds 2021 net income by 14%.

2022 was a challenging year for Capital Markets as the sharp rise in interest rates negatively impacted the financial markets liquidity. AJC continued to maintain its leading position as a local brokerage house. Overall, brokerage business contributed SAR 112 MM to AJC topline. Furthermore, margin finance portfolio showed high utilization during the year with revenue of SAR 89 MM, an increase of 60% versus previous

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**SAR 154.3 million**, which exceeds 2021 net income by 14%.

year. AJC is continuously seeking to enhance its brokerage leading position and capabilities through the implementation of strategic initiatives that support such position in all aspects, including; technology, offering new products & service, as well as enhancing existing ones.

AJC's other business lines have witnessed an unprecedented improvement. Asset and Wealth Management business grew substantially in 2022 at 107% with a revenue that amounted to SAR 92 MM (2021: SAR 44 MM). Such growth was supported by the growth in number and values of DPMs and the introduction of multiple alternative investment and Real Estate Funds. Furthermore, Investment Banking played a vital role in adding to AJC's revenues, with a growth of 65% over 2021, at SAR 40 MM (2021: SAR 24 MM). In addition, AJC continues to invest its capital in high yielding asset classes. This substantially improved return on AJC principal investments during 2022 and contributed SAR 34 MM to total revenues. Such growth in the various businesses comes in line with AJC's income diversification strategy.

With relation to awards, AJC received several awards in various securities business aspects. Refinitiv has awarded AJC the best 3 year & 10 year performance for AJC's International Equity Fund. Furthermore, International Finance Magazine recognized our International Equity Fund for the Most Innovative Equity Fund. The same Magazine also awarded AJC for the most Innovative Islamic Brokerage House.

Looking forward, AJC's ambition is to be an established asset and wealth manager and remain the broker of choice by offering superior trading experience. Management is confident that, by leveraging the new digital technologies and enhancing the products offering, AJC will achieve its growth plans.

## Future Plans:

The post-Covid world has affected the economy and customer behaviour leading to shifting expectations and demands. To meet this new paradigm, Bank AlJazira is focused on enriching lives through financial wellbeing. To enable us to deliver on this purpose, we have set ourselves a set of key priorities that include:

Creating Distinctive Value Propositions by:

- Being a boutique bank that is retail affluent focused.
- Focusing on mid-market and selected sectors in CIBG.
- Bringing together the power of One Bank AlJazira with AlJazira Capital.

Building a Thriving Organization by:

- Being customer obsessed in our conduct.
- Positively impacting our planet and communities through our ESG and CSR agenda.
- Building a learning organization.

Growing Digitally by:

- Increasing our digital transformation investments and upgrading our offerings to improve customer experience.
- Targeted Partnerships with Fintech's to differentiate our value propositions and distribution models.
- Commercializing our efforts through customer acquisition and retention.

Overall, these priorities will drive a set of outcome which are to:

- Improve our economic health – bringing our financial ratios (C/I, CoF, RoA, RoE and Cross-Sell) in-line with peers;
- Address our organizational health (Culture, Values and being an Employer of Choice); and
- Drive an improved customer experience (Net Promoter Score - NPS) through our brand, customer journeys and digital experiences

## Awards and Certifications

BAJ was granted a number of awards and recognitions locally and Internationally which reflects the banks integrity, professionalism and efforts in providing its valuable clients an exceptional products and services, and these are as follows;

- Most Innovative Islamic Bank – Saudi Arabia 2022, awarded to BAJ by International Finance Magazine
- Best CSR Bank – Saudi Arabia 2022, awarded to BAJ by International Finance Magazine
- Bank AlJazira one of the best performing Financial Companies in CGI Corporate Governance by Alfaisal University Award
- Most Innovative Islamic Retail Bank in Saudi Arabia 2021 - 7th Islamic Retail Banking Awards 2021
- IRBA Excellence Award for Islamic Digital Banking 2021 - 7th Islamic Retail Banking Awards 2021
- The Excellence in Digital Transformation Award 2021 granted to BAJ by the Digital Banking Saudi 2030 Summit Awards
- Change Leaders Award for the Private Sector – Awarded to BAJ during the 10th Business Management Forum
- Contact Center World Awards – Gold Medal and 1st rank in three Categories, Best Contact Center, Best in Customer Service and Best Branch Support Categories in Europe Middle East and Africa 2019.
- Most Innovative Islamic Bank – Saudi Arabia 2019, awarded to BAJ by International Finance Magazine
- Best Credit Card Offerings – Saudi Arabia 2019, Awarded to BAJ by Global Business Outlook Magazine
- Most Innovative E-Banking Platform – Saudi Arabia 2019, Awarded to BAJ by Global Business Outlook Magazine
- Award for being one of the Best Performing Companies in the Corporate Governance Index – Awarded to BAJ by Alfaisal University Corporate Governance Center
- Contact Center World Awards – Gold Medal and 1st Rank for Best Contact Center and Best in Customer Service in the World 2019 – Awarded to BAJ by Contact Center World
- Excellence Award in Syndicated Financing – Awarded to BAJ by International Islamic Trade Finance Corporation (ITFC)

- Princess Sitah bin Abdulaziz for Excellence in Social Work National Achievement Award – Awarded to BAJ by His Highness Prince Fahd bin Abdullah bin Saud Al Kabeer and the Ministry of Labor and Social Development
- Contact Center Awards – Gold Medal and First Rank in Best Customer Service Category, Silver Medal for the Best Contact Center Category in Europe Middle East and Africa and Silver Medal for the Best Contact Center Manager in Europe Middle East and Africa – Contact Center World
- Critics Choice Best Islamic Digital Banking Award – Awarded to BAJ by Cambridge International Financial Advisory
- Critics Choice Best Islamic Retail Banking Innovation Award – Awarded to BAJ by Cambridge International Financial Advisory
- Best Customer Service Award Gold Medal and First Rank – Awarded to BAJ by Contact Center World
- Best Social Responsibility Program K.S.A. 2017 – CPI Financial
- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2017 – Cambridge Analytica
- Contact Center Award – Silver Medal Best Customer Service 2017 in the Middle East, Europe and Africa
- Best Customer Service, Abshir Baezzak Program - Awarded to BAJ by Banker Middle East Product Awards
- Most Innovative Personal Banking Provider, Saudi Arabia – Awarded to BAJ by AI Global Media
- Top Three Banks with the Highest ATM Performance and Cash Management – Awarded to BAJ by Saudi Central Bank (SAMA)

## Gratitude:

The Board of Directors of Bank AlJazira takes this opportunity to express their thanks and gratitude to our wise government under the leadership of the Custodian of the two Holy Mosques, King Salman bin Abdul Aziz Al Saud, HRH Prince Mohammad bin Salman Abdulaziz Al Saud, the Crown Prince , Prime Minister, also serves as the chairman of the Council of Economic and Development Affairs and chairman of the Council of Political and Security Affairs. And all Ministers for their continued support.

We are also grateful for the continued support and guidance of the Ministry of Finance, the Ministry of Commerce and Industry, Saudi Central Bank and Capital Market Authority.

The Board also want to take this opportunity to express its sincere thanks and appreciation to the Bank's Shareholders and customers for their confidence and continued support and to the Bank's management and all staff members for their performance and achievements.

# Branches Network

## Western Region

### Makkah

**Aziziah Branch**
Tel: (+966) 597593012

**Al Shawqiya Branch**
Tel: (+966) 12 5391826

**Al-Awali Branch**
Tel: (+966) 12 5501453

**Al-Sitten Branch**
Tel: (+966) 12 5970339

### Madinah

**Madinah Branch**
Tel: (+966) 14 8451111

**AlKhalidiyah Branch**
Tel: (+966) 14 8491328

### Jeddah

**Jeddah Main Branch**
Tel: (+966) 12 6098888

**Tahlia Branch**
Tel: (+966) 12 2610725

**Sari Branch**
Tel: (+966) 12 6901390

**Al Balad Branch**
Tel: (+966) 12 6485533

**Khalid Bin Al-Waleed St Branch**
Tel: (+966) 12 6518070

**Al Bsateen Branch**
Tel: (+966) 12 6949224

**Prince Sultan St. Branch**
Tel: (+966) 12 6075450

**Al Salama Branch**
Tel: (+966) 12 6737268

**Al Safa Branch**
Tel: (+966) 12 6736712

**Al Samer Branch**
Tel: (+966) 12 27185987

**Al Rabwa Branch**
Tel: (+966) 12 6827683

**Al Naeem Branch**
Tel: (+966) 12 6134333

**Al Rehab Branch**
Tel: (+966) 12 6748585

**Makkah Road Branch**
Tel: (+966) 12 6896600

**Al Musa'adia Branch**
Tel: (+966) 12 6610112

**Al Musa'adia Branch(Ladies)**
Tel: (+966) 12 6673700

**Obhur Aljanoubiyah Branch**
Tel: (+966) 12 6098752

### Al Taif

**Al Taif Main Branch**
Tel: (+966) 12 7600116

**Shehar Branch**
Tel: (+966) 12 7426678

### Rabigh

**Rabigh Branch**
Tel: (+966) 14 4233311

### Tabouk

**Tabouk Branch**
Tel: (+966) 14 4432676

### Yanbu

**Yanbu Branch**
Tel: (+966) 14 3572953

**Yanbu Industrial Branch**
Tel: (+966) 14 143572953

## Eastern Region

### Dammam

**Dammam Main Branch**
Tel: (+966) 13 8321272

**Jarir Branch**
Tel: (+966) 13 8420237
Fax: (+966) 13 8417226

**Al Jalawea Branch**
Tel: (+966) 13 8153394

**Al Faisaliah Branch**
Tel: (+966) 13 8116653

**Al Shatee Branch**
Tel: (+966) 13 8324838

### Al Khobar

**Al-Khobar Al-Hada Branch**
Tel: (+966) 13 8820040

**Al-Khobar King Khalid St. Branch**
Tel: (+966) 13 8942512

**Al Khobar Main Branch**
Tel: (+966) 13 8346928

### Dharan

**Al Doha Branch**
Tel: (+966) 13 8916148

**Tilal Al Doha Branch**
Tel: (+966) 13 8309188

### Al-Ahsa

**Al Hofuf Main branch**
Tel: (+966) 13 5863555

**Al Shahbiyah Branch**
Tel: (+966) 13 5995520

**Al Salmaniyah Branch (Al Nakheel; formerly)**
Tel: (+966) 13 5754310

**Al Mabraz Branch**
Tel: (+966) 13 5730616

### Jubail

**Jubail Industrial –AlFanateer Branch**
Tel: (+966) 13 3670157

**Jubail City Branch**
Tel: (+966) 13 3672702

### Hafr Al Batin

**Hafr Al Batin Branch**
Tel: (+966) 13 7250440

### Qateef

**Qateef Branch**
Tel: (+966) 13 8545463

بنك الجزيرة
BANK ALJAZIRA

## Central Region

### Riyadh

**Al-Olaya Branch**
Tel: (+966) 11 2157025

**King Fahad Road Branch**
Tel: (+966) 11 2051870

**King Abdullah Road Branch**
Tel: (+966) 11 2642123

**Al-Quds Branch**
Tel: (+966) 11 2781416

**Khurais branch**
Tel: (+966) 11 4187962

**Al Nassem Branch**
Tel: (+966) 11 2357813

**Al Ma'ather Branch**
Tel: (+966) 11 8108058

**Al Malqa Branch**
Tel: (+966) 11 4102998

**Al Rayyan Branch**
Tel: (+966) 11 2082587

**West Ring Road Branch**
Tel: (+966) 11 4338441

**Al Takhasusi Branch**
Tel: (+966) 11 2936599

**Al-Suwaidi Branch**
Tel: (+966) 11 4288749

**Al-Nafl Branch**
Tel: (+966) 11 2751086

**Al Rawdah Branch**
Tel: (+966) 11 2543845

**Al Shefa Branch**
Tel: (+966) 11 4338441

**Ishbilia Branch**
Tel: (+966) 11 8124276

**Al Sahafa Branch**
Tel: (+966) 11 4338441

**Al Mrouj Branch**
Tel: (+966) 11 4154893

**Al Malaz Branch**
Tel: (+966) 11 2915490

**Hatten Branch**
Tel: (+966) 11 2145324

**Qurtobah Branch**
Tel: (+966) 11 8108059

**Al Yasmin Branch**
Tel: (+966) 11 2157590

### Hail

**Hail Branch**
Tel: (+966) 16 5712157

### AlKharj

**Al Kharj Branch**
Tel: (+966) 11 2935699

### Al-Jouf

**Al-Jouf Branch**
Tel: (+966) 14 6460315

### Qasim

**Buraidah Branch**
Tel: (+966) 16 3835310

**Onizah Branch**
Tel: (+966) 16 3629229

## Southern Region

### Khamis Mushait

**Khamis Mushait Branch**
Tel: (+966) 17 2216465

### Abha

**Abha Branch**
Tel: (+966) 17 2260798

### Najran

**Najran Branch**
Tel: (+966) 17 5236291

### Jazan

**Jazan Branch**
Tel: (+966) 17 4288749

**Abu Areesh Branch**
Tel: (+966) 17 3346477

خدمـــات تحـــويل الأمـــوال
Money Transfer Services

## Central Region

AL-Balad (Manila) Br. - 6102
Tel : (+966) 11 4044612 / 11 4094210

AL-Askary Br. - 6105
Tel : (+966) 11 4774889 / 11 4776472

AL-Morooj Br. - 6106
Tel : (+966) 11 2031861 / 11 2033058

Al-Khalidiya Br. - 6103
Tel : (+966) 11 4469290 / 11 4469281

Al-Kharj Br. - 6120
Tel : (+966) 11 5456467/ 11 5456476

Al-Mountazah Br. - 6107
Tel : (+966) 11 4083414 / 11 4083384

Al-Rawdah Br. - 6110
Tel : (+966) 11 2277506 / 11 2278447

Al-Sulimania Br. - 6104
Tel : (+966) 11 4539698 / 11 4006708

Al Badiah Br. - 6109
Tel : (+966) 11 4101890 / 11 4101878

Al Sulay Rìiyadh - 6113
Tel : (+966) 11 2415523 / 11 2415570

Anas Ibn Malek - Al Yasmine - 6115
Tel : (+966) 11 8120051 / 11 8120043

Industrial 2 - 6119
Tel : (+966) 11 8109653 / 11 8104209

Um Al Hammam Br. - 6117
Tel : (+966) 11 4824559 / 11 4824327

Al Yarmouk Br. - 6112
Tel : (+966) 11 8103904 / 11 8103905

Al-Shamaisi Br. - 6118
Tel : (+966) 11 8103242 / 11 8103198

Al Margab Br. - 6116
Tel : (+966) 11 4023424/ 11 4023430 / 11 4023435

Al Atyaf Mall Br. - 6131
Tel : (+966) 11 8102703 / 11 8103714

Villagio Mall Br. - 6130
Tel: : (+966) 11 8102480 / 11 8120085

## Eastern Region

Jubail - 6705
Tel : (+966) 13 3448685 / 13 3448760

Dammam Main - 6701
Tel : (+966) 13 8341347 / 13 8341976

Block 91– 6702
Tel : (+966) 13 8190049 / 13 8190058

Al Thouqba Br. - 6711
Tel : (+966) 13 8089747 / 13 8088319

Al Eisa Mall – Al-Khobar Br. - 6710
Tel : (+966) 13 8085173 / 13 8084917

Al-Jalaweyah Br. - 6703
Tel : (+966) 13 8172623 / 13 8172190

Al Akrabiah Br. - 6714
Tel : (+966) 13 8949425/ 13 8984349

Industrial 2 Br. - 6709
Tel : (+966) 13 8021859 / 13 8021910

Al Ahsa Br. - 6731
Tel : (+966) 13 5732775 / 13 5732774

Jubail - Industrial Br. - 6707
Tel : (+966) 13 3618118 / 13 3441119

Hafr Al Batin Br. - 6747
Tel : (+966) 13 7310049 / 13 7310151

Lulu Al Dammam Br. - 6704
Tel : (+966) 13 8321202 / 13 8309023

Sheraa Mall Br. - 6708
Tel : (+966) 13 8158001 / 13 8158027

Al Essa Mall - Khobar Br. - 6710
Tel : (+966) 13 8085173 / 13 8084917

## Western Region

Al- Balad – Jeddah Br. - 6301
Tel : (+966) 12 2899757 / 12 2905216

Heraa Br. - 6302
Tel : (+966) 12 6826902 / 12 6834007

Al- Bawadi Br. - 6303
Tel : (+966) 12 6558167 / 12 6056734

Taif Br. - 6330
Tel : (+966) 12 7322543 / 12 7327792

Al-Hamdaniyah Br. - 6311
Tel : (+966) 12 6070316 / 12 6071194

Yanbu Br. - 6347
Tel : (+966) 14 3572748 / 14 3573406

Al Medina Al Menwara Br. - 6340
Tel : (+966) 14 8280328 / 14 8280357

Al Salama Br. - 6304
Tel : (+966) 12 2861719 / 12 6058581

Al Sharafiah Br. - 6308
Tel : (+966) 12 6304023 / 12 6303762

Al Kakyah Br. - 6360
Tel : (+966) 12 5306986 / 12 5307034

Rabegh Br. - 6380
Tel : (+966) 12 4221246 / 12 4221247

Al Khumra Br. 6317
Tel : (+966) 12 2889951 / 12 2890126

## Southern Region

Abha Br. - 6605
Tel : (+966) 17 2255042 / 17 2255987

Khamis Musheit Br. - 6614
Tel: (+966) 17 2740534 / 17 2740535

Najran Br. - 6620
Tel : (+966) 17 5221846 / 17 5221993

Jizan Br. - 6646
Tel : (+966) 17 3220638 / 17 3220640

Bisha Br. 6618
Tel : (+966) 17 6231141 / 17 6231151

Baish Br.- 6661
Tel : (+966) 17 3340447 / 17 3340225

## Northern Region

Buraidah Br. Qaseem 6501
Tel : (+966) 16 3694869 / 16 3271294

Hail Br. - 6510
Tel : (+966) 16 5712482 / 16 5712476

Al Rass Br. - 6522
Tel : (+966) 16 3392670 / 16 3392680

Al Jouf Br.6570
Tel : (+966) 14 6222139 / 14 6222368 / 14 6222372

Tabuk Br. - 6580
Tel : (+966) 14 4216147 / 14 4221603

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

## Western and Southern Region

**Tahlia ( Jeddah)**
012-6098560

**Madina Monawara**
014-8451959

**Makkah Al-Mukarrama**
012-5571010 - EX 600

## Central Region

**King Fahd Road (Riyadh)**
011-2256000

**Ocbah Bin Nafee (Riyadh)**
011-2780486

**Al-Suwaidi (Riyadh)**
011-4288716

**Al-Riyan (Riyadh)**
011-2083385

## Eastern Region

**Al-Khubar Alhada**
013-8820040

**Qatif**
013-8545370

**Hafuf**
013-5861590

## Qassem Region

**Oniza**
016-3634615

**Buraida**
016-3835230

Aljazira Capital Toll free Number **8001169999**

الجزيرة تكافل
Aljazira Takaful

## Western Region

### Jeddah
Al Andalus Dist Madina Rd - South
(Mosaedia Center 3)
Tel: (+966) 12 6688877
Fax: (+966) 12 6677319

### Madinah
King Abdullah Rd.
AL- Rayah
Tel: (+966) 14 8318311

## Central Region

### Riyadh
AL-Dammam Rd., Al Yrmuk Dist.
Tel.: (+966) 11 2994555
Fax: (+966) 11 2784214 Ext : 381

## Eastern Region

### Khobar
King Saud Rd.
AL-Hadaa Dist.
Tel:(+966) 13 8821142

Takaful Ta'awuni Toll free Number **800 244 0959**

# Internal Control Statement

## Management Responsibility

Management is responsible for establishing and maintaining an adequate and effective internal control system. An Internal control system includes the policies, procedures and processes, which are designed under supervision of the Board of Directors (the Board) to achieve the strategic objectives of the Bank.

## Scope of Internal Audit Department

The scope of Internal Audit department, independent from line management, includes the assessment of the adequacy and effectiveness of the internal control system across the Bank, as well as to ensure the implementation of and compliance with all prescribed policies and procedures. All significant and material findings of Internal Audit assessments are reported to the Board audit committee of the Bank. The audit committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to improve the control environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the senior executive management, is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors. The Compliance function, through internal review procedures and branches physical inspections, ensures that the Bank is adhering to regulatory mandates and reflecting them into its policies and procedures.

## Evaluation and Assessment of the Effectiveness of the Internal Controls

The Banks' Internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal controls systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Management has adopted Internal Controls integrated framework as recommended by SAMA through its guidelines on Internal Controls.

Audit Committee also reviews the assessment report on the effectiveness of the internal control system, as prepared by the Internal Audit department of the Bank. The report on assessment of internal controls does not contain material weaknesses in the Bank's internal control framework which has not been adequately addressed by the management.

## Management Response on the Evaluation of Internal Controls

Based on the results of the ongoing evaluation of internal controls carried out by the Management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

## Board of Directors Response on the Evaluation of Internal Controls

Based on the above, the Board of Directors has duly endorsed Managements' evaluation of the internal control system, as prescribed by SAMA.

| Hani Noori | Abdulaziz Al-Zammam | Hamad Al-Essa |
|---|---|---|
| Chief Financial Officer | Chief Internal Audit Executive | Chief Compliance & AML |

# Sharia'h Supervisory Board's Annual Report 2022

Praise be to Allah, the Almighty, and Peace be upon Allah's Messenger Prophet Mohammed, his companions and all his followers.

**The Shareholders of Bank AlJazira,**

The Sharia'h Board of Bank AlJazira has reviewed and discussed the quarterly reports prepared by the Bank's Sharia Group which include, the results of auditing and inspection of the procedures used by the Bank based on randomly selected samples from all types of operations.

The Sharia Board has also reviewed the principles followed and contracts concluded relating to the transactions, applications and products launched by the Bank during the fiscal year 2022 to give the sharia opinion, the necessary fatwas, directions and decisions.

The responsibility for ensuring the Bank is operating in accordance with the rules and principles of Islamic Sharia'h lies with the executive management of the bank, whereas the Sharia'h Board's responsibility is restricted to providing an independent opinion based on its monitoring of the Bank's operations and presenting of this report to you.

We have done our auditing after having obtained all the necessary information and explanations which we considered necessary to provide reasonable assurance that the Bank did not violate the Sharia rules and principles of Islamic law, and It is our opinion that:

The contracts. Operations and transactions executed by the Bank during the period covered by the above-mentioned report are generally compliant with the rules of Islamic Sharia, and that the observations made on some of these operations do not materially affect the integrity thereof from the Sharia point of view. These instances were rectified by the management of the Bank,

The Sharia Supervisory Board would like to thank the Bank's sharia group and executive management for their dedication and cooperation.

May Allah guide us to the right path.

Assalamu'alaikum warahmatullahi wabarakatuh

| | |
|---|---|
| **Sheik Abdulla Bin Suleiman Al-Mane'e** | **Chairman** |
| **Sheik Dr. Abdullah Bin Mohammed Al-Mutlaq** | **Vice Chairman** |
| **Dr. Mohammed Bin Ali El-Gari** | **Member** |
| **Dr. Hamed Bin Hassan Merah** | **Member** |
| **Dr. Mohammed Bin Waleed AlSwaidan** | **Member** |
| **Dr. Fahad Bin Ali Al-Olayan** | **Rapporteur** |

# Financial Statements

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P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia
Telephone +966 (0)2 610 4400
Fax: +966 (0)2 610 4411

Building a better working world

Ernst & Young Professional Services
(Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
King's Road Tower, 13th Floor
King Abdul Aziz Road (Malek Road)
P.O. Box 1994, Jeddah 21441
Kingdom of Saudi Arabia
Head Office – Riyadh
C.R. No. 4030276644
Tel: +966 12 221 8400
Fax: +966 12 664 4408
ey.ksa@sa.ey.com

# Independent Auditors' Report
# To the Shareholders of Bank AlJazira
# (A Saudi Joint Stock Company)
# Report on the Audit of the Consolidated Financial Statements

## Opinion

We have audited the consolidated financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRSs that are endorsed in the Kingdom of Saudi Arabia").

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, a description of how our audit addressed the matter is provided in that context.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Expected credit loss allowance against financing
As at December 31, 2022, the gross financing of the Group was Saudi Riyals (“SAR”) 73,318 million (2021: SAR 65,072 million) against which an expected credit loss (”ECL”) allowance of SAR 2,719 million (2021: SAR 2,638 million) was maintained.
We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgment include:
<ol>
<li>Categorisation of financing into Stages 1, 2 and 3 based on the identification of:<br>(a) exposures with a significant increase in credit risk (“SICR”) since their origination; and<br>(b) individually impaired / defaulted exposures.<br>The Group has applied additional judgements to identify and estimate the likelihood of borrowers that may have experienced SICR due to the current economic outlook.</li>
<li>Assumptions used in the ECL model for determining probability of default (”PD”), loss given default (”LGD”) and exposure at default (”EAD”) including but not limited to assessment of financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages.</li>
<li>The need to apply post model overlays using expert credit judgement to reflect all relevant risk factors that might not have been captured by the ECL model.</li>
</ol>
Application of these judgements and estimates results in greater estimation uncertainty and the associated audit risk around ECL calculation as at 31 December 2022.
Refer to the significant accounting policy note 3 (c)(v) for the impairment of financial assets; note 2 (c)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7 which contains the disclosure of impairment against financing; and note 32.2 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.
</td><td>
<ul>
<li>We obtained and updated our understanding of management’s assessment of ECL allowance against financing including the Group’s internal rating model, accounting policy, model methodology including any key changes made during the year.</li>
<li>We compared the Group’s accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9.</li>
<li>We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant “IT” general and application controls) over:
<ul>
<li>the ECL model, including governance over the model, and any model updates performed during the period, including approval of the respective oversight committee of key inputs, assumptions and post model adjustments;</li>
<li>the classification of financing into stages 1, 2 and 3 and timely identification of SICR and the determination of default / individually impaired exposures;</li>
<li>the IT systems and applications supporting the ECL model; and</li>
<li>the integrity of data inputs into the ECL model.</li>
</ul></li>
<li>For a sample of customers, we assessed:
<ul>
<li>the internal ratings determined by management based on the Group’s internal rating model and considered these assigned ratings in light of external market conditions and available industry information. We also assessed that these were consistent with the ratings used as input in the ECL model; and</li>
<li>management’s computation of ECL;</li>
</ul></li>
<li>For selected customers, we assessed management’s assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.</li>
<li>We assessed the appropriateness of the Group’s criteria for the determination of SICR and identification of ”default” or ”individually impaired” exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group’s financing portfolio.</li>
<li>We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays, or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise.</li>
<li>We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios.</li>
<li>We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2022.</li>
<li>Where required, we involved our experts to assist us in reviewing model calculations, evaluating interrelated inputs (including EADs, PDs and LGDs) and assessing reasonableness of assumptions used in the ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in post model overlays.</li>
<li>We assessed the adequacy of disclosures in the consolidated financial statements.</li>
</ul>
</td></tr>
</table>

## Other Information included in the Bank's Annual Report

The Board of Directors of the Bank (the Directors) are responsible for the other information in the Bank's annual report. Other information consists of the information included in the Bank's 2022 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

## Responsibilities of Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

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

### PricewaterhouseCoopers Certified Public Accountants

P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia

**Mufaddal A. Ali**
Certified Public Accountant
License Number 447

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
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LICENSE NO.25
C.R.1010371622

### Ernst & Young Professional Services

P.O. Box 1994
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Kingdom of Saudi Arabia

**Rashid S. Roshod**
Certified Public Accountant
License Number 366

21 Rajab 1444H
(12 February 2023)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2022 AND 2021

| | Notes | 2022<br>SR'000 | 2021<br>SR'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Saudi Central Bank (SAMA) | 4 | **6,243,221** | 5,386,871 |
| Due from banks and other financial institutions, net | 5 | **1,688,803** | 663,502 |
| Investments, net | 6 | **34,634,053** | 31,433,805 |
| Positive fair value of Shari'ah compliant derivatives | 11 | **312,642** | 12,058 |
| Financing, net | 7 | **70,599,009** | 62,434,476 |
| Other assets | 8 | **581,039** | 1,021,343 |
| Investment in Investment in an associate | 9 | **217,871** | 211,143 |
| Other real estate, net | 7(h) | **505,785** | 507,743 |
| Property, equipment and right of use assets, net | 10 | **1,066,374** | 1,156,380 |
| **Total assets** | | **115,848,797** | 102,827,321 |
| **LIABILITIES AND EQUITY**<br>**LIABILITIES** | | | |
| Due to banks and other financial institutions | 12 | **12,116,687** | 6,410,080 |
| Customers' deposits | 13 | **86,022,839** | 78,365,149 |
| Negative fair value of Shari'ah compliant derivatives | 11 | **199,006** | 227,309 |
| Subordinated Sukuk | 14 | **2,002,819** | 1,994,685 |
| Other liabilities | 15 | 1,898,405 | 1,935,027 |
| **Total liabilities** | | 102,239,756 | 88,932,250 |
| **EQUITY** | | | |
| Share capital | 16 | **8,200,000** | 8,200,000 |
| Statutory reserve | 17 | **3,194,545** | 2,917,273 |
| Other reserves | 18 | **(755,297)** | (114,552) |
| Retained earnings | | 1,094,793 | 1,017,350 |
| Equity attributable to shareholders of the Bank | | **11,734,041** | 12,020,071 |
| Tier 1 Suku Tier 1 Sukuk | 19 | 1,875,000 | 1,875,000 |
| **Total Equity** | | **13,609,041** | 13,895,071 |
| **Total Liabilities and Equity** | | 115,848,797 | 102,827,321 |

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF INCOME

## FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021

| | Notes | 2022 SR'000 | 2021 SR'000 |
|---|---|---|---|
| Income from investments and financing | 21 | **3,915,651** | 3,126,423 |
| Return on deposits and financial liabilities | 21 | **(1,308,273)** | (409,286) |
| **Net financing and investment income** | | **2,607,378** | 2,717,137 |
| Fees from banking services - income | 22 | **960,184** | 1,008,960 |
| Fees from banking services - expense | 22 | **(472,102)** | (462,584) |
| Fees from banking services, net | | **488,082** | 546,376 |
| Exchange income, net | | **207,351** | 172,555 |
| Net gain / (loss) on fair value through statement of income (FVIS) financial instruments | 23 | **50,662** | (11,613) |
| Dividend income | 24 | **44,954** | 804 |
| Net gains on derecognition of financial assets at fair value through other comprehensive income (FVOCI) – debt | | **7,087** | 14,263 |
| Net gains on derecognition of financial assets at amortised cost | | **25,504** | 95,508 |
| Other operating income | 25 | **64,292** | 12,135 |
| **Total operating income** | | **3,495,310** | 3,547,165 |
| Salaries and employee-related expenses | 38 | **1,008,579** | 976,699 |
| Rent and premises-related expenses | | **54,214** | 56,197 |
| Depreciation and amortisation | 10 | **197,591** | 198,723 |
| Other general and administrative expenses | | **611,388** | 502,565 |
| Other operating expenses | | **47,594** | 35,705 |
| **Total operating expenses before impairment charge** | | **1,919,366** | 1,769,889 |
| Impairment charge for financing and other financial assets, net | 7(f) | **286,315** | 624,566 |
| Impairment charge for other real estate | 7(h) | **-** | 46,913 |
| **Total operating expenses** | | **2,205,681** | 2,441,368 |
| Net operating income | | **1,289,629** | 1,105,797 |
| Share in net income of an associate | 9 | **7,026** | 8,010 |
| Gain on deemed disposal of an associate | 9 | **-** | 39,390 |
| **Net income for the year before zakat and income tax** | | **1,296,655** | 1,153,197 |
| **Zakat and income tax:** | | | |
| Zakat | 27 | **(178,839)** | (138,407) |
| Income tax | 27 | **(8,728)** | (8,714) |
| **Net income for the year** | | **1,109,088** | 1,006,076 |
| **Basic and diluted earnings per share (expressed in SR per share)** | 26 | **1.26** | 1.18 |

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021

| | Notes | 2022<br>SR'000 | 2021<br>SR'000 |
|---|---|---|---|
| **Net income for the year** | | **1,109,088** | 1,006,076 |
| **Other comprehensive loss:** | | | |
| ***Items that will be reclassified to consolidated statement of income in subsequent years:*** | | | |
| Cash flow hedges: | | | |
| - Effective portion of change in the fair value | 18 | **260,243** | 63,847 |
| - Net amount transferred to consolidated statement of income | 18 | **(80,117)** | (12,100) |
| Net changes in fair value of investments classified as at FVOCI- debt | 18 | **(747,246)** | (78,509) |
| ***Items that will not be reclassified to consolidated statement of income in subsequent years:*** | | | |
| Net changes in fair value of investments classified as at FVOCI- equity | 18 | **(81,637)** | - |
| Re-measurement gains on employee benefit obligation | 18 | **8,012** | 11,786 |
| **Total other comprehensive loss for the year** | | **(640,745)** | (14,976) |
| **Total comprehensive income for the year** | | **468,343** | 991,100 |

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021

| | Notes | Share capital SR'000 | Statutory reserve SR'000 | Other reserves SR'000 | Retained earnings SR'000 | Total shareholders' equity SR'000 | Tier 1 Sukuk SR'000 | Total Equity SR'000 |
|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | |
| **Balance at January 1, 2022 (audited)** | | **8,200,000** | **2,917,273** | **(114,552)** | **1,017,350** | **12,020,071** | **1,875,000** | **13,895,071** |
| Impact of adjustment | 3(a)(i) | **-** | **-** | **-** | **(61,073)** | **(61,073)** | **-** | **(61,073)** |
| **Balance at January 1, 2022 (audited)-restated** | | **8,200,000** | **2,917,273** | **(114,552)** | **956,277** | **11,958,998** | **1,875,000** | **13,833,998** |
| Net income for the year | | **-** | **-** | **-** | **1,109,088** | **1,109,088** | **-** | **1,109,088** |
| Other comprehensive loss for the year | | **-** | **-** | **(640,745)** | **-** | **(640,745)** | **-** | **(640,745)** |
| Total comprehensive income for the year | | **-** | **-** | **(640,745)** | **1,109,088** | **468,343** | **-** | **468,343** |
| Transfer to statutory reserve | **17** | **-** | **277,272** | **-** | **(277,272)** | **-** | **-** | **-** |
| Tier 1 Sukuk issuance cost | | **-** | **-** | **-** | **(946)** | **(946)** | **-** | **(946)** |
| Tier 1 Sukuk related costs | | **-** | **-** | **-** | **(77,354)** | **(77,354)** | **-** | **(77,354)** |
| 2021 final dividend | **28** | **-** | **-** | **-** | **(287,000)** | **(287,000)** | **-** | **(287,000)** |
| 2022 interim dividend | **28** | **-** | **-** | **-** | **(328,000)** | **(328,000)** | **-** | **(328,000)** |
| **Balance at December 31, 2022** | | **8,200,000** | **3,194,545** | **(755,297)** | **1,094,793** | **11,734,041** | **1,875,000** | **13,609,041** |

| | Notes | Share capital SR'000 | Statutory reserve SR'000 | Other reserves SR'000 | Retained earnings SR'000 | Total shareholders' equity SR'000 | Tier 1 Sukuk SR'000 | Total Equity SR'000 |
|---|---|---|---|---|---|---|---|---|
| **2021** | | | | | | | | |
| **Balance at January 1, 2021 (audited)** | | 8,200,000 | 2,665,754 | (99,576) | 598,321 | 11,364,499 | - | 11,364,499 |
| Net income for the year | | - | - | - | 1,006,076 | 1,006,076 | - | 1,006,076 |
| Other comprehensive loss for the year | | - | - | (14,976) | - | (14,976) | - | (14,976) |
| Total comprehensive income for the year | | - | - | (14,976) | 1,006,076 | 991,100 | - | 991,100 |
| Transfer to statutory reserve | 17 | - | 251,519 | - | (251,519) | - | - | - |
| Tier 1 Sukuk issued | 19 | - | - | - | - | - | 1,875,000 | 1,875,000 |
| Tier 1 Sukuk issuance cost | | - | - | - | (9,213) | (9,213) | - | (9,213) |
| Tier 1 Sukuk related costs | | - | - | - | (39,315) | (39,315) | - | (39,315) |
| 2021 interim dividend | 28 | - | - | - | (287,000) | (287,000) | - | (287,000) |
| **Balance at December 31, 2021** | | 8,200,000 | 2,917,273 | (114,552) | 1,017,350 | 12,020,071 | 1,875,000 | 13,895,071 |

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021

| | Notes | 2022 SR'000 | 2021 SR'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net income for the year before zakat and income tax** | | **1,296,655** | 1,153,197 |
| **Adjustments to reconcile net income to net cash from operating activities:** | | | |
| Net (gain) / loss on FVIS financial instruments | | **(43,707)** | 7,739 |
| Depreciation and amortisation | 10 | **197,591** | 198,723 |
| Dividend income | | **(37,651)** | - |
| Gain on investments held at amortised cost and FVOCI, net | | **(32,591)** | (109,771) |
| Net (gain) / loss on disposal / write off of property and equipment | | **(47,687)** | 8,639 |
| Provision for end of service benefit obligations | | **41,350** | 55,299 |
| Impairment charge for financing and other financial assets, net | 7(f) | **286,315** | 624,566 |
| Impairment charge for other real estate | 7(h) | **-** | 46,913 |
| Share in net income of an associate | 9 | **(7,026)** | (8,010) |
| Gain on deemed disposal of an associate | 9 | **-** | (39,390) |
| Return on subordinated sukuks | | **82,080** | 26,738 |
| | | **1,735,329** | 1,964,643 |
| **Net (increase) / decrease in operating assets:** | | | |
| Statutory deposit with SAMA | | **(341,128)** | (711,459) |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | | **(945,670)** | - |
| Investments held at FVIS | | **(850,235)** | 181,323 |
| Positive fair value of Shari'ah compliant derivatives | | **(300,584)** | 123,166 |
| Financing | | **(8,497,606)** | (9,061,505) |
| Other real estate | | **1,958** | (80,235) |
| Other assets | | **457,095** | (392,975) |
| **Net increase / (decrease) in operating liabilities:** | | | |
| Due to banks and other financial institutions | | **5,706,607** | (2,120,116) |
| Customers' deposits | | **7,657,690** | 10,361,537 |
| Negative fair value of Shari'ah compliant derivatives | | **(28,303)** | (88,936) |
| Other liabilities | | **235,207** | 23,419 |
| | | **4,830,360** | 198,862 |
| Zakat and income tax paid | | **(251,111)** | (94,497) |
| End of service benefits paid | | **(30,803)** | (33,938) |
| **Net cash generated from operating activities** | | **4,548,446** | 70,427 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sales and maturities of investments held at amortised cost and FVOCI | | **7,097,300** | 3,309,166 |
| Purchase of investments held at amortised cost and FVOCI | | **(10,212,762)** | (4,992,662) |
| Dividend received | | **37,651** | - |
| Acquisition of property and equipment | 10 | **(203,917)** | (146,710) |
| Proceeds from sale of property and equipment | | **158,217** | 233 |
| **Net cash used in investing activities** | | **(3,123,511)** | (1,829,973) |
| **FINANCING ACTIVITIES** | | | |
| Issue of Tier 1 Sukuk | 19 | **-** | 1,875,000 |
| Issue of Tier 2 subordinated sukuk | 14 | **-** | 2,000,000 |
| Repayment of Tier 2 subordinated Sukuk | | **-** | (2,000,000) |
| Payment of sukuk related transactions costs | | **(4,076)** | (13,444) |
| Payment of return on Tier 1 and Tier 2 sukuks | | **(149,590)** | (65,140) |
| Dividends paid | | **(591,423)** | (276,485) |
| Payment for principal portion of lease liabilities | | **(82,062)** | (96,692) |
| **Net cash (used in) / generated from financing activities** | | **(827,151)** | 1,423,239 |
| **Net change in cash and cash equivalents** | | **597,784** | (336,307) |
| Cash and cash equivalents at the beginning of the year | | **1,740,036** | 2,076,343 |
| **Cash and cash equivalents at the end of the year** | 29 | **2,337,820** | 1,740,036 |
| Income from investments and financing received during the year | | **3,489,377** | 2,981,782 |
| Return on deposits and financial liabilities paid during the year | | **974,431** | 504,430 |
| **Supplemental non-cash information** | | | |
| Net changes in fair value of cash flow hedges and transfers to the consolidated statement of income | | **180,126** | 51,747 |

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2022

### 1. GENERAL

These financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 82 branches (2021: 81 branches) and 54 Fawri Remittance Centres (2021: 62 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2,421 staff as of December 31, 2022 (2021: 2,420 staff). The Bank's Head Office is located at the following address:

Bank AlJazira
7724 King Abdulaziz Road - Al-Shatea District
Jeddah 23513 - 3551
P.O. Box 6277, Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on Saudi Exchange (Tadawul) in the Kingdom of Saudi Arabia.

The details of the Bank's subsidiaries are as follows:

| | Country of incorporation | Nature of business | Ownership (direct and indirect) December 31, 2022 | Ownership (direct and indirect) December 31, 2021 |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| AlJazira Capital Company | Kingdom of Saudi Arabia | Brokerage, margin financing and asset management | 100% | 100% |
| Aman Development and Real Estate Investment Company | Kingdom of Saudi Arabia | Holding and managing real estate collaterals on behalf of the Bank | 100% | 100% |
| Aman Insurance Agency Company (under liquidation – note (a) below) | Kingdom of Saudi Arabia | Acting as an agent for bancassurance activities on behalf of the Bank | 100% | 100% |
| AlJazira Securities Limited | Cayman Islands | Carry out Shari'ah compliant derivative and capital market transactions | 100% | 100% |
| BAJ Sukuk Tier 1 Limited | Cayman Islands | Trustee for issuance of Tier 1 capital certificates | 100% | 100% |

a) During financial year 2021, Aman Insurance Agency Company (the Company) applied for its license renewal from Saudi Central Bank ("SAMA"), however, it was not renewed, as SAMA had issued rules governing bancassurance activities during May 2020 which require the banks to carry out Bancassurance business directly. This, as a result, restricted the ability of the Company to carry out business activities and therefore, management of the Company decided to initiate the winding up procedures which are in process as at 31 December 2022.

b) The Group invests in structured entities with the objective to resell the investment in a short period after the establishment. Structured entities are consolidated when the relationship between the Group and the structured entity indicates that the Group has power over the relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure. In other cases, the Group may sponsor or have exposure to such an entity but not consolidate the entities.

   As at 31 December 2022, the Group has a substantial ownership in these entities amounting to SR 976.23 million. For all these investments, the Group analyses whether and to what extent it controls the investee and any underlying entities. A material structured entity is consolidated into the Group's financial statements where the Group controls the structured entity, as per the determination above criteria. As at 31 December 2022, Group's investments in material structured entities do not meet the above criteria of control. Accordingly, such investments are recorded as fair value through statement of income (FVIS) into these consolidated financial statements.

The details of the Bank's associate is as follows:

| | Country of incorporation | Nature of business | Ownership (direct and indirect) December 31, 2022 | Ownership (direct and indirect) December 31, 2021 |
|---|---|---|---|---|
| **Associate** | | | | |
| AlJazira Takaful Ta'awuni Company | Kingdom of Saudi Arabia | Fully Shari'ah compliant protection and saving products | **26.03%** | 26.03% |

## 2. BASIS OF PREPARATION

### a) Basis of preparation

**i. Statement of compliance**

These consolidated financial statements of the Group as at and for the year ended 31 December 2022 and 31 December 2021, respectively, have been prepared;

- in compliance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"), and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

**ii. Basis of measurement and presentation**

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held as Fair Value through Income Statement (FVIS), Fair Value through Other Comprehensive Income (FVOCI) and liabilities for employee benefit obligations carried at present values of future cashflows calculated using Projected Unit Credit Method. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

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

**iii. Functional and presentation currency**

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of all the subsidiaries of the Bank is the Saudi Arabian Riyal (SR) except for AlJazira Securities Limited whose functional currency is US Dollars.

### b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**i. Subsidiaries**

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met:

a) the Group has power over an entity;
b) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
c) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

**ii. Non-controlling interests**

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**iii. Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**iv. Investment in an associate**

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost-plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains / (losses) based on the latest available financial information) less impairment, if any.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'share in net income / (loss) of an associate' in the consolidated statement of income.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

## c) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2022 about future events that the Group believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement and the assessment of the recoverable amount of non-financial assets.

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

i. Business model for managing financial assets (note 3(c)(i)(a))
ii. Contractual cashflows of financial assets (note 3(c)(i)(b))
iii. Classification of financial assets (note 3(c)(i))
iv. Impairment losses on financial assets (note 2(c)(i))
v. Fair value measurement (note 2(c)(ii))
vi. Impairment of non-financial assets (note 2(c)(iii))
vii. Determination of control over investees (note 2(c)(iv))
viii. Provisions for liabilities and charges (note 2(c)(v))
ix. Going concern (note 2(c)(vi))
x. Employee benefit obligation (note 2(c)(vii))
xi. Depreciation and amortisation (note (3)(l))
xii. Government grant (note 3(i))
xiii. Judgement of equity vs liability for Tier 1/2 Sukuk (note 2(c)(viii))
xiv. Lease liability (note (3)(p))

i. **Impairment losses on financial assets**

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

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

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

ii. **Fair value of financial instruments**

The Group measures the financial instruments, such as derivatives, financial instruments held at fair value through income statement (FVIS) and fair value through other comprehensive income (FVOCI), at their fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 6 (c) and note 36 (b).

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 in the principle or, in its absence, the most advantageous market to which the Group has access at that date. The Fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses the valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

A fair value measurement of a non-financial asset considers 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.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data
- Level 3 — Inputs that are unobservable. This category include all instruments for which the valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised in the consolidated financial statements 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 reporting period.

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

iii. **Impairment of non-financial assets**

The carrying amounts of non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

Other real estates are revalued through independent real estate evaluators on a periodic basis and any unrealised losses on revaluation are recognised in the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**iv Determination of control over investment funds**

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the 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.

**v Provisions for liabilities and charges**

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

**vi Going concern**

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

**vii. Employee Benefit Obligation**

The Group operates an end of service benefit plan (the plan) for its employees based on the prevailing Saudi Labour laws. The liability for the plan is estimated in accordance with International Accounting Standard (IAS) 19 – Employee Benefits as endorsed in the Kingdom of Saudi Arabia, by a qualified actuary based on various assumptions. The key assumptions used to estimate the plan liability at the year end, are disclosed in note 30 to these consolidated financial statements.

**viii Judgement of equity vs liability for Tier 1/2 Sukuk**

The determination of equity classification of Tier 1 Sukuk requires significant judgement as certain clauses of the Offering Circular require interpretation. The Group classifies as part of equity the Tier 1 Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Group for payment of profit upon the occurrence of a non-payment event or non-payment election by the Bank subject to certain terms and conditions and essentially mean that the remedies available to sukuk holders are limited in number and scope and very difficult to exercise. The related initial costs and distributions thereon are recognized directly in the consolidated statement of changes in equity under retained earnings.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2021. Based on the adoption of new standard, interpretations and in consideration of current economic environment, the following accounting policies and treatments are applicable effective January 1, 2022 replacing, amending or adding to the corresponding accounting policies set out in 2021 annual consolidated financial statements.

**(i) Implication of change in accounting treatment**

During the year, the Group carried out a reassessment of the timing of the recognition of fee received in connection with its financing portfolio. Accordingly, the Group has analysed whether any such fee is an integral component of the effective profit rate of the corresponding financial asset via consideration of factors such as provision of distinct service or product, presence of a separate performance obligation and related contract costs. As a result, the Group has identified certain fees that are required to be adjusted to the amortised cost of the related financing. The impact of such adjustment in prior periods has been determined to be insignificant in relation to the financial statements as a whole. Therefore, the identified fees has been adjusted from the carrying value of financing, net with a corresponding debit to retained earnings as at 1 January 2022, amounting to SR 61.07 million.

**(ii) New standards, interpretations and amendments adopted by the Group**

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Following standard, interpretation or amendment are effective from the current year and are adopted by the Group, however, the management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

| Standard, interpretation, amendments | Description | Effective date |
|---|---|---|
| Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient | As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. | Annual periods beginning on or after 1 April 2021 |
| A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 | Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.<br>Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.<br>Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.<br>Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'. | Annual periods beginning on or after 1 January 2022. |

**(iii) Accounting standards issued but not yet effective**

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments and revisions which are effective from periods on or after January 1, 2023. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Group.

| Standard, interpretation, amendments | Description | Effective date |
|---|---|---|
| Amendments to IAS 1, Presentation of financial statements', on classification of liabilities | These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.<br>Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.<br>Note that the IASB has issued a new exposure draft proposing changes to this amendment. | Deferred until accounting periods starting not earlier than 1 January 2024 |
| Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 | The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. | Annual periods beginning on or after 1 January 2023 |
| Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction | These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. | Annual periods beginning on or after 1 January 2023. |
| IFRS 17, 'Insurance contracts', as amended in December 2021 | This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. | Annual periods beginning on or after 1 January 2023. |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of Assets between an Investor and its Associate or Joint Ventures | Available for optional adoption/effective date deferred indefinitely |

## b) Trade date accounting

All regular-way purchases and sales of financial assets are initially recognised and derecognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

## c) Financial assets and financial liabilities

**i. Classification of financial assets**

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVIS.

**Financial asset at amortised cost**

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

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

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

Income is recognised on an effective yield basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in the consolidated statement of income.

Debt instruments that are measured at amortised cost are subject to impairment.

**Financial assets at FVOCI**

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

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

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

**Equity instruments:** On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in consolidated other comprehensive income (OCI). This election is made on an investment-by-investment basis.

Investments in debt instruments as FVOCI are initially measured at fair value plus transaction costs. These are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI and recycled to consolidated statement of income at the time of sale. Income from investments and financing and foreign exchange gains and losses are recognised in consolidated statement of income.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gains and losses on such equity instruments are never reclassified to the consolidated statement of income and no impairment is recognised in the consolidated statement of income. Investments in unquoted equity instruments are measured at fair value. The cumulative gains or losses will not be reclassified to the consolidated statement of income on disposal of the investments.

On initial recognition the Group designates all investments in equity instruments that are not FVIS as FVOCI.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividend is established, unless the dividend clearly represent a recovery of part of the cost of the investment.

**Financial asset at FVIS**

All other financial assets are classified as measured at FVIS (for example: equity held for trading and debt securities classified neither as amortised cost nor FVOCI).

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

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

Financial assets at FVIS are measured at fair value at the end of each reporting period, with any gains or losses arising on measurement recognised in the consolidated statement of income.

Commission income on debt instruments as FVIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments as FVIS is recognised in the consolidated statement of income when the Group's right to receive the dividend is established.

***a) Business model assessment***

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

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

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

  The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

***b) Assessments whether contractual cash flows are solely payments of principal and Profit (SPPI)***

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

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

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

**Designation at fair value through income statement**

At initial recognition, the Group may designate certain financial assets at FVIS if this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

**ii. Classification of financial liabilities**

Financial liabilities are classified as measured at amortized cost or FVIS. The Group classifies its financial liabilities, other than financial guarantees and credit related commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Yield Rate (EIR).

All money market deposits, customer deposits, term financing, subordinated debts and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at fair value through income statement as per the requirements of IFRS 9. A liability is classified at FVIS if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities classified as FVIS using fair value option, if any, after initial recognition, for such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI and all other fair value changes are presented in the consolidated statement of income.

Amounts in OCI relating to own credit are not recycled to the consolidated statement of income even when the liability is derecognized and the amounts are realized.

Financial guarantees and credit related commitments that Group choose to measure at fair value through income statement (FVIS) will have all fair value movements recognized in consolidated statement of income.

**Designation at fair value through income statement**

The Group may designate certain financial liabilities as FVIS in either of the following circumstances:

a) the liabilities are managed, evaluated and reported internally on a fair value basis; or
b) the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**iii. Derecognition**

***Financial assets***

The Group derecognises a financial asset, such as a financing to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financings are classified as Stage 1 for ECL measurement purposes, unless the new financing is deemed to be POCI.

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

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

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

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

**Financial liabilities**

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

**iv. Modifications of financial assets and financial liabilities**

***Financial assets***

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

a) Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
b) Other fees are included in profit or loss as part of the gain or loss on derecognition.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset using the original effective profit rate of the asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of income. For floating-rate financial assets, the original effective profit rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs of fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

***Financial liabilities***

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

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognized in consolidated statement of income. For financial liabilities, the Group considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

**v. Impairment**

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;
- lease / Ijarah receivables;
- financial guarantee contracts issued; and
- credit related commitments issued.
- bank balances

No impairment loss is recognized on FVOCI equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as 'Stage1' financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which the lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

***Measurement of ECL***

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

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

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and Ijarah receivables: the original effective profit rate or an approximation thereof;
- POCI assets: a credit-adjusted effective profit rate
- Ijarah receivables: the discount rate used in measuring Ijarah receivables.
- Undrawn credit related commitments: the effective profit rate, or an approximation thereof, that will be applied to the financial asset resulting from the credit related commitment; and
- Financial Guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

***Restructured financial assets***

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

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective yield rate of the existing financial asset.

***Credit-impaired financial assets***

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

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

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

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

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

- the market's assessment of creditworthiness as reflected in the sukuk yields.
- the rating agencies' assessments of creditworthiness.

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

***POCI financial assets***

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective profit rate on initial recognition. Consequently, POCI assets do not carry impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

***Credit cards and other revolving facilities***

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. ECL estimation is based on expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates the ECL for facilities within these products as per the actual remaining maturity of the facilities for stage 2 and 3 customers, and capped to twelve month maturity for stage 1 customers. The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products, primarily based on delinquency-based criteria.

The profit rate used to discount the ECL for credit cards is based on the average effective profit rate that is expected to be charged over the expected period of exposure to the facilities. The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and retail products.

***Presentation of allowance for ECL in the consolidated statement of financial position***

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- credit related commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the credit related commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision under "other liabilities"; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in consolidated statement of income and changes between the amortised cost of the assets and their fair value are recognised in OCI.

***Write-off***

Financing and debt securities are written off (either partially or fully) when there is no reasonable expectation of recovering a financial asset in its entirely or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual assets level. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Recoveries of amounts previously written off are recognised when the cash is received and are included in "Impairment charge for financing and other financial assets, net" in the statement of income

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due."

***Collateral valuation***

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

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

### d) Financial guarantees, letters of credit and financing commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

The premium received is recognised in the income statement in Fees from banking services, net on a straight line basis over the life of the guarantee.

'Financing commitments and letters of credit' are firm commitments under which, over the duration of the commitments, the Group is required to provide credit under pre-specified terms and conditions Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and financing commitments, where the financing agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL is recorded.

Financial guarantees issued or letters of credit and commitments to provide a financing at a below-market profit rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or letters of credit and the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance.

The Group has issued no credit related commitments that are measured at FVIS. For other credit related commitments the Group recognizes loss allowance as a provision under "other liabilities".

### e) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, profit rate swaps and profit rate options (both written and purchased) are initially measured at their fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

#### i. Derivatives held for trading

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

#### ii. Embedded derivatives

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

a) the host contract is not an asset in the scope of IFRS 9;

b) the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and

c) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value with all changes in fair value recognized in consolidated statement of income unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

#### iii. Hedge Accounting

As permitted by the IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to profit rates and foreign currencies. In order to manage risks, the Group applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into following two categories:

a) Fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the statement of income in 'net gain on FVIS financial instruments'. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

**Fair Value Hedges**

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

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

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

- **Micro fair value hedges**

A fair value hedge relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for profit rate risk in a micro fair value hedge relationship include fixed rate corporate and small business financings, fixed rate debt instruments at FVOCI and fixed rate issued long-term deposits. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis. If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement. For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at FVOCI, changes in fair value that were recorded in the income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the statement of financial position, the fair value hedge adjustments are transferred from the income statement to OCI. There were no such instances in either the current year or in the comparative year.

- **Portfolio (macro) fair value hedges**

The Group applies macro fair value hedging to its fixed rate mortgages. The Group determines hedged items by identifying portfolios of homogenous financings based on their contractual profit rates, maturity and other risk characteristics. Financings within the Identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments (pay fix/receive floating rate profit rate swaps) are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed financings due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

The aggregated fair value changes in the hedged financings are recognised as an asset in the Fair value hedge accounting adjustment on the face of the Statement of financial position. Should hedge effectiveness testing highlight that movements for a particular bucket fall outside the 80-125% range (i.e., the hedge relationship was ineffective for the period), no fair value hedge accounting adjustment is recorded for that month for that particular bucket. Regardless of the results of the retrospective hedge effectiveness testing, at the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Group voluntarily de-designates the hedge relationships and re-designates them as new hedges. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the original hedged life. The Group has elected to commence amortisation at the date of de-designation. IBOR reform Phase 2 provide relief for items within a designated group of items such as those forming part of the Group's macro fair value hedging strategy, that are amended as a result of IBOR reform. The reliefs allow the Group's hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, the Group transfers them to sub-groups of instruments that reference RFRs as the hedged risk.

**Cash flow hedges**

For designated and qualifying cash flow hedging, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly under "other reserve" in consolidated statement of comprehensive income and the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged item affects the consolidated statement of income. However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in consolidated statement of comprehensive income is transferred immediately to the consolidated statement of income.

In accordance with risk management policies, the Group manages its cash flow profit rate risk on an entity-wide basis as well as variability of profit rate on Wakala floating rates notes. The Group designate profit rate swaps as hedging instrument against the cash flow risk resulting from a change in profit rates that occurs up to the repricing of the swap.

The Group first assesses forecasting of the "net cash flow" exposures from existing yield bearing assets and liabilities, including the rollover of short-term assets and short-term liabilities. This is mainly achieved through yield sensitivity gap. During forecasting of the net cash flows, the Group take into account historic information and market trends for withdrawal of deposits, yield rates and refinancing's and repricing's. The net cash flows are then compared with existing hedging positions to provide a basis for considering whether adjustment of the hedging relationship should be made.

The notional amounts of the profit rate swaps that are outstanding at the analysis date are included in each of the periods in which the profit rate swaps are outstanding to assess the impact of the outstanding profit rate swaps on the identified cash flow exposures. While a portion of the forecast transaction is no longer being hedged, the profit rate swap is not de-designated, and it continues to be a hedging instrument for the remaining transactions in the series that have not occurred. However, if the next forecast transaction does not occur until specified period, the remaining after the repricing of the profit rate swap, is not hedged.

The Group designates the hedging relationship in a manner that also consider the extent to which ineffectiveness is expected to be recognised for accounting purposes. The hedged exposure percentage is computed as the ratio of the notional amount of the receive-fixed, pay-variable swaps that are outstanding divided by the gross exposure. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in "trading income, net". For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedge transactions affect the consolidated statement of income.

## f) Foreign Currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals (SR) at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SR at exchange rates prevailing at the reporting date.

Foreign exchange gains or losses from settlement of transactions and translation of year end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in other comprehensive income depending on the underlying financial asset.

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

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non- monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

## g) Offsetting financial instruments

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

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

## h) Revenue / expense recognition

***Income from investments and financing and Return on deposits and financial liabilities***

Revenue and expenses related to profit bearing financial instruments are recognized in consolidated statement of income using the effective yield method. The 'effective yield rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability.

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

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

***Measurement of amortized cost***

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

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

In calculating revenue and expenses related to profit bearing financial instruments, the effective yield rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

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

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

When the Group enters into a profit rate swap to change profit from fixed to floating (or vice versa), the amount of revenue and expenses related to profit bearing financial instruments is adjusted by the net profit on the swap to the extent the hedge is considered to be effective.

***Exchange income / (loss)***

Exchange income / (loss) is recognised when earned / incurred as disclosed in note 3(f).

***Fees from banking services***

Fee income and expense from banking services that are integral to the effective yield rate on a financial asset or financial liability are included in the effective yield rate.

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

Other fee expense on banking services relate mainly to transaction and service fees, which are expensed as the services are received.

***Rendering of services***

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

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

***Customer Loyalty Program***

The Bank offers customer loyalty program (reward points / air miles herein referred to as "reward points"), which allows card members to earn points that can be redeemed for certain partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative standalone selling price. The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

The cumulative amount of contract liability related to unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

***Trading income / (loss), net***

Net income from other financial instruments at FVIS relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVIS and non-trading assets mandatorily measured at FVIS. The line item includes fair value changes, financing and investment income, dividends and foreign exchange differences.

***Dividend income***

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

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

## i) Government grant

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

## j) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risk and rewards of the ownership and are measured in accordance with related accounting policies for investments designated as FVIS, FVOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowings and counterparty liabilities and amounts received under these agreements are included in "Due to banks and other financial institutions", or "customers' deposits", as appropriate. The difference between the sale and repurchase price is treated as Return on deposits and financial liabilities and is accrued over the life of the repo agreement using the effective yield rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "financing", as appropriate. The difference between the purchase and resale price is treated as income from investments and financing and is accrued over the life of the reverse repo agreement using the effective yield rate.

## k) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate against settlement of due financing. Such real estate are considered as assets held for sale and are initially stated at the lower of the net realizable value of due financing and the current fair value of related properties, less any costs to sell. No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to the initial recognition, such real estate is revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

## l) Property and equipment

Property and equipment are measured at cost less accumulated depreciation / amortisation and accumulated impairment loss. Changes in the expected useful life are accounted by changing the period or method, as appropriate, and treated as changes in accounting estimates. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

Freehold land is not depreciated. The cost of property and equipment is depreciated / amortised using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings | 33 years |
| Leasehold improvements | 10 to 24 years or over the lease period, whichever is shorter |
| Furniture, equipment and vehicles | 4 to10 years |
| Computer softwares and automation projects | 4 to 10 years |

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

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

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

## m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Bank purchases the Bank's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Bank as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the owners of the Bank.

Shares held by the Bank are disclosed as treasury shares and deducted from contributed equity.

## n) Deposits, debt securities issued and subordinated liabilities

When the Group designates a financial liability as at FVIS, the amount of change in the fair value of the liability that is attributable to changes in its own credit risk is presented in consolidated other comprehensive income (OCI) as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

a) the expected changes in the fair value of the liability related to changes in the credit risk; with
b) the impact on profit or loss of expected changes in fair value of the related instruments.

## o) Provisions

Provisions (other than provisions for credit losses) are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources, embodying economic benefits will be required to settle the obligation.

## p) Accounting for leases

**i. Where the Group is the lessee**

***Right of use asset / lease liabilities***

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

***Right of use assets***

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities for lease modifications. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. Right-of-use assets are subject to impairment.

***Lease liability***

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of finance cost and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**ii. Where the Group is the lessor**

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (Ijarah) the present value of the lease payments is recognised as a receivable and disclosed under "financing, net". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

## q) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair values. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position

## r) Employees' benefits

***Defined unfunded benefit plan***

End-of-service benefits as required by Saudi Arabia Labour Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plan ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on high quality corporate bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligations.

The defined benefit liability comprises the present value of defined benefit obligations as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. The liability is included in 'other liabilities' in the consolidated statement of financial position.

***Short term benefits***

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## s) Zakat and income tax

***Income tax***

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

***Withholding tax***

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the ZATCA on a monthly basis.

***Value Added Tax (VAT)***

Output VAT related to revenue is payable to tax authorities on the earlier of:

(a) collection of receivables from customers or

(b) delivery of services to customers.

Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales/services and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and a liability. Where provision has been made for ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

VAT that is not recoverable is charged to the statement of income as expense

***Deferred income tax***

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognized.

***Zakat***

The Group is subject to Zakat in accordance with the regulations of Zakat, Tax and Customs Authority ("ZATCA"). Zakat is charged to the consolidated statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to Zakat.

### t) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements.

The financial statements of investment management mutual funds are not included in these consolidated financial statements of the Group. Transactions with the Funds' are disclosed under related party transactions. The Group's share of these Funds', if any, are included in FVIS investments.

### u) Shari'ah compliant (non-interest based) banking products

The Bank offers its customers Shari'ah compliant (non-interest based) banking products, which are approved by its Shari'ah Board, as follows:

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

Ijarah is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on the customer's promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

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

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Sukuk are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these consolidated financial statements.

## 4. CASH AND BALANCES WITH SAMA

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| Cash in hand | **860,484** | 969,993 |
| Wakala placement with SAMA | **729,726** | 104,995 |
| Cash and cash equivalents (note 29) | **1,590,210** | 1,074,988 |
| Statutory deposit with SAMA | **4,653,011** | 4,311,883 |
| **Total** | **6,243,221** | 5,386,871 |

In accordance with the Article 7 of 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 demand, time and other deposits, calculated on monthly averages at the end of each reporting period (see note 35). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

## 5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| Current accounts | **728,827** | 648,157 |
| Money market placements | **56,822** | 16,891 |
| Reverse repos | **907,631** | - |
| | **1,693,280** | 665,048 |
| Less: impairment allowance (note (b) below) | **(4,477)** | (1,546) |
| **Total** | **1,688,803** | 663,502 |

The money market placements and reverse repos represent funds placed on Shari'ah compliant (non-interest based) basis as follows.

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| Money market placements - Commodity murabaha | 56,822 | 16,891 |
| Reverse repos - Wa'ad | **907,631** | - |
| | **964,453** | 16,891 |

a) The following table explains changes in gross carrying amount of the due from banks and other financial institutions to help explain their significance to the changes in the loss allowance for the same portfolio.

| | **2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Gross carrying amount as at 1 January 2022** | **661,832** | **-** | **3,216** | **665,048** |
| Transfer to 12-month ECL | **3,216** | **-** | **(3,216)** | **-** |
| New financial assets originated | **899,888** | **-** | **-** | **899,888** |
| Financial assets derecognised during the period other than write-offs | **(7,164)** | **-** | **-** | **(7,164)** |
| Changes in accrued profit | **8,187** | **-** | **-** | **8,187** |
| Other movements | **127,321** | **-** | **-** | **127,321** |
| **Gross carrying amount as at 31 December 2022** | **1,693,280** | **-** | **-** | **1,693,280** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2021 | 279,628 | 146,181 | 2,664 | 428,473 |
| Transfer to 12-month ECL | 146,181 | (146,181) | - | - |
| New financial assets originated | 168,087 | - | - | 168,087 |
| Financial assets derecognised during the period other than write-offs | - | - | - | - |
| Changes in accrued profit | 16 | - | - | 16 |
| Other movements | 67,920 | - | 552 | 68,472 |
| Gross carrying amount as at 31 December 2021 | 661,832 | - | 3,216 | 665,048 |

b) An analysis of changes in loss allowance for due from banks and other financial institutions is, as follows:

| | 2022 | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Loss allowance as at January 1, 2022** | **1,546** | **-** | **-** | **1,546** |
| Net re-measurement of loss allowance | **1,078** | **-** | **-** | **1,078** |
| New financial assets originated | **1,908** | **-** | **-** | **1,908** |
| Financial assets that have been derecognized | **(55)** | **-** | **-** | **(55)** |
| **Loss allowance as at December 31, 2022** | **4,477** | **-** | **-** | **4,477** |

| | 2021 | | | |
|---|---|---|---|---|
| | month ECL 12 | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Loss allowance as at January 1, 2021 | 1,434 | 901 | - | 2,335 |
| Transfer to 12-month ECL | 901 | (901) | - | - |
| Net re-measurement of loss allowance | (970) | - | - | (970) |
| New financial assets originated | 181 | - | - | 181 |
| Financial assets that have been derecognized | - | - | - | - |
| Loss allowance as at December 31, 2021 | 1,546 | - | - | 1,546 |

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies. For credit quality of outstanding exposure by rating category refer note 32.2.

## 6. INVESTMENTS, NET

a) As of December 31, 2022, investments were classified as follows:

| | 2022 SR'000 | | |
|---|---|---|---|
| | **Domestic** | **International** | **Total** |
| **i) FVIS** | | | |
| Mutual funds | **25,856** | **1,129,785** | **1,155,641** |
| Equities – quoted | **5,093** | **-** | **5,093** |
| | **30,949** | **1,129,785** | **1,160,734** |
| **ii) FVOCI** | | | |
| Equities – quoted | **48,714** | **-** | **48,714** |
| Equities – unquoted | **4,143** | **1,093** | **5,236** |
| Sukuk investments - equities | **1,877,973** | **201,317** | **2,079,290** |
| Sukuk investments - debt | **8,072,243** | **-** | **8,072,243** |
| | **10,003,073** | **202,410** | **10,205,483** |
| Allowance for impairment | **(6,457)** | **-** | **(6,457)** |
| | **9,996,616** | **202,410** | **10,199,026** |
| **iii) Amortised cost** | | | |
| Sukuk investments | **19,766,370** | **-** | **19,766,370** |
| Wakala floating rate notes | **3,520,943** | **-** | **3,520,943** |
| | **23,287,313** | **-** | **23,287,313** |
| Allowance for impairment | **(13,020)** | **-** | **(13,020)** |
| | **23,274,293** | **-** | **23,274,293** |
| Total | **33,301,858** | **1,332,195** | **34,634,053** |

| | 2021 SR'000 | | |
|---|---|---|---|
| | Domestic | International | Total |
| i) FVIS | | | |
| Mutual funds | 202,755 | 59,688 | 262,443 |
| Equities – quoted | 4,349 | - | 4,349 |
| | 207,104 | 59,688 | 266,792 |
| ii) FVOCI | | | |
| Equities – unquoted | 4,143 | 742 | 4,885 |
| Sukuk investments | 3,923,353 | 135,548 | 4,058,901 |
| | 3,927,496 | 136,290 | 4,063,786 |
| Allowance for impairment | (295) | (130) | (425) |
| | 3,927,201 | 136,160 | 4,063,361 |
| iii) Amortised cost | | | |
| Sukuk investments | 22,205,575 | - | 22,205,575 |
| Wakala floating rate notes | 4,904,263 | - | 4,904,263 |
| | 27,109,838 | - | 27,109,838 |
| Allowance for impairment | (6,186) | - | (6,186) |
| | 27,103,652 | - | 27,103,652 |
| Total | 31,237,957 | 195,848 | 31,433,805 |

b) The composition of investments net of related ECL, if any, as quoted and unquoted is as follows:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Quoted SR'000** | **Unquoted SR'000** | **Total SR'000** | Quoted SR'000 | Unquoted SR'000 | Total SR'000 |
| Sukuk investments-Fixed rate | **20,213,748** | **5,154,602** | **25,368,350** | 18,088,100 | 5,713,593 | 23,801,693 |
| Sukuk investments-Floating rate | **1,175,569** | **1,276,238** | **2,451,807** | 1,905,780 | 550,710 | 2,456,490 |
| Wakala floating rate notes | **3,519,922** | **-** | **3,519,922** | 4,903,945 | - | 4,903,945 |
| Sukuk investments - Equities-Fixed rate | **699,637** | **1,379,653** | **2,079,290** | - | - | - |
| Equities | **53,807** | **5,236** | **59,043** | 4,349 | 4,885 | 9,234 |
| Mutual funds | **71,569** | **1,084,072** | **1,155,641** | 245,288 | 17,155 | 262,443 |
| **Total investments** | **25,734,252** | **8,899,801** | **34,634,053** | 25,147,462 | 6,286,343 | 31,433,805 |

c) The analysis of unrealized gains and losses and the fair values of investments carried at amortised cost are as follows:

| | **2022** | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying value SR'000** | **Gross unrealized gains SR'000** | **Gross unrealized losses SR'000** | **Fair value SR'000** | Carrying value SR'000 | Gross unrealized gains SR'000 | Gross unrealized losses SR'000 | Fair value SR'000 |
| Sukuk investments | **19,754,371** | **37,851** | **(594,001)** | **19,198,221** | 22,199,707 | 650,094 | (44,428) | 22,805,373 |
| Wakala floating rate notes | **3,519,922** | **95,454** | **-** | **3,615,376** | 4,903,945 | 309 | - | 4,904,254 |
| **Total** | **23,274,293** | **133,305** | **(594,001)** | **22,813,597** | 27,103,652 | 650,403 | (44,428) | 27,709,627 |

d) The analysis of the Group's investments by nature of counterparty is as follows:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Government and quasi Government | **30,315,900** | 30,675,943 |
| Corporate | **2,238,676** | 186,106 |
| Banks and other financial institutions | **2,079,477** | 571,756 |
| **Total** | **34,634,053** | 31,433,805 |

Certain sukuk investments (disclosed in note 6(c)) are quoted in different markets but are not actively traded.

Mutual funds domiciled in the Kingdom of Saudi Arabia (disclosed in note 6(a)) with underlying investments outside the Kingdom of Saudi Arabia are classified under the "International" category.

Sukuk and wakala floating rate investments include SR 4,975 million (2021: SR 375 million), which have been pledged under repurchase agreements with other banks. The market value of such investment is SR 4,953 million (2021: SR 406.99 million).

e) An analysis of changes in loss allowance for debt instruments carried at amortised cost is as follows:

| | **2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Loss allowance as at January 1, 2022** | **6,186** | - | - | **6,186** |
| Net re-measurement of loss allowance | **2,216** | - | - | **2,216** |
| New financial assets originated | **6,002** | - | - | **6,002** |
| Financial assets that have been derecognized | **(1,384)** | - | - | **(1,384)** |
| **Loss allowance as at December 31, 2022** | **13,020** | - | - | **13,020** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Loss allowance as at January 1, 2021 | 6,498 | - | - | 6,498 |
| Net re-measurement of loss allowance | (637) | - | - | (637) |
| New financial assets originated | 340 | - | - | 340 |
| Financial assets that have been derecognized | (15) | - | - | (15) |
| Loss allowance as at December 31, 2021 | 6,186 | - | - | 6,186 |

f) An analysis of changes in loss allowance for debt instruments carried at FVOCI is as follows:

| | **2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Loss allowance as at January 1, 2022** | **425** | - | - | **425** |
| Net re-measurement of loss allowance | **679** | - | - | **679** |
| New financial assets originated | **5,354** | - | - | **5,354** |
| Financial assets that have been derecognized | **(1)** | - | - | **(1)** |
| **Loss allowance as at December 31, 2022** | **6,457** | - | - | **6,457** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Loss allowance as at January 1, 2021 | - | - | - | - |
| Net re-measurement of loss allowance | 425 | - | - | 425 |
| New financial assets originated | - | - | - | - |
| Financial assets that have been derecognized | - | - | - | - |
| Loss allowance as at December 31, 2021 | 425 | - | - | 425 |

## 7. FINANCING, NET

Consumer includes financing related to individuals for personal needs.
Commercial include financing to corporate, medium and small sized business and institutional customers.
Others include financing to staff.

a) Financing, net comprised the following:

| | SR'000 | | | | |
|---|---|---|---|---|---|
| | **Credit cards** | **Consumer** | **Commercial** | **Others** | **Total** |
| **2022** | | | | | |
| Performing financing | **767,265** | **30,057,394** | **40,953,561** | **298,490** | **72,076,710** |
| Non-performing financing | **62,135** | **304,654** | **866,744** | **7,411** | **1,240,944** |
| **Gross financing** | **829,400** | **30,362,048** | **41,820,305** | **305,901** | **73,317,654** |
| Allowance for impairment | **(81,722)** | **(220,761)** | **(2,412,039)** | **(4,123)** | **(2,718,645)** |
| **Financing, net** | **747,678** | **30,141,287** | **39,408,266** | **301,778** | **70,599,009** |

| | SR'000 | | | | |
|---|---|---|---|---|---|
| | Credit cards | Consumer | Commercial | Others | Total |
| 2021 | | | | | |
| Performing financing | 685,545 | 27,826,969 | 34,844,008 | 336,836 | 63,693,358 |
| Non-performing financing | 60,130 | 264,663 | 1,054,322 | - | 1,379,115 |
| Gross financing | 745,675 | 28,091,632 | 35,898,330 | 336,836 | 65,072,473 |
| Allowance for impairment | (65,623) | (225,570) | (2,346,248) | (556) | (2,637,997) |
| Financing, net | 680,052 | 27,866,062 | 33,552,082 | 336,280 | 62,434,476 |

Financing, net represents Shari'ah compliant products in respect of Murabaha agreements, Ijarah, Istisnaa'a, Musharaka and Tawarraq. The above comprise of shariah approved balances as follows:

| | SR'000 | | | | |
|---|---|---|---|---|---|
| | **Credit cards** | **Consumer** | **Commercial** | **Others** | **Total** |
| **2022** | | | | | |
| Tawarraq | **829,400** | **-** | **34,670,780** | **-** | **35,500,180** |
| Murabaha | **-** | **25,395,482** | **4,578,309** | **-** | **29,973,791** |
| Ijarah | **-** | **4,957,726** | **870,098** | **-** | **5,827,824** |
| Qard Alhasan | **-** | **-** | **-** | **305,901** | **305,901** |
| Others | **-** | **8,840** | **1,701,118** | **-** | **1,709,958** |
| Gross financing | **829,400** | **30,362,048** | **41,820,305** | **305,901** | **73,317,654** |
| Allowance for impairment | **(81,722)** | **(220,761)** | **(2,412,039)** | **(4,123)** | **(2,718,645)** |
| Financing, net | **747,678** | **30,141,287** | **39,408,266** | **301,778** | **70,599,009** |

| 2021 | Credit cards | Consumer | Commercial | Others | Total |
|---|---|---|---|---|---|
| | | | SR'000 | | |
| Tawarraq | 745,675 | - | 29,446,340 | - | 30,192,015 |
| Murabaha | - | 22,226,855 | 4,203,082 | - | 26,429,937 |
| Ijarah | - | 5,854,797 | 1,054,967 | - | 6,909,764 |
| Qard Alhasan | - | - | - | 336,836 | 336,836 |
| Others | - | 9,980 | 1,193,941 | - | 1,203,921 |
| Gross financing | 745,675 | 28,091,632 | 35,898,330 | 336,836 | 65,072,473 |
| Allowance for impairment | (65,623) | (225,570) | (2,346,248) | (556) | (2,637,997) |
| Financing, net | 680,052 | 27,866,062 | 33,552,082 | 336,280 | 62,434,476 |

b) The following table explains changes in gross carrying amount of the financing to help explain their significance to the changes in the loss allowance.

| | **2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Financing** | | | | |
| **Gross carrying amount as at 1 January 2022** | **57,840,055** | **3,429,865** | **3,802,553** | **65,072,473** |
| Transfer to 12-month ECL | **260,875** | **(125,628)** | **(135,247)** | **-** |
| Transfer to lifetime ECL not credit – Impaired | **(427,603)** | **555,916** | **(128,313)** | **-** |
| Transfer to lifetime ECL credit impaired | **(141,640)** | **(282,519)** | **424,159** | **-** |
| Other Movements | **140,244** | **(225,745)** | **(54,436)** | **(139,937)** |
| New financial assets originated | **21,064,500** | **55,880** | **13,652** | **21,134,032** |
| Financial assets that have been derecognized | **(12,081,784)** | **(567,555)** | **(104,549)** | **(12,753,888)** |
| Changes in profit accrual | **312,209** | **-** | **-** | **312,209** |
| Write-offs | **-** | **-** | **(307,235)** | **(307,235)** |
| **Gross carrying amount as at 31 December 2022** | **66,966,856** | **2,840,214** | **3,510,584** | **73,317,654** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Financing | | | | |
| Gross carrying amount as at 1 January 2021 | 48,741,158 | 4,292,092 | 3,120,958 | 56,154,208 |
| Transfer to 12-month ECL | 1,020,894 | (1,015,410) | (5,484) | - |
| Transfer to lifetime ECL not credit – Impaired | (1,436,813) | 1,446,853 | (10,040) | - |
| Transfer to lifetime ECL credit impaired | (230,227) | (850,657) | 1,080,884 | - |
| Other Movements | (529,092) | (261,504) | (17,360) | (807,956) |
| New financial assets originated | 17,698,545 | 95,715 | 75,178 | 17,869,438 |
| Financial assets that have been derecognized | (7,387,352) | (277,224) | (282,404) | (7,946,980) |
| Changes in profit accrual | (37,058) | - | - | (37,058) |
| Write-offs | - | - | (159,179) | (159,179) |
| Gross carrying amount as at 31 December 2021 | 57,840,055 | 3,429,865 | 3,802,553 | 65,072,473 |

c) An analysis of changes in ECL for financing is as follows:

| | 2022 | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Financing** | | | | |
| **ECL as at January 1, 2022** | **170,741** | **222,807** | **2,244,449** | **2,637,997** |
| Transfer to 12-month ECL | **15,900** | **(1,788)** | **(14,112)** | **-** |
| Transfer to lifetime ECL not credit – impaired | **(2,677)** | **66,999** | **(64,322)** | **-** |
| Transfer to lifetime ECL credit impaired | **(1,376)** | **(5,800)** | **7,176** | **-** |
| Net re-measurement of loss allowance | **30,727** | **98,665** | **328,323** | **457,715** |
| New financial assets originated | **70,357** | **1,352** | **6,688** | **78,397** |
| Financial assets that have been derecognized | **(35,031)** | **(76,392)** | **(36,806)** | **(148,229)** |
| Write-offs | **-** | **-** | **(307,235)** | **(307,235)** |
| **ECL as at December 31, 2022** | **248,641** | **305,843** | **2,164,161** | **2,718,645** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Financing | | | | |
| ECL as at January 1, 2021 | 335,609 | 298,170 | 1,559,218 | 2,192,997 |
| Transfer to 12-month ECL | 13,658 | (10,909) | (2,749) | - |
| Transfer to lifetime ECL not credit – impaired | (9,876) | 13,969 | (4,093) | - |
| Transfer to lifetime ECL credit impaired | (1,345) | (127,549) | 128,894 | - |
| Net re-measurement of loss allowance | (183,775) | 65,769 | 704,892 | 586,886 |
| New financial assets originated | 55,586 | 1,567 | 37,473 | 94,626 |
| Financial assets that have been derecognized | (39,116) | (18,210) | (20,007) | (77,333) |
| Write-offs | - | - | (159,179) | (159,179) |
| ECL as at December 31, 2021 | 170,741 | 222,807 | 2,244,449 | 2,637,997 |

d) An analysis of changes in ECL by each class of financial instrument is as follows:

| | 2022 | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Credit cards** | | | | |
| **ECL as at January 1, 2022** | **24,883** | **1,656** | **39,084** | **65,623** |
| Transfer to 12-month ECL | **1,524** | **(645)** | **(879)** | **-** |
| Transfer to lifetime ECL not credit – impaired | **(299)** | **369** | **(70)** | **-** |
| Transfer to lifetime ECL credit impaired | **(463)** | **(485)** | **948** | **-** |
| Net re-measurement of loss allowance | **(5,948)** | **170** | **21,455** | **15,677** |
| New financial assets originated | **9,060** | **835** | **785** | **10,680** |
| Financial assets that have been derecognized | **(3,496)** | **(421)** | **(3,958)** | **(7,875)** |
| Write-offs | **-** | **-** | **(2,383)** | **(2,383)** |
| **ECL as at December 31, 2022** | **25,261** | **1,479** | **54,982** | **81,722** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Credit cards | | | | |
| ECL as at January 1, 2021 | 26,055 | 1,661 | 36,192 | 63,908 |
| Transfer to 12-month ECL | 1,546 | (595) | (951) | - |
| Transfer to lifetime ECL not credit – impaired | (389) | 484 | (95) | - |
| Transfer to lifetime ECL credit impaired | (604) | (445) | 1,049 | - |
| Net re-measurement of loss allowance | (7,165) | 240 | 7,839 | 914 |
| New financial assets originated | 10,071 | 813 | 1,542 | 12,426 |
| Financial assets that have been derecognized | (4,631) | (502) | (4,694) | (9,827) |
| Write-offs | - | - | (1,798) | (1,798) |
| ECL as at December 31, 2021 | 24,883 | 1,656 | 39,084 | 65,623 |

| | **2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | (SR'000) | | | |
| **Consumer financing** | | | | |
| **ECL as at January 1, 2022** | **65,668** | **1,620** | **158,282** | **225,570** |
| Transfer to 12-month ECL | **4,091** | **(400)** | **(3,691)** | **-** |
| Transfer to lifetime ECL not credit – impaired | **(318)** | **1,494** | **(1,176)** | **-** |
| Transfer to lifetime ECL credit impaired | **(152)** | **(375)** | **527** | **-** |
| Net re-measurement of loss allowance | **(27,937)** | **(658)** | **49,499** | **20,904** |
| New financial assets originated | **27,646** | **502** | **3,319** | **31,467** |
| Financial assets that have been derecognized | **(15,864)** | **(469)** | **(3,163)** | **(19,496)** |
| Write-offs | **-** | **-** | **(37,684)** | **(37,684)** |
| **ECL as at December 31, 2022** | **53,134** | **1,714** | **165,913** | **220,761** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Consumer financing | | | | |
| ECL as at January 1, 2021 | 131,842 | 2,184 | 77,845 | 211,871 |
| Transfer to 12-month ECL | 2,344 | (546) | (1,798) | - |
| Transfer to lifetime ECL not credit – impaired | (305) | 4,303 | (3,998) | - |
| Transfer to lifetime ECL credit impaired | (338) | (372) | 710 | - |
| Net re-measurement of loss allowance | (69,334) | (3,541) | 102,172 | 29,297 |
| New financial assets originated | 32,108 | 620 | 4,347 | 37,075 |
| Financial assets that have been derecognized | (30,649) | (1,028) | (15,224) | (46,901) |
| Write-offs | - | - | (5,772) | (5,772) |
| ECL as at December 31, 2021 | 65,668 | 1,620 | 158,282 | 225,570 |

| | 2022 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| **Commercial financing** | | | | |
| **ECL as at January 1, 2022** | **79,634** | **219,531** | **2,047,083** | **2,346,248** |
| Transfer to 12-month ECL | **10,285** | **(743)** | **(9,542)** | **-** |
| Transfer to lifetime ECL not credit – impaired | **(2,053)** | **65,129** | **(63,076)** | **-** |
| Transfer to lifetime ECL credit impaired | **(750)** | **(4,940)** | **5,690** | **-** |
| Net re-measurement of loss allowance | **64,752** | **99,120** | **253,397** | **417,269** |
| New financial assets originated | **33,600** | **14** | **2,584** | **36,198** |
| Financial assets that have been derecognized | **(15,602)** | **(75,502)** | **(29,685)** | **(120,789)** |
| Write-offs | **-** | **-** | **(266,887)** | **(266,887)** |
| **ECL as at December 31, 2022** | **169,866** | **302,609** | **1,939,564** | **2,412,039** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Commercial financing | | | | |
| ECL as at January 1, 2021 | 177,712 | 294,325 | 1,445,181 | 1,917,218 |
| Transfer to 12-month ECL | 9,768 | (9,768) | - | - |
| Transfer to lifetime ECL not credit – impaired | (9,182) | 9,182 | - | - |
| Transfer to lifetime ECL credit impaired | (403) | (126,732) | 127,135 | - |
| Net re-measurement of loss allowance | (107,832) | 69,070 | 594,881 | 556,119 |
| New financial assets originated | 13,407 | 134 | 31,584 | 45,125 |
| Financial assets that have been derecognized | (3,836) | (16,680) | (89) | (20,605) |
| Write-offs | - | - | (151,609) | (151,609) |
| ECL as at December 31, 2021 | 79,634 | 219,531 | 2,047,083 | 2,346,248 |

| | 2022 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| **Others** | | | | |
| **ECL as at January 1, 2022** | **556** | **-** | **-** | **556** |
| Transfer to lifetime ECL not credit – impaired | **(7)** | **7** | **-** | **-** |
| Transfer to lifetime ECL credit impaired | **(11)** | **-** | **11** | **-** |
| Net re-measurement of loss allowance | **(140)** | **33** | **3,972** | **3,865** |
| New financial assets originated | **51** | **1** | **-** | **52** |
| Financial assets that have been derecognized | **(69)** | **-** | **-** | **(69)** |
| Write-offs | **-** | **-** | **(281)** | **(281)** |
| **ECL as at December 31, 2022** | **380** | **41** | **3,702** | **4,123** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Others | | | | |
| ECL as at January 1, 2021 | - | - | - | - |
| Net re-measurement of loss allowance | 556 | - | - | 556 |
| New financial assets originated | - | - | - | - |
| Financial assets that have been derecognized | - | - | - | - |
| Write-offs | - | - | - | - |
| ECL as at December 31, 2021 | 556 | - | - | 556 |

e) Movements in allowance for impairment are as follows:

| | SR'000 | | | | |
|---|---|---|---|---|---|
| **2022** | **Credit Cards** | **Consumer** | **Commercial** | **Others** | **Total** |
| **Opening ECL allowance as at 1 January 2022** | **65,623** | **225,570** | **2,346,248** | **556** | **2,637,997** |
| Impairment charge for the year | **18,482** | **105,845** | **441,211** | **6,575** | **572,113** |
| Bad debts written off during the year | **(2,383)** | **(37,684)** | **(266,887)** | **(281)** | **(307,235)** |
| Recoveries / reversals of amounts previously provided | **-** | **(72,970)** | **(108,533)** | **(2,727)** | **(184,230)** |
| **Balance at the end of the year** | **81,722** | **220,761** | **2,412,039** | **4,123** | **2,718,645** |

| | SR'000 | | | | |
|---|---|---|---|---|---|
| 2021 | Credit Cards | Consumer | Commercial | Others | Total |
| Opening ECL allowance as at 1 January 2021 | 63,908 | 211,871 | 1,917,218 | - | 2,192,997 |
| Impairment charge for the year | 3,513 | 119,763 | 641,064 | 556 | 764,896 |
| Bad debts written off during the year | (1,798) | (5,772) | (151,609) | - | (159,179) |
| Recoveries / reversals of amounts previously provided | - | (100,461) | (60,425) | - | (160,886) |
| Allowance written back | - | 169 | - | - | 169 |
| Balance at the end of the year | 65,623 | 225,570 | 2,346,248 | 556 | 2,637,997 |

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2022 and that are still subject to enforcement activity is SR 271.43 million (2021: SR 147.06 million).

f) Net impairment charge for financing and other financial assets for the year in the consolidated statement of income is as follows:

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| Impairment charge for financing for the year | **572,113** | 764,896 |
| (Recoveries) / (reversals) of amounts previously provided | **(184,230)** | (160,886) |
| (Recoveries) from debts previously written off | **(115,883)** | (15,771) |
| Net charge / (reversals) for impairment in respect of due from banks and other financial institutions | **2,931** | (789) |
| Net impairment charge for ECL in respect of investments | **12,866** | 113 |
| Net (reversal) / impairment charge for ECL in respect of non-funded financing and credit related commitments | **(1,482)** | 37,003 |
| Impairment charge for financing and other financial assets, net | **286,315** | 624,566 |

g) Economic sector risk concentrations for the financing and allowance for impairment are as follows:

| 2022 | Performing SR'000 | Non performing SR'000 | Allowance for impairment SR'000 | Financing, net SR'000 |
|---|---|---|---|---|
| Government and quasi Government | 5,215,758 | - | (14,440) | 5,201,318 |
| Banks and other financial institutions | 1,820,297 | - | (16,204) | 1,804,093 |
| Agriculture and fishing | 73,936 | - | (79) | 73,857 |
| Manufacturing | 4,128,730 | 199,219 | (891,312) | 3,436,637 |
| Electricity, water, gas and health services | 36,898 | 25 | (91) | 36,832 |
| Building and construction | 2,092,107 | 163,656 | (507,617) | 1,748,146 |
| Commerce | 12,648,280 | 375,610 | (625,428) | 12,398,462 |
| Transportation and communication | 630,551 | - | (672) | 629,879 |
| Services | 2,033,519 | 13,044 | (110,975) | 1,935,588 |
| Consumer financing and credit cards | 30,824,659 | 366,789 | (302,483) | 30,888,965 |
| Share trading | 1,653,752 | - | (275) | 1,653,477 |
| Others | 10,918,223 | 122,601 | (249,069) | 10,791,755 |
| **Total** | **72,076,710** | **1,240,944** | **(2,718,645)** | **70,599,009** |

| 2021 | Performing SR'000 | Non performing SR'000 | Allowance for impairment SR'000 | Financing, net SR'000 |
|---|---|---|---|---|
| Government and quasi Government | 5,099,802 | - | (14,803) | 5,084,999 |
| Banks and other financial institutions | 1,265,676 | - | (7,479) | 1,258,197 |
| Agriculture and fishing | 73,155 | - | (55) | 73,100 |
| Manufacturing | 4,598,309 | 175,895 | (741,545) | 4,032,659 |
| Electricity, water, gas and health services | 120,984 | - | (221) | 120,763 |
| Building and construction | 2,118,094 | 140,614 | (489,261) | 1,769,447 |
| Commerce | 10,625,813 | 521,554 | (743,288) | 10,404,079 |
| Transportation and communication | 407,370 | - | (1,760) | 405,610 |
| Services | 1,649,409 | 82,514 | (154,227) | 1,577,696 |
| Consumer financing and credit cards | 28,512,514 | 324,793 | (291,193) | 28,546,114 |
| Share trading | 1,917,785 | - | - | 1,917,785 |
| Others | 7,304,447 | 133,745 | (194,165) | 7,244,027 |
| Total | 63,693,358 | 1,379,115 | (2,637,997) | 62,434,476 |

h) Other real estate

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Balance at the beginning of the year | 554,656 | 474,421 |
| Additions during the year | 944 | 82,845 |
| Disposals during the year | (6,061) | (2,610) |
| Gross balance at the end of the year | 549,539 | 554,656 |
| Provision for unrealised revaluation losses (note (i) below) | (43,754) | (46,913) |
| Net balance at the end of the year | 505,785 | 507,743 |

**i)** This represents impairment charge booked in respect of unrealised losses on certain properties which were acquired by the Bank in prior years in satisfaction of claims against the financing customers. The amount was calculated based on revaluations conducted by the independent real estate evaluators. During the current year a loss of SR 3.16 million has been realised as a result of sale of related properties.

## 8. OTHER ASSETS

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Advances, prepayments and other receivables | **140,284** | 186,923 |
| Margin deposits against financial instruments | **18,544** | 165,656 |
| Value Added Tax (VAT) related receivables | **127,294** | 206,810 |
| Advance against purchase of investments | **30,913** | 291,147 |
| Cash held with cash management company | **99,855** | - |
| Others | **164,149** | 170,807 |
| **Total** | **581,039** | 1,021,343 |

## 9. INVESTMENT IN AN ASSOCIATE

The Group holds 26.03% (31 December 2021: 26.03%) shareholding in AlJazira Takaful Ta'awuni Company ("ATT").

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT for the period ended September 30, 2022. ATT is listed with Saudi Exchange (Tadawul) and the market value of the investment in ATT as of December 31, 2022 is SR 210.43 million (2021: SR 286.87 million).

During 2021, ATT completed the merger of Solidarity Saudi Takaful Company (SSTC) into ATT diluting the effective shareholding of the BAJ Group. The purchase consideration for this merger was determined to be SR 317.95 million which was settled by issuing 12.07 million new shares of ATT to shareholders of SSTC at a price of SAR 26.35 per share. This dilution of BAJ Group shareholding was treated as deemed disposal in line with the requirements of IAS 28 – 'Investments in Associates and Joint ventures'. This resulted in recognition of a gain of SR 39.4 million which was presented in the consolidated statement of income for the year ended December 31, 2021.

The following table summarises the latest available financial information of ATT as of December 31 and for the year then ended:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Total assets | **2,543,420** | 2,820,593 |
| Total liabilities | **(1,705,083)** | (2,009,762) |
| Total shareholders' equity | **837,095** | 811,243 |
| Proportion of the Group's ownership | **26.03%** | 26.03% |
| Carrying amount of the investment | **217,871** | 211,143 |
| Total profit for the year before zakat and income tax | **26,994** | 25,667 |
| The Group's share of profit for the year | **7,026** | 8,010 |

The following table summarises the movement of the investment in associate during the year:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Balance at the beginning of the year | **211,143** | 164,136 |
| Gain on deemed disposal of an associate | **-** | 39,390 |
| Share in profit for the year before zakat and income tax | **7,026** | 8,010 |
| Share of zakat and income tax | **(298)** | (393) |
| Balance at the end of the year | **217,871** | 211,143 |

## 10. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS, NET

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Property and equipment, net (note a) | **647,922** | 704,052 |
| Right of use assets, net (note b) | **249,782** | 326,810 |
| Intangible assets (note c) | **168,670** | 125,518 |
| Total | **1,066,374** | 1,156,380 |

### a) Property and equipment, net

| | Land and buildings SR'000 | Leasehold improvements SR'000 | Furniture, equipment and vehicles SR'000 | Capital work in progress SR'000 | Total SR'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At January 1, 2021 | 307,832 | 556,799 | 621,096 | 92,461 | 1,578,188 |
| Additions during the year | 6,101 | 1,150 | 6,116 | 93,494 | 106,861 |
| Transfers during the year | 71,481 | 9,265 | 4,392 | (85,138) | - |
| Disposals during the year | - | (41,045) | (8,854) | - | (49,899) |
| **At January 1, 2022** | **385,414** | **526,169** | **622,750** | **100,817** | **1,635,150** |
| Additions during the year | **6,368** | **6,357** | **20,069** | **80,565** | **113,359** |
| Transfers during the year | **-** | **23,791** | **6,428** | **(30,219)** | **-** |
| Disposals during the year | **(100,307)** | **(11,355)** | **(9,754)** | **(5,108)** | **(126,524)** |
| **At December 31, 2022** | **291,475** | **544,962** | **639,493** | **146,055** | **1,621,985** |
| **Accumulated depreciation** | | | | | |
| At January 1, 2021 | **5,040** | **367,369** | **541,581** | **-** | **913,990** |
| Charge for the year | **1,435** | **27,530** | **29,929** | **-** | **58,894** |
| Disposals | **-** | **(33,719)** | **(8,067)** | **-** | **(41,786)** |
| **At January 1, 2022** | **6,475** | **361,180** | **563,443** | **-** | **931,098** |
| Charge for the year | **2,426** | **28,595** | **27,811** | **-** | **58,832** |
| Disposals | **-** | **(6,788)** | **(9,195)** | **-** | **(15,983)** |
| Transfers/Adjustments | **10** | **14** | **92** | **-** | **115** |
| **At December 31, 2022** | **8,911** | **383,001** | **582,151** | **-** | **974,063** |
| **Net book value** | | | | | |
| **At December 31, 2022** | **282,564** | **161,961** | **57,342** | **146,055** | **647,922** |
| At December 31, 2021 | 378,939 | 164,989 | 59,307 | 100,817 | 704,052 |

### b) Right of use assets, net

| | Land and buildings SR'000 | Office Equipment SR'000 | Vehicles SR'000 | Total SR'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At January 1, 2021 | 542,396 | 7,103 | 1,232 | 550,731 |
| Additions during the year | 61,655 | - | - | 61,655 |
| **At January 1, 2022** | **604,051** | **7,103** | **1,232** | **612,386** |
| Additions during the year | **13,889** | **-** | **309** | **14,198** |
| **At December 31, 2022** | **617,940** | **7,103** | **1,541** | **626,584** |
| **Accumulated depreciation** | | | | |
| At January 1, 2021 | 191,085 | 4,482 | 1,048 | 196,615 |
| Charge for the year | 87,323 | 1,493 | 145 | 88,961 |
| **At January 1, 2022** | **278,408** | **5,975** | **1,193** | **285,576** |
| Charge for the year | **90,048** | **1,022** | **156** | **91,226** |
| **At December 31, 2022** | **368,456** | **6,997** | **1,349** | **376,802** |
| **Net book value** | | | | |
| **At December 31, 2022** | **249,484** | **106** | **192** | **249,782** |
| At December 31, 2021 | 325,643 | 1,128 | 39 | 326,810 |

Majority of the Right to use assets comprise of rented branches and ATM locations which have been leased by the Group for varying terms from the landlords and will be vacated and handed over to the owners unless extended for another term based on mutual consent. The Group is responsible for maintenance and insurance of these assets during the lease term. The Group does not have any buy back option as part of the rental contracts to purchase these assets. The Group has the right to terminate some of these contracts by giving advance notice and in some cases may be required to pay part of remaining contractual payments as penalty.

### c) Intangible assets

| | Computer softwares SR'000 | Work in progress SR'000 | Total SR'000 |
|---|---|---|---|
| **Cost** | | | |
| At January 1, 2021 | 348,708 | 33,455 | 382,163 |
| Additions during the year | 2,212 | 37,637 | 39,849 |
| Transfers during the year | 14,756 | (14,756) | - |
| Disposals | - | (758) | (758) |
| **At January 1, 2022** | **365,676** | **55,578** | **421,254** |
| Additions during the year | **5,061** | **85,517** | **90,578** |
| Transfers during the year | **25,311** | **(25,311)** | **-** |
| Disposals | **-** | **-** | **-** |
| **At December 31, 2022** | **396,048** | **115,784** | **511,832** |
| **Accumulated amortisation** | | | |
| At January 1, 2021 | 244,868 | - | 244,868 |
| Charge for the year | 50,868 | - | 50,868 |
| Disposals | - | - | - |
| **At January 1, 2022** | **295,736** | **-** | **295,736** |
| Charge for the year | **47,533** | **-** | **47,533** |
| Disposals | **-** | **-** | **-** |
| Transfers/Adjustments | **(107)** | **-** | **(107)** |
| **At December 31, 2022** | **343,162** | **-** | **343,162** |
| **Net book value** | | | |
| **At December 31, 2022** | **52,886** | **115,784** | **168,670** |
| At December 31, 2021 | 69,940 | 55,578 | 125,518 |

## 11. SHARIAH COMPLIANT DERIVATIVES

In the ordinary course of business, the Group utilizes the following Shari'ah derivative financial instruments for both trading and strategic hedging purposes:

### 1. Nature/type of derivatives held

**a) Swaps**

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

**b) Options (Wa'ad Fx)**

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

### 2. Purpose of derivatives

**a) Held for trading purposes**

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

**b) Held for hedging purposes**

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to profit rate risk and foreign exchange risk.

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

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and profit rate risk. This is generally achieved by hedging specific transactions.

**Cash flow hedges**

The Group is exposed to variability in future cash flows on non-trading assets and liabilities which bear profit rate risk. The Group uses profit rate swaps as hedging instruments to hedge against these profit rate risks. Below is the schedule indicating as at December 31, the periods when the hedged cash flows (profit receipts / payments) are expected to occur and when they are expected to affect the consolidated statement of income:

| **2022<br>SR'000** | **Within 1 year** | **1-3 years** | **3-5 years** | **Over 5 years** |
|---|---|---|---|---|
| Cash inflows (assets) | **37,092** | **43,928** | **-** | **-** |
| Cash outflows (liabilities) | **(250,496)** | **(473,453)** | **(338,935)** | **(265,447)** |
| Net cash outflow | **(213,404)** | **(429,525)** | **(338,935)** | **(265,447)** |

| 2021<br>SR'000 | Within 1 year | 1-3 years | 3-5 years | Over 5 years |
|---|---|---|---|---|
| Cash inflows (assets) | 24,382 | 48,906 | 48,913 | 42,677 |
| Cash outflows (liabilities) | (183,559) | (408,579) | (417,349) | (2,495,717) |
| Net cash outflow | (159,177) | (359,673) | (368,436) | (2,453,040) |

The gains / (losses) on cash flow hedges on disposal / amortisation of previously discontinued hedging relationship, reclassified to the consolidated statement of income during the year are as follows:

| | 2022<br>SR'000 | 2021<br>SR'000 |
|---|---|---|
| Income from investments and financing | 85,247 | 13,538 |
| Return on deposits and financial liabilities | (5,130) | (1,438) |
| Net gains on cash flow hedges reclassified to the consolidated statement of income | 80,117 | 12,100 |

| | 2022<br>SR'000 | 2021<br>SR'000 |
|---|---|---|
| Balance at the beginning of the year | (106,891) | (158,638) |
| Gains from change in fair value recognised directly in equity, net (effective portion) | 260,243 | 63,847 |
| Gains removed from equity and transferred to consolidated statement of income | (80,117) | (12,100) |
| Balance at the end of the year | 73,235 | (106,891) |

Fair value gain on cash flow hedges amounting to SR 260.24 million (2021: SR 63.85 million) included in the consolidated statement of comprehensive income comprised of net unrealized gain of SR 291.19 million (2021: unrealized loss of SR 28.64 million) and realized loss of SR 30.94 million (2021: net realised gain of SR 92.49 million) on termination of hedge relationship.

During the current and prior years, the Group terminated certain of its profit rate swaps used for cash flows hedges. However, the gain / (loss) would continue to be classified in consolidated statement of comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS as endorsed in KSA requirements, the gain / (loss) will be reclassified to consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the consolidated statement of income i.e. when profit receipts / payments impact the consolidated statement of income which is over the remaining maturity of financial instrument / hedge items.

## 3. Details of shar'iah compliant derivatives

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

2022
SR'000

| | Positive fair value | Negative fair value | Notional amount | Notional amounts by term to maturity: Within 3 months | 3-12 months | 1-5 years | Over 5 years | Monthly average |
|---|---|---|---|---|---|---|---|---|
| **Held for trading:** | | | | | | | | |
| Options | 6,505 | 6,505 | 578,753 | - | - | 515,514 | 63,239 | 74,264 |
| Currency swaps | 13,146 | 3,624 | 4,072,558 | 1,047,076 | 2,837,982 | 187,500 | - | 2,382,573 |
| Currency forwards | 6 | 63 | 4,932 | 4,932 | - | - | - | 253,536 |
| Profit rate swaps | 137,157 | 132,886 | 5,211,843 | 10,000 | 8,571 | 3,402,200 | 1,791,072 | 3,480,014 |
| Cross currency profit rate swaps | 411 | 7,635 | 1,875,000 | - | - | 1,875,000 | - | 1,875,000 |
| **Held as cash flow hedges:** | | | | | | | | |
| Profit rate swaps | 155,417 | 48,293 | 5,087,500 | 93,750 | - | 3,393,750 | 1,600,000 | 3,442,865 |
| **Total** | 312,642 | 199,006 | 16,830,586 | 1,155,758 | 2,846,553 | 9,373,964 | 3,454,311 | 11,508,252 |

2021
SR'000

| | Positive fair value | Negative fair value | Notional amount | Notional amounts by term to maturity | | | | Monthly average |
|---|---|---|---|---|---|---|---|---|
| | | | | Within 3 months | 3-12 months | 1-5 years | Over 5 years | |
| Held for trading: | | | | | | | | |
| Options | 333 | 335 | 33,143 | - | - | - | 33,143 | 2,762 |
| Currency swaps | 1,464 | 2,384 | 647,475 | 84,975 | 562,500 | - | | 461,870 |
| Currency forwards | 27 | 61 | 18,048 | 18,048 | - | - | - | 131,280 |
| Profit rate swaps | 4,998 | 4,998 | 431,429 | - | 200,000 | 31,429 | 200,000 | 996,912 |
| Cross currency profit rate swaps | 411 | 13,208 | 1,875,000 | - | - | 1,875,000 | - | 1,093,750 |
| Held as cash flow hedges: | | | | | | | | |
| Profit rate swaps | 4,825 | 206,323 | 3,250,625 | 468,750 | 360,000 | 750,000 | 1,671,875 | 3,192,292 |
| Total | 12,058 | 227,309 | 6,255,720 | 571,773 | 1,122,500 | 2,656,429 | 1,905,018 | 5,878,866 |

Held for trading profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 34.70 million (31 December 2021: SR 1.75 million) and accrued payable amounting to SR 36.15 million (31 December 2021: SR 1.80 million) respectively. Held as cash flow hedge profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 32.68 million (31 December 2021: SR 4.83 million) and accrued payable amounting to SR 29.54 million (31 December 2021: SR 19.12 million) respectively.

All the derivative products in the above table are Shariah approved.

During the years ended on December 31, 2022 and December 31, 2021, there was no ineffectiveness in the cash flow hedges.

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

| **Description of hedged items (SR '000)** **2022** | **Hedge inception value** | **Risk** | **Hedging instrument** | **Positive fair value** | **Negative fair value** |
|---|---|---|---|---|---|
| **Floating rate investments** | **1,000,000** | **Cash flow** | **Profit rate swap** | **-** | **16,107** |
| **Floating rate deposits** | **4,087,500** | **Cash flow** | **Profit rate swap** | **122,735** | **2,644** |

| Description of hedged items (SR '000) 2021 | Hedge inception value | Risk | Hedging instrument | Positive fair value | Negative fair value |
|---|---|---|---|---|---|
| Floating rate investments | 1,100,000 | Cash flow | Profit rate swap | - | 15,613 |
| Floating rate deposits | 2,150,625 | Cash flow | Profit rate swap | - | 171,589 |

Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely AlJazira Securities Limited and intends to transfer all of its Profit rate swaps ("PRS") derivatives, hedged or traded, to this SPV. In this connection, initially, a novation agreement has been signed among the Bank, the SPV and one of the counter party. Going forward, the SPV will execute all the derivatives with counterparties with a back to back transaction with the Bank. As the change was necessitated by laws, management believe that existing hedging relationships continue to be effective.

## 12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| Current accounts | **539,825** | 235,986 |
| Money market deposits from banks and other financial institutions (refer note 12.1) | **6,713,679** | 5,884,986 |
| Repo agreement borrowings | **4,863,183** | 289,108 |
| **Total** | **12,116,687** | 6,410,080 |

The above comprise of Shariah approved balances as follows:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Current accounts | **539,825** | 235,986 |
| Commodity murabaha | **2,344,076** | 2,189,241 |
| Wakala | **9,137,604** | 3,984,853 |
| Wa'ad | **95,182** | - |
| **Total** | **12,116,687** | 6,410,080 |

12.1 This balance includes profit free deposits received during financial year 2020 from SAMA with gross amount of SR 2.41 billion (31 December 2021: SR 2.41 billion) with varying maturities in order to support the Bank in its implementation of various regulatory relief packages given by the government in response to COVID-19.

## 13. CUSTOMERS' DEPOSITS

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Demand | **38,217,209** | 38,504,625 |
| Saving | **730,534** | 983,845 |
| Customers' time investments | **44,930,750** | 37,057,540 |
| Other | **2,144,346** | 1,819,139 |
| **Total** | **86,022,839** | 78,365,149 |

The above comprise of Shariah approved customer deposits as follows:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Demand - Qard | **38,217,209** | 38,504,625 |
| Saving - Wakala | **730,534** | 983,845 |
| Customers' time investments – Murabaha | **41,144,673** | 33,806,020 |
| Customers' time investments – Wakala | **3,786,077** | 3,251,520 |
| Other – Qard | **2,144,346** | 1,819,139 |
| **Total** | **86,022,839** | 78,365,149 |

Other customers' deposits include SR 998.82 million (2021: SR 635.69 million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Demand | **1,422,787** | 1,030,173 |
| Customers' time investments | **4,116,111** | 3,947,355 |
| Other | **3,934** | 46,894 |
| **Total** | **5,542,832** | 5,024,422 |

The foreign currency deposits are mainly in US Dollars to which the SR is pegged. Accordingly, the sensitivity with respect to foreign currency risk is not material.

## 14. SUBORDINATED SUKUK

On December 08, 2021, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 155 basis point per annum and payable semi-annually in arrears on December 08 and June 08 each year until December 08, 2031, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after December 08, 2026 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with Saudi Exchange (Tadawul).

## 15. OTHER LIABILITIES

| | **2022**<br>**SR'000** | 2021<br>SR'000 |
|---|---|---|
| Accounts payable | **504,568** | 461,109 |
| Employee benefit obligations (refer note 30) | **291,810** | 289,275 |
| Lease Liability – discounted (note a below) | **222,001** | 289,865 |
| Loss allowance for credit related commitments and contingencies (refer note 20(c)(iii)) | **329,406** | 408,090 |
| Dividend payable | **66,730** | 43,153 |
| AlJazira Philanthropic Program (note b below) | **10,282** | 9,825 |
| Others (note c below) | **473,608** | 433,710 |
| **Total** | **1,898,405** | 1,935,027 |

a) The maturity analysis of lease liabilities based on contractual undiscounted cash flows is as follows:

| | **2022**<br>**SR'000** | 2021<br>SR'000 |
|---|---|---|
| Less than one year | **66,183** | 77,245 |
| One to five years | **153,035** | 202,711 |
| More than five years | **25,258** | 40,855 |
| **Total undiscounted lease liabilities at December 31** | **244,476** | 320,811 |
| **Lease liabilities included in the consolidated statement of financial position at December 31** | **222,001** | 289,865 |
| Current | **59,002** | 67,850 |
| Non-Current | **162,999** | 222,015 |

b) During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Group's social responsibilities towards the Saudi society, through the charitable contributions to various benevolent efforts that promote the general welfare of the society. For this purpose, the Group contributed SR 100 million to this program. A Social Committee has been established to coordinate this program, consisting of three Board members, and it is the intention of the Board of Directors to seek assistance of other independent members from the business community and the Shari'ah Board of the Group to overview and provide guidance for the activities of the program.

c) This includes an amount of SR 88.24 million (2021: SR 176.48 million) accrued as a result of zakat settlement agreement entered into with ZATCA in respect of assessment years from 2006 to 2017. The amount is payable in one (2021: two) instalments as more fully explained in note 27.

## 16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 820 million (2021: 820 million) shares of SR 10 each. The ownership of the Bank's share capital is as follows:

| | **2022** | 2021 |
|---|---|---|
| Saudi shareholders | **83.75%** | 82.57% |
| Non-Saudi shareholder - National Bank of Pakistan (NBP) | **3.70%** | 3.70% |
| Non-Saudi shareholders – others | **12.55%** | 13.73% |

## 17. STATUTORY RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 277.27 million has been transferred from net income (2021: SR 251.52 million). The statutory reserve is not available for distribution.

## 18. OTHER RESERVES

| **2022** | **Cash flow hedges SR' 000** | **Fair value reserve – FVOCI debt SR' 000** | **Fair value reserve – FVOCI equity SR' 000** | **Actuarial gains (note 30) SR' 000** | **Total SR' 000** |
|---|---|---|---|---|---|
| Balance at beginning of the year | **(106,891)** | **(41,949)** | **-** | **34,288** | **(114,552)** |
| Net change in fair value – effective portion | **260,243** | **(747,246)** | **(81,637)** | **-** | **(568,640)** |
| Transfer to consolidated statement of income(note 11.2(b)) | **(80,117)** | **-** | **-** | **-** | **(80,117)** |
| Actuarial gains on employee benefit obligation | **-** | **-** | **-** | **8,012** | **8,012** |
| Net movement during the year | **180,126** | **(747,246)** | **(81,637)** | **8,012** | **(640,745)** |
| **Balance at the end of the year** | **73,235** | **(789,195)** | **(81,637)** | **42,300** | **(755,297)** |

| 2021 | Cash flow hedges SR' 000 | Fair value reserve – FVOCI debt SR' 000 | Fair value reserve – FVOCI equity SR' 000 | Actuarial gains (note 30) SR' 000 | Total SR' 000 |
|---|---|---|---|---|---|
| Balance at beginning of the year | (158,638) | 36,560 | - | 22,502 | (99,576) |
| Net change in fair value – effective portion | 63,847 | (78,509) | - | - | (14,662) |
| Transfer to consolidated statement of income (note 11.2(b)) | (12,100) | - | - | - | (12,100) |
| Actuarial gains on employee benefit obligation | - | - | - | 11,786 | 11,786 |
| Net movement during the year | 51,747 | (78,509) | - | 11,786 | (14,976) |
| Balance at the end of the year | (106,891) | (41,949) | - | 34,288 | (114,552) |

## 19. TIER 1 SUKUK

During the year 2021, the Bank through a Shari'ah compliant arrangement ("the arrangement") issued cross border Tier 1 Sukuk (the "Sukuk"), amounting to SR 1.875 billion (denominated in US Dollars). This arrangement was approved by the regulatory authorities and the Board of Directors of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukuk-holders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk agreement.

The applicable profit rate is 3.95% per annum from date of issue up to 2026 and is subject to reset every 5 years. The applicable profit on the Sukuks is payable semi-annual 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 non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

## 20. COMMITMENTS AND CONTINGENCIES

### a) Legal proceedings

As at December 31, 2022, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicated that it is unlikely that any significant loss will eventually arise.

### b) Capital commitments

As at December 31, 2022, the Group had capital commitments of SR 131.26 million (2021: SR 121.57 million) in respect of premises and IT related projects.

### c) Credit related commitments and contingencies

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

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

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

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

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

i) The contractual maturity structure for the Group's credit related commitments and contingencies are as follows:

| | | | (SR'000) | | |
|---|---|---|---|---|---|
| **2022** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
| Letters of credit | **1,400,112** | **603,638** | **815,310** | **-** | **2,819,060** |
| Letters of guarantee | **3,603,500** | **1,368,684** | **201,724** | **23,050** | **5,196,958** |
| Acceptances | **439,312** | **-** | **-** | **-** | **439,312** |
| Irrevocable commitments to extend credit | **234,566** | **306,012** | **409,398** | **-** | **949,976** |
| **Total** | **5,677,490** | **2,278,334** | **1,426,432** | **23,050** | **9,405,306** |
| Allowance for impairment | | | | | **(329,406)** |
| **Net exposure** | | | | | **9,075,900** |

| | | | (SR'000) | | |
|---|---|---|---|---|---|
| 2021 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Letters of credit | 632,898 | 829,865 | 30,000 | - | 1,492,763 |
| Letters of guarantee | 2,966,846 | 1,453,665 | 201,724 | 23,050 | 4,645,285 |
| Acceptances | 245,223 | - | - | - | 245,223 |
| Irrevocable commitments to extend credit | - | 354,918 | - | - | 354,918 |
| Total | 3,844,967 | 2,638,448 | 231,724 | 23,050 | 6,738,189 |
| Allowance for impairment | | | | | (408,090) |
| Net exposure | | | | | 6,330,099 |

The outstanding unused portion of commitments as at December 31, 2022, which can be revoked unilaterally at any time by the Group, amounts to SR 8.31 billion (2021: SR 8.47 billion).

ii) The following table explains changes in gross carrying amount of the credit related commitments and contingencies to help explain their significance to the changes in the credit loss allowance for the same portfolio.

| | 2022 | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | (SR'000) | | | |
| **Gross carrying amount as at 1 January 2022** | **6,099,882** | **68,218** | **570,089** | **6,738,189** |
| Transfer to 12-month ECL | **19,778** | **(18,220)** | **(1,558)** | **-** |
| Transfer to lifetime ECL not credit – impaired | **(103,451)** | **103,451** | **-** | **-** |
| Transfer to lifetime ECL credit – impaired | **(18,180)** | **2,085** | **16,095** | **-** |
| New financial assets originated | **3,770,256** | **5,813** | **-** | **3,776,069** |
| Financial assets derecognised during the year | **(351,241)** | **(36,096)** | **(32,436)** | **(419,773)** |
| Other movements | **(598,723)** | **(85,116)** | **(5,340)** | **(689,179)** |
| **Gross carrying amount as at 31 December 2022** | **8,818,321** | **40,135** | **546,850** | **9,405,306** |

Other movements mainly represent changes in exposures for customers where there has been no change in the stage during the year.

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2021 | 5,537,717 | 138,446 | 480,558 | 6,156,721 |
| Transfer to 12-month ECL | 78,715 | (73,073) | (5,642) | - |
| Transfer to lifetime ECL not credit – impaired | (36,249) | 36,249 | - | - |
| Transfer to lifetime ECL credit – impaired | (116,121) | (31,823) | 147,944 | - |
| New financial assets originated | 792,465 | 10,866 | - | 803,331 |
| Financial assets derecognised during the year | (297,705) | (2,628) | (13,375) | (313,708) |
| Other movements | 141,060 | (9,819) | (39,396) | 91,845 |
| Gross carrying amount as at 31 December 2021 | 6,099,882 | 68,218 | 570,089 | 6,738,189 |

iii) An analysis of changes in allowance for impairment for credit related commitments and contingencies is as follows:

| | 2022 | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | (SR'000) | | | |
| **ECL as at January 1, 2022** | **13,569** | **8,153** | **386,368** | **408,090** |
| Transfer to 12-month ECL | **1,290** | **(511)** | **(779)** | **-** |
| Transfer to lifetime ECL not credit – Impaired | **(105)** | **105** | **-** | **-** |
| Transfer to lifetime ECL credit impaired | **(99)** | **1,042** | **(943)** | **-** |
| Net re-measurement of loss allowance | **(1,562)** | **(1,180)** | **22,115** | **19,373** |
| New financial assets originated | **9,460** | **11** | **-** | **9,471** |
| Financial assets that have been derecognized | **(840)** | **(7,446)** | **(22,040)** | **(30,326)** |
| Write offs / settlements | **-** | **-** | **(77,202)** | **(77,202)** |
| **ECL as at December 31, 2022** | **21,713** | **174** | **307,519** | **329,406** |

| | 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| ECL as at January 1, 2021 | 27,788 | 6,547 | 336,752 | 371,087 |
| Transfer to 12-month ECL | 1,217 | (556) | (661) | - |
| Transfer to lifetime ECL not credit – Impaired | (95) | 95 | - | - |
| Transfer to lifetime ECL credit impaired | (4,100) | (2,321) | 6,421 | - |
| Net re-measurement of loss allowance | (11,083) | 4,265 | 53,015 | 46,197 |
| New financial assets originated | 1,730 | 163 | - | 1,893 |
| Financial assets that have been derecognized | (1,888) | (40) | (9,159) | (11,087) |
| ECL as at December 31, 2021 | 13,569 | 8,153 | 386,368 | 408,090 |

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

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| Government and quasi government | **6,012** | 204,918 |
| Corporate | **8,540,698** | 6,481,854 |
| Banks and other financial institutions | **858,596** | 51,417 |
| | **9,405,306** | 6,738,189 |
| Allowance for impairment | **(329,406)** | (408,090) |
| **Total** | **9,075,900** | 6,330,099 |

## d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| Less than 1 year | **5,930** | 4,308 |
| 1 to 5 years | **6,298** | 1,944 |
| **Total** | **12,228** | 6,252 |

# 21. NET FINANCING AND INVESTMENT INCOME

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| **Income from investments and financing** | | |
| Financing | **2,782,377** | 2,266,814 |
| Investments held at amortised cost | **753,102** | 749,170 |
| Investments held at FVOCI | **206,253** | 61,555 |
| Shariah compliant derivatives | **150,136** | 45,966 |
| Due from banks and other financial institutions | **23,783** | 2,918 |
| Total | **3,915,651** | 3,126,423 |
| **Return on deposits and financial liabilities** | | |
| Customers' deposits | **957,695** | 269,077 |
| Due to banks and other financial institutions | **168,464** | 29,031 |
| Shariah compliant derivatives | **90,106** | 70,543 |
| Subordinated Sukuk | **82,080** | 27,439 |
| Finance cost on leased assets | **9,821** | 12,246 |
| Others | 107 | 950 |
| **Total** | **1,308,273** | 409,286 |
| **Net financing and investment income** | **2,607,378** | 2,717,137 |

All of the Group's income from investments and financing and return on deposits and financial liabilities is from Shari'ah approved products.

## 22. FEES FROM BANKING SERVICES, NET

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| **Fees from banking services - income** | | |
| Local share trading | **210,838** | 333,932 |
| Cards business | **360,840** | 318,875 |
| Mutual funds fees | **90,488** | 55,790 |
| Investment banking and advisory fee | **63,067** | 36,596 |
| Fees from remittance business | **62,057** | 71,811 |
| Trade finance | **58,865** | 42,972 |
| Financing related fees | **45,455** | 51,699 |
| International share trading | **23,514** | 54,259 |
| Others | **45,060** | 43,026 |
| Total fees from banking services | **960,184** | 1,008,960 |
| **Fees from banking services - expense** | | |
| Brokerage fees | **(116,382)** | (191,233) |
| Cards related expenses | **(334,368)** | (240,712) |
| Mutual funds related expenses | **(15,757)** | (16,059) |
| International share trading | **(5,441)** | (13,922) |
| Remittance business fee expense | **(67)** | (658) |
| Financing related expenses | **(87)** | - |
| Total fees expense on banking services | **(472,102)** | (462,584) |
| **Total** | **488,082** | 546,376 |

## 23. NET GAIN / (LOSS) ON FVIS FINANCIAL INSTRUMENTS

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Mutual funds | **43,928** | 4,045 |
| Equities | **(220)** | 965 |
| Derivatives | **6,954** | (16,623) |
| **Total** | **50,662** | (11,613) |

Net gain / (loss) on FVIS financial instruments includes net unrealized gain of SR 43.12 million (2021: unrealised loss of SR 9.10 million).

## 24. DIVIDEND INCOME

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Investments - FVOCI | **37,651** | - |
| Investments - FVIS | **7,303** | 804 |
| **Total** | **44,954** | 804 |

## 25. OTHER OPERATING INCOME

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Gain on sale of other real estate | **1,218** | 1,003 |
| Gain on sale of property and equipment | **52,801** | 168 |
| Others | **10,273** | 10,964 |
| **Total** | **64,292** | 12,135 |

## 26. EARNINGS PER SHARE

Basic earnings per share for the current and prior year is calculated by dividing the net income for the year attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk related costs) by the weighted average number of ordinary shares outstanding, as follows.

| | 2022<br>SR'000 | 2021<br>SR'000 |
|---|---|---|
| **Profit attributable to ordinary share holders**<br>(adjusted for Tier 1 sukuk related costs) | | |
| For basic and diluted earnings per share | 1,031,734 | 966,761 |
| | Shares | Shares |
| **Weighted-average number of ordinary shares** | | |
| For basic and diluted earnings per share | 820,000,000 | 820,000,000 |
| Basic and diluted earnings per share (in SR) | 1.26 | 1.18 |

The calculations of basic and diluted earnings per share are same for the Bank.

## 27. ZAKAT AND INCOME TAX

| | 2022<br>SR'000 | 2021<br>SR'000 |
|---|---|---|
| **Zakat** | | |
| Current year | 167,791 | 138,390 |
| Prior year | 11,048 | 17 |
| | 178,839 | 138,407 |
| **Income tax** | | |
| Current year | 7,950 | 8,448 |
| Prior year | 778 | 266 |
| | 8,728 | 8,714 |
| **Total** | 187,567 | 147,121 |

***Status of assessments:***

During 2018, the Bank reached a Settlement Agreement (the "Agreement") with Zakat, Tax and Customs Authority [ZATCA] to comply with the directives provided by Royal Decree No. (26/M) dated 20 Rabi Al-Awaal 1440 H (28 November 2018) and the Ministerial Resolution No. 1260 dated 5 Rabi Al-Thani 1440 H (12 December 2018), in order to settle outstanding zakat liabilities for the years from 2006 to 2017 against a full and final payment of SR 551 million, payable in 6 instalments over a period of 5 years ending 1 December 2023. The Bank paid the first instalment of SR 110 million in December 2018 and four instalments of SR 88.2 million each during the month of November 2019, November 2020, November 2021 and November 2022 respectively. Under the Agreement, the Bank and ZATCA also agreed to settle zakat for the year 2018 in accordance with the settlement framework provided by the Royal Decree and the Ministerial Resolution. As a result of the Agreement, all zakat related disputes between the Bank and the ZATCA pertaining to the years 2006 to 2017 stand resolved. In addition, Tax related disputes between the Bank and the ZATCA pertaining to years up to 2018 also stand resolved.

During the year 2020, the Bank received VAT assessment for the years 2018 and 2019 with an additional VAT of SR 39.3 million and associated delay fines amounting to SR 63.9 million. The Bank objected to the imposition of additional VAT and associated delay fines with the Tax Violation and Dispute Resolution Committee [TVDRC] as a result of which one of the assessment point was dropped by ZATCA which resulted in a reduction of the overall liability to approximately SR 37 million. The Bank lodged another objection against the decision rendered by TVDRC with the Tax Violation and Dispute Appeal Committee [TVDAC] on the remaining assessment points and awaits for the decision. Subsequently, however, the Bank decided to settle the additional tax of SR 39.3 million "under protest" in order to avail the amnesty so that associated delay fines are waived.

The Bank has filed its zakat and Income Tax returns with the ZATCA and paid zakat and income tax for the years up to and including the year 2021, except for the amounts agreed as a liability under the Agreement which will be paid to ZATCA as and when they fall due.

## 28. DIVIDENDS

During the current year, the Bank declared and paid interim cash dividend of SR 328 million equal to SR 0.40 per share (net of zakat) for the first half of 2022 and cash dividend of SR 287 million equal to SR 0.35 per share (net of zakat) for the second half of 2021 (2021: interim cash dividend of SR 287 million equal to SR 0.35 per share (net of zakat) for the first half of 2021). This dividend was calculated based on 820 million shares.

## 29. CASH AND CASH EQUIVALENTS

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

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Cash and balances with SAMA, excluding statutory deposit (note 4) | 1,590,210 | 1,074,988 |
| Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition | 747,610 | 665,048 |
| **Total** | 2,337,820 | 1,740,036 |

## 30. EMPLOYEE BENEFIT OBLIGATION

### 1. Defined Benefit obligation

a) General description

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

b) The amounts recognized in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Defined benefit obligation at the beginning of the year | 289,275 | 279,701 |
| Charge for the year | 34,503 | 49,820 |
| Finance cost | 6,847 | 5,479 |
| Benefits paid | (30,803) | (33,939) |
| Re-measurements | (8,012) | (11,786) |
| Defined benefit obligation at the end of the year | 291,810 | 289,275 |

c) Amounts recognized in statement of income

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Current service cost | 34,503 | 34,157 |
| Past service cost | - | 15,663 |
| | 34,503 | 49,820 |

d) Re-measurement recognised in consolidated other comprehensive income

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Changes in experience assumptions | 12,034 | (6,434) |
| Changes in financial assumptions | (20,046) | (5,352) |
| | (8,012) | (11,786) |

e) Principal actuarial assumptions used in estimating the defined benefit obligation included:

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 4.22% | 2.50%p.a |
| Expected rate of salary increase | 3.00% | 2.25%p.a |
| Withdrawal rate | 8%p.a | 8%p.a |
| Average duration | 7.12 years | 7.61 years |
| Normal retirement age | 60 years | 60 years |

f) The table below illustrates the sensitivity of the defined benefit obligation due to changes in the key assumptions and holding all other variables constant:

| | | 2022 SR'000 | |
|---|---|---|---|
| | Change in assumption | **Increase in assumption** | **Decrease in assumption** |
| Discount rate | 1% | **(19,369)** | **21,930** |
| Expected rate of salary increase | 1% | **23,499** | **(21,089)** |
| Withdrawal rate | 10% | **(2,048)** | **2,301** |

| | | 2021 SR'000 | |
|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 1% | (20,487) | 23,378 |
| Expected rate of salary increase | 1% | 24,720 | (22,040) |
| Withdrawal rate | 10% | (3,040) | 3,389 |

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit liability as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions are correlated.

g) Expected maturity analysis of undiscounted defined benefit obligation for the end of service plan is as follows:

| | SR'000 | | | | |
|---|---|---|---|---|---|
| | Less than a year | 1-2 years | 2-5 years | Over 5 years | Total |
| **December 31, 2022** | **32,430** | **27,181** | **79,571** | **268,706** | **407,888** |
| December 31, 2021 | 31,239 | 25,371 | 70,601 | 227,216 | 354,427 |

h) The expected contribution for next year amounts to SR 44.63 million (2021: SR 39.77 million) comprising of service cost and finance cost.

### 2. Defined Contribution obligation

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SR 47.31 million (2021: SR 44.77 million).

## 31. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (Chief Executive Officer) in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

For management reporting purposes, the Group is organized into following main operating segments:

**Personal banking**

Deposit, credit and investment products for individuals.

**Corporate banking**

Financing, deposits and other credit products for corporate, small to medium sized business and institutional customers.

**Treasury**

Treasury includes money market, foreign exchange, trading and treasury services.

**Brokerage and asset management**

Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

**Others**

Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

| **2022** | **Personal banking** | **Corporate banking** | **Treasury** | **Brokerage and asset management** | **Others** | **Total** |
|---|---|---|---|---|---|---|
| Total assets | **35,719,471** | **33,694,784** | **43,412,881** | **2,803,871** | **217,790** | **115,848,797** |
| Total liabilities | **49,072,703** | **35,339,718** | **16,253,828** | **1,573,588** | **(81)** | **102,239,756** |
| **Total operating income** | **1,816,030** | **807,534** | **814,893** | **340,530** | **(283,677)** | **3,495,310** |
| of which: | | | | | | |
| - Net financing and investment income | **1,380,374** | **691,459** | **499,053** | **56,938** | **(20,446)** | **2,607,378** |
| - Fees from banking services, net | **213,351** | **65,459** | **4,029** | **249,986** | **(44,743)** | **488,082** |
| - Net (loss) / gain on FVIS financial instruments | **(1,999)** | **(506)** | **26,291** | **26,876** | **-** | **50,662** |
| **Total operating expenses** | **(1,353,642)** | **(473,788)** | **(189,575)** | **(190,774)** | **2,098** | **(2,205,681)** |
| of which | | | | | | |
| - Impairment charge for financing and other financial assets, net | **(48,131)** | **(222,838)** | **(15,346)** | **-** | **-** | **(286,315)** |
| - Impairment charge for other real estate | **-** | **-** | **-** | **-** | **-** | **-** |
| - Depreciation and amortisation | **(149,137)** | **(20,317)** | **(17,836)** | **(10,301)** | **-** | **(197,591)** |
| Share in net income of an associate | **-** | **-** | **-** | **1,004** | **6,022** | **7,026** |
| Net income / (loss) before zakat and income tax | **462,388** | **333,746** | **625,318** | **150,760** | **(275,557)** | **1,296,655** |

| **2021** | Personal banking | Corporate banking | Treasury | Brokerage and asset management | Others | Total |
|---|---|---|---|---|---|---|
| Total assets | 34,768,520 | 28,579,132 | 36,691,354 | 2,577,924 | 210,391 | 102,827,321 |
| Total liabilities | 49,372,448 | 27,578,632 | 10,506,992 | 1,474,930 | (752) | 88,932,250 |
| **Total operating income** | 1,912,639 | 680,043 | 861,750 | 311,223 | (218,490) | 3,547,165 |
| of which: | | | | | | |
| - Net financing and investment income | 1,498,571 | 601,392 | 580,944 | 43,721 | (7,491) | 2,717,137 |
| - Fees from banking services, net | 261,882 | 53,123 | 341 | 258,371 | (27,341) | 546,376 |
| - Net (loss) / gain on FVIS financial instruments | (9,994) | (5,154) | (1,475) | 6,354 | (1,344) | (11,613) |
| **Total operating expenses** | (1,141,760) | (984,484) | (140,859) | (177,629) | 3,364 | (2,441,368) |
| of which | | | | | | |
| - Impairment charge for financing and other financial assets, net | (4,332) | (620,121) | (113) | - | - | (624,566) |
| - Impairment charge for other real estate | - | (46,913) | - | - | - | (46,913) |
| - Depreciation and amortisation | (141,127) | (29,929) | (16,072) | (11,595) | - | (198,723) |
| Share in net income of an associate | - | - | - | 1,144 | 6,866 | 8,010 |
| Net income / (loss) before zakat and income tax | 770,879 | (304,441) | 720,891 | 134,738 | (168,870) | 1,153,197 |

a) The Group's credit exposure by operating segment is as follows:

| 2022 | Personal banking | Corporate banking | Brokerage and asset management | Treasury | Total |
|---|---|---|---|---|---|
| | (SR'000) | | | | |
| Assets | **35,817,820** | **33,141,522** | **1,694,712** | **32,973,837** | **103,627,891** |
| Commitments and contingencies | **-** | **7,358,615** | **-** | **-** | **7,358,615** |
| Derivatives | **-** | **-** | **-** | **789,045** | **789,045** |

| 2021 | Personal banking | Corporate banking | Brokerage and asset management | Treasury | Total |
|---|---|---|---|---|---|
| | (SR'000) | | | | |
| Assets | 32,456,164 | 28,026,271 | 1,945,957 | 31,831,714 | 94,260,106 |
| Commitments and contingencies | - | 5,707,874 | - | - | 5,707,874 |
| Derivatives | - | - | - | 129,841 | 129,841 |

Credit exposure comprises the carrying value of the consolidated assets excluding cash, property and equipment, other real estate, investment in equities and mutual funds and certain other assets. Additionally, the credit equivalent values of commitments, contingencies and derivatives are also included in the credit exposure.

## 32. FINANCIAL RISK MANAGEMENT

### 1. Credit Risk

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has set up Board Risk Committee (BRC) which has the responsibility to monitor the overall risk process within the Bank.

The BRC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The BRC is responsible for supervising risk management decisions and monitoring risk levels and reviewing Risk Management reports / Dashboards on a regular basis. BRC is mandated to escalate to the Board any risk management issue which warrants attention of the Board of Directors of the Bank.

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to financing, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as credit related commitments.

The Group assesses the probability of default of counterparties using internal rating tools. Also, the Group uses the external ratings, of the major rating agency, where available.

The Group attempts to control credit risk by monitoring credit exposures, 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 monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6. For details of the composition of financing refer to note 7. Information on credit risk relating to shari'ah compliant derivative instruments is provided in note 11 and for commitments and contingencies in note 20. The information on Bank's maximum credit exposure by business segment is given in note 31.

The Group's internal credit rating grading is as follows:

| BAJ Internal Grade | Description | Band | PD Lower Bound | PD Upper Bound | Mapping to Moodys Master Scale | Moody's Master Scale Mid-Point PD |
|---|---|---|---|---|---|---|
| 1A | Superior | 1 | 0.000% | 0.010% | A2 | 0.0109% |
| 2A | Excellent | 2 | 0.010% | 0.015% | A2 | 0.0109% |
| 2B | Excellent | | 0.015% | 0.023% | A2 | 0.0109% |
| 2C | Excellent | | 0.023% | 0.035% | A3 | 0.0389% |
| 3A | Very Good | 3 | 0.035% | 0.053% | A3 | 0.0389% |
| 3B | Very Good | | 0.053% | 0.080% | Baa1 | 0.0900% |
| 3C | Very Good | | 0.080% | 0.120% | Baa1 | 0.0900% |
| 4A | Good | 4 | 0.120% | 0.190% | Baa2 | 0.1700% |
| 4B | Good | | 0.190% | 0.280% | Baa2 | 0.1700% |
| 4C | Good | | 0.280% | 0.430% | Baa3 | 0.4200% |
| 5A | Acceptable | 5 | 0.430% | 0.700% | Baa3 | 0.4200% |
| 5B | Acceptable | | 0.700% | 1.000% | Ba1 | 0.8700% |
| 5C | Acceptable | | 1.000% | 1.500% | Ba2 | 1.5600% |
| 6A | Acceptable with Care | 6 | 1.500% | 2.300% | Ba2 | 1.5600% |
| 6B | Acceptable with Care, Not Rated, Start Up | | 2.300% | 3.500% | Ba3 | 2.8100% |
| 6C | Acceptable with Care, Watch list | | 3.500% | 5.000% | B1 | 4.6800% |
| 7A | Special Attention | 7 | 5.000% | 8.000% | B2 | 7.1600% |
| 7B | Special Attention | | 8.000% | 12.000% | B3 | 11.6200% |
| 7C | Special Attention | | 12.000% | 100.000% | Caa1 | 17.3816% |
| 8A | Default -Sub-Standard | 8 | 100.000% | 100.000% | C | 100.0000% |
| 9A | Default -Doubtful | 9 | 100.000% | 100.000% | C | 100.0000% |
| 9B | Default - Loss | | 100.000% | 100.000% | C | 100.0000% |

## 2. Credit quality analysis

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

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| **Due from banks and other financial institutions** | | | | |
| Investment grade | 1,353,913 | - | - | 1,353,913 |
| Non-investment grade | 112,549 | - | - | 112,549 |
| Unrated | 226,818 | - | - | 226,818 |
| | 1,693,280 | - | - | 1,693,280 |
| Allowance for ECL | (4,477) | - | - | (4,477) |
| Carrying amount | 1,688,803 | - | - | 1,688,803 |
| **Financing to customers at amortized cost** | | | | |
| Low – fair risk | 66,966,856 | - | - | 66,966,856 |
| Watch list | - | 2,840,214 | 2,269,640 | 5,109,854 |
| Default | - | - | 1,240,944 | 1,240,944 |
| | 66,966,856 | 2,840,214 | 3,510,584 | 73,317,654 |
| Allowance for ECL | (248,641) | (305,843) | (2,164,161) | (2,718,645) |
| Carrying amount | 66,718,215 | 2,534,371 | 1,346,423 | 70,599,009 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Due from banks and other financial institutions | | | | |
| Investment grade | 575,071 | - | - | 575,071 |
| Non-investment grade | 50,043 | - | - | 50,043 |
| Unrated | 36,718 | - | 3,216 | 39,934 |
| | 661,832 | - | 3,216 | 665,048 |
| Allowance for ECL | (1,546) | - | - | (1,546) |
| Carrying amount | 660,286 | - | 3,216 | 663,502 |
| Financing to customers at amortized cost | | | | |
| Low – fair risk | 57,840,055 | - | - | 57,840,055 |
| Watch list | - | 3,429,865 | 2,423,438 | 5,853,303 |
| Default | - | - | 1,379,115 | 1,379,115 |
| | 57,840,055 | 3,429,865 | 3,802,553 | 65,072,473 |
| Allowance for ECL | (170,741) | (222,807) | (2,244,449) | (2,637,997) |
| Carrying amount | 57,669,314 | 3,207,058 | 1,558,104 | 62,434,476 |

a) The following table sets out information about the credit quality of financing to customers at amortized cost on a product basis.

| | **December 31, 2022** | | | |
|---|---|---|---|---|
| **Credit cards** | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Financing to customers at amortized cost** | | | | |
| Low – fair risk | **751,175** | **-** | **-** | **751,175** |
| Watch list | **-** | **16,090** | **-** | **16,090** |
| Default | **-** | **-** | **62,135** | **62,135** |
| | **751,175** | **16,090** | **62,135** | **829,400** |
| Allowance for ECL | **(25,261)** | **(1,479)** | **(54,982)** | **(81,722)** |
| Carrying amount | **725,914** | **14,611** | **7,153** | **747,678** |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| Credit cards | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Financing to customers at amortized cost | | | | |
| Low – fair risk | 667,449 | - | - | 667,449 |
| Watch list | - | 18,096 | - | 18,096 |
| Default | - | - | 60,130 | 60,130 |
| | 667,449 | 18,096 | 60,130 | 745,675 |
| Allowance for ECL | (24,883) | (1,656) | (39,084) | (65,623) |
| Carrying amount | 642,566 | 16,440 | 21,046 | 680,052 |

| **Consumer financing** | **December 31, 2022**<br>**12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
|---|---|---|---|---|
| | **(SR'000)** | | | |
| **Financing to customers at amortized cost** | | | | |
| Low – fair risk | **29,836,618** | **-** | **-** | **29,836,618** |
| Watch list | **-** | **220,776** | **-** | **220,776** |
| Default | **-** | **-** | **304,654** | **304,654** |
| | **29,836,618** | **220,776** | **304,654** | **30,362,048** |
| Allowance for ECL | **(53,134)** | **(1,714)** | **(165,913)** | **(220,761)** |
| Carrying amount | **29,783,484** | **219,062** | **138,741** | **30,141,287** |

| Consumer financing | December 31, 2021<br>12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|---|---|---|---|
| | (SR'000) | | | |
| Financing to customers at amortized cost | | | | |
| Low – fair risk | 27,612,644 | - | - | 27,612,644 |
| Watch list | - | 214,325 | - | 214,325 |
| Default | - | - | 264,663 | 264,663 |
| | 27,612,644 | 214,325 | 264,663 | 28,091,632 |
| Allowance for ECL | (65,668) | (1,620) | (158,282) | (225,570) |
| Carrying amount | 27,546,976 | 212,705 | 106,381 | 27,866,062 |

| **Commercial financing** | **December 31, 2022**<br>**12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
|---|---|---|---|---|
| | **(SR'000)** | | | |
| **Financing to customers at amortized cost** | | | | |
| Low – fair risk | **36,083,341** | **-** | **-** | **36,083,341** |
| Watch list | **-** | **2,600,580** | **2,269,640** | **4,870,220** |
| Default | **-** | **-** | **866,744** | **866,744** |
| | **36,083,341** | **2,600,580** | **3,136,384** | **41,820,305** |
| Allowance for ECL | **(169,866)** | **(302,609)** | **(1,939,564)** | **(2,412,039)** |
| Carrying amount | **35,913,475** | **2,297,971** | **1,196,820** | **39,408,266** |

| Commercial financing | December 31, 2021<br>12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|---|---|---|---|
| | (SR'000) | | | |
| Financing to customers at amortized cost | | | | |
| Low – fair risk | 29,223,126 | - | - | 29,223,126 |
| Watch list | - | 3,197,444 | 2,423,438 | 5,620,882 |
| Default | - | - | 1,054,322 | 1,054,322 |
| | 29,223,126 | 3,197,444 | 3,477,760 | 35,898,330 |
| Allowance for ECL | (79,634) | (219,531) | (2,047,083) | (2,346,248) |
| Carrying amount | 29,143,492 | 2,977,913 | 1,430,677 | 33,552,082 |

| **Others** | **December 31, 2022**<br>**12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
|---|---|---|---|---|
| | **(SR'000)** | | | |
| **Financing to customers at amortized cost** | | | | |
| Low – fair risk | **295,722** | **-** | **-** | **295,722** |
| Watch list | **-** | **2,768** | **-** | **2,768** |
| Default | **-** | **-** | **7,411** | **7,411** |
| | **295,722** | **2,768** | **7,411** | **305,901** |
| Allowance for ECL | **(380)** | **(41)** | **(3,702)** | **(4,123)** |
| Carrying amount | **295,342** | **2,727** | **3,709** | **301,778** |

| Others | December 31, 2021<br>12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|---|---|---|---|
| | (SR'000) | | | |
| Financing to customers at amortized cost | | | | |
| Low – fair risk | 336,836 | - | - | 336,836 |
| Watch list | - | - | - | - |
| Default | - | - | - | - |
| | 336,836 | - | - | 336,836 |
| Allowance for ECL | (556) | - | - | (556) |
| Carrying amount | 336,280 | - | - | 336,280 |

The following table sets out information about the credit quality of debt investments.

| | **December 31, 2022**<br>**12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
|---|---|---|---|---|
| | **(SR'000)** | | | |
| **Debt investment securities at amortized cost** | | | | |
| Low – fair risk | **23,287,313** | **-** | **-** | **23,287,313** |
| Allowance for ECL | **(13,020)** | **-** | **-** | **(13,020)** |
| Carrying amount | **23,274,293** | **-** | **-** | **23,274,293** |
| **Debt investment securities at FVOCI** | | | | |
| Low – fair risk | **8,072,243** | **-** | **-** | **8,072,243** |
| Allowance for ECL | **(6,457)** | **-** | **-** | **(6,457)** |
| Carrying amount | **8,065,786** | **-** | **-** | **8,065,786** |

The following table sets out information about the credit quality of debt investments. (continued)

| | December 31, 2021<br>12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|---|---|---|---|
| | (SR'000) | | | |
| Debt investment securities at amortized cost | | | | |
| Low – fair risk | 27,109,838 | - | - | 27,109,838 |
| Allowance for ECL | (6,186) | - | - | (6,186) |
| Carrying amount | 27,103,652 | - | - | 27,103,652 |
| Debt investment securities at FVOCI | | | | |
| Low – fair risk | 4,058,901 | - | - | 4,058,901 |
| Allowance for ECL | (425) | - | - | (425) |
| Carrying amount | 4,058,476 | - | - | 4,058,476 |

The following table sets out information about the credit quality of Commitments and contingencies.

| | **December 31, 2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Commitments and contingencies** | | | | |
| Low – fair risk | **8,818,321** | **-** | **-** | **8,818,321** |
| Watch list | **-** | **40,135** | **468,891** | **509,026** |
| Default | **-** | **-** | **77,959** | **77,959** |
| | **8,818,321** | **40,135** | **546,850** | **9,405,306** |
| Allowance for ECL | **(21,713)** | **(174)** | **(307,519)** | **(329,406)** |
| Carrying amount (net of provision) | **8,796,608** | **39,961** | **239,331** | **9,075,900** |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Commitments and contingencies | | | | |
| Low – fair risk | 6,099,882 | - | - | 6,099,882 |
| Watch list | - | 68,218 | 457,673 | 525,891 |
| Default | - | - | 112,416 | 112,416 |
| | 6,099,882 | 68,218 | 570,089 | 6,738,189 |
| Allowance for ECL | (13,569) | (8,153) | (386,368) | (408,090) |
| Carrying amount (net of provision) | 6,086,313 | 60,065 | 183,721 | 6,330,099 |

## 3. Amounts arising from ECL – Significant increase in credit risk ("SICR")

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group groups it's financing into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When financings are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 financing also include facilities where the credit risk has improved and the financing has been reclassified from Stage 2.

Stage 2: When a financing has shown a significant increase in credit risk ("SICR") since origination, the Group records an allowance for the Lifetime ECL. Stage 2 financing also include facilities, where the credit risk has improved and the financing has been reclassified from Stage 3.

Stage 3: Financing considered credit-impaired. The Group records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective yield rate. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

### a) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Significant increase in credit risk is also evaluated based on the credit monitoring framework, including decrease in internal rating and macroeconomic factors and is subject to management overrides.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify SICR by regular reviews to confirm that:

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

**Credit risk grades**

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

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

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

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

**b) Generating the term structure of PD**

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, oil prices, real wages and unemployment rates. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the credit risk managers and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

**c) Definition of 'Default'**

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Group considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

#### d) Modified financial assets

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing whose terms have been modified may be derecognized and the renegotiated financing recognized as a new financing at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financings to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, financing forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants. Both retail and corporate financing are subject to the forbearance/remedial policy. The Bank Board Risk Committee regularly reviews reports on forbearance activities.

The following tables refer to modified financial assets where modification does not result in derecognition.

| | **2022** | 2021 |
|---|---|---|
| | **SR '000** | SR '000 |
| **Financial assets (with loss allowance based on lifetime ECL) modified during the year** | | |
| Gross carrying amount before modification | **415,962** | 1,774,525 |
| Loss allowance before modification | **(135,670)** | (698,237) |
| Net amortised cost before modification | **280,292** | 1,076,288 |
| Net modification gain/(loss) | **-** | - |
| Net amortised cost after modification | **280,292** | 1,076,288 |
| **Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL** | | |
| Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL | **78,885** | 192,381 |

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect profit and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a SICR and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the ECL reverts to being measured at an amount equal to 12-month ECL.

#### e) Incorporation of forward looking information

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

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

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2022 included the following key indicators.

- GDP
- Oil prices
- Unemployment rates
- Real wages / inflation rate

Predicted relationships between the key indicators and default / loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years. The Group has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

| Economic Indicators | Forecast calendar years used in 2022 ECL model | | | Forecast calendar years used in 2021 ECL model | | |
|---|---|---|---|---|---|---|
| | **2023** | **2024** | **2025** | 2022 | 2023 | 2024 |
| GDP | **3,022.88** | **3,090.29** | **3,148.53** | 2773.25 | 2828.54 | 2,893.17 |
| Brent oil prices | **83.19** | **70.20** | **68.98** | 65.88 | 64.24 | 64.85 |

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

| **2022** | Due from Banks and investments | Financing | credit related commitment and financial guarantees | Total |
|---|---|---|---|---|
| | | | SR '000' | |
| Most likely | **23,954** | **2,718,945** | **329,406** | **3,072,305** |
| More optimistic (Upside) | **23,643** | **2,598,866** | **313,204** | **2,935,713** |
| More pessimistic (Downside) | **24,199** | **3,022,839** | **392,496** | **3,439,534** |

| 2021 | Due from Banks and investments | Financing | credit related commitment and financial guarantees | Total |
|---|---|---|---|---|
| | | | SR '000' | |
| Most likely | 8,157 | 2,637,997 | 408,090 | 3,054,244 |
| More optimistic (Upside) | 7,917 | 2,264,409 | 372,106 | 2,644,432 |
| More pessimistic (Downside) | 10,348 | 3,030,056 | 486,502 | 3,526,906 |

**f) Measurement of ECL**

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD for each line of business based on expert judgment and historical experience The Group has made an assessment of the data driven approaches for LGD. However, on account of data limitations and associated challenges, the Group uses regulatory LGD benchmarks, based on Basel guidelines and LGD estimates determined in line with National Credit Data Pooling Consortium report.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a credit related commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a financing and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a financing with fixed repayment terms.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year-end:

| Assumptions sensitized | **2022 SR '000** | 2021 SR '000 |
|---|---|---|
| Statement of income Impact | | |
| Macro-economic factors: | | |
| Decrease in $10 oil price per barrel | **99,901** | 159,049 |
| Decrease in $20 oil price per barrel | **199,801** | 318,098 |
| Decrease in GDP by 5% | **53,344** | 84,928 |
| Increase in inflation by 10% | **106,689** | 169,857 |

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV (financing to value) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Grouping is subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

| | | External benchmarks used | |
|---|---|---|---|
| | Exposure (SR '000) | PD | LGD |
| Due from Banks and other financial institutions | 1,688,803 | Moody's / FITCH / S&P – lower of the two ratings for each bank is considered for assignment of Risk Weights under Standardised Approach | N/A |

## 4. Ageing of financing (past due but not impaired)

| | (SR '000) | | | |
|---|---|---|---|---|
| **2022** | **Credit Cards** | **Consumer financing** | **Commercial financing** | **Total** |
| From 1 day to 30 days | **15,696** | **1,450,690** | **126,294** | **1,592,680** |
| From 31 Days to 90 days | **15,595** | **216,053** | **226,417** | **458,065** |
| From 91 Days to 180 days | **-** | **2,121** | **13,736** | **15,857** |
| More than 180 days | **-** | **67** | **842,795** | **842,862** |
| **Total financing** | **31,291** | **1,668,931** | **1,209,242** | **2,909,464** |

| | (SR '000) | | | |
|---|---|---|---|---|
| 2021 | Credit Cards | Consumer financing | Commercial financing | Total |
| From 1 day to 30 days | 17,736 | 753,676 | 33,481 | 804,893 |
| From 31 Days to 90 days | 13,972 | 205,214 | 15,803 | 234,989 |
| From 91 Days to 180 days | - | 130 | 60,478 | 60,608 |
| More than 180 days | - | - | 471,433 | 471,433 |
| Total financing | 31,708 | 959,020 | 581,195 | 1,571,923 |

## 5. Economic Sector risk concentration

Economic Sector risk concentration for the financing and allowance for impairment has been disclosed in note 7(g).

## 6. Collateral

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

The amount of collateral held as security for financing along with financing to collateral value percentage that are credit-impaired are as follows:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| Less than 50% | 33,074 | 55,995 |
| 51-70% | 5,682 | 29,532 |
| More than 70% | 830,484 | 877,331 |
| Total | 869,240 | 962,858 |

### 7. Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

| | 2022 SR'000 | 2021 SR'000 |
|---|---|---|
| **Assets** | | |
| Due from banks and other financial institutions (note 5) | 1,688,803 | 663,502 |
| Investments at FVOCI (note 6) | 8,065,786 | 4,058,476 |
| Investments at amortised cost (note 6) | 23,274,293 | 27,103,652 |
| Financing, net (note 7) | 70,599,009 | 62,434,476 |
| Other assets - margin deposits against financial instruments (note 8) | 18,544 | 165,656 |
| Total assets | 103,646,435 | 94,425,762 |
| Contingencies and commitments, net (note 20) | 9,075,900 | 6,330,099 |
| Derivatives - positive fair value (note 11) | 312,642 | 12,058 |
| **Total maximum exposure** | 113,034,977 | 100,767,919 |

## 33. GEOGRAPHICAL CONCENTRATION

a) The distribution by geographical region for major categories of financial assets, financial liabilities, commitments and contingencies, and credit exposure are as follows:

(SR'000)

| 2022 | Kingdom of Saudi Arabia | GCC and Middle East | Europe | North America | South East Asia | Other countries | Total |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| **Cash and balances with SAMA** | | | | | | | |
| Cash in hand | 860,484 | - | - | - | - | - | 860,484 |
| Balances with SAMA | 5,382,737 | - | - | - | - | - | 5,382,737 |
| **Due from Banks and other financial institutions** | | | | | | | |
| Current accounts | 227,405 | 38,257 | 162,893 | 229,904 | 22,586 | 45,330 | 726,375 |
| Money market placements | 56,703 | - | - | - | - | - | 56,703 |
| Reverse repos | 905,725 | - | - | - | - | - | 905,725 |
| **Investments** | | | | | | | |
| Held as FVIS | 103,319 | - | - | 1,057,415 | - | - | 1,160,734 |
| Held as FVOCI | 9,996,616 | 201,504 | 906 | - | - | - | 10,199,026 |
| Held at amortised cost | 23,274,293 | - | - | - | - | - | 23,274,293 |
| **Positive fair value of derivatives** | | | | | | | |
| Held for trading | 56,568 | 49,771 | 50,886 | - | - | - | 157,225 |
| Held as cash flow hedges | 49,227 | 67,354 | 38,836 | - | - | - | 155,417 |
| **Financing, net** | | | | | | | |
| Credit Cards | 747,678 | - | - | - | - | - | 747,678 |
| Consumer Financing | 30,141,287 | - | - | - | - | - | 30,141,287 |
| Commercial Financing | 38,839,104 | 475,169 | - | - | - | 93,993 | 39,408,266 |
| Others | 301,778 | - | - | - | - | - | 301,778 |
| **Investment in an associate** | 217,871 | - | - | - | - | - | 217,871 |
| **Other assets** | 495,023 | - | 18,544 | - | - | - | 513,567 |
| **Total** | 111,655,818 | 832,055 | 272,065 | 1,287,319 | 22,586 | 139,323 | 114,209,166 |

| 2022 | Kingdom of Saudi Arabia | GCC and Middle East | Europe | North America | South East Asia | Other countries | Total |
|---|---|---|---|---|---|---|---|
| | | | | (SR'000) | | | |
| **Financial liabilities** | | | | | | | |
| **Due to banks and other financial institutions** | | | | | | | |
| Current accounts | 218,820 | 257,970 | 37,564 | 227 | 874 | 24,370 | 539,825 |
| Money market deposits | 6,713,679 | - | - | - | - | - | 6,713,679 |
| Repo agreement borrowing | 4,571,470 | - | 291,713 | - | - | - | 4,863,183 |
| **Customer deposits** | | | | | | | |
| Demand | 38,086,968 | 30,143 | 99,982 | - | - | 116 | 38,217,209 |
| Saving | 730,534 | - | - | - | - | - | 730,534 |
| Customers' time investments | 44,930,750 | - | - | - | - | - | 44,930,750 |
| Other | 2,142,852 | - | - | - | - | 1,494 | 2,144,346 |
| **Negative fair value of derivatives** | | | | | | | |
| Held for trading | 69,643 | 29,007 | 52,063 | - | - | - | 150,713 |
| Held as cash flow hedges | 5,902 | 27,094 | 15,297 | - | - | - | 48,293 |
| Subordinated Sukuk | 2,002,819 | - | - | - | - | - | 2,002,819 |
| Other liabilities | 1,603,249 | - | - | - | - | - | 1,603,249 |
| Total | 101,076,686 | 344,214 | 496,619 | 227 | 874 | 25,980 | 101,944,600 |
| **Commitments and Contingencies** | | | | | | | |
| Letters of credit | 2,017,733 | 40,788 | 241,807 | - | - | 518,732 | 2,819,060 |
| Letters of guarantee | 4,601,797 | 237,239 | 6,444 | 47,246 | 1,125 | 303,107 | 5,196,958 |
| Acceptances | 422,743 | 5,477 | - | - | - | 11,092 | 439,312 |
| Irrevocable commitments to extend credit | 943,964 | 6,012 | - | - | - | - | 949,976 |
| | 7,986,237 | 289,516 | 248,251 | 47,246 | 1,125 | 832,931 | 9,405,306 |
| **Credit exposure (credit equivalent)** | | | | | | | |
| **Commitments and contingencies** | | | | | | | |
| Letters of credit | 1,008,866 | 20,394 | 120,904 | - | - | 259,366 | 1,409,530 |
| Letters of guarantee | 4,601,797 | 237,239 | 6,444 | 47,246 | 1,125 | 303,107 | 5,196,958 |
| Acceptances | 422,743 | 5,477 | - | - | - | 11,092 | 439,312 |
| Irrevocable commitments to extend credit | 311,613 | 1,202 | - | - | - | - | 312,815 |
| **Derivatives** | | | | | | | |
| Held for trading | 143,560 | 144,555 | 197,449 | - | - | - | 485,564 |
| Held for hedging | 83,600 | 142,788 | 77,093 | - | - | - | 303,481 |
| | 6,572,179 | 551,655 | 401,890 | 47,246 | 1,125 | 573,565 | 8,147,660 |

| 2021 | Kingdom of Saudi Arabia | GCC and Middle East | Europe | North America | South East Asia | Other countries | Total |
|---|---|---|---|---|---|---|---|
| | | | | (SR'000) | | | |
| Financial Assets | | | | | | | |
| Cash and balances with SAMA | | | | | | | |
| Cash in hand | 969,993 | - | - | - | - | - | 969,993 |
| Balances with SAMA | 4,416,878 | - | - | - | - | - | 4,416,878 |
| Due from Banks and other financial institutions | | | | | | | |
| Current accounts | 27,017 | 61,519 | 114,730 | 391,974 | 18,251 | 33,120 | 646,611 |
| Money market placements | 16,891 | - | - | - | - | - | 16,891 |
| Investments | | | | | | | |
| Held as FVIS | 260,173 | - | - | 6,619 | - | - | 266,792 |
| Held as FVOCI | 3,925,874 | 136,932 | 555 | - | - | - | 4,063,361 |
| Held at amortised cost | 27,103,652 | - | - | - | - | - | 27,103,652 |
| Positive fair value of derivatives | | | | | | | |
| Held for trading | 5,856 | 956 | 421 | - | - | - | 7233 |
| Held as cash flow hedges | 4,825 | - | - | - | - | - | 4,825 |
| Financing, net | | | | | | | |
| Credit Cards | 680,052 | - | - | - | - | - | 680,052 |
| Consumer Financing | 27,866,062 | - | - | - | - | - | 27,866,062 |
| Commercial Financing | 32,558,905 | 568,673 | - | - | - | 424,504 | 33,552,082 |
| Others | 336,280 | - | - | - | - | - | 336,280 |
| Investment in an associate | 211,143 | - | - | - | - | - | 211,143 |
| Other assets | 764,347 | - | 165,656 | - | - | - | 930,003 |
| Total | 99,147,948 | 768,080 | 281,362 | 398,593 | 18,251 | 457,624 | 101,071,858 |

| 2021 | Kingdom of Saudi Arabia | GCC and Middle East | Europe | North America | South East Asia | Other countries | Total |
|---|---|---|---|---|---|---|---|
| | | | | (SR'000) | | | |
| Financial liabilities | | | | | | | |
| Due to banks and other financial institutions | | | | | | | |
| Current accounts | 93,385 | 57,739 | 42,779 | 224 | - | 41,859 | 235,986 |
| Money market deposits | 4,772,371 | 782,175 | - | - | 330,440 | - | 5,884,986 |
| Repo agreement borrowing | - | - | 289,108 | - | - | - | 289,108 |
| Customer deposits | | | | | | | |
| Demand | 38,470,738 | 33,750 | 21 | - | - | 116 | 38,504,625 |
| Saving | 983,845 | - | - | - | - | - | 983,845 |
| Customers' time investments | 37,057,540 | - | - | - | - | - | 37,057,540 |
| Other | 1,818,739 | - | - | - | - | 400 | 1,819,139 |
| Negative fair value of derivatives | | | | | | | |
| Held for trading | 4,870 | 1,430 | 14,666 | - | - | 20 | 20,986 |
| Held as cash flow hedges | 23,368 | 42,577 | 140,378 | - | - | - | 206,323 |
| Subordinated Sukuk | 1,994,685 | - | - | - | - | - | 1,994,685 |
| Other liabilities | 1,592,822 | - | - | - | - | - | 1,592,822 |
| Total | 86,812,363 | 917,671 | 486,952 | 224 | 330,440 | 42,395 | 88,590,045 |
| Commitments and Contingencies | | | | | | | |
| Letters of credit | 1,492,763 | - | - | - | - | - | 1,492,763 |
| Letters of guarantee | 4,457,756 | 139,895 | 11,275 | 34,946 | 1,125 | 288 | 4,645,285 |
| Acceptances | 245,223 | - | - | - | - | - | 245,223 |
| Irrevocable commitments to extend credit | 150,000 | 110,806 | - | - | - | 94,112 | 354,918 |
| | 6,345,742 | 250,701 | 11,275 | 34,946 | 1,125 | 94,400 | 6,738,189 |
| Credit exposure (credit equivalent) | | | | | | | |
| Commitments and contingencies | | | | | | | |
| Letters of credit | 746,382 | - | - | - | - | - | 746,382 |
| Letters of guarantee | 4,457,756 | 139,895 | 11,275 | 34,946 | 1,125 | 288 | 4,645,285 |
| Acceptances | 245,223 | - | - | - | - | - | 245,223 |
| Irrevocable commitments to extend credit | 30,000 | 22,161 | - | - | - | 18,822 | 70,983 |
| Derivatives | | | | | | | |
| Held for trading | 45,527 | 4 | 44,692 | - | - | - | 90,223 |
| Held for hedging | 35,671 | 101 | 3,846 | - | - | - | 39,618 |
| | 5,560,559 | 162,161 | 59,813 | 34,946 | 1,125 | 19,110 | 5,837,714 |

Certain international mutual funds domicile in the Kingdom of Saudi Arabia that have been classified under international category in note 6(a) to these consolidated financial statements have been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

b) The distributions by geographical concentration of non-performing financing and allowance for impairment are as follows:

| | **Non-performing financing, net** | | **Allowance for impairment** | |
|---|---|---|---|---|
| | **2022 SR' 000** | 2021 SR' 000 | **2022 SR' 000** | 2021 SR' 000 |
| **Kingdom of Saudi Arabia** | | | | |
| Credit cards | **62,135** | 60,130 | **81,722** | 65,623 |
| Consumer financing | **304,654** | 264,663 | **220,761** | 225,570 |
| Commercial financing | **866,744** | 1,054,322 | **2,407,687** | 2,341,454 |
| Others | **7,411** | - | **4,123** | 556 |
| **GCC and Middle East** | **1,240,944** | 1,379,115 | **2,714,293** | 2,633,203 |
| Commercial financing | **-** | - | **4,233** | 2,201 |
| Other countries | | | | |
| Commercial financing | **-** | - | **119** | 2,593 |
| Total | **1,240,944** | 1,379,115 | **2,718,645** | 2,637,997 |

## 34. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as profit rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book is managed and monitored using Value at Risk (VaR) methodology and sensitivity analysis. The market risk for the non-trading book is managed and monitored using sensitivity analysis.

## a) Market Risk - Trading Book

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

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

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses historical methodology models to assess the possible changes in the market value of the trading book based on historical data. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

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

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Board Risk Committee for their review.

The Group's VaR related information is as under.

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| **Foreign exchange rate** | | |
| VaR as at end of the year | **1,211** | 297 |
| Minimum VaR | **157** | 67 |
| Maximum VaR | **1,399** | 1,558 |
| Average VaR for the year | **436** | 415 |

### *i) Foreign Exchange Risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant exposure in its trading book, denominated in foreign currencies as at December 31:

| | **2022 SR'000** | 2021 SR'000 |
|---|---|---|
| US Dollar | **1,010,560** | 41,217 |
| Australian dollars | **108,132** | - |
| Hong Kong Dollar | **3,173** | 3,019 |
| Taiwan Dollar | **1,988** | 3,200 |

The table below indicates the extent to which the Group was exposed to currency risk at December 31, on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

| **Currency** | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Increase/ decrease in currency rate in %** | **Effect on net income SR'000** | Increase/ decrease in currency rate in % | Effect on net income SR'000 |
| US Dollar | **± 0.86** | **± 8,691** | ± 0.31 | ± 128 |
| Australian dollars | **± 8.13** | **± 8,791** | ± - | ± - |
| Taiwan Dollar | **± 7.09** | **± 141** | ± 7.42 | ± 237 |
| Hong Kong Dollar | **± 8.08** | **± 256** | ± 1.05 | ± 32 |

*ii) Equity Price Risk*

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

The financial instruments included in the FVIS portfolio are equity securities held by mutual funds owned by the Group. The Group manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities and mutual funds held by the Group are managed by the Group in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| **Portfolio** | Increase / decrease in equity price % | **Effect on consolidated statement of income SR'000** | Increase / decrease in equity price % | Effect on consolidated statement of income SR'000 |
| Global Emerging Market Fund | **± 11.53%** | **± 1,419** | ± 18.17% | ± 2,750 |
| AlJazira GCC Income Fund | **± 11.10%** | **± 654** | ± 10.35% | ± 575 |
| AlJazira Sukuk Fund | **± 7.81%** | **± 2,611** | ± 2.04% | ± 774 |
| AJC Investment ATEL II | **± 11.53%** | **± 2,032** | - | - |
| Others | **± 5.00%** | **± 54,321** | ± 5.00% | ± 10,191 |

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVIS at December 31, 2022 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| **Market index** | **Increase / decrease in index %** | **Effect on consolidated statement of income SR'000** | Increase / decrease in index % | Effect on consolidated statement of income SR'000 |
| Tadawul | **± 7.12%** | **± 363** | ± 29.83% | ± 1,297 |

## b) Market Risk – Non Trading or Banking Book

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

*i) Profit Rate Risk*

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group's Market Risk Policy Committee (MRPC) has established limits on the profit rate gap. Positions are monitored on a daily basis and reported regularly to senior management and MRPC to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to MRPC more frequently.

The following table depicts the sensitivity due to reasonably possible changes in profit rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in profit rates on the net financing and investment income for one year, based on the profit bearing non-trading financial assets and financial liabilities held as at December 31, 2022 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

| **Currency** | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Increase / decrease in basis points** | **Sensitivity of income from investments and financing** | Increase / decrease in basis points | Sensitivity of income from investments and financing |
| | | **SR'000** | | SR'000 |
| SR | **± 25** | **± 35,165** | ± 25 | ± 17,747 |
| USD | **± 25** | **± 1,382** | ± 25 | ± 1,387 |
| INR | **± 25** | **± 3** | ± 25 | ± 4 |
| PKR | **± 25** | **± 2** | ± 25 | ± 1 |
| AED | **± 25** | **± 53** | ± 25 | ± 96 |

| | | | 2022 | | | | |
|---|---|---|---|---|---|---|---|
| **Currency** | **Increase in basis points** | **Sensitivity income from investments and financing** | **Sensitivity of equity** | | | | **Total** |
| | | | **6 months or less** | **1 year or less** | **1-5 years or less** | **Over 5 years** | |
| SR | **± 25** | **± 35,165** | **± 23,174** | **± 11,991** | **± 5,814** | **± 91,297** | **± 132,276** |
| USD | **± 25** | **± 1,382** | **± 501** | **± 881** | **± 8,154** | **± 7,493** | **± 17,029** |
| INR | **± 25** | **± 3** | **± 3** | **± -** | **± -** | **± -** | **± 3** |
| PKR | **± 25** | **± 2** | **± 2** | **± -** | **± -** | **± -** | **± 2** |
| AED | **± 25** | **± 53** | **± 30** | **± 23** | **± 140** | **± 55** | **± 248** |

| | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|
| **Currency** | Increase in basis points | Sensitivity income from investments and financing | Sensitivity of equity | | | | Total |
| | | | 6 months or less | 1 year or less | 1-5 years or less | Over 5 years | |
| SR | ± 25 | ±17,747 | ± 11,236 | ± 6,511 | ± (29,193) | ± 81,933 | ± 70,487 |
| USD | ± 25 | ± 1,387 | ± 18 | ± 1,369 | ± 6,407 | ± (4,460) | ± 3,334 |
| INR | ± 25 | ± 4 | ± 4 | - | - | - | ± 4 |
| PKR | ± 25 | ± 1 | ± 1 | - | - | - | ± 1 |
| AED | ± 25 | ± 96 | ± 54 | ± 42 | ± 258 | ± 99 | ± 453 |

**Profit rate sensitivity of assets, liabilities and off-balance sheet items**

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

The table below summarizes the Group's exposure to profit rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

**(SR'000)**

| **2022** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Non profit bearing** | **Total** | **Effective profit rate** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Cash and balances with SAMA** | | | | | | | |
| Cash in hand | **-** | **-** | **-** | **-** | **860,484** | **860,484** | **-** |
| Balances with SAMA | **729,726** | **-** | **-** | **-** | **4,653,011** | **5,382,737** | **4.50%** |
| **Due from Banks and other financial institutions** | | | | | | | |
| Current accounts | **-** | **-** | **-** | **-** | **726,375** | **726,375** | **-** |
| Money market placements | **18,711** | **37,420** | **-** | **-** | **572** | **56,703** | **5.34%** |
| Reverse repo | **-** | **-** | **898,094** | **-** | **7,631** | **905,725** | **5.55%** |
| **Investments** | | | | | | | |
| Held as FVIS | **-** | **-** | **-** | **-** | **1,160,734** | **1,160,734** | **-** |
| Held as FVOCI | **280,000** | **-** | **1,004,568** | **6,688,659** | **2,225,799** | **10,199,026** | **3.39%** |
| Held at amortised cost | **4,927,268** | **4,636,152** | **5,778,383** | **7,719,733** | **212,757** | **23,274,293** | **4.02%** |
| **Positive fair value of derivatives** | | | | | | | |
| Held for trading | **-** | **-** | **-** | **-** | **157,225** | **157,225** | **-** |
| Held as cash flow hedges | **-** | **-** | **-** | **-** | **155,417** | **155,417** | **-** |
| **Financing, net** | | | | | | | |
| Credit cards | **747,678** | **-** | **-** | **-** | **-** | **747,678** | **25.35%** |
| Consumer Financing | **112,979** | **313,755** | **13,638,773** | **15,973,926** | **101,854** | **30,141,287** | **3.89%** |
| Commercial Financing | **15,163,141** | **23,739,182** | **-** | **-** | **505,943** | **39,408,266** | **5.58%** |
| Others | **-** | **-** | **-** | **-** | **301,778** | **301,778** | **-** |
| **Investment in an associate** | **-** | **-** | **-** | **-** | **217,871** | **217,871** | **-** |
| **Other real estate, net** | **-** | **-** | **-** | **-** | **505,785** | **505,785** | **-** |
| **Property and equipment, net** | **-** | **-** | **-** | **-** | **1,066,374** | **1,066,374** | **-** |
| **Other assets** | **-** | **-** | **-** | **-** | **581,039** | **581,039** | **-** |
| **Total assets** | **21,979,503** | **28,726,509** | **21,319,818** | **30,382,318** | **13,440,649** | **115,848,797** | |

| 2022 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non profit bearing | Total | Effective profit rate |
|---|---|---|---|---|---|---|---|
| | | | (SR'000) | | | | |
| **Liabilities and equity** | | | | | | | |
| **Due to banks and other financial institutions** | | | | | | | |
| Current accounts | - | - | - | - | 539,825 | 539,825 | - |
| Money market deposits | 3,868,750 | 500,000 | - | - | 2,344,929 | 6,713,679 | 4.60% |
| Repo agreement borrowings | 4,549,284 | 288,671 | - | - | 25,228 | 4,863,183 | 5.26% |
| **Customer deposits** | | | | | | | |
| Demand | - | - | - | - | 38,217,209 | 38,217,209 | - |
| Saving | 730,534 | - | - | - | - | 730,534 | 0.50% |
| Customers' time investments | 36,524,068 | 8,096,363 | 12,322 | - | 297,997 | 44,930,750 | 4.79% |
| Other | - | - | - | - | 2,144,346 | 2,144,346 | - |
| **Negative fair value of derivatives** | | | | | | | |
| Held for trading | - | - | - | - | 150,713 | 150,713 | - |
| Held as cash flow hedges | - | - | - | - | 48,293 | 48,293 | - |
| Subordinated Sukuk | - | 1,993,075 | - | - | 9,744 | 2,002,819 | 7.31% |
| Other liabilities | - | - | - | - | 1,898,405 | 1,898,405 | - |
| Equity | - | - | - | - | 13,609,041 | 13,609,041 | - |
| **Total liabilities and Equity** | 45,672,636 | 10,878,109 | 12,322 | - | 59,285,730 | 115,848,797 | |
| **Profit rate sensitivity of on consolidated statement of financial position gap** | (23,693,133) | 17,848,400 | 21,307,496 | 30,382,318 | (45,845,081) | - | |
| **Profit rate sensitivity of off consolidated statement of financial position gap** | 1,721,875 | (384,375) | (1,393,750) | 56,250 | - | - | |
| **Total profit rate sensitivity gap** | (21,971,258) | 17,464,025 | 19,913,746 | 30,438,568 | (45,845,081) | - | |
| **Cumulative profit rate sensitivity gap** | (21,971,258) | (4,507,233) | 15,406,513 | 45,845,081 | - | - | |

| 2021 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non profit bearing | Total | Effective profit rate |
|---|---|---|---|---|---|---|---|
| | | | (SR'000) | | | | |
| Assets | | | | | | | |
| Cash and balances with SAMA | | | | | | | |
| Cash in hand | - | - | - | - | 969,993 | 969,993 | - |
| Balances with SAMA | 104,995 | - | - | - | 4,311,883 | 4,416,878 | 0.5% |
| Due from Banks and other financial institutions | | | | | | | |
| Current accounts | - | - | - | - | 646,611 | 646,611 | - |
| Money market placements | 16,875 | - | - | - | 16 | 16,891 | 0.67% |
| Investments | | | | | | | |
| Held as FVIS | | | | | 266,792 | 266,792 | - |
| Held as FVOCI | - | - | 208,703 | 3,814,675 | 39,983 | 4,063,361 | 2.95% |
| Held at amortised cost | - | - | 6,375,980 | 20,524,222 | 203,450 | 27,103,652 | 3.20% |
| Positive fair value of derivatives | | | | | | | |
| Held for trading | - | - | - | - | 7,233 | 7,233 | - |
| Held as cash flow hedges | - | - | - | - | 4,825 | 4,825 | - |
| Financing, net | | | | | | | |
| Credit cards | 680,052 | - | - | - | - | 680,052 | 25.12% |
| Consumer Financing | 2,621,573 | 4,309,987 | 8,927,951 | 11,893,717 | 112,834 | 27,866,062 | 4.08% |
| Commercial Financing | 15,160,658 | 18,208,669 | - | - | 182,755 | 33,552,082 | 2.84% |
| Others | - | - | - | - | 336,280 | 336,280 | - |
| Investment in an associate | - | - | - | - | 211,143 | 211,143 | - |
| Other real estate, net | - | - | - | - | 507,743 | 507,743 | - |
| Property and equipment, net | - | - | - | - | 1,156,380 | 1,156,380 | - |
| Other assets | - | - | - | - | 1,021,343 | 1,021,343 | - |
| Total assets | 18,584,153 | 22,518,656 | 15,512,634 | 36,232,614 | 9,979,264 | 102,827,321 | |

| 2021 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non profit bearing | Total | Effective profit rate |
|---|---|---|---|---|---|---|---|
| | | | | (SR'000) | | | |
| Liabilities and equity | | | | | | | |
| Due to banks and other financial institutions | | | | | | | |
| Current accounts | - | - | - | - | 235,986 | 235,986 | - |
| Money market deposits | 3,612,375 | - | - | - | 2,272,611 | 5,884,986 | 0.66% |
| Repo agreement borrowings | - | 288,671 | - | - | 437 | 289,108 | 0.74% |
| Customer deposits | | | | | | | |
| Demand | - | - | - | - | 38,504,625 | 38,504,625 | - |
| Saving | 983,845 | - | - | - | - | 983,845 | 0.50% |
| Customers' time investments | 27,337,550 | 9,662,286 | 3,365 | - | 54,339 | 37,057,540 | 0.98% |
| Other | - | - | - | - | 1,819,139 | 1,819,139 | - |
| Negative fair value of derivatives | | | | | | | |
| Held for trading | - | - | - | - | 20,986 | 20,986 | - |
| Held as cash flow hedges | - | - | - | - | 206,323 | 206,323 | - |
| Subordinated Sukuk | - | 1,991,422 | - | - | 3,263 | 1,994,685 | 2.45% |
| Other liabilities | - | - | - | - | 1,935,027 | 1,935,027 | - |
| Equity | - | - | - | - | 13,895,071 | 13,895,071 | - |
| Total liabilities and Equity | 31,933,770 | 11,942,379 | 3,365 | - | 58,947,807 | 102,827,321 | |
| Profit rate sensitivity of on consolidated statement of financial position gap | (13,349,617) | 10,576,277 | 15,509,269 | 36,232,614 | (48,968,543) | - | |
| Profit rate sensitivity of off consolidated statement of financial position gap | (2,218,125) | (360,000) | 2,050,000 | 528,125 | - | - | |
| Total profit rate sensitivity gap | (15,567,742) | 10,216,277 | 17,559,269 | 36,760,739 | (48,968,543) | - | |
| Cumulative profit rate sensitivity gap | (15,567,742) | (5,351,465) | 12,207,804 | 48,968,543 | - | - | |

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

***ii) Currency Risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

| | **2022 SR' 000 Long / (Short)** | 2021 SR'000 Long /(Short) |
|---|---|---|
| USD | **1,181,368** | 997,718 |
| AUD | **82,482** | 154 |
| GBP | **30,721** | - |
| INR | **25,578** | 15,026 |
| PKR | **13,217** | 13,412 |
| AED | **5,155** | 4,246 |

A long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2021. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

| Currency | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Increase / decrease in currency rate in % | Effect on net income SR'000 | Effect on equity SR'000 | Increase/ decrease in currency rate in % | Effect on net income SR'000 | Effect on equity SR'000 |
| USD | ± 0.05 | ± 591 | ± 591 | ± 0.05 | ± 499 | ± 499 |
| AUD | ± 0.05 | ± 41 | ± 41 | ± 0.05 | - | - |
| GBP | ± 0.05 | ± 15 | ± 15 | ± 0.05 | - | - |
| INR | ± 0.05 | ± 13 | ± 13 | ± 0.05 | ± 8 | ± 8 |
| PKR | ± 0.05 | ± 7 | - | ± 0.05 | ± 7 | ± 7 |
| AED | ± 0.05 | ± 3 | - | ± 0.05 | ± 2 | ± 2 |

***iii) Equity Price Risk***

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks. The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as FVOCI at December 31, 2022 and December 31, 2021 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| **Market index** | **Increase / decrease in index %** | **Effect on shareholders' equity (other reserve) SR'000** | Increase / decrease in index % | Effect on shareholders' equity (other reserve) SR'000 |
| Tadawul | **± 7.12%** | **± 3,468** | ± 0% | ± 0 |

## 35. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they become due, both under normal and stressful conditions. Market disruptions or credit downgrades can cause liquidity risk, making certain sources of funding less readily available. To mitigate this risk, management has diversified its funding sources beyond its core deposit base, manages assets with a focus on liquidity, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities, and monitors future cash flows and liquidity on a daily basis. In addition, the Group has committed lines of credit that can be used to meet any liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities available with SAMA up to 95% of the value of debt securities issued by the government (Ministry of Finance), SAMA or guaranteed by government.

In addition, the Group keeps a Liquidity Contingency Funding Plan (CFP) in place to provide guidance to senior management. The CFP establishes early warning indicators to alert management of impending stress, establishes responsibilities, and describes the approach management may take at various stages of crisis severity.

### a) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2022 and December 31, 2021 based on contractual undiscounted repayment obligations. As profit payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history and liquidity risk management policy.

| | (SR' 000) | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | with in 3 months | 3-12 months | 1-5 years | Over 5 years | No fixed maturity | Total |
| **Financial liabilities** | | | | | | | |
| **As at December 31, 2022** | | | | | | | |
| **Due to banks and other financial institutions** | | | | | | | |
| Current accounts | 539,825 | - | - | - | - | - | 539,825 |
| Money market deposits | - | 4,428,509 | 910,481 | 1,467,884 | - | - | 6,806,874 |
| Repo agreement borrowing | - | 4,595,206 | 15,435 | 326,762 | - | - | 4,937,403 |
| Customers' deposits | | | | | | | |
| Demand | 38,217,209 | - | - | - | - | - | 38,217,209 |
| Saving | 730,534 | - | - | - | - | - | 730,534 |
| Customers' time investments | - | 36,875,452 | 8,351,087 | 13,465 | - | - | 45,240,004 |
| Other | 2,144,346 | - | - | - | - | - | 2,144,346 |
| **Negative fair value of derivatives** | | | | | | | |
| Held for trading | - | 38,426 | 1,459 | 74,074 | 36,754 | - | 150,713 |
| Held as cash flow hedges | - | 29,542 | - | 18,751 | - | - | 48,293 |
| **Subordinated Sukuk** | - | - | 148,231 | 593,328 | 2,593,734 | - | 3,335,293 |
| **Other liabilities** | - | 14,427 | 139,995 | 153,035 | 25,258 | 1,588,165 | 1,920,880 |
| **Total undiscounted financial liabilities** | 41,631,914 | 45,981,562 | 9,566,688 | 2,647,299 | 2,655,746 | 1,588,165 | 104,071,374 |
| **Shari'ah compliant derivatives** | - | 1,206,786 | 3,005,183 | 8,055,061 | 2,628,366 | - | 14,895,396 |

| | (SR' 000) | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | with in 3 months | 3-12 months | 1-5 years | Over 5 years | No fixed maturity | Total |
| Financial liabilities | | | | | | | |
| As at December 31, 2021 | | | | | | | |
| Due to banks and other financial institutions | | | | | | | |
| Current accounts | 235,986 | - | - | - | - | - | 235,986 |
| Money market deposits | - | 3,615,951 | - | 2,270,381 | - | - | 5,886,332 |
| Repo agreement borrowing | - | - | 2,262 | 24,318 | 294,757 | - | 321,337 |
| Customers' deposits | | | | | | | |
| Demand | 38,504,625 | - | - | - | - | - | 38,504,625 |
| Saving | 983,845 | - | - | - | - | - | 983,845 |
| Customers' time investments | - | 27,407,229 | 9,719,598 | 3,562 | - | - | 37,130,389 |
| Other | 1,819,139 | - | - | - | - | - | 1,819,139 |
| Negative fair value of derivatives | | | | | | | |
| Held for trading | - | 3,270 | 2,686 | 13,265 | 1,765 | - | 20,986 |
| Held as cash flow hedges | - | 24,972 | 4,532 | 27,069 | 149,750 | - | 206,323 |
| Subordinated Sukuk | - | - | 49,681 | 198,858 | 2,248,539 | - | 2,497,078 |
| Other liabilities | - | 13,953 | 151,531 | 290,951 | 40,856 | 1,468,683 | 1,965,974 |
| Total undiscounted financial liabilities | 41,543,595 | 31,065,375 | 9,930,290 | 2,828,404 | 2,735,667 | 1,468,683 | 89,572,014 |
| Shari'ah compliant derivatives | - | 585,260 | 1,071,565 | 2,853,783 | 2,050,234 | - | 6,560,842 |

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 20 (c).

## b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. For presentation purposes demand deposits are included in "No fixed maturity" category.

(SR' 000)

| 2022 | Within 3 Months | 3-12 months | Within 1 year | 1-5 years | Over 5 years | More than 1 year | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Cash and balances with SAMA** | | | | | | | | |
| Cash in hand | - | - | - | - | - | - | 860,484 | 860,484 |
| Balances with SAMA | 729,726 | - | 729,726 | - | - | - | 4,653,011 | 5,382,737 |
| **Due from Banks and other financial institutions** | | | | | | | | |
| Current accounts | - | - | - | - | - | - | 726,375 | 726,375 |
| Money market placements | 18,743 | 37,960 | 56,703 | - | - | - | - | 56,703 |
| Reverse repos | - | - | - | 905,725 | - | 905,725 | - | 905,725 |
| **Investments** | | | | | | | | |
| Held as FVIS | - | - | - | - | - | - | 1,160,734 | 1,160,734 |
| Held as FVOCI | 4,630 | 87,929 | 92,559 | 3,133,858 | 6,918,659 | 10,052,517 | 53,950 | 10,199,026 |
| Held at amortised cost | 108,440 | 4,028,021 | 4,136,461 | 9,713,056 | 9,424,776 | 19,137,832 | - | 23,274,293 |
| **Positive fair value of derivatives** | | | | | | | | |
| Held for trading | 42,365 | 4,564 | 46,929 | 54,222 | 56,074 | 110,296 | - | 157,225 |
| Held as cash flow hedges | 33,391 | - | 33,391 | 45,491 | 76,535 | 122,026 | - | 155,417 |
| **Financing, net** | | | | | | | | |
| Credit cards | 358,707 | - | 358,707 | - | - | - | 388,971 | 747,678 |
| Consumer financing | 112,979 | 100,388 | 213,367 | 13,638,773 | 16,289,147 | 29,927,920 | - | 30,141,287 |
| Commercial financing | 18,826,594 | 18,494,029 | 37,320,623 | 787,813 | 1,299,830 | 2,087,643 | - | 39,408,266 |
| Others | - | 301,778 | 301,778 | - | - | - | - | 301,778 |
| **Investment in an associate** | - | - | - | - | - | - | 217,871 | 217,871 |
| **Other real estate, net** | - | - | - | - | - | - | 505,785 | 505,785 |
| **Property, equipment and right of use assets, net** | - | - | - | - | - | - | 1,066,374 | 1,066,374 |
| **Other assets** | 35,071 | 105,213 | 140,284 | - | - | - | 440,755 | 581,039 |
| **Total assets** | 20,270,646 | 23,159,882 | 43,430,528 | 28,278,938 | 34,065,021 | 62,343,959 | 10,074,310 | 115,848,797 |

(SR' 000)

| 2022 | Within 3 Months | 3-12 months | Within 1 year | 1-5 years | Over 5 years | More than 1 year | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| **Due to banks and other financial institutions** | | | | | | | | |
| Current accounts | - | - | - | - | - | - | 539,825 | 539,825 |
| Money market deposits | 4,423,510 | 900,931 | 5,324,441 | 1,389,238 | - | 1,389,238 | - | 6,713,679 |
| Repo agreement borrowing | 4,571,470 | 3,042 | 4,574,512 | 288,671 | - | 288,671 | - | 4,863,183 |
| **Customer deposits** | | | | | | | | |
| Demand | - | - | - | - | - | - | 38,217,209 | 38,217,209 |
| Saving | - | - | - | - | - | - | 730,534 | 730,534 |
| Customers' time investments | 36,732,753 | 8,185,493 | 44,918,246 | 12,504 | - | 12,504 | - | 44,930,750 |
| Other | - | - | - | - | - | - | 2,144,346 | 2,144,346 |
| **Negative fair value of derivatives** | | | | | | | | |
| Held for trading | 38,426 | 1,459 | 39,885 | 74,074 | 36,754 | 110,828 | - | 150,713 |
| Held as cash flow hedges | 29,542 | - | 29,542 | 18,751 | - | 18,751 | - | 48,293 |
| **Subordinated Sukuk** | - | 9,744 | 9,744 | - | 1,993,075 | 1,993,075 | - | 2,002,819 |
| **Other liabilities** | 12,398 | 134,844 | 147,242 | 141,177 | 21,821 | 162,998 | 1,588,165 | 1,898,405 |
| **Total liabilities** | 45,808,099 | 9,235,513 | 55,043,612 | 1,924,415 | 2,051,650 | 3,976,065 | 43,220,079 | 102,239,756 |

(SR' 000)

| 2021 | Within 3 Months | 3-12 months | Within 1 year | 1-5 years | Over 5 years | More than 1 year | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Cash and balances with SAMA | | | | | | | | |
| Cash in hand | - | - | - | - | - | - | 969,993 | 969,993 |
| Balances with SAMA | 104,995 | - | 104,995 | - | - | - | 4,311,883 | 4,416,878 |
| Due from Banks and other financial institutions | | | | | | | | |
| Current accounts | - | - | - | - | - | - | 646,611 | 646,611 |
| Money market placements | 16,891 | - | 16,891 | - | - | - | - | 16,891 |
| Investments | | | | | | | | |
| Held as FVIS | - | - | - | - | - | - | 266,792 | 266,792 |
| Held as FVOCI | 28,634 | 6,464 | 35,098 | 207,889 | 3,815,489 | 4,023,378 | 4,885 | 4,063,361 |
| Held at amortised cost | 1,625,580 | 999,181 | 2,624,761 | 13,641,461 | 10,837,430 | 24,478,891 | - | 27,103,652 |
| Positive fair value of derivatives | | | | | | | | |
| Held for trading | 1,370 | 3,585 | 4,955 | 515 | 1,763 | 2,278 | - | 7,233 |
| Held as cash flow hedges | 4,825 | - | 4,825 | - | - | - | - | 4,825 |
| Financing, net | | | | | | | | |
| Credit cards | 282,778 | - | 282,778 | - | - | - | 397,274 | 680,052 |
| Consumer financing | 84,166 | 138,408 | 222,574 | 12,741,672 | 14,901,816 | 27,643,488 | - | 27,866,062 |
| Commercial financing | 17,987,801 | 13,081,727 | 31,069,528 | 964,319 | 1,518,235 | 2,482,554 | - | 33,552,082 |
| Others | - | 336,280 | 336,280 | - | - | - | - | 336,280 |
| Investment in an associate | - | - | - | - | - | - | 211,143 | 211,143 |
| Other real estate, net | - | - | - | - | - | - | 507,743 | 507,743 |
| Property, equipment and right of use assets, net | - | - | - | - | - | - | 1,156,380 | 1,156,380 |
| Other assets | 81,073 | 74,176 | 155,249 | - | - | - | 866,094 | 1,021,343 |
| Total assets | 20,218,113 | 14,639,821 | 34,857,934 | 27,555,856 | 31,074,733 | 58,630,589 | 9,338,798 | 102,827,321 |

(SR' 000)

| 2021 | Within 3 Months | 3-12 months | Within 1 year | 1-5 years | Over 5 years | More than 1 year | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|---|
| Liabilities | | | | | | | | |
| Due to banks and other financial institutions | | | | | | | | |
| Current accounts | - | - | - | - | - | - | 235,986 | 235,986 |
| Money market deposits | 3,614,605 | - | 3,614,605 | 2,270,381 | | 2,270,381 | - | 5,884,986 |
| Repo agreement borrowing | - | 437 | 437 | - | 288,671 | 288,671 | - | 289,108 |
| Customer deposits | | | | | | | | |
| Demand | - | - | - | - | - | - | 38,504,625 | 38,504,625 |
| Saving | - | - | - | - | - | - | 983,845 | 983,845 |
| Customers' time investments | 27,371,983 | 9,682,118 | 37,054,101 | 3,439 | - | 3,439 | - | 37,057,540 |
| Other | - | - | - | - | - | - | 1,819,139 | 1,819,139 |
| Negative fair value of derivatives | | | | | | | | |
| Held for trading | 3,270 | 2,686 | 5,956 | 13,265 | 1,765 | 15,030 | - | 20,986 |
| Held as cash flow hedges | 24,972 | 4,532 | 29,504 | 27,069 | 149,750 | 176,819 | - | 206,323 |
| Subordinated Sukuk | - | 3,263 | 3,263 | - | 1,991,422 | 1,991,422 | - | 1,994,685 |
| Other liabilities | 11,318 | 144,772 | 156,090 | 273,987 | 36,267 | 310,254 | 1,468,683 | 1,935,027 |
| Total liabilities | 31,026,148 | 9,837,808 | 40,863,956 | 2,588,141 | 2,467,875 | 5,056,016 | 43,012,278 | 88,932,250 |

## 36. FAIR VALUE MEASUREMENT

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking):

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.

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

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

| | 2022 (SR'000) | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** |
| **Financial assets** | | | |
| **FVIS** | | | |
| Mutual Funds | - | 1,155,641 | 1,155,641 |
| Equities | 5,093 | - | 5,093 |
| **FVOCI** | | | |
| Equities | 48,714 | - | 48,714 |
| Sukuks – Equities | - | 2,133,240 | 2,133,240 |
| Sukuks – Debt | - | 8,065,786 | 8,065,786 |
| Derivatives | - | 312,642 | 312,642 |
| Total | 53,807 | 11,667,309 | 11,721,116 |
| **Financial liabilities** | | | |
| Derivatives | - | 199,006 | 199,006 |
| **Total** | - | 199,006 | 199,006 |

| | 2021 (SR'000) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| Financial assets | | | |
| FVIS | | | |
| Mutual Funds | - | 262,443 | 262,443 |
| Equities | 4,349 | - | 4,349 |
| FVOCI | | | |
| Sukuks | - | 4,058,476 | 4,058,476 |
| Derivatives | - | 12,058 | 12,058 |
| Total | 4,349 | 4,332,977 | 4,337,326 |
| Financial liabilities | | | |
| Derivatives | - | 227,309 | 227,309 |
| Total | - | 227,309 | 227,309 |

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options and profit rate swaps. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Profit rate swaps and options are fair valued using forward profit rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 3.

Investments amounting to SR 5.24 million (2021: SR 4.89 million) are carried at cost and, accordingly, are not fair valued.

b) Following table represent fair values of financial assets and liabilities measured at amortised cost. There are no financial assets and liabilities that are measured as level 1 and level 3 fair value.

| | **Amortised cost** | **Level 2** |
|---|---|---|
| **Financial assets:** | | |
| Due from banks and other financial institutions | **1,688,803** | **1,692,516** |
| Investment held at amortised cost - net | **23,274,293** | **22,813,597** |
| Financing, net | **70,599,009** | **70,428,515** |
| **Total** | **95,562,105** | **94,934,628** |
| **Financial liabilities:** | | |
| Due to banks and other financial institutions | **12,116,687** | **12,540,077** |
| Customers' deposits | **86,022,839** | **86,240,714** |
| Subordinated Sukuk | **2,002,819** | **2,002,819** |
| **Total** | **100,142,345** | **100,783,610** |

| | Amortised cost | Level 2 |
|---|---|---|
| Financial assets: | | |
| Due from banks and other financial institutions | 663,502 | 663,433 |
| Investment held at amortised cost - net | 27,103,652 | 27,709,627 |
| Financing, net | 62,434,476 | 64,795,397 |
| Total | 90,201,630 | 93,168,457 |
| Financial liabilities: | | |
| Due to banks and other financial institutions | 6,410,080 | 6,875,477 |
| Customers' deposits | 78,365,149 | 78,426,210 |
| Subordinated Sukuk | 1,994,685 | 1,994,685 |
| Total | 86,769,914 | 87,296,372 |

The fair value of the cash and balances with SAMA, other assets and other liabilities approximate to their carrying amount. The fair values of level 2 financial instruments are estimated as at December 31, 2022 at the current applicable yield curve taking into account the counterparty risks and applicable market rate.

**Valuation technique and significant unobservable inputs**

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at 31 December 2022 and 31 December 2021, as well as the significant unobservable inputs used.

| Type | Accounting Classification | Valuation Technique | Significant unobservable Inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|---|
| Mutual Fund units | FVIS | Fair valued using the NAV reports which reflect the quoted prices of underlying securities | Not applicable | Not applicable |
| Investment held at FVOCI – Sukuks (debt & equity) | FVOCI | Fair valued using the broker quoted prices or estimating present value by discounting cash flows using adjusted discount rate. | Not applicable | Not applicable |
| Forward exchange contracts (Wa'ad) and Profit rate swaps | FVIS | **Forward exchange contracts (Wa'ad):** Fair valued using discounted Notional techniques that use observable market data inputs for Foreign Exchange (FX) and yield curves<br>**Profit rate swaps:** The fair value is determined by discounting the future cash flows using observable market data inputs for yield curves. | Not applicable | Not applicable |
| Due from banks and other financial institutions,<br>Financing,<br>Due to banks and other financial institutions,<br>Customer Deposits | Amortised Cost | **Market Data:** Used observable market data inputs for yield curves.<br>**Fair value technique:** The fair value is determined by discounting the future cash flows. A discounted cash flow is the product of:<br>• The anticipated nominal magnitude and sign of a cash flow.<br>• The accumulated discount over the amount of time remaining until the anticipated time of the cash flow, at a rate of discount.<br>The fair value is determined only for the Customers' time investments. | Not applicable | Not applicable |
| Investment held at amortised cost - net | Amortised Cost | Fair valued using the quoted prices, where available or estimating present value by discounting cash flows using adjusted discount rate. | Not applicable | Not applicable |

## 37. RELATED PARTY TRANSACTIONS

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

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

| | 2022<br>SR' 000 | 2021<br>SR' 000 |
|---|---|---|
| **Subsidiary companies** | | |
| **Investments** | **501,480** | 501,480 |
| Customer deposits | **41,128** | 13,937 |
| Due from banks and other financial institutions | **1,409,149** | 1,331,550 |
| Due to banks and other financial institutions | **290,854** | 290,658 |
| Receivables and other assets | **102,755** | 175,999 |
| Payables and liabilities | **17,145** | 16,341 |
| Contingencies and commitments | **30,247** | 530,247 |
| Notional values of outstanding shari'ah compliant contracts | **6,138,303** | 4,271,339 |
| **Associate and affiliate entities with significant influence** | | |
| Investments | **217,871** | 211,143 |
| Customer deposits | **243,788** | 87,223 |
| Contingencies and commitments | **7,280** | 7,280 |
| **Directors, key management personnel, other major shareholders and their affiliates** | | |
| Financing | **395,442** | 441,221 |
| Customers' deposits | **7,237,109** | 5,341,214 |
| Contingencies and commitments | **26,237** | 6,948 |

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

| | 2022<br>SR' 000 | 2021<br>SR' 000 |
|---|---|---|
| **Mutual Funds under subsidiary's management** | | |
| Investments | **1,118,059** | 255,823 |
| Customers' deposits | **114,032** | 519,901 |
| Receivables | **214** | 214 |

Income, expenses and other transactions with related parties included in the consolidated financial statements are as follows:

| | 2022<br>SR' 000 | 2021<br>SR' 000 |
|---|---|---|
| Income from investments and financing | **179,344** | 77,559 |
| Return on deposits and financial liabilities | **301,982** | 180,620 |
| Fees income | **1,455** | 2,537 |
| Fee expense | **9,980** | 9,053 |
| Exchange loss | **2,244** | - |
| Insurance premium | **60,371** | 50,329 |
| Claims received | **31,667** | 32,277 |
| Directors' remuneration | **9,088** | 8,134 |
| Income under shared service agreements | **2,751** | 3,391 |
| Operating expenses | **24,335** | - |
| Reimbursement of expense to a subsidiary | **38** | 37 |
| Reimbursement of building related expense | **6,250** | 6,971 |
| Rent expense for branches | **768** | 768 |
| Dividend paid | **15** | 7 |
| Participation in DMO sukuk auction for an associate | **-** | 99,251 |
| Face value of bonus shares received | **-** | 20,649 |
| Purchase of Sukuks | **530,000** | - |
| Foreign currency dealing | **500** | - |

The total amount of compensation paid to directors and key management personnel during the year is as follows:

| | 2022<br>SR' 000 | 2021<br>SR'000 |
|---|---|---|
| Short-term employee benefits | 119,413 | 105,480 |
| Termination benefits | 37,146 | 39,314 |

Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

## 38. SALARIES AND EMPLOYEE RELATED EXPENSES

| | 2022 | | | |
|---|---|---|---|---|
| **Categories of employees** | **Number of employees** | **Fixed compensation (on accrual basis)** | **Variable compensation (on cash basis)** | **Total** |
| | | **SR' 000** | **SR' 000** | **SR' 000** |
| Senior executives that require SAMA no objection | **21** | **38,444** | **18,150** | **56,594** |
| Employees involved in control functions | **381** | **118,971** | **17,770** | **136,741** |
| Employees involved in risk taking activities | **227** | **89,624** | **16,651** | **106,275** |
| Other employees | **2,077** | **518,540** | **98,246** | **616,786** |
| Outsourced employees | **482** | **76,051** | **3,218** | **79,269** |
| **Total** | **3,188** | **841,630** | **154,035** | **995,665** |
| **Variable compensation (accrual basis)** | | **143,837** | | |
| **Other employee related benefits** | | **23,112** | | |
| **Total salaries and employee-related expenses** | | **1,008,579** | | |

| | 2021 | | | |
|---|---|---|---|---|
| Categories of employees | Number of employees | Fixed compensation (on accrual basis) | Variable compensation (on cash basis) | Total |
| | | SR' 000 | SR' 000 | SR' 000 |
| Senior executives that require SAMA no objection | 24 | 39,612 | 14,571 | 54,183 |
| Employees involved in control functions | 330 | 106,576 | 15,700 | 122,276 |
| Employees involved in risk taking activities | 198 | 74,863 | 15,458 | 90,321 |
| Other employees | 2,086 | 519,942 | 76,578 | 596,520 |
| Outsourced employees | 539 | 77,783 | 3,360 | 81,143 |
| Total | 3,177 | 818,776 | 125,667 | 944,443 |
| Variable compensation (accrual basis) | | 137,591 | | |
| Other employee related benefits | | 20,332 | | |
| Total salaries and employee-related expenses | | 976,699 | | |

Control functions mainly include Enterprise Risk Management, Internal Audit, Finance, Compliance and Board Secretary & Governance Groups. Risk taking functions mainly include activities of Corporate & Institutional Banking and Treasury Groups.

**The compensation and benefits program philosophy**

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Group to keep abreast of the local and regional market conditions relating to the Group's staff employed in the Kingdom of Saudi Arabia, which are contrasted to cyclical performance levels and mitigated for any associate risks.

The distribution of compensation is composed of a mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to labour law of the Kingdom of Saudi Arabia and Group's internal policies, staff end of services benefits is due for payment at the end of an employee's period of services. The end of service benefits outstanding at December 31, 2022 amounted to SR 291.81 million (2021: SR 289.28 million).

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- Fixed compensation includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;
- Variable compensation includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

## 39. CAPITAL ADEQUACY

The Group actively manages its capital base to cover the risks inherent in its business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision including the framework and guidance regarding the implementation of capital reforms under Basel III ("Basel III Accord") which has been adopted by the Bank's regulator, SAMA. The Basel III capital ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding a minimum level of regulatory capital and maintaining a ratio of total regulatory capital to risk-weighted assets ("RWA") at or above 10.5 per cent. including a capital conservation buffer (2.5 per cent.).

The Group monitors the adequacy of its capital using the methodology and ratios established by SAMA. Various committees have been established by the Bank which also montitor the capital adequacy.

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

As part of the latest SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two years' period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years.

The impact of these revised transitional arrangements to the Group's Tier 1 and Tier 1 + 2 ratio have been an improvement of 51 bips for the year ended December 31, 2022 (73 bips for the year ended December 31, 2021).

The following table summarizes the Group's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Eligible capital SR '000** | **Capital adequacy ratio %** | Eligible capital SR '000 | Capital adequacy ratio % |
| Common Equity Tier 1 (CET 1) Capital | **12,084,910** | **14.43%** | 12,763,118 | 18.30% |
| Additional Tier 1 (AT1) Capital | **1,875,000** | **-** | 1,875,000 | - |
| Tier I Capital | **13,959,910** | **16.67%** | 14,638,118 | 20.99% |
| Supplementary capital (Tier 2) | **2,547,559** | | 2,384,970 | - |
| Core and supplementary capital (Tier 1 + Tier 2) | **16,507,469** | **19.71%** | 17,023,088 | 24.41% |

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

A strong capital position is essential to the Group's business strategy and competitive position. The Group's capital strategy focuses on long-term stability, which aims to build and invest in core banking activities.

The Group seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the Bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans, ICAAP and ILAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the Bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the Group to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position

| | **2022 SR '000** | 2021 SR '000 |
|---|---|---|
| Credit risk | **73,503,969** | 62,154,881 |
| Operational risk | **6,352,124** | 5,993,235 |
| Market risk | **3,883,308** | 1,593,934 |
| Total pillar-1 – risk weighted assets | **83,739,401** | 69,742,050 |

## 40. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, AlJazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors.

The Group also provides investment management and other services to AlJazira Takaful Ta'awuni Company.

Total assets under administration held by the Group related to its brokerage services business amounted to SR 83.2 billion (2021: SR 81.4 billion).

Assets held in a fiduciary capacity by the Group related to its asset and wealth management services business amounted to SR 10.8 billion (2021: SR 10.2 billion).

## 41. UNCONSOLIDATED ENTITIES

Unconsolidated structured entities are all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and/or for specific investment opportunities. An interest in a structured entity is contractual or non-contractual involvement which creates variability of the returns of the Group arising from the performance of the structured entity.

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

| **Type of structured entity** | **Nature and purpose** | **Interest held by the Group** | **Total assets** | |
|---|---|---|---|---|
| | | | **2022 SR '000** | 2021 SR '000 |
| Public funds | To generate<br>• returns from trading in the units and / or periodic distributions from the Funds.<br>• fee from managing assets on behalf of third-party investors.<br>These funds are financed through the issue of units to investors. | Investments in units issued by the funds.<br>Management fee | **194,561** | 4,509,976 |
| Private funds | To generate<br>• returns from capital appreciation and / or periodic distributions from the Funds.<br>• fee from advising / managing assets on behalf of third-party investors.<br>These funds are financed through the issue of units / shares to investors. | Investments in units / shares issued by the funds.<br>Advisory and management fee | **1,639,941** | 542,440 |

The table below sets out an analysis of the carrying amounts of interest held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held. These interests are reported as investments at fair value through statement of income into these consolidated financial statements

| | **2022 SR '000** | 2021 SR '000 |
|---|---|---|
| Public funds | **51,604** | 241,837 |
| Private funds | **1,066,455** | 13,986 |
| | **1,118,059** | 255,823 |

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The Group earned a fee amounting to SR 49.8 million (2021: SAR 12.22 million) from the structured entities it has sponsored, but in which the Group does not have an interest.

## 42. IBOR Transition (Profit Rate Benchmark Reforms)

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and impacts the products, internal systems and processes. The Group has complied with the regulatory deadline of 31 December 2021 for the LIBOR transition and is now offering products based on overnight SOFR, Term SOFR and Islamic SOFR.

The Group is also exposed to the effects of USD LIBOR reform on its financial assets and liabilities through its borrowing under repo agreements, financing and profit rate swaps used for hedging purpose.

The Group has no exposure to any other LIBOR rates.

The Group currently has a number of contracts which reference USD LIBOR and extend beyond reporting date, including swaps which will transition under the ISDA protocols. These contracts are disclosed within the table below.

The following table contains details of all of the financial instruments that the Group holds at December 31, 2022 which reference USD LIBOR and have not yet transitioned to an alternative profit rate benchmark.

**Non-derivative assets and liabilities exposed to USD LIBOR**

| | **Carrying Value/Nominal Amount at December 31, 2022** | | **Of which have yet to transition to an alternative benchmark profit rate as at December 31, 2022** | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| | **SR'000** | | | |
| Measured at amortised cost | | | | |
| Financing | **310,013** | | **310,013** | |
| Due to banks and other financial institutions | | **144,335** | | **144,335** |

**Derivative assets and liabilities exposed to USD LIBOR**

| | Carrying amount (SR '000) | | | Balance sheet line item(s) | Changes in fair value used for calculating hedge ineffectiveness | Notional amount directly impacted by IBOR reform |
|---|---|---|---|---|---|---|
| | Notional | Assets | Liabilities | | | |
| Profit rate swaps-Trading | 1,624,510 | 37,443 | 36,786 | - | N/A | 1,624,510 |
| Profit rate swaps-Cash flow hedges | 487,500 | 21,295 | 3,829 | Customer Deposits | Nil | 487,500 |

Of the SR 2,112.01 million nominal amount of profit rate swaps above, SR 93.75 million will mature before the anticipated USD LIBOR replacement in Q2 2023.

## 43. COMPARATIVE FIGURES

During the current year, pursuant to change in accounting treatment for recognition of processing fee received in connection with the Group's financing portfolio as more fully explained in note 3(a)(i), the financing related fee and directly attributable expenses which were previously booked as fees have been reclassified from "Fees from banking services" to "Income from investments and financings".

| For the year ended 31 December 2021 | As originally reported | Restatement | Amounts reported after restatement |
|---|---|---|---|
| Income from investments and financings | 3,034,326 | 92,097 | **3,126,423** |
| Fees from banking services – income | 1,134,868 | (125,908) | **1,008,960** |
| Fees from banking services - expense | (496,395) | 33,811 | **(462,584)** |
| Fees from banking services, net | 638,473 | (92,097) | **546,376** |

In addition, certain prior year amounts have been reclassified so as to align with the current year presentation. However, there was no impact of such reclassifications on the consolidated statement of income and consolidated statement of changes in equity.

## 44. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 31 January 2023 (corresponding to 9 Rajab 1444H).

# Basel III Pillar 3

DISCLOSURES FOR FY 2022

## 1. OVERVIEW

The Pillar 3 Disclosures for financial year ending 31st December 2022 for Bank AlJazira (the Bank) complies with the Saudi Central Bank (SAMA) Disclosure Requirements (Pillar 3)," which is based on the guidelines issued by the Basel Committee on Banking Supervision (BCBS).

## 2. SCOPE OF APPLICATION

The report is prepared after full-consolidation of the Bank and the following fully –owned subsidiaries (the Bank):

SAR "MM"

| Subsidiaries | Location | Ownership | Activity | Invested Capital |
|---|---|---|---|---|
| AlJazira Capital Company (AJC) | K.S.A | 100.00% | Capital Markets | 500 |
| Aman Development and Real Estate Investment Company | K.S.A | 100.00% | Real Estate (SPV) | 1 |
| Al Jazira Securities | Cayman Island | 100.00% | Derivative and capital market transactions (SPV) | USD 100 |
| Aman Insurance Agency Company | K.S.A | 100.00% | Agent for banc assurance activities | 0.5 |
| BAJ Sukuk Tier 1 Limited | Cayman Island | 100.00% | Trustee for Tier 1 Sukuk | USD 250 |

**Associates of the Bank:**

SAR "MM"

| Associates | Location | Ownership | Activity | Invested Capital |
|---|---|---|---|---|
| AlJazira Takaful Taawuni Company | K.S.A | 26.03% | Insurance | 550 |

## 3. MEDIUM AND LOCATION OF DISCLOSURE

The bank's Pillar 3 disclosures will be made available under the Financial Reports (Basel III section) on the bank's website at www.baj.com.sa and as a separate report in the annual financial reports, after the notes to the financial statements.

## 4. BASIS AND FREQUENCY OF DISCLOSURE

This Pillar 3 disclosure document has been designed to be in compliance with SAMA's Pillar 3 Guidelines, and is to be read in conjunction with the Bank's Financial Statements for financial year ending 31st December 2022.

The Qualitative Disclosure Requirements are reported annually.

## 5. CAPITAL STRUCTURE

The authorized share capital of the Bank is SAR 8.2 billion. As of 31st December 2022, the shareholders' equity is SAR 11.73 billion. The total Tier 1 and Tier 2 capital of the Bank is SAR 16.5 billion.

### A. SUBSIDIARIES AND ASSOCIATES

**AlJazira Capital Company:**

Based in Riyadh, the company is authorized to deal in securities as principal as well as agent, and to provide underwriting, custodianship, asset management, margin financing advisory and arranging services. The company has a paid up capital of SAR 500 million wholly subscribed by the Bank.

**Aman Development and Real Estate Investment Company:**

Based in Jeddah, formed as an SPV to facilitate mortgage financing and to only hold on behalf of the Bank, the title for real-estate transferred as collateral against commercial financing extended by the Bank. The company has an authorized capital of SAR 1 million wholly subscribed by the Bank.

**Aman Insurance Agency Company:**

Based in Saudi Arabia, the company is acting as an agent for bancassurance activities on behalf of the Bank. The Company has not yet commenced commercial operations. The issued share capital amounts to SAR 500 Thousand Comprising of 50 Thousand Shares of SAR 10 each

**AlJazira Securities Limited:**

Based in Cayman Islands, the company is formed to carry out Sharia'h compliant derivative and capital market transactions. The authorized capital amounts to USD 50,000 and its paid up capital is USD 100 comprising of 100 Shares of USD 1 each.

**AlJazira Takaful Ta'wuni (ATT):**

Based in Jeddah, the company is authorized to conduct insurance business in accordance with Sharia'h and SAMA guidelines. The bank has acquired 26.03% stake in the company's capital of SAR 550 million. ATT commenced its commercial operations from January 2014.

**BAJ Sukuk Tier 1 Limited**

Based in Cayman Islands, the company acts as Trustee for issuance of Tier 1 capital certificates. The authorized capital amounts to USD 50,000 and its paid up capital is USD 250 comprising of 250 Shares of USD 1 each.

### B. CAPITAL TRANSFERABILITY

There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

## 6. CAPITAL ADEQUACY

The table below illustrates the various approaches that are currently adopted at Bank AlJazira for capital requirements calculation under Basel III in relation to the various risk types under Pillar 1:

| Credit Risk | Market Risk | Operational Risk |
|---|---|---|
| Standardized Approach (SA) | Standardized Approach (SA) | Basic Indicator Approach (BIA) |

The pillar 1 Capital Adequacy Ratio (CAR) of the Bank as at 31st December 2022 stood at 16.67% (of Tier 1) and 19.71% (of Tier 1 and Tier 2).

### CAPITAL MANAGEMENT

A strong capital position is essential to the bank's business strategy and competitive position. The bank's capital strategy focuses on long-term stability, which aims to build and invest in core banking activities.

The bank seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives;
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans, ICAAP and ILAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the bank to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory Capital Requirements and Capital Adequacy Ratios.

In 2017, Basel Committee on Banking Supervision (BCBS) issued comprehensive reforms to the existing Basel III framework. Accordingly, these new reforms (called Basel IV) as issued by SAMA seek to restore credibility in the calculation of Risk Weighted Assets (RWAs) and improve the comparability of bank's capital ratios. The reforms require revision to the standardized approaches for calculating Credit Risk, Market Risk, Credit Valuation Adjustment (CVA) and Operational Risk to bring about greater risk sensitivity and comparability. Constraints on using internal models aim to reduce unwarranted variability in banks' calculations of RWAs.

RWAs are an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses. A prudent and credible calculation of RWAs is an integral element of the risk-based capital framework. With the foregoing in mind, the Bank therefore, monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios.

Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ's current and planned capital requirements.

The capital adequacy disclosures have been prepared in accordance with the Basel disclosure guidelines, as issued by SAMA from time to time and as applicable to the Bank.

In compliance with SAMA directives, the Bank is in process of implementing Basel III post crisis Reforms project. Accordingly, the Bank has engaged a third-party vendor to help implement the reforms as per regulatory guidelines.

The following is the high-level scope of implementation of the said reforms:

- Revised Credit Risk Standardized Approach
- Revised Market Risk Simplified Standardized Approach
- Revised Operational Risk Approach
- Standardized Approach for Counterparty Credit Risk (SA-CCR)
- Revised CVA Risk Capital Charge
- Revised CCP Capital Charge
- Equity Investments in Funds
- Revised Leverage Ratio etc.

## 7. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

The bank's ICAAP addresses issues of capital planning, assessment of all types of material risks, testing the capital requirement under different stress scenarios, capital required for covering all material risks due to current as well as prospective business profile and internal organization and processes to manage the above on an on-going basis.

At the group level, the overall capital adequacy is assessed through the ICAAP Framework. The ICAAP is also a reflection of the Bank's short to medium term strategy taking into consideration the prevailing macroeconomic scenarios and how the Bank fares against the same, whilst maintaining adequate capital buffers. As a result the organization has identified material risks and assessed the capital levels consistent with the risks identified.

The ICAAP framework determines the level of capital required to support the group's current and projected activities for capital under normal and stressed conditions.

In addition to ICAAP, the Saudi Central Bank (SAMA) requires that Banks develop the Internal Liquidity Assessment Process (ILAAP) to be submitted on an annual basis. The purpose of the ILAAP is to inform the Board of the Bank as well as the regulator of an assessment of the Bank's liquidity risks and the impact on regulatory requirements and capital, where relevant. ILAAP is a tool that enables the Bank to systematically assess its liquidity requirements given its strategies, business plans, risks and policies. The Bank duly follows ILAAP as per the regulatory mandate.

The ICAAP and ILAAP reports are updated on an annual basis and reviewed by the Board Risk Committee (BRC) before being approved by the Board of Directors (BOD).

### A. COMPREHENSIVE RISK ASSESSMENT UNDER ICAAP FRAMEWORK

Under the ICAAP methodology, the following risk types are identified and measured:

- Risks captured under Pillar 1 of BASEL III (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 of BASEL III (e.g. Residual Risks);
- Risks not taken into account by Pillar 1 of BASEL III (e.g. profit rate risk in the banking book, liquidity risk, business/strategic risk, reputational risk, macroeconomic risk and credit concentration risk);
- External factors including changes in economic environment and regulations.

### B. RISK ASSESSMENT UNDER ILAAP FRAMEWORK

The Bank develops the Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the guidelines issued by Saudi Central Bank (SAMA) on ILAAP in August 2017. Furthermore, the Bank has enhanced and submitted its Internal Liquidity Adequacy Assessment Plan (ILAAP) in accordance with the latest guidelines issued by SAMA in October 2020.

The ILAAP helps the Bank identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios.

The purpose of the ILAAP is to ensure that the Bank has sufficient liquidity necessary for its survival during a period of market-wide and bank-specific stress scenarios. In addition, the Bank also assesses its Liquidity Risk Management Framework and Risk Appetite to ensure that they are adequate and in proportion to the Bank's business model, size, complexity, structure of the balance sheet and market expectations.

### C. ASSESSMENT OF PILLAR 1 AND PILLAR II RISKS UNDER BASEL III REGIME

The Bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry.

Where risks are not easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The bank's Capital Adequacy and Liquidity Adequacy processes then focus on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the Bank. These qualitative measures include the following:

- Adequate governance process through MRC, BRC, EXCOM and Board;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies;
- Regular monitoring and reporting through various committees and management forums.

### D. STRESS TESTING PROGRAM

The bank's stress testing program is in compliance with the applicable SAMA Stress Testing guidelines encapsulated in a Board approved Stress Testing Policy. It is embedded in the risk and capital management processes. The program serves as a forward looking risk and capital management tool to understand the bank's risk profile under extreme but plausible conditions. Such conditions may arise from macroeconomic, strategic, political and business environmental factors.

The Stress Testing methodology and assertions undergo comprehensive review and challenging process to ensure that these remain in sync with the prevailing regulatory and global best practices.

The stress testing exercise at the Bank is viewed as a means to review bank's capital allocation strategy based on different extreme stress scenarios and the Bank makes necessary adjustments to its strategy where warranted, based on the stress testing results. Under Bank's Stress Testing Policy, the potential unfavorable effects of stress scenarios on the bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modeled and evaluated for impact on Bank's capital requirements.

Specifically, the stress test program is designed with an objective to assess the resilience, solvency, liquidity and profitability of the Bank to various stressed events. Depending on the nature of the risk factor, the impact of the stress testing exercise, where applicable, are measured on the following indicators of the Bank:

- Assets quality – increase/decrease in non-performing assets measured in terms of ratio to financing assets;
- Profitability – increase/decrease in the accounting profit/loss;
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);
- Liquidity position – measured in terms of changes in key liquidity indicators.

The Enterprise Risk Management Group presents the stress testing results along with the underlying report to the management steering committee for review and concurrence before the same is endorsed by the Board Risk Committee before seeking approval from Board. Once cleared by the appropriate governance forums, Stress Testing Report is submitted to SAMA in line with regulatory deadlines.

### E. INTERNATIONAL FINANCIAL REPORTING STANDARD NO.9 (IFRS-9)

The bank had adopted a comprehensive approach on an ongoing basis to ensure that IFRS-9 methodologies duly remain compliant with SAMA guidelines and best practices. Accordingly, the bank has duly in place the required ECL calculation framework, methodologies, appropriate scenarios and models to ensure impairments and Expected Credit

Loss (ECL) calculations are in compliance with the IFRS-9 requirements set forth by SAMA and global best practices.

The Bank endeavors to ensure, through validation and calibration that the Bank's internal risk rating models and score cards maintain their predictive power / accuracy to assess the potential risk associated with the default of a prospective and / or existing customer. The bank has been at the forefront in successfully validating and recalibrating its risk rating models. The Bank's enhanced and IFRS-9 compliant risk models have also undergone regulatory validation through SAMA appointed independent model validator and accordingly the Bank has recalibrated / redeveloped the models wherever required to ensure that models' parameters remain current and forecasting abilities of the models are in sync with the behavior of the Bank's portfolios.

## 8. RISK MANAGEMENT

The ERM framework of the Bank aims to establish a Risk based strategy for all its products and banking services, driving operational efficiency across the Bank, with guidance on identifying and addressing various forms of risks (including credit, market, operational, liquidity, reputational, compliance risk, etc.), with risk based capital utilization forming the key criteria for design and implementation of services, where applicable.

The ERM framework of the Bank is managed centrally for implementing the following elements:

| | |
|---|---|
| **Risk based Strategy** | Establish Risk Management as the key driver, driving credit, operations, pricing and other product strategies of the Bank, through detailed strategic planning and Risk Appetite statements at enterprise level. |
| **Operational Efficiency** | Establish Risk based approach for businesses and product design of the Bank, to enable effective allocation of capital for businesses, and deploying monitoring tools or controls for risks. |
| **Risk reporting & Communication** | Reporting to external stakeholders including regulators, shareholders, and drive risk based communication for businesses, operations and management of the Bank, |
| **Compliance** | Ensure compliance to SAMA directives on risk based reporting, and aligning to Basel stipulated reporting standards. |
| **Identification of Risks & Provisioning** | Enterprise Risk Management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks, mitigating risk of losses, and provisioning in line with IFRS 9 principles. |

### THE BANK'S SIX BROAD PRINCIPLES OF RISK MANAGEMENT

The following Six Broad Principles define the key elements on accountability, independence, structure and scope:

1. The risk management approach is premised on three lines of defense – risk taking business units, risk control units and internal audit.
2. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.
3. At BAJ, the Enterprise Risk Management Group through the Chief Risk Officer, Regional Credit Officers, and the Credit Risk Managers assumes the independent responsibility of reviewing and co-signing the credit approvals through the Executive Committee (EXCOM) and Management Credit Committee (MCC), of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units. In addition, Enterprise Risk Management Group (ERMG) provides risk management framework to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks that are discussed under Pillar II of the Basel regime.
4. ERMG ensures that the core risk policies of the bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Framework & Policy. ERMG is also responsible for the development and implementation of various risk policies and related business decisions in line with the authority as delegated by the Board.
5. ERMG is functionally and organizationally independent of the business units and other risk taking units within BAJ.
6. BAJ's Board, through the ALCO, MRC, MRPC, BRC and EXCOM, maintains overall responsibility for risk management within the Bank.

## 9. RISK APPETITE FRAMEWORK & POLICY

The Risk Appetite Framework & Policy is reviewed by BRC and the Board on a periodic basis and takes into consideration the bank's Risk Taking-Capacity, its desired financial position based on institutional and regulatory guidelines, the strength of its core earnings and the resilience of its reputation and brand. The risk appetite defines the key risk measures of the Bank and which are periodically reported to the BRC and to the Board through specific reports.

### A. CREDIT RISK MANAGEMENT

Risk appetite for credit risk is an expression of the amount of risk that the bank is willing to take in pursuing its strategic objectives. Credit risk arises when the bank deals with an obligor or counterparty and the obligor or counterparty fails to fulfill its part of the agreement. In mitigating credit risk, the Bank performs extensive due diligence on the obligor or counterparty analyzing both qualitative and quantitative (usually financial and business) information. The Bank uses internal rating models to determine an Obligor Risk Rating (ORR) that reflects the Bank's judgment regarding the probability of default. Ratings by the major credit rating agencies are also used whenever available.

Through the Credit Risk Officers, the Regional Credit Officers and the Chief Risk Officer, the credit risk is monitored by means of continuous review, monitoring and assessment of the obligor or counterparty's ability to meet obligations through a regular customer calling program, visits to project sites and a formal annual review of the obligors' financial position and business status. The credit process seeks to identify problems early on and to take effective remedial action, if needed, to protect the Bank's interests. The Bank sets credit limits to restrict the exposure to a single obligor or counterparty. Further restrictions are defined by type of transaction, tenor, repayment terms, and conditions precedent and subsequent. The Bank also mitigates its credit risk by requiring tangible collateral where necessary.

The Bank also seeks to control portfolio risk - various risks that arise from concentrations that are sensitive to certain parameters such as economic activity, geography, collateral, industry, risk rating etc. To mitigate these concentration risks the Bank seeks to diversify its portfolio through customer acquisition across economic sectors, diversification of type of financing in terms of short term working capital financing and longer term fixed capital financing and project financing through syndication arrangements to meet needs of its clients. Obligor and Sector Financing Concentrations are monitored by ERMG periodically or as per applicable regulatory guidelines through the CRO Dashboards and are regularly reviewed by the Regional Credit Officers, the Chief Risk Officer, the business heads and the MRC. The concentration levels are also reported to the Board Risk Committee (BRC) on a regular basis.

Concentrations in terms of funding sources are also monitored and diversification strategies in terms of reducing dependency on the large funds providers are regularly followed.

The Bank continually updates its credit polices to reflect changing economic, market, legal and competitive landscape.

### B. MARKET AND LIQUIDITY RISK MANAGEMENT

The bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The bank continuously monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits.

One of the key risks emanating from the recent global events and their impact on the regional and local financial markets has been the generation of liquidity / funds at a cost that does not outweigh the inflow of economic benefits derived from the financed assets. BAJ's management is cognizant of its liquidity requirements after taking into consideration the current and planned business requirements and has put in place a robust liquidity management framework which ensures a proactive identification of current and assessed liquidity requirements and gauges the same against the cost of such liquidity. The Bank's ALCO team remains focused on ensuring that the funding / liquidity remains at reasonable costs providing the Bank an opportunity to finance the growth of high yielding assets. The Bank has also implemented a comprehensive ILAAP (Internal Liquidity Adequacy Assessment Process) regime in accordance with regulatory mandate. ILAAP primarily focuses on the Bank's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with liquidity events.

### C. OPERATIONAL RISK MANAGEMENT

The bank's operational risk appetite has been defined in the Risk Appetite and Operational Risk policies of the Bank and expressed through the following measures and limits as part of semi-annual stress testing exercise:

1. Impact and materiality in terms of limits;
2. Tolerance and thresholds that reflects bank's tolerance for acceptable risks and operational losses;
3. Profile for the purpose of identifying material operational risks and losses.

To support the Bank's risk tolerance, each business / support unit is required to set their respective key risk indicators (KRIs) facilitated by the Operational Risk Management Department along with associated policies and procedures.

The Bank's Anti-Fraud Risk Management framework in line with SAMA guidelines. The objective of the framework is to build a comprehensive Anti-Fraud Risk Management program capable of addressing following aspects:

1. Maintain Fraud Risk Management Governance structure and associated strategy.
2. Develop, review and update Fraud Risk Management policies, procedures, processes and Manuals.
3. Conduct and upgrade Fraud Risk Assessments and anti-fraud diagnosis.
4. Implement a comprehensive Fraud Prevention and Detection solution across the bank.
5. Build knowledge transfer mechanism and related capacity in Bank's Fraud Risk Management practices and operations.

## 10. CREDIT RISK

### A. OVERVIEW

Credit risk is the potential that the bank's obligor or counterparty will fail to meet its obligations in accordance with agreed terms. It also includes the risk arising in the settlement and clearing transactions.

The principal bank units responsible for taking credit risk are:

- Corporate and Institutional Banking Group (CIBG)
- Commercial Banking Services-SME (CBS)
- Retail Banking Group (RBG)
- Treasury Group (TG)
- Private Banking (PBG)

Each credit risk taking unit has developed policies and guidelines governing their credit risk taking functions which are contained in the Credit Risk Policy, Retail Risk Policy and Market / Liquidity Risk Policy documents.

### B. PROVISIONS FOR LOANS/FINANCING

Ensuring that the bank remains the most compliant Financial Institution under IFRS-9, the bank has delivered this key project to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank remains compliant with IFRS-9 Expected Credit Loss (ECL) methods, appropriate scenarios and models well within SAMA guidelines. The bank makes provisions according to guidelines set by SAMA under IFRS-9. The provisioning strategies are governed by EWS Policy, Remedial Policy, Credit Policy and IFRS-9 Charter of the bank and are regularly reviewed for appropriateness by the Regional Credit Officers, the Chief Risk Officer, Remedial Management Head, the Heads of the Business Units, the Chief Financial Officer, the Chief Executive Officer and Management Risk Committee. All risk management policies are reviewed and approved by Board Risk Committee and Board of the Bank.

The IFRS-9 standard has introduced revised rules for classification of assets of financial institutions, their accounting, rules for considering provision and reporting in accordance with new standards, with the objective of addressing the shortcomings with regard to recognition and provisioning for stressed assets. The three main modules of IFRS-9 principles are:

- Classification and measurement of financial instruments;
- Impairment of financial assets;
- Hedge accounting.

The rules of the IFRS 9 standards aim for classification and measurement of all the financial instruments of the Bank across specified measurement categories of Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). This includes business model development for all the financial instruments at an aggregate level and assessment of cash flow characteristics test (SPPI test) at an individual instrument level.

The impairment computation is initiated with the stage assessment exercise, to identify the applicability of the assets to the three prescribed stages, based on the levels of Credit Risk.

The following summarizes the stage types and the assessment rules.

| Stage | Definition | Description |
|---|---|---|
| Stage 1 | Characterizes low Credit Risk assets | This stage includes performing assets with no signs of impairment. This would also include newly originated assets, taking into consideration assessment in the appraisal process. |
| Stage 2 | Assets where there has been a Significant Increase in Credit Risk (SICR) | The criteria for this stage is 'significant increase in credit risk', which is evaluated based on the credit monitoring framework, including internal and macroeconomic factors, or the Early Warning Signals (EWS) framework of the Bank. |
| Stage 3 | Asset category of impaired and non-performing assets | Categorization of assets in Stage 3 is based on objective evidence of impairment, based on the credit monitoring and overdue status of the accounts.<br>Stage 3 categorization can also be based on qualitative assessments, based on internal or external information available pertaining to accounts or obligors. |

SAMA has issued draft Rules Governing Credit Risk Exposure Classification and Provisioning which are expected to introduce significant changes to existing SAMA provisioning guidelines.

The banks has also developed clear set of policies, procedures, and governance around establishment of Early Warning Signals (EWS) which are in line with SAMA guidelines on the management of problem debt. The bank considers it crucial to identify and manage upcoming problems with a borrower's ability to service his debt in order to maintain acceptable levels of non-performing exposures.

## 11. MARKET RISK

### A. INTRODUCTION

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices.

### B. MANAGEMENT OF MARKET RISK

Delegated by the Board, ALCO and MRPC (Market Risk Policy Committee) are responsible for the policies, limits and control used in managing the market risks. The bank has an approved Market Risk Policy that clearly defines policies, procedures, and limits for managing market risk exposures.

The primary objective is to manage volatility in earnings, highlight transparent market risk and liquidity risk profile to senior management, MRPC, MRC, BRC, ALCO, the Board of Directors and the national supervisor (SAMA).

**Foreign Exchange Risk**

Foreign Exchange Risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The Market Risk Policy has set limits on Net Open Positions by currency groups. There are limits for USD, other G10 currencies, GCC currencies, and all the other currencies. The bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a smaller extent in United States Dollars (USD) or in USD-pegged currencies.

**Equity Price Risk**

Equity price risk refers to the risk of decrease in fair values of the bank's investments in equities. The bank's portfolio of listed securities is periodically marked to market. This trading portfolio mostly relates to strategic investments of seed capital by AlJazira Capital in various funds under their management. All these funds are listed on the Tadawul exchange. BAJ also holds a small and immaterial, legacy equity portfolio in its banking book; most of these equities are unquoted. Investments in unquoted equity instruments are measured at fair value. Any changes are taken into the bank's equity and other comprehensive income.

### C. CAPITAL TREATMENT FOR MARKET RISK

Bank AlJazira computes the minimum capital requirements against market risk using The Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risk are the primary risk factors experienced in the bank's activities.

### D. STRESS TESTING

The bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal markets using multiple scenarios and undertake the appropriate measures. Scenarios are reviewed and updated on an ongoing basis to reflect current market conditions. The bank carries out Stress Testing assessments based on both regulatory guidelines and adhoc basis based on various scenarios to test the resilience of specific portfolios. The Stress Test results are reported to Senior Management, BRC and the Board to facilitate and manage risk with more transparency.

## 12. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk has an enterprise wide presence and can arise from any activity within the Bank. Operational risk excludes Credit risks – the risks arising from financial transactions entered into with obligors or counterparties in which the obligor or counterparty fails to honor its part of the transaction.

The bank has a dedicated Operational Risk Team under Enterprise Risk Management Group (ERMG) which is tasked with monitoring, measuring and management of operational risks within the Bank. Functions of this unit are guided by the Operational Risk Policy. In addition, the Bank has implemented Business Continuity and Disaster Recovery programs, tested at regular intervals with results of testing communicated to relevant management forums.

### A. MANAGEMENT AND MONITORING OF OPERATIONAL RISK

The Operational Risk Management Framework is designed to establish an effective association between the risk management and the risk owners represented by various business and support groups within the bank. Business and support groups are responsible to manage their activities and the risks within their respective groups, however processes have been established to involve the Operational Risk Division to facilitate risk identification, measurement, assessment and control. Operational Risk framework across the Bank is also subject to independent review by Internal Audit function.

During the year, the Operational Risk Division has continued to conduct Operational Risk profile assessments and data gathering through meetings with business and support groups endeavoring to gain a clear understanding of business directions by cascading the strategic objectives. The approach is designed to associate the management directions with the allocated operational risk appetite and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the bank, a comprehensive risk awareness program has been developed and implemented involving management, risk champions and respective risk owners.

The components of the Operational Risk framework to manage and monitor operational risks are as follows:

#### Risk & Control Self-Assessment (RCSA)

Risk & Control Self-Assessment (RCSA) is a tool to monitor the performance of controls within a process. A risk register with controls is maintained and updated regularly as a part of this tool. The RCSA review cycle involves discussions with the business & support groups and periodic submissions to the Management Risk Committee (MRC) to seek directions on risk acceptance and treatments including decision for taking actions to review and to improve the control environment where required.

The bank's comprehensive RCSA program involves facilitation of workshops by Operational Risk Division to identify risks and controls within each business & support function level. The controls are periodically assessed to ensure the processes are functioning as per the design.

The bank has also established a Policy and Product Review Committee (PPRC) to oversee the development of new or existing policies and products. Responsibility of the committee is to challenge the policy or product owners on various aspects of risks to ensure they are adequately addressed before operationalization.

#### Key Risk Indicators (KRI)

Key Risk Indicators (KRI) is a metric to measure how risky a process is through early warning signals developed to indicate increasing risk exposures within the enterprise. KRI provides a trend of risk exposure by comparing it against the thresholds defined and accepted by the bank.

KRIs for business & support groups are defined through workshops and periodically monitored through Operational Risk Division. Trends highlighting risk exposures over the defined thresholds are analyzed and discussed with respective business or support groups to develop appropriate corrective action plans.

#### Loss Data Management (LDM)

Loss Data Management is a centralized process to methodically record operational loss incidents occurring in the bank to enable analysis of control failures and ensure such incidents do not recur.

The bank has established an internal loss data collection process through which incidents are reported to Operational Risk Division for recording purpose. A comprehensive Loss Database since 2013 till date is maintained by ORD.

#### Business Continuity Management (BCM)

The bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices and SAMA requirements with its scope encapsulating:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond to and manage adverse events whilst protecting key assets. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

**Outsourcing**

To ensure compliance to the SAMA regulations on outsourcing, the bank ensures that its outsourcing engagements are reviewed from various risk perspectives covering compliance, operational, business continuity and information security risk on an ongoing basis.

**Anti-Fraud Management**

The Bank has in place a comprehensive Anti-Fraud Risk Management framework in line with SAMA guidelines. The objective of the framework is to implement and maintain a comprehensive Anti-Fraud Risk Management program capable of addressing following aspects:

1. Review and maintain Fraud Risk Management Governance structure and associated strategy.
2. Develop, review and update Fraud Risk Management policies, procedures, processes and Manuals.
3. Conduct and upgrade Fraud Risk Assessments and anti-fraud diagnosis.
4. Implement a comprehensive Fraud Prevention and Detection solution across the bank.
5. Build knowledge transfer mechanism and related capacity in Bank's Fraud Risk Management practices and operations.

### B. MEASUREMENT OF OPERATIONAL RISK (OR) CAPITAL CHARGE

As of December 31, 2022, the Operational Risk capital charge has been calculated using the Basic Indicator Approach (BIA) as per SAMA guidelines. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the bank. As part of the bank's effort to implement Basel III reforms (Basel IV), the bank will migrate to the new the Standardised Approach recommended by SAMA Basel guidelines.

The bank continues to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

## 13. Enterprise Information Security Management

The bank's Enterprise Information Security Management governed by various information security management polices prepared under SAMA guidelines. Information Security is managed by a dedicated team housed under Enterprise Information Security (EIS) Division. EIS comprises of following crucial functions:

**Information Security Governance and Risk Management**

Information Security Governance & Risk function continuously maintains and monitors compliance with SAMA & NCA regulatory control frameworks along with developing, communicating and monitoring Enterprise Information Security (EIS) policies and standards. It performs regular Information Security risk assessments and internal security Reviews on information assets. It also provides assurance on adequacy of security controls over high risk information assets and maintains a continuous Awareness and Education Program across the bank.

**Information Security Intelligence**

The Information Security Intelligence function is entrusted with information security monitoring through the Security Operations Center (SOC) whereby real time monitoring and analysis are done of the security alerts of the bank's internal and external IT infrastructure while taking necessary actions to counter the national and international threats. The bank's Information Security Intelligence function also conducts on going security vulnerability assessments to identify and prioritize vulnerabilities across information assets. It also manages vulnerability remediation process, Security incident investigations and forensics along with detecting, responding to and recovering from Cyber Security Incidents.

**Information Security Architecture and Control**

The Information Security Architecture and Control function manages user identity and access management across the bank and its subsidiaries, implementing all security controls. It ensures that necessary controls are implemented and in place to control critical black box encryption devices on bank's payment gateways. The bank's Information Security Architecture and Control is also responsible for security management of SARIE system and ensure SAMA requirements are met. It is involved in designing and implementing security controls in new systems and sites, coordinating, developing, and evaluating security programs & recommending information assurance/security solutions. Information Security Architecture and Control function supports managing and controlling all credentials, encryption keys and certificates on all related information assets (such as SWIFT, SARIE, MC, VISA).

## 14. SHARIA'H GOVERNANCE

Being an Islamic entity, the bank is exposed to the risk of Sharia'h non-compliance. In order to monitor such risks the bank established an independent Sharia'h Committee, a Sharia'h Audit Division, and Sharia'h Compliance Division under Shariah Group.

### A. SHARIA'H GOVERNANCE

The Sharia'h Governance Framework was formulated to enable the bank to achieve its strategies towards the effective and efficient Sharia'h compliance risk management throughout the organization in line with the Sharia'h principles. The Sharia'h Governance Framework is the enterprise-wide Sharia'h Group plan consisting of Sharia'h Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Sharia'h governance is affected through the following Divisions:

- Sharia'h Committee Secretary;
- Research and Development;
- Sharia'h Audit
- Sharia'h Compliance;

### B. SHARIA'H COMMITTEE

The operation of the Islamic Bank is governed by Shariah Governance Framework for Local Banks Operating in Saudi Arabia issued by SAMA which stipulates that any licensed Islamic Bank is required to provide for the establishment of Sharia'h

Committee, which is responsible for directing, supervising and monitoring the activities of the Bank to ensure compliance with Islamic Sharia'h rules and principles.

The Sharia'h Committee is responsible to:

- It shall supervise the compliance of Islamic banking transactions with the Shariah principles and rules. Shariah compliance reports and internal Shariah audit observations should enable the committee to identify issues that require attention and, where appropriate, propose corrective measures.
- It shall issue decisions on Shariah matters so that the bank can comply with the Shariah principles and rules.
- It shall ensure that the Shariah policies and procedures developed by the bank are consistent with the Shariah principles and rules.
- To ensure that Islamic banking products are Shariah compliant, the committee shall approve the following:
- The terms and conditions contained in the forms, contracts, agreements and other legal documents used in executing the transactions.
- The product manual, marketing advertisements, illustrative pamphlets and brochures used to describe the product.
- The committee shall assess the compliance and internal Shariah audit work to ensure compliance with the Shariah aspects. Such assessment is part of the tasks related to submitting the reports on assessment of Shariah compliance.
- The related parties of the bank such as its legal consultant, external auditors, or consultant entities may seek advice from the Shariah committee on Shariah matters related to the bank operations, and the committee shall provide the necessary assistance in this regard.
- It shall inform the Committee, and recommend appropriate corrective actions, if it is proven to the committee that the bank has engaged in Islamic banking activities that are not Shariah compliant.
- The committee shall inform SAMA of cases in which Shariah non-compliant activities are not effectively or adequately addressed or no corrective actions are made by the bank.
- It shall prepare an annual report on the compliance of the banking Islamic activities of the bank with the Shariah principles and rulesand submit it to the Committee.

### C. Rectification Process of Sharia'h Non-Compliance Income

A procedures for handling and reporting Sharia'h non-compliance and Potential Sharia'h non-compliance has already been put in place as following:

- The Sharia'h Audit Division includes transactions that do not comply with Sharia'h in the Sharia'h audit report submitted to the Sharia'h Committee for decision-making.
- The Sharia'h Committee issues its decision to purify non-Sharia'h-compliant transactions.
- The Sharia'h Committee Secretary informs the Sharia'h Audit Division of the Sharia'h Committee's decision regarding the action to be taken.
- The specialized employee in the Sharia'h Auditing Division informs the concerned department of the decision of the Sharia'h Committee and follows up on processing transactions that are not in compliance with Sharia'h.
- The Research and Development Division shall ensure that the purification amount is deposited to the purification account.

Key measures undertaken by the Bank for managing Sharia'h Compliance risk include having in place the following processes:

- Awareness and Communication;
- Identification and assessment;
- Mitigation and control;
- Monitoring and reporting.

## 15. LIQUIDITY RISK

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR),Net Stable Funding Ratio (NSFR), SAMA Liquidity Ratio (SAMA LR) and Modified Loan to Deposit Ratio (MLDR)

### LIQUIDITY RISK MANAGEMENT APPROACH

In terms of day-to-day liquidity management, the Treasury ensures sufficient funding to meet the Bank's intraday payment and settlement obligations on a timely basis. The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of liquidity buffer with unencumbered high quality assets as a protection against any unforeseen interruption to cash flow;
- Managing short- and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring deposit concentration at bank level to avoid undue reliance on large fund providers (LFPs);
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as MLDR, SAMA LR, LCR and NSFR are maintained at the required minimum.
- Conducting semi-annual liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the plans.

Liquidity policy and Framework are covered under the Market Risk Policies and procedures which are subject to review and approval by the Market Risk Policy Committee (MRPC) and Board.

Furthermore, the Bank has enhanced its liquidity risk management framework as well as produced various liquidity metrics at regular frequency to assess the liquidity risk profile of the Bank. The Bank computes LCR, NSFR, SLR and MLDR as per the frequency prescribed by the regulator. Additionally, the Bank also conducts CFP testing on a quarterly basis.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA as mandated under regulatory guidelines. In addition to the statutory deposit, the bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and assets.

The bank is currently holding an investment portfolio, with a large portion of it comprising mostly of Sovereign Sukuks.. This portfolio is considered high quality and liquid with availability of funding through SAMA's repo window.

Furthermore, the bank undertakes a detailed assessment of its liquidity risks under the annual ILAAP review process.

## 16. PROFIT RATE RISK IN BANKING BOOK

Profit Rate Risk in Banking Book arises from changes in profit rates which affect either the fair values or the future cash flows of Profit-rate sensitive financial instruments in the Banking Book.

### Yield sensitivity of assets, liabilities and off balance sheet items

The bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The bank uses the SAIBOR for lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The bank charges profit rates based on the maturity of loans (longer term financing requires a higher profit rate).

Profit rate risk is measured as per industry best practices and monitored by senior management on a regular basis. The bank uses behavioral models for non-maturity deposits; these models employ statistical time series data. Respective assumptions are derived from the model results in conjunction with other qualitative factors.

Profit Rate Risk assessment in the Banking Book is conducted by the bank duly in line with SAMA guidelines. These guidelines have updated both the principles and methods expected to be used by banks for measuring, managing, monitoring and controlling the profit rate risk.

Currently the bank is in a transition phase to comply with newly introduced SAIBOR reforms by SAMA.

## 17. MACROECONOMIC AND BUSINESS CYCLE RISK

The Macroeconomic and business cycle risk is a risk factor that will in turn give rise to other risk types like credit, market or liquidity. The bank has assessed this risk using hypothetical but plausible scenario based analysis. The major activity of the bank is financing, so it is assumed that the impact of such risks would be primarily on the credit risk. The Bank calculates and reports macroeconomic risk as per Pillar 2 risk profiles on a periodic basis.

## 18. STRATEGIC RISK

Strategic Risk of the bank refers to the risk to its earnings and profitability arising from its strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, Strategic Risk arises due to external causes, arising out of adopting wrong strategies and choices that can cause loss to the bank in the form of reduction in shareholder value, loss of earnings, etc.

The bank assesses its Strategic Risk based on a very conservative scorecard approach considering various risk drivers / factors related to strategic planning process and implementation capabilities. The bank calculates and reports strategic risk as per Pillar 2 risk profiles on a periodic basis.

## 19. REPUTATIONAL RISK

Reputational Risk refers to the potential adverse effects, which can arise from the bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/ adverse publicity etc.

The bank assesses the Reputational Risk based on a scorecard approach. The scorecard benchmarks various risk drivers to best practices and generates an overall score. The bank calculates and reports reputational risk as per Pillar 2 risk profiles on a periodic basis.

## 20. ENTERPRISE RISK MANAGEMENT GROUP – THE ROAD AHEAD

The Bank remains focused on fortifying its risk management practices and culture. In this regards the Bank continues to enhance its risk management governance enabling it to provide assurance to both internal and external stakeholders as regards to sound risk management practices being implemented in letter and spirit. Furthermore, a detailed review to all risk management policies and procedures is regularly undertaken to ensure these remain up to date and fit for purpose.

The bank undertakes a model validation exercise of its statistical internal Risk Rating models periodically to ensure that the models remain in sync with the broad strategic objectives and are predictive of the obligor and portfolio risk profile. A separate set of score cards have been developed with respect to the Retail Portfolio of the Bank to ensure that obligor's risk assessment is carried out at both application (pre-approval) and behavioral (post approval) basis.

The Bank has recently upgraded its Internal Risk Rating model platform to a new and improved version. This initiative is meant to assist the bank in managing its Credit Risk Management and approval processes.

As noted above, the bank is on target for implementation of the Basel III Post Crises reforms which aim to comply with SAMA guidelines under the given regulatory milestones. Accordingly, the bank has engaged a renowned vendor to the help implement the Basel III reforms. The implementation is currently underway.

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