
BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31
MARCH 2023**

Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of Bank AlJazira
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2023, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matter

As required by Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note 18 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 18 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

for PricewaterhouseCoopers



Mufaddal A. Ali
Certified Public Accountant
License Number 447



for Ernst & Young Professional Services



Rashid S. Roshod
Certified Public Accountant
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21 Shawwal 1444H
(11 May 2023)


Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 March 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	31 March 2022 (Unaudited) SR'000
	Notes			
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)	15	6,149,739	6,243,221	5,942,497
Due from banks and other financial institutions, net		2,487,232	1,688,803	636,016
Investments, net	5	36,040,154	34,634,053	31,941,128
Positive fair value of Shari'ah compliant derivatives	9	272,725	312,642	37,939
Financing, net	6	72,030,089	70,599,009	63,203,777
Other assets		670,458	581,039	732,890
Investment in an associate	7	218,909	217,871	211,530
Other real estate, net		498,249	505,785	506,004
Property, equipment and right of use assets, net		1,062,365	1,066,374	1,044,298
Total assets		119,429,920	115,848,797	104,256,079
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		14,468,109	12,116,687	7,015,770
Customers' deposits	8	86,867,225	86,022,839	79,277,392
Negative fair value of Shari'ah compliant derivatives	9	235,645	199,006	174,629
Subordinated Sukuk	10	2,039,900	2,002,819	2,007,373
Other liabilities		1,851,538	1,898,405	1,984,873
Total liabilities		105,462,417	102,239,756	90,460,037
EQUITY				
Share capital	11	8,200,000	8,200,000	8,200,000
Statutory reserve		3,194,545	3,194,545	2,917,273
Other reserves	12	(600,870)	(755,297)	(219,971)
Retained earnings		1,298,828	1,094,793	1,023,740
Equity attributable to shareholders' of the Bank		12,092,503	11,734,041	11,921,042
Tier 1 Sukuk	13	1,875,000	1,875,000	1,875,000
Total equity		13,967,503	13,609,041	13,796,042
Total liabilities and equity		119,429,920	115,848,797	104,256,079


Tarek Al-Kasabi
Chairman


Naif Al Abdulkareem
CEO and Managing Director


Hani Noori
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023

	For the three-month period ended	
	31 March 2023	31 March 2022
Notes	SR'000	SR'000
Income from investments and financing	1,332,840	868,938
Return on deposits and financial liabilities	(774,308)	(140,339)
	<u>558,532</u>	<u>728,599</u>
Net financing and investment income		
Fees from banking services - income	229,310	242,642
Fees from banking services - expense	(99,915)	(109,187)
Fees from banking services, net	129,395	133,455
Exchange income, net	50,353	42,370
Net loss on fair value through statement of income (FVIS) financial instruments	(14,489)	(3,799)
Dividend income	38,175	994
Net gains on de-recognition of financial assets at fair value through other comprehensive income (FVOCI) – debt	4,690	4,854
Net gains on de-recognition of financial assets at amortised cost	-	24,811
Other operating income	17,212	54,886
Total operating income	<u>783,868</u>	<u>986,170</u>
Salaries and employee-related expenses	257,901	253,305
Rent and premises-related expenses	13,926	14,108
Depreciation and amortisation	45,940	49,647
Other general and administrative expenses	153,338	153,003
Other operating expenses	3,866	4,839
Total operating expenses before impairment charge	474,971	474,902
Impairment charge for financing and other financial assets, net	6 (b) 59,999	94,014
Total operating expenses	<u>534,970</u>	<u>568,916</u>
Net operating income	248,898	417,254
Share in net income of an associate	1,075	218
Net income for the period before zakat and income tax	249,973	417,472
Zakat and income tax		
Zakat	(44,541)	(39,516)
Income tax	(1,397)	(3,106)
Net income for the period	<u>204,035</u>	<u>374,850</u>
Basic and diluted earnings per share for the period (expressed in SR per share)	11 0.25	0.43


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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023

	Notes	For the three-month period ended	
		31 March 2023 SR'000	31 March 2022 SR'000
Net income for the period		204,035	374,850
Other comprehensive income / (loss):			
<i>Items that will be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>			
Cash flow hedges:			
- Effective portion of change in the fair value	12	(55,858)	61,186
- Net amount transferred to interim condensed consolidated statement of income	12	(1,764)	(52,655)
Net changes in fair value of investments classified as at FVOCI- debt	12	217,350	(100,952)
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods</i>			
Net changes in fair value of investments classified as at FVOCI- equity	12	(5,301)	(12,998)
Total other comprehensive income / (loss) for the period		154,427	(105,419)
Total comprehensive income for the period		358,462	269,431


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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023

	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
Balance at 1 January 2023 (audited)		8,200,000	3,194,545	(755,297)	1,094,793	11,734,041	1,875,000	13,609,041
Net income for the period		-	-	-	204,035	204,035	-	204,035
Other comprehensive income	12	-	-	154,427	-	154,427	-	154,427
Total comprehensive income for the period		-	-	154,427	204,035	358,462	-	358,462
Balance at 31 March 2023 (unaudited)		8,200,000	3,194,545	(600,870)	1,298,828	12,092,503	1,875,000	13,967,503
Balance at 1 January 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	4(a)	-	-	-	(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 period		-	-	-	374,850	374,850	-	374,850
Other comprehensive loss	12	-	-	(105,419)	-	(105,419)	-	(105,419)
Total comprehensive income for the period		-	-	(105,419)	374,850	269,431	-	269,431
Tier 1 Sukuk issuance costs		-	-	-	(946)	(946)	-	(946)
Tier 1 Sukuk related costs		-	-	-	(19,441)	(19,441)	-	(19,441)
2021 final dividend		-	-	-	(287,000)	(287,000)	-	(287,000)
Balance at 31 March 2022 (unaudited)-restated		8,200,000	2,917,273	(219,971)	1,023,740	11,921,042	1,875,000	13,796,042



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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023

	Notes	For the three month period ended	
		31 March 2023 SR'000	31 March 2022 SR'000
OPERATING ACTIVITIES			
Net income for the period before zakat and income tax		249,973	417,472
Adjustments to reconcile net income to net cash from operating activities:			
Net gain on FVIS financial instruments		(2,301)	(3,520)
Gain on investments held at amortised cost and FVOCI, net		(4,690)	(29,665)
Dividend income		(23,965)	-
Return on subordinated sukuk		36,975	12,671
Depreciation and amortization		45,940	49,647
Impairment charge for financing and other financial assets, net	6 (b)	59,999	94,014
Provision for end of service benefit obligations		10,363	19,605
Share in net income of an associate		(1,075)	(218)
Net gain on disposal / write off of property and equipment		-	(51,411)
		<u>371,219</u>	<u>508,595</u>
Net changes in operating assets:			
Statutory deposit with SAMA		157,262	(217,598)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(144,502)	-
Investments held at FVIS		(181,396)	(542,435)
Positive fair value of Shari'ah compliant derivatives		39,917	(25,881)
Financing		(1,486,518)	(922,491)
Other real estate		7,536	1,739
Other assets		(89,418)	288,453
Net changes in operating liabilities:			
Due to banks and other financial institutions		2,351,422	605,690
Customers' deposits		844,386	912,243
Negative fair value of Shari'ah compliant derivatives		36,639	(52,680)
Other liabilities		(138,026)	(18,498)
		<u>1,768,521</u>	<u>537,137</u>
End of service benefits paid		(10,693)	(10,498)
Zakat and income tax paid		(2,300)	-
Net cash from operating activities		<u>1,755,528</u>	<u>526,639</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments held at amortised cost and FVOCI		268,017	4,912,921
Purchase of investments held at amortised cost and FVOCI		(1,274,128)	(4,960,712)
Dividends received		23,965	-
Acquisition of property and equipment		(33,915)	(33,969)
Proceeds from sale of property and equipment		-	158,143
Net cash (used in) / generated from investing activities		<u>(1,016,061)</u>	<u>76,383</u>

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The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

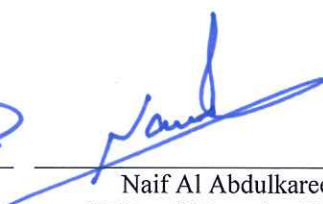
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2023 (continued)

	Notes	For the three month period ended	
		31 March 2023 SR'000	31 March 2022 SR'000
FINANCING ACTIVITIES			
Payment of sukuk related transaction costs		-	(3,156)
Dividends paid		(22)	(273,737)
Payment for principal portion of lease liabilities		(17,898)	(14,942)
Net cash used in financing activities		(17,920)	(291,835)
Net change in cash and cash equivalents held		721,547	311,187
Cash and cash equivalents at the beginning of the period		2,337,820	1,740,036
Cash and cash equivalents at the end of the period	15	3,059,367	2,051,223
Income from investments and financing received during the period		1,091,487	750,155
Return on deposits and financial liabilities paid during the period		667,404	55,398
Supplemental non-cash information			
Right of use assets and Lease liabilities		8,016	5,223
Net changes in fair value of cash flow hedges and transfers to the interim condensed consolidated statement of income		(57,622)	8,531



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Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023

1. GENERAL

These interim condensed consolidated 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 12 Jumad Al-Thani 1395H (21 June 1975). The Bank commenced its business on 16 Shawwal 1396H (9 October 1976) with the takeover of The National Bank of Pakistan’s branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated 29 Rajab 1396H (27 July 1976) issued in Jeddah. The Bank is regulated by the Saudi Central Bank (SAMA). The Bank operates through its 82 branches (31 December 2022: 82 branches and 31 March 2022: 82 branches) and 54 Fawri Remittance Centers (31 December 2022: 54 and 31 March 2022: 61 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. 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 in the Kingdom of Saudi Arabia.

The details of the Bank’s subsidiaries are as follows:

	<u>Country of incorporation</u>	<u>Nature of business</u>	<u>Ownership (direct and indirect) 31 March 2023</u>	<u>Ownership (direct and indirect) 31 December 2022</u>	<u>Ownership (direct and indirect) 31 March 2022</u>
Subsidiaries					
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	100%	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%	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%	100%
AlJazira Securities Limited	Cayman Islands	Carryout Shari’ah compliant derivative and capital market transactions	100%	100%	100%
BAJ Sukuk Tier 1 Limited	Cayman Islands	Trustee for issuance of Tier 1 capital certificates	100%	100%	100%

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023 (CONTINUED)

1. GENERAL (continued)

The details of the Bank's associate is as follows:

Associate	Country of incorporation	Nature of business	Ownership (direct and indirect) 31 March 2023	Ownership (direct and indirect) 31 December 2022	Ownership (direct and indirect) 31 March 2022
AlJazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	26.03%	26.03%	26.03%

- 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 March 2023.
- 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 March 2023, the Group has a substantial ownership in these entities amounting to SR 1,160.13 million (31 March 2022: SR 746.64 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 March 2023, 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 interim condensed consolidated financial statements.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the period ended 31 March 2023, have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2022. The consolidated financial statements of the Group as at and for the year ended December 31, 2022, were prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023 (CONTINUED)

2. BASIS OF PREPARATION (continued)

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

In preparing these interim condensed consolidated financial statements, significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation were consistent with those that were applied to the consolidated financial statements as at and for the year ended 31 December 2022, except for new amendments that are applicable from the period beginning January 1, 2023 as disclosed in note 4(b).

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SR) and are rounded off to the nearest thousands except where otherwise stated and the functional currency of the Bank is Saudi Riyal.

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the interim condensed financial statements of Bank AlJazira and its subsidiaries as set out in Note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank.

The interim condensed 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.

a) 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 of the following three criteria must be met:

- i. the Group has power over an entity;
- ii. the Group has exposure, or rights, to variable returns from its involvement with the entity;
and
- iii. 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 Group. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

Bank AlJazira

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023 (CONTINUED)

3. BASIS OF CONSOLIDATION (continued)

b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Group in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed 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 Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c) Transactions eliminated on consolidation

Balances between the Group entities, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

d) 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 interim condensed 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 interim condensed consolidated statement of income.

The previously recognized impairment loss in respect of investment in associate can be reversed through the interim condensed consolidated statement of income, such that the carrying amount of the investment in the interim condensed 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.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. Several amendments apply for the first time in 2023 but do not have impact on these interim condensed consolidated financial statements of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

a) Implication of change in accounting treatment

During 2022, the Group carried out a reassessment of the timing of the recognition of fee received in connection with its financing portfolio. Accordingly, the Group analysed whether any such fee was 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 identified certain fees that were required to be adjusted to the amortised cost of the related financing. The impact of such adjustment in prior periods was determined to be insignificant in relation to the financial statements as a whole. Therefore, the identified fees were 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. Accordingly, the balances for financing as at 31 March 2022 as reported previously have been restated.

b) New standards, interpretations and amendments adopted by the Group

Following standard, interpretation or amendment are effective from the current year and are adopted by the Group, however, these does not have any significant impact on the interim condensed consolidated financial statements of the Group, unless otherwise stated below:

Standard, interpretation, amendments	Description	Effective date
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 January 01, 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 January 01, 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 January 01, 2023.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS (continued)

c) 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 1 January 2023. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements of the Group.

Standard, interpretation, amendments	Description	Effective date
Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities	<p>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.</p> <p>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. Note that the IASB has issued a new exposure draft proposing changes to this amendment.</p>	Deferred until accounting periods starting not earlier than 1 January 2024
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 1 January 2024
Amendment to IFRS 16, Lease Liability in a Sale and Leaseback	Lease Liability in a Sale and Leaseback amends IFRS 16 by adding subsequent measurement requirements for sale and leaseback transactions.	1 January 2024
Amendments to IAS 1, Non-current Liabilities with Covenants	Non-current Liabilities with Covenants amends IAS 1 Presentation of Financial Statements. The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current.	1 January 2024

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5. INVESTMENTS

Investments are classified as follows:

	31 March 2023 (Unaudited)		
	SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	24,269	1,319,853	1,344,122
Equities – quoted	309	-	309
	<u>24,578</u>	<u>1,319,853</u>	<u>1,344,431</u>
ii) FVOCI			
Equities – quoted	159,998	-	159,998
Equities – unquoted	4,143	1,108	5,251
Sukuk investments – equity	1,914,290	199,341	2,113,631
Sukuk investments – debt	8,219,460	-	8,219,460
	<u>10,297,891</u>	<u>200,449</u>	<u>10,498,340</u>
Allowance for impairment	(5,482)	-	(5,482)
	<u>10,292,409</u>	<u>200,449</u>	<u>10,492,858</u>
iii) Amortised cost			
Sukuk investments	20,320,002	377,288	20,697,290
Wakala floating rate notes	3,520,015	-	3,520,015
	<u>23,840,017</u>	<u>377,288</u>	<u>24,217,305</u>
Allowance for impairment	(13,257)	(1,183)	(14,440)
	<u>23,826,760</u>	<u>376,105</u>	<u>24,202,865</u>
Total	<u>34,143,747</u>	<u>1,896,407</u>	<u>36,040,154</u>

	31 December 2022 (Audited)		
	SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	25,856	1,129,785	1,155,641
Equities – quoted	5,093	-	5,093
	<u>30,949</u>	<u>1,129,785</u>	<u>1,160,734</u>
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
	<u>10,003,073</u>	<u>202,410</u>	<u>10,205,483</u>
Allowance for impairment	(6,457)	-	(6,457)
	<u>9,996,616</u>	<u>202,410</u>	<u>10,199,026</u>
iii) Amortised cost			
Sukuk investments	19,766,370	-	19,766,370
Wakala floating rate notes	3,520,943	-	3,520,943
	<u>23,287,313</u>	<u>-</u>	<u>23,287,313</u>
Allowance for impairment	(13,020)	-	(13,020)
	<u>23,274,293</u>	<u>-</u>	<u>23,274,293</u>
Total	<u>33,301,858</u>	<u>1,332,195</u>	<u>34,634,053</u>

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5. INVESTMENTS (continued)

	31 March 2022 (Unaudited)		
	SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	23,307	789,440	812,747
Equities – quoted	-	-	-
	<u>23,307</u>	<u>789,440</u>	<u>812,747</u>
ii) FVOCI			
Equities – unquoted	4,143	730	4,873
Sukuk investments – equities	894,638	136,281	1,030,919
Sukuk investments – debt	6,701,638	-	6,701,638
	<u>7,600,419</u>	<u>137,011</u>	<u>7,737,430</u>
Allowance for impairment	(2,044)	-	(2,044)
	<u>7,598,375</u>	<u>137,011</u>	<u>7,735,386</u>
iii) Amortised cost			
Sukuk investments	19,494,361	-	19,494,361
Wakala floating rate notes	3,905,340	-	3,905,340
	<u>23,399,701</u>	<u>-</u>	<u>23,399,701</u>
Allowance for impairment	(6,706)	-	(6,706)
	<u>23,392,995</u>	<u>-</u>	<u>23,392,995</u>
Total	<u>31,014,677</u>	<u>926,451</u>	<u>31,941,128</u>

6. FINANCING, NET

The financing is classified as at amortized cost as follows:

	SR'000				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Others</u>	<u>Total</u>
31 March 2023 (Unaudited)					
Performing financing	742,749	29,425,840	43,037,532	291,103	73,497,224
Non-performing financing	59,632	329,867	907,024	6,794	1,303,317
	<u>802,381</u>	<u>29,755,707</u>	<u>43,944,556</u>	<u>297,897</u>	<u>74,800,541</u>
Allowance for impairment	(78,934)	(226,571)	(2,461,190)	(3,757)	(2,770,452)
	<u>723,447</u>	<u>29,529,136</u>	<u>41,483,366</u>	<u>294,140</u>	<u>72,030,089</u>

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FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023 (CONTINUED)**

6. FINANCING, NET (continued)

	SR'000				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Others</u>	<u>Total</u>
<u>31 December 2022 (Audited)</u>					
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				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Others</u>	<u>Total</u>
<u>31 March 2022 (Unaudited) - Restated (refer note 4 (a))</u>					
Performing financing	683,200	28,476,227	35,024,458	322,156	64,506,041
Non-performing financing	62,363	291,474	1,071,529	-	1,425,366
Gross financing	745,563	28,767,701	36,095,987	322,156	65,931,407
Allowance for impairment	(67,947)	(202,925)	(2,456,475)	(283)	(2,727,630)
Financing, net	677,616	28,564,776	33,639,512	321,873	63,203,777

Financing, net represents Shari'ah compliant products in respect of Murabaha agreements, Ijarah, Istisnaat, Musharaka and Tawarruq.

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6. FINANCING, NET (continued)

a) Movement in allowance for impairment is as follows:

	31 March 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	31 March 2022 (Unaudited) SR'000
Balance at the beginning of the period / year	2,718,645	2,637,997	2,637,997
Impairment charge for financing	87,564	572,113	155,962
Bad debts written off	(12,084)	(307,235)	(23,289)
(Reversal) / (recoveries) of amounts previously provided	(23,673)	(184,230)	(43,040)
Balance at the end of the period / year	<u>2,770,452</u>	<u>2,718,645</u>	<u>2,727,630</u>

b) Net impairment charge for financing and other financial assets for the period in the interim condensed consolidated statement of income comprised of:

	31 March 2023 (Unaudited) SR'000	31 March 2022 (Unaudited) SR'000
Impairment charge for financing	87,564	155,962
(Reversal) / (recoveries) of amounts previously provided	(23,673)	(43,040)
(Recoveries) from debts previously written off	(8,453)	(20,805)
Net impairment charge for ECL in respect of due from banks and other financial institutions	3,841	646
Net impairment charge for ECL in respect of investments	445	2,139
Net impairment charge / (reversal) for ECL in respect of non-funded financing and credit related commitments	275	(888)
Impairment charge for financing and other financial assets, net	<u>59,999</u>	<u>94,014</u>

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6. FINANCING, NET (continued)

- c) The following table explains changes in gross carrying amount of the financing to help explain their significance to the changes in the loss allowance.

	31 March 2023 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Gross carrying amount as at 1 January 2023	66,966,856	2,840,214	3,510,584	73,317,654
Transfer to 12-month ECL	87,948	(75,617)	(12,331)	-
Transfer to lifetime ECL not credit – Impaired	(672,734)	679,624	(6,890)	-
Transfer to lifetime ECL credit impaired	(33,025)	(94,262)	127,287	-
New financial assets originated	3,939,107	9,586	28	3,948,721
Financial assets that have been derecognized	(1,945,240)	(54,342)	(11,322)	(2,010,904)
Changes in profit accrual	234,940	-	-	234,940
Other movements	(808,436)	137,129	(6,479)	(677,786)
Write-offs	-	-	(12,084)	(12,084)
Gross carrying amount as at 31 March 2023	67,769,416	3,442,332	3,588,793	74,800,541
	31 December 2022 (Audited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
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	-
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
Other movements	140,244	(225,745)	(54,436)	(139,937)
Write-offs	-	-	(307,235)	(307,235)
Gross carrying amount as at 31 December 2022	<u>66,966,856</u>	<u>2,840,214</u>	<u>3,510,584</u>	<u>73,317,654</u>

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6. FINANCING, NET (continued)

	31 March 2022 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
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	75,480	(66,818)	(8,662)	-
Transfer to lifetime ECL not credit – Impaired	(158,906)	166,137	(7,231)	-
Transfer to lifetime ECL credit impaired	(62,240)	(70,164)	132,404	-
New financial assets originated	5,055,267	8,004	211	5,063,482
Financial assets that have been derecognized	(4,627,958)	(35,358)	(35,056)	(4,698,372)
Changes in profit accrual	38,900	-	-	38,900
Other movements	530,418	(49,470)	(2,735)	478,213
Write-offs	-	-	(23,289)	(23,289)
Gross carrying amount as at 31 March 2022	<u>58,691,016</u>	<u>3,382,196</u>	<u>3,858,195</u>	<u>65,931,407</u>

Other movements mainly represent changes in exposures for customers where there has been no change in the stage during the period.

d) An analysis of changes in ECL for financing is, as follows:

	31 March 2023 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 2023	248,641	305,843	2,164,161	2,718,645
Transfer to 12-month ECL	6,327	(791)	(5,536)	-
Transfer to lifetime ECL not credit – impaired	(5,948)	8,902	(2,954)	-
Transfer to lifetime ECL credit impaired	(218)	(3,652)	3,870	-
Net re-measurement of loss allowance	(2,170)	11,279	56,237	65,346
New financial assets originated	15,306	229	88	15,623
Financial assets that have been derecognized	(5,782)	(3,902)	(7,394)	(17,078)
Write-offs	-	-	(12,084)	(12,084)
ECL as at 31 March 2023	<u>256,156</u>	<u>317,908</u>	<u>2,196,388</u>	<u>2,770,452</u>

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6. FINANCING, NET (continued)

	31 December 2022 (Audited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 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 31 December 2022	<u>248,641</u>	<u>305,843</u>	<u>2,164,161</u>	<u>2,718,645</u>
	31 March 2022 (Unaudited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at 1 January 2022	170,741	222,807	2,244,449	2,637,997
Transfer to 12-month ECL	4,918	(1,087)	(3,831)	-
Transfer to lifetime ECL not credit – impaired	(1,412)	4,338	(2,926)	-
Transfer to lifetime ECL credit impaired	(543)	(1,081)	1,624	-
Net re-measurement of loss allowance	(28,219)	35,484	107,928	115,193
New financial assets originated	14,916	118	107	15,141
Financial assets that have been derecognized	(13,232)	(1,630)	(2,550)	(17,412)
Write-offs	-	-	(23,289)	(23,289)
ECL as at 31 March 2022	<u>147,169</u>	<u>258,949</u>	<u>2,321,512</u>	<u>2,727,630</u>

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7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company ("ATT"). The Group effectively holds 26.03% (31 December 2022: 26.03% and 31 March 2022: 26.03%) shareholding in 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 31 December 2022. ATT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of 31 March 2023 was SR 244.21 million (31 December 2022: SR 210.43 million and 31 March 2022: SR 277.71 million) based on Saudi Exchange (Tadawul) market price.

8. CUSTOMERS' DEPOSITS

	31 March 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	31 March 2022 (Unaudited) SR'000
Demand	37,446,127	38,217,209	40,062,028
Saving	713,353	730,534	1,007,693
Customers' time investments	46,721,465	44,930,750	36,018,380
Others	1,986,280	2,144,346	2,189,291
Total	<u>86,867,225</u>	<u>86,022,839</u>	<u>79,277,392</u>

Customers' time investments comprise deposits received on Shari'ah Compliant (non-commission based) Murabaha and Wakala products.

9. SHARIAH COMPLIANT DERIVATIVES

9.1 Nature/type of derivatives held

In the ordinary course of business, the Group utilizes the following Shari'ah compliant derivative financial instruments for both trading and strategic hedging purposes:

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.

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9. SHARIAH COMPLIANT DERIVATIVES (continued)

9.2 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 Saudi Central Bank.

As part of its financial asset and liability management, the Group uses Shari'ah compliant 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 at a variable rate. The Group uses profit rate swaps as cash flow hedges of these profit rate risks.

The gains on cash flow hedges reclassified to the interim condensed consolidated statement of income during the period are as follows:

	31 March 2023 SR'000	31 March 2022 SR'000
Income from investments and financing	3,197	53,380
Return on deposits and financial liabilities	(1,433)	(725)
Net gains on cash flow hedges reclassified to the interim condensed consolidated statement of income	<u>1,764</u>	<u>52,655</u>

The cash flow hedges of profit rate swap were highly effective in offsetting the variability of return on investments, deposits and other financial liabilities.

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9. SHARIAH COMPLIANT DERIVATIVES (continued)

9.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Fair value loss on cash flow hedges amounting to SR 55.86 million (31 March 2022: gain of SR 61.19 million) included in the interim condensed consolidated statement of comprehensive income comprised of net unrealized loss of SR 67.99 million (31 March 2022: unrealized gain of SR 97.64 million) and realized gain of SR 12.13 million (31 March 2022: realized loss of SR 36.45 million) on terminated hedge relationships.

During the current and prior periods, the Group sold certain of its profit rate swaps used for cash flows hedges. However, the gain / (loss) would continue to be classified in interim condensed consolidated statement of comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain / (loss) will be reclassified to interim condensed consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the interim condensed consolidated statement of income i.e. when profit receipts / payments impact the interim condensed consolidated statement of income which is over the remaining maturity of financial instrument / hedge items.

9.3 Details of shar'iah compliant derivatives

The table below summarize 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 end of the period, do not necessarily reflect the amounts of future cash flows involved. These 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.

	31 March 2023 (Unaudited)		
	SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	6,181	6,181	576,870
Profit rate swaps	133,022	131,550	4,898,127
Cross currency profit rate swaps	18,927	31,750	1,875,000
Currency swaps	16,453	8,911	6,035,947
Currency forwards (Wa'ad)	105	113	5,913
Total	174,688	178,505	13,391,857
Held as cash flow hedge:			
Profit rate swaps	98,037	57,140	4,600,000
Total	272,725	235,645	17,991,857

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9. SHARIAH COMPLIANT DERIVATIVES (continued)

9.3 Details of shar'iah compliant derivatives (continued)

	31 December 2022 (Audited)		
	SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	6,505	6,505	578,753
Profit rate swaps	137,157	132,886	5,211,843
Cross currency profit rate swaps	411	7,635	1,875,000
Currency swaps	13,146	3,624	4,072,558
Currency forwards (Wa'ad)	6	63	4,932
Total	157,225	150,713	11,743,086
Held as cash flow hedge:			
Profit rate swaps	155,417	48,293	5,087,500
Total	312,642	199,006	16,830,586
	31 March 2022 (Unaudited)		
	SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	667	667	31,231
Profit rate swaps	15,339	17,324	2,240,466
Cross currency profit rate swaps	18,927	36,942	1,875,000
Currency swaps	1,432	4,599	1,130,737
Currency forwards (Wa'ad)	6	5,512	389,092
Total	36,371	65,044	5,666,526
Held as cash flow hedge:			
Profit rate swaps	1,568	109,585	3,681,875
Total	37,939	174,629	9,348,401

Held for trading profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 57.52 million (31 December 2022: SR 34.70 million and 31 March 2022: SR 20.70) and accrued payable amounting to SR 63.03 million (31 December 2022: SR 36.15 million and 31 March 2022: SR 22.76 million). Held as cash flow hedge profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 29.43 million (31 December 2022: SR 32.68 million and 31 March 2022: SR 1.41 million) and accrued payable amounting to SR 24.53 million (31 December 2022: SR 29.54 million and 31 March 2022: SR 19.86 million).

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10. 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).

11. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (31 December 2022: 820 million shares of SR 10 each and 31 March 2022: 820 million shares of SR 10 each).

Basic earnings per share for the current and prior period is calculated by dividing the net income for the period attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk related costs) by the weighted average number of ordinary shares outstanding.

	For the three month period ended	
	31 March 2023	31 March 2022
	(Unaudited)	(Unaudited)
	<u>SR'000</u>	<u>SR'000</u>
Profit attributable to ordinary shareholders (adjusted for Tier 1 sukuk related costs)		
For basic and diluted earnings per share	<u>204,035</u>	<u>355,409</u>
	<u>Shares</u>	<u>Shares</u>
Weighted-average number of ordinary shares		
For basic and diluted earnings per share	<u>820,000,000</u>	<u>820,000,000</u>
Basic and diluted earnings per share (in SR)	<u>0.25</u>	<u>0.43</u>

The calculations of basic and diluted earnings per share are same for the Bank.

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12. OTHER RESERVES

<u>31 March 2023</u> <u>(Unaudited)</u>	Cash flow hedges <u>SR' 000</u>	Fair value reserve – FVOCI debt <u>SR' 000</u>	Fair value reserve – FVOCI equity <u>SR' 000</u>	Actuarial gains <u>SR' 000</u>	Total <u>SR' 000</u>
Balance at beginning of the period	73,235	(789,195)	(81,637)	42,300	(755,297)
Net change in fair value	(55,858)	217,350	(5,301)	-	156,191
Transfer to interim condensed consolidated statement of income (note 9.2(b))	(1,764)	-	-	-	(1,764)
Net movement during the period	(57,622)	217,350	(5,301)	-	154,427
Balance at end of the period	<u>15,613</u>	<u>(571,845)</u>	<u>(86,938)</u>	<u>42,300</u>	<u>(600,870)</u>
<u>31 December 2022</u> <u>(Audited)</u>	Cash flow hedges <u>SR' 000</u>	Fair value reserve – FVOCI debt <u>SR' 000</u>	Fair value reserve – FVOCI equity <u>SR' 000</u>	Actuarial gains <u>SR' 000</u>	Total <u>SR' 000</u>
Balance at beginning of the year	(106,891)	(41,949)	-	34,288	(114,552)
Net change in fair value	260,243	(747,246)	(81,637)	-	(568,640)
Transfer to consolidated statement of income	(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 end of the year	<u>73,235</u>	<u>(789,195)</u>	<u>(81,637)</u>	<u>42,300</u>	<u>(755,297)</u>

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12. OTHER RESERVES (continued)

<u>31 March 2022</u> <u>(Unaudited)</u>	Cash flow hedges <u>SR' 000</u>	Fair value reserve – FVOCI debt <u>SR' 000</u>	Fair value reserve – FVOCI equity <u>SR' 000</u>	Actuarial gains <u>SR' 000</u>	Total <u>SR' 000</u>
Balance at beginning of the period	(106,891)	(41,949)	-	34,288	(114,552)
Net change in fair value	61,186	(100,952)	(12,998)	-	(52,764)
Transfer to interim condensed consolidated statement of income (note 9.2(b))	(52,655)	-	-	-	(52,655)
Net movement during the period	8,531	(100,952)	(12,998)	-	(105,419)
Balance at end of the period	(98,360)	(142,901)	(12,998)	34,288	(219,971)

13. 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.

14. COMMITMENTS AND CONTINGENCIES

- a) The Group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings as disclosed at 31 December 2022.

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14. COMMITMENTS AND CONTINGENCIES (continued)

b) The Bank's credit related commitments and contingencies are as follows:

	31 March 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	31 March 2022 (Unaudited) SR'000
Letters of credit	2,905,102	2,819,060	1,373,868
Letters of guarantee	5,652,382	5,196,958	5,032,128
Acceptances	799,760	439,312	400,954
Irrevocable commitments to extend credit	1,234,836	949,976	150,000
Total	10,592,080	9,405,306	6,956,950
Allowance for impairment [b(ii)]	(329,681)	(329,406)	(407,202)
Net exposure	10,262,399	9,075,900	6,549,748

- b)(i) 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.

	31 March 2023 (Unaudited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Gross carrying amount as at 1 January 2023	8,818,321	40,135	546,850	9,405,306
Transfer to 12-month ECL	2,038	(2,038)	-	-
Transfer to lifetime ECL not credit – impaired	(7,961)	7,961	-	-
Transfer to lifetime ECL credit – impaired	-	(9)	9	-
New financial assets originated	980,037	627	300	980,964
Financial assets derecognised during the period	(675,892)	(734)	(14,675)	(691,301)
Other movements	910,982	(4,770)	(9,101)	897,111
Gross carrying amount as at 31 March 2023	10,027,525	41,172	523,383	10,592,080
	31 December 2022 (Audited)			
	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

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2023 (CONTINUED)

14. COMMITMENTS AND CONTINGENCIES (continued)

	31 March 2022 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(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	95	-	(95)	-
Transfer to lifetime ECL not credit – impaired	-	-	-	-
Transfer to lifetime ECL credit – impaired	(38)	-	38	-
New financial assets originated	273,670	3,913	1,000	278,583
Financial assets derecognised during the period	(155,457)	(2,822)	(44)	(158,323)
Other movements	84,796	12,467	1,238	98,501
Gross carrying amount as at 31 March 2022	<u>6,302,948</u>	<u>81,776</u>	<u>572,226</u>	<u>6,956,950</u>

Other movements mainly represent changes in exposures for customers where there has been no change in the stage during the period.

- b)(ii) An analysis of changes in allowance for ECL for credit related commitments and contingencies is as follows:

	31 March 2023 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 2023	21,713	174	307,519	329,406
Transfer to 12-month ECL	6	(6)	-	-
Transfer to lifetime ECL not credit – Impaired	(23)	23	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net re-measurement of loss allowance	7,672	9	256	7,937
New financial assets originated	1,884	-	174	2,058
Financial assets that have been derecognized	(2,802)	(1)	(6,917)	(9,720)
ECL as at 31 March 2023	<u>28,450</u>	<u>199</u>	<u>301,032</u>	<u>329,681</u>

	31 December 2022 (Audited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 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	-	-	(77,202)	(77,202)
ECL as at 31 December 2022	<u>21,713</u>	<u>174</u>	<u>307,519</u>	<u>329,406</u>

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14. COMMITMENTS AND CONTINGENCIES (continued)

	31 March 2022 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 2022	13,569	8,153	386,368	408,090
Transfer to 12-month ECL	47	-	(47)	-
Transfer to lifetime ECL not credit – Impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	(6)	-	6	-
Net re-measurement of loss allowance	(2,428)	283	631	(1,514)
New financial assets originated	479	3	500	982
Financial assets that have been derecognized	(263)	(84)	(9)	(356)
ECL as at 31 March 2022	<u>11,398</u>	<u>8,355</u>	<u>387,449</u>	<u>407,202</u>

- c) 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-Awwal 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 [TVDRRC] 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 TVDRRC 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 2022, except for the amounts agreed as a liability under the Agreement which will be paid to ZATCA as and when they fall due.

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15. CASH AND CASH EQUIVALENTS

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

	31 March 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	31 March 2022 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	1,653,990	1,590,210	1,413,016
Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition	<u>1,405,377</u>	<u>747,610</u>	<u>638,207</u>
Total	<u>3,059,367</u>	<u>2,337,820</u>	<u>2,051,223</u>

The reconciliation of cash and cash equivalents to cash and balances with Saudi Central Bank is as follows:

	31 March 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	31 March 2022 (Unaudited) SR'000
Cash and cash equivalents as per statement of cash flows	3,059,367	2,337,820	2,051,223
Statutory deposit	4,495,749	4,653,011	4,529,481
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	<u>(1,405,377)</u>	<u>(747,610)</u>	<u>(638,207)</u>
Cash and balances with SAMA	<u>6,149,739</u>	<u>6,243,221</u>	<u>5,942,497</u>

15.1 Below is a reconciliation of liabilities arising from financing activities:

31 March 2023 (Unaudited)	Subordinated Sukuk	Dividend Payable	lease liabilities against right of use assets
		(SR' 000)	
Balances as at 1 January 2023	2,002,819	66,730	222,001
Changes from financing cash flows			
Payment of leased liability - principal	-	-	(17,898)
Dividend paid	-	(22)	-
Other changes			
Increase due to additions	-	-	8,016
Payment of leased liability - profit	-	-	(2,228)
Financing cost	36,540	-	2,228
Amortisation of transaction cost	435	-	-
Other adjustments	106	-	-
Balances as at 31 March 2023	<u>2,039,900</u>	<u>66,708</u>	<u>212,119</u>

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15. CASH AND CASH EQUIVALENTS (continued)

31 March 2022 (Unaudited)	Subordinated Sukuk	Dividend Payable	lease liabilities against right of use assets
		(SR' 000)	
Balances as at 1 January 2022	1,994,685	43,153	289,865
Changes from financing cash flows			
Payment of leased liability - principal	-	-	(14,942)
Dividend paid	-	(273,737)	-
Other changes			
Increase due to additions	-	-	5,223
Payment of leased liability - profit	-	-	(2,746)
Financing cost	12,236	-	2,746
Amortisation of transaction cost	435	-	-
Other adjustments	17	-	-
Cash dividend declared	-	287,000	-
Balances as at 31 March 2022	2,007,373	56,416	280,146

16. 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 interim condensed consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2022.

For management 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 businesses 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).

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16. OPERATING SEGMENTS (continued)

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 at 31 March 2023 and 31 March 2022, its total operating income and expenses, and its net income for the three month period then ended, by operating segment, are as follows:

(SR'000)	<u>Personal banking</u>	<u>Corporate banking</u>	<u>Treasury</u>	<u>Brokerage and asset management</u>	<u>Others</u>	<u>Total</u>
31 March 2023						
(Unaudited)						
Total assets	35,644,012	35,191,916	45,117,131	3,258,033	218,828	119,429,920
Total liabilities	48,599,869	36,407,437	18,563,941	1,891,251	(81)	105,462,417
Total operating income	408,447	210,155	154,188	79,657	(68,579)	783,868
Of which:						
- Net financing and investment income / (loss)	300,105	165,707	82,169	12,216	(1,665)	558,532
- Fees from banking services, net	54,821	32,383	(19)	56,512	(14,302)	129,395
- Net (loss) / gain on FVIS financial instruments	(3,808)	(963)	(7,551)	(2,167)	-	(14,489)
Total operating expenses	(337,378)	(104,217)	(46,860)	(46,559)	44	(534,970)
Of which:						
- Impairment charge for financing and other financial assets, net	(13,743)	(41,970)	(4,286)	-	-	(59,999)
- Depreciation and amortization	(35,299)	(4,727)	(4,144)	(1,771)	1	(45,940)
Share in net income of an associate				154	921	1,075
Net income / (loss) before zakat and income tax	71,069	105,938	107,328	33,252	(67,614)	249,973
31 December 2022						
(Audited)						
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

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16. OPERATING SEGMENTS (continued)

(SR'000)	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Others	Total
31 March 2022 (Unaudited)						
Total assets	33,269,608	28,465,508	39,719,371	2,590,691	210,901	104,256,079
Total liabilities	49,057,339	27,243,848	12,688,222	1,471,257	(629)	90,460,037
Total operating income	515,104	188,057	262,948	76,674	(56,613)	986,170
Of which:						
- Net financing and investment income	372,887	160,321	184,383	13,912	(2,904)	728,599
- Fees from banking services, net	66,920	11,812	1,004	59,675	(5,956)	133,455
- Net (loss) / gain on FVIS financial instruments	(4,977)	(1,259)	(1,083)	3,520	-	(3,799)
Total operating expenses	(321,518)	(158,659)	(45,207)	(44,379)	847	(568,916)
Of which:						
- Impairment charge for financing and other financial assets, net	4,817	(96,693)	(2,138)	-	-	(94,014)
- Depreciation and amortization	(37,477)	(5,227)	(4,518)	(2,425)	-	(49,647)
Share in net income of an associate	-	-	-	31	187	218
Net income / (loss) before zakat and income tax	193,586	29,398	217,741	32,326	(55,579)	417,472

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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 (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 includes 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"

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

For assets and liabilities that are recognised at fair value 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.

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period.

- a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

	Carrying Value	31 March 2023 (Unaudited) Fair Value (SR'000)		Total
		Level 1	Level 2	
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	1,344,122	-	1,344,122	1,344,122
FVIS – Equities	309	309	-	309
FVOCI- Equities	159,998	159,998	-	159,998
FVOCI – Sukuk - equity	2,113,631	-	2,113,631	2,113,631
FVOCI – Sukuk – debt	8,213,978	-	8,213,978	8,213,978
Shari'ah compliant derivatives	272,725	-	272,725	272,725
Total	12,104,763	160,307	11,944,456	12,104,763
<u>Financial liabilities measured at fair value:</u>				
Shari'ah compliant derivatives	235,645	-	235,645	235,645
<u>31 December 2022 (Audited) Fair Value (SR'000)</u>				
	Carrying Value	Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	1,155,641	-	1,155,641	1,155,641
FVIS - Equities	5,093	5,093	-	5,093
FVOCI- Equities	48,714	48,714	-	48,714
FVOCI – Sukuk – equity	2,079,290	-	2,079,290	2,079,290
FVOCI – Sukuk – debt	8,065,786	-	8,065,786	8,065,786
Shari'ah compliant derivatives	312,642	-	312,642	312,642
Total	11,667,166	53,807	11,613,359	11,667,166
<u>Financial liabilities</u>				
Shari'ah compliant derivatives	199,006	-	199,006	199,006

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	Carrying Value	31 March 2022 (Unaudited) Fair Value (SR'000)		
		Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	812,747	-	812,747	812,747
FVIS - Equities	-	-	-	-
FVOCI – Sukuk – equity	1,030,919	-	1,030,919	1,030,919
FVOCI – Sukuk – debt	6,699,594	-	6,699,594	6,699,594
Shari'ah compliant derivatives	37,939	-	37,939	37,939
Total	8,581,199	-	8,581,199	8,581,199
<u>Financial liabilities measured at fair value:</u>				
Shari'ah compliant derivatives	174,629	-	174,629	174,629

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 wa'ad 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 period. New investments acquired during the period / year are classified under the relevant levels. There were no financial assets or financial liabilities at fair value classified under level 3.

Investments amounting to SR 5.25 million (31 December 2022: SR 5.24 million and 31 March 2022: SR 4.87 million) are carried at cost and, accordingly, are not fair valued.

- b) Following table represent fair values of financial assets and liabilities which are carried at amortised cost. There are no financial assets and liabilities where fair value is measurable as level 1 and level 3 fair value.

	31 March 2023 (Unaudited) (SR'000)	
	Amortised cost	Fair value Level 2
<u>Financial assets:</u>		
Due from banks and other financial institutions, net	2,487,232	2,503,238
Investment held at amortised cost, net	24,202,865	23,941,222
Financing, net	72,030,089	72,526,109
Total	98,720,186	98,970,569
<u>Financial liabilities:</u>		
Due to banks and other financial institutions	14,468,109	14,948,987
Customers' deposits	86,867,225	87,162,211
Subordinated Sukuk	2,039,900	2,039,900
Total	103,375,234	104,151,098

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	31 December 2022 (Audited) (SR'000)	
	Amortised cost	Fair value Level 2
Financial assets:		
Due from banks and other financial institutions, net	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
	31 March 2022 (Unaudited) (SR'000)	
	Amortised cost	Fair value Level 2
Financial assets:		
Due from banks and other financial institutions, net	636,016	635,477
Investment held at amortised cost, net	23,392,995	23,576,113
Financing, net	63,203,777	65,018,282
Total	87,232,788	89,229,872
Financial liabilities:		
Due to banks and other financial institutions	7,015,770	7,414,431
Customers' deposits	79,277,392	79,326,292
Subordinated Sukuk	2,007,373	2,007,373
Total	88,300,535	88,748,096

The fair value of the cash and balances with Saudi Central Bank, other assets and other liabilities approximate to their carrying amount. The fair values of level 2 financial instruments are estimated as at 31 March 2023 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 March 2023, 31 December 2022 and 31 March 2022, as well as the significant unobservable inputs used.

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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 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, Financing, Due to banks and other financial institutions, Customer Deposits	Amortised Cost	Market Data: Used observable market data inputs for yield curves. Fair value technique: The fair value is determined by discounting the future cash flows. A discounted cash flow is the product of: <ul style="list-style-type: none"> The anticipated nominal magnitude and sign of a cash flow. The accumulated discount over the amount of time remaining until the anticipated time of the cash flow, at a rate of discount. 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

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18. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum percentage.

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

SAMA has issued its final guidelines regarding implementation of Basel III (post-crisis regulatory reforms) Framework effective January 1, 2023. The new framework has brought significant amendments in the computation of Pillar I risk weighted assets.

The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the new Basel III Framework except for prior period figures which are based on Basel III regulations.

	31 March 2023 (Unaudited)	31 December 2022 (Audited)	31 March 2022 (Unaudited)
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
Credit Risk RWA	79,451,354	73,503,969	62,877,229
Operational Risk RWA	2,467,632	6,352,124	6,159,548
Market Risk RWA	4,537,448	3,883,308	2,612,547
Total Pillar-I RWA	<u>86,456,434</u>	<u>83,739,401</u>	<u>71,649,324</u>
Common Equity Tier 1 (CET 1) Capital	12,288,943	12,084,910	12,504,578
Additional Tier 1 (AT1) Capital	1,875,000	1,875,000	1,875,000
Tier I Capital	14,163,943	13,959,910	14,379,578
Tier II Capital	2,567,680	2,547,559	2,397,992
Total Tier I and II Capital	<u>16,731,623</u>	<u>16,507,469</u>	<u>16,777,570</u>
Capital Adequacy Ratio (%)			
Common Equity Tier I Ratio	14.21%	14.43%	17.45%
Tier I ratio	16.38%	16.67%	20.07%
Total Tier I and II Capital	19.35%	19.71%	23.42%

19. 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 2022 for the LIBOR transition and is now offering products based on overnight SOFR, Term SOFR and Islamic SOFR.

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20. COMPARATIVE FIGURES (continued)

For the three month period ended 31 March 2022	As originally reported	Impact of fee related adjustments (note 4(a))	Impact of derivative income gross up	Amounts reported after restatement
Income from investments and financings	821,448	27,867	19,623	868,938
Return on deposits and financial liabilities	(120,716)	-	(19,623)	(140,339)
Fees from banking services – income	280,871	(38,229)	-	242,642
Fees from banking services - expense	(119,549)	10,362	-	(109,187)
Fees from banking services, net	161,322	(27,867)	-	133,455
As at 31 March 2022				
Financing, net	63,264,850	(61,073)	-	63,203,777
Retained earnings	1,084,813	(61,073)	-	1,023,740

In addition, certain prior period amounts have been reclassified so as to align with the current period presentation. However, there was no impact of such reclassifications on the consolidated statement of income and consolidated statement of changes in equity.

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on 03 May 2023 (corresponding to 13 Shawwal 1444H).