
BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2020



KPMG Al Fozan & Partners
Certified Public Accountant
9th Floor, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992



PricewaterhouseCoopers
5th floor, Jameel Square,
P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia
License No. 25

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

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 December 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of 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 December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements as endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis for opinion

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

Key audit matters

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 each matter below, a description of how our audit addressed the matter is provided in that context:

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the shareholders of Bank AlJazira (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Expected credit loss allowance against loans and advances:</i></p> <p>As at December 31, 2020, the gross loans and advances of the Group were SAR 56,154 million (2019: SAR 50,669 million) against which an expected credit loss ("ECL") allowance of SAR 2,193 million (2019: SAR 1,009 million) was maintained.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular and hence has increased the levels of judgement needed to determine the ECL. The key areas of judgement include:</p> <ol style="list-style-type: none"> 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. <p>The Group has applied additional judgements to identify and estimate the likelihood of borrowers that might have experienced SICR notwithstanding the various government support programs that resulted in deferrals provided to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves.</p> 2. 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 counterparties, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages. 	<ul style="list-style-type: none"> ▪ We obtained and updated our understanding of management's assessment of ECL allowance against loans and advances including the Group's internal rating model, accounting policy and model methodology including key changes made in light of the COVID-19 pandemic. ▪ We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9. ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant "IT" general and application controls) over: <ul style="list-style-type: none"> • the ECL model, (including governance over the model, its validation, approval of key assumptions and post model adjustments, if any); • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; • the IT systems and applications underpinning the ECL model; and • the integrity of data inputs into the ECL model. ▪ For a sample of customers, we assessed: <ul style="list-style-type: none"> • the internal ratings determined by management based on the Group's internal rating model and considered these assigned ratings in the light of external market conditions and available industry information in particular with reference to the impact of the COVID-19 pandemic. We also assessed that the internal ratings were consistent with the ratings used as inputs in the ECL model; • the staging as identified by management; and • management's computation of ECL. ▪ We assessed the appropriateness of the Group's criteria for the determination of SICR

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the shareholders of Bank AlJazira (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
<p>3. The need to apply post model overlays using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model.</p> <p>Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at December 31, 2020.</p> <p><i>Refer to the summary of 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 loans and advances; and note 30.2 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</i></p>	<p>and identification of “default” or “individually impaired” exposures; and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group’s loan portfolio including for customers who were eligible for deferral of installments under government support programs and with a specific focus on customers operating in sectors most affected by the COVID-19 pandemic.</p> <ul style="list-style-type: none"> ▪ We assessed the governance process implemented and the qualitative factors considered by the Group when applying overlays, or making any adjustment to the output from the ECL model, due to data or model limitations. ▪ 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 due to the COVID 19 pandemic. ▪ We tested the completeness and accuracy of data underpinning the ECL calculations as at December 31, 2020. ▪ Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and assumptions used in overlays. ▪ We assessed the adequacy of disclosures in the consolidated financial statements.
<p><i>SAMA support program and related government grant</i></p> <p>In response to the COVID-19 pandemic, the Saudi Central Bank (SAMA) launched a number of initiatives including the liquidity support programme for banks and the Private Sector Financing Support Program (“PSFSP”). The PSFSP was launched in March 2020 to provide the necessary support to the Micro Small and Medium</p>	<p>We obtained an understanding of the various programs and initiatives taken by SAMA and assessed the purpose of the various deposits received by the Group in order to assess whether the IAS 20 criteria were met for government grant recognition.</p>

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the shareholders of Bank AlJazira (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Enterprises ("MSME"). The PSFSP included deferred payments program whereby the Bank deferred the installment payable by MSMEs during the period from March 14, 2020 to March 31, 2021.</p> <p>In order to compensate the Group with respect to the losses incurred in connection with the above PSFSP and the liquidity support programme, the Group has received various profit free deposits of varying maturities from SAMA. The difference between the market value of deposits calculated using market rates of deposits of similar size and tenure and the profit free deposits has been considered as a government grant and accounted for in accordance with the International Accounting Standard 20: <i>Government Grants</i> ("IAS 20").</p> <p>As of December 31, 2020, the Bank has received SR 4,193 million under the various SAMA support programs.</p> <p>We considered the accounting treatment of the SAMA support programme and government grant as a key audit matter because:</p> <ul style="list-style-type: none"> ➤ These represent significant events and material transactions that occurred during the period and thereby required significant auditors' attention; ➤ the recognition and measurement of government grant involved significant management judgement including but not limited to: <ul style="list-style-type: none"> • determining the appropriate discount rate to be used to calculate the grant income on the deposit; and • identifying the objective of each individual deposit to determine the timing of recognition of the grant. <p><i>Refer to the significant accounting policy note 3(i) to the consolidated financial statements relating to government grant accounting, note 2 (c) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to government grant recognition and note 42 which contains the disclosure of SAMA support programmes and details of the government grant received over the year from SAMA.</i></p>	<p>We obtained the details of the deposit amounts received during the year by the Group.</p> <p>We assessed the reasonableness of the relevant discount rate used for the computation of government grant.</p> <p>We tested the accuracy of the government grant computation and assessed the basis for the timing of recognition of the government grant being at a point in time or over a period thereby matching the expense/ related costs which the government grant was intended to compensate.</p> <p>We assessed the disclosures included by management in the consolidated financial statements in relation to government grant as required by IAS 20.</p>

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the shareholders of Bank AlJazira (A Saudi Joint Stock Company) (continued)

Other information included in the Group's 2020 annual report

Management is responsible for the other information in Group's annual report. Other information consists of the information included in the Group's 2020 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 do not and 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.

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

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal controls as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors 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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the shareholders of Bank AlJazira (A Saudi Joint Stock Company) (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 controls that we identify during our audit.

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

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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the shareholders of Bank AlJazira (A Saudi Joint Stock Company) (continued)

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for KPMG Al Fozan & Partners
Certified Public Accountants



Ebrahim Oboud Baeshen
Certified Public Accountant
License Number 382

for PricewaterhouseCoopers
Certified Public Accountants



Mufaddal A. Ali
Certified Public Accountant
License Number 447

Rajab 11, 1442H
February 23, 2021




Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020

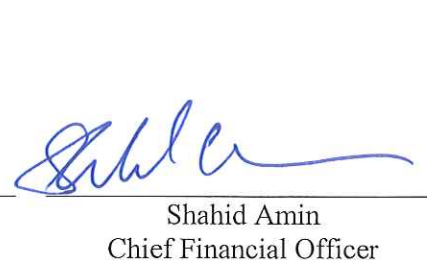
	<u>Notes</u>	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
ASSETS			
Cash and balances with Saudi Central Bank	4	5,248,294	5,477,687
Due from banks and other financial institutions, net	5	426,138	1,429,004
Investments held at fair value through statement of income	6	443,104	287,024
Investments held at fair value through other comprehensive income	6	1,118,251	106,801
Investments held at amortised cost	6	28,334,118	27,224,939
Positive fair value of derivatives	11	135,224	101,626
Loans and advances, net	7	53,961,211	49,660,119
Investment in an associate	8	164,136	148,332
Other real estate	7(h)	474,421	468,992
Property and equipment, net	9	1,155,609	1,154,270
Other assets	10	628,368	485,550
Total assets		92,088,874	86,544,344
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	12	8,530,196	8,253,754
Customers' deposits	13	68,003,612	62,696,794
Negative fair value of derivatives	11	303,495	216,011
Subordinated Sukuk	14	2,004,633	2,006,921
Other liabilities	15	1,882,439	1,781,347
Total liabilities		80,724,375	74,954,827
SHAREHOLDERS' EQUITY			
Share capital	16	8,200,000	8,200,000
Statutory reserve	17	2,665,754	2,657,316
General reserve	17	-	68,000
Other reserves	18	(99,576)	(86,804)
Retained earnings		598,321	505,005
Proposed dividend	26	-	246,000
Total shareholders' equity		11,364,499	11,589,517
Total liabilities and shareholders' equity		92,088,874	86,544,344



Tarek Al-Kasabi
Chairman



Naif Al Abdulkareem
CEO and Managing Director



Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

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Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	2020 SR'000	2019 SR'000
Special commission income	20	3,180,041	3,227,547
Special commission expense	20	(789,705)	(1,175,383)
Net special commission income		2,390,336	2,052,164
Fees and commission income	21	1,025,207	932,633
Fees and commission expense	21	(417,699)	(327,403)
Fees and commission income, net		607,508	605,230
Exchange income, net		240,164	229,910
Net gain on FVIS financial instruments	22	9,816	5,792
Dividend income		80	343
Net gains on derecognition of financial assets measured at FVOCI - debt		4,703	1,886
Net gains on derecognition of financial assets measured at amortised cost		2,102	69,654
Other operating income, net	23	32,410	12,180
Total operating income		3,287,119	2,977,159
Salaries and employee-related expenses	36	982,608	968,529
Rent and premises-related expenses		52,944	52,431
Depreciation and amortisation	9	214,446	201,026
Other general and administrative expenses		429,891	443,908
Other operating expenses, net		16,571	45,170
Total operating expenses before impairment charge		1,696,460	1,711,064
Impairment charge for expected credit losses ("ECL"), net	7(f)	1,575,743	156,953
Total operating expenses		3,272,203	1,868,017
Net operating income		14,916	1,109,142
Share in net income of an associate	8	16,279	12,888
Net income for the year before Zakat and income tax		31,195	1,122,030
Zakat and income tax:			
Zakat	25	(286)	(130,950)
Income tax reversal / (charge)	25	2,845	(57)
Net income for the year		33,754	991,023
Basic and diluted earnings per share (expressed in SR per share)	24	0.04	1.21

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Notes</u>	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
Net income for the year		<u>33,754</u>	<u>991,023</u>
Other comprehensive income:			
<i>Items that can be reclassified to consolidated statement of income in subsequent years:</i>			
Cash flow hedges:			
- Effective portion of change in the fair value	18	(48,138)	(14,106)
- Net amount transferred to consolidated statement of income	18	(89)	62
Net changes in fair value of investments classified as at FVOCI - Debt	18	<u>31,052</u>	<u>5,508</u>
<i>Items that cannot be reclassified to consolidated statement of income in subsequent years:</i>			
Remeasurement gains on employee benefit obligation	18	<u>4,403</u>	<u>18,016</u>
Total other comprehensive (loss) / income for the year		<u>(12,772)</u>	<u>9,480</u>
Total comprehensive income for the year		<u><u>20,982</u></u>	<u><u>1,000,503</u></u>


Tarek Al-Kasabi
Chairman


Naif Al Abdulkareem
CEO and Managing Director


Shahid Amin
Chief Financial Officer



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Bank AlJazira


(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Proposed dividend SR'000	Total SR'000
2020								
Balance at January 1, 2020 (audited)		8,200,000	2,657,316	68,000	(86,804)	505,005	246,000	11,589,517
Net income for the year		-	-	-	-	33,754	-	33,754
Other comprehensive loss for the year		-	-	-	(12,772)	-	-	(12,772)
Total comprehensive income for the year		-	-	-	(12,772)	33,754	-	20,982
Transfer to statutory reserve	17	-	8,438	-	-	(8,438)	-	-
Transfer from general reserve	17	-	-	(68,000)	-	68,000	-	-
2019 Final dividend paid	26	-	-	-	-	-	(246,000)	(246,000)
Balance at December 31, 2020		8,200,000	2,665,754	-	(99,576)	598,321	-	11,364,499
2019								
Balance at January 1, 2019 (audited)		8,200,000	2,409,560	68,000	(96,284)	253,196	410,000	11,244,472
Net income for the year		-	-	-	-	991,023	-	991,023
Other comprehensive income for the year		-	-	-	9,480	-	-	9,480
Total comprehensive income for the year		-	-	-	9,480	991,023	-	1,000,503
Transfer to statutory reserve	17	-	247,756	-	-	(247,756)	-	-
Interim dividend paid	26	-	-	-	-	(246,000)	-	(246,000)
Proposed dividend	26	-	-	-	-	(246,000)	246,000	-
2018 Final dividend paid		-	-	-	-	-	(409,458)	(409,458)
Adjustments in proposed dividend		-	-	-	-	542	(542)	-
Balance at December 31, 2019		8,200,000	2,657,316	68,000	(86,804)	505,005	246,000	11,589,517


Tarek Al-Kasabi
Chairman


Naff Al Abdulkareem
CEO and Managing Director


Shahid Amin
Chief Financial Officer


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Bank AlJazira


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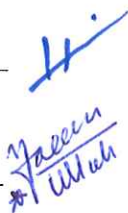
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	2020 SR'000	2019 SR'000
OPERATING ACTIVITIES			
Net income for the year before Zakat and income tax		31,195	1,122,030
Adjustments to reconcile net income to net cash from operating activities:			
Net gain on FVIS financial instruments	22	(9,816)	(5,792)
Depreciation and amortisation	9	214,446	201,026
Gains on investments not held as FVIS, net		(6,805)	(71,540)
Loss / (gain) on sale of property and equipment		3,123	(173)
Impairment charge for expected credit losses ("ECL"), net	7(f)	1,575,743	156,953
Share in net income of an associate	8	(16,279)	(12,888)
Special commission expense on Subordinated Sukuk		70,941	97,778
		<u>1,862,548</u>	<u>1,487,394</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(199,943)	(646,845)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		860,900	(760,336)
Investments held at FVIS		(146,264)	(239,939)
Positive fair value of derivatives		(33,598)	(47,192)
Loans and advances		(5,591,932)	(8,979,929)
Other real estate		(5,429)	(15,842)
Other assets		(142,818)	(142,924)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		276,442	1,830,324
Customers' deposits		5,306,818	10,892,696
Negative fair value of derivatives		87,484	64,222
Other liabilities		54,486	124,228
		<u>2,328,694</u>	<u>3,565,857</u>
Zakat and income tax paid		(218,451)	(155,360)
Net cash from operating activities		<u>2,110,243</u>	<u>3,410,497</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS		214,119	1,713,317
Purchase of investments not held as FVIS		(2,303,389)	(4,962,535)
Acquisition of property and equipment	9	(185,929)	(77,871)
Proceeds from sale of property and equipment		1,400	348
Net cash used in investing activities		<u>(2,273,799)</u>	<u>(3,326,741)</u>
FINANCING ACTIVITIES			
Special commission paid on Subordinated Sukuk		(73,229)	(99,059)
Dividends paid		(252,620)	(646,360)
Payment for principal portion of lease liabilities		(81,090)	(100,806)
Net cash used in financing activities		<u>(406,939)</u>	<u>(846,225)</u>
Net change in cash and cash equivalents		<u>(570,495)</u>	<u>(762,469)</u>
Cash and cash equivalents at the beginning of the year		2,646,838	3,409,307
Cash and cash equivalents at the end of the year	27	<u>2,076,343</u>	<u>2,646,838</u>
Special commission income received during the year		<u>3,109,077</u>	<u>3,116,192</u>
Special commission expense paid during the year		<u>864,656</u>	<u>959,386</u>
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		<u>(48,227)</u>	<u>(14,044)</u>


Tarek Al-Kasabi
Chairman


Naif Al Abdulkareem
CEO and Managing Director


Shahid Amin
Chief Financial Officer


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The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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 79 branches (2019: 78 branches) and 62 Fawri Remittance Centres (2019: 61 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2419 staff as of December 31, 2020 (2019: 2,387 staff). The Bank’s Head Office is located at the following address:

Bank AlJazira
Nahda District, King Abdulaziz Road,
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 Tadawul in the Kingdom of Saudi Arabia.

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

	Country of incorporation	Nature of business	Ownership (direct and indirect) December 31, 2020	Ownership (direct and indirect) December 31, 2019
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	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%
Associate				
AlJazira Takaful Ta’awuni Company	Kingdom of Saudi Arabia	Fully Shari’ah compliant protection and saving products	35%	35%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

2. BASIS OF PREPARATION

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements of the Group have been prepared;

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

ii. Basis of measurement and presentation

The consolidated financial statements are prepared on a going concern basis on 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. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

2. BASIS OF PREPARATION (continued)

b) Basis of consolidation (continued)

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:

- 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 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

2. BASIS OF PREPARATION (continued)

b) Basis of consolidation (continued)

iv. Investment in an associate (continued)

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

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; the testing results showed exceptionally high success rates. Hence, the Group continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

2. BASIS OF PREPARATION (continued)

c) Critical accounting judgments estimates and assumptions (continued)

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 2020 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. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised 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)(1))

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:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

2. BASIS OF PREPARATION (continued)

c) Critical accounting judgments, estimates and assumptions (continued)

i. Impairment losses on financial assets (continued)

- 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 34 (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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

2. BASIS OF PREPARATION (continued)

c) Critical accounting judgments, estimates and assumptions (continued)

ii. Fair value of financial instruments (continued)

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

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy (refer note 34).

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

2. BASIS OF PREPARATION (continued)

c) Critical accounting judgments, estimates and assumptions (continued)

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 exist 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 28 to these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF 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, 2019. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective January 1, 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual consolidated financial statements.

New standards, interpretations and amendments adopted by the Group

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020. The management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

- *Amendments to IFRS 3: Definition of a Business*

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

- *Amendments to IAS 1 and IAS 8: Definition of Material*

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

- *Amendments to References to the Conceptual Framework in IFRS Standards.*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

New standards, interpretations and amendments adopted by the Group (continued)

- *Amendments to IFRS 9, IAS 39 and IFRS 7: Profit Rate Benchmark Reform*

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

Phase 1

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

Phase 2

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

Management is running a project on the 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 will impact products, internal systems and processes.

Accounting Standards issued but not yet effective

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

- *Amendments to IFRS 16: Leases for COVID-19 rent related concessions*

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Accounting Standards issued but not yet effective (continued)

- *Amendments to IFRS 16: Leases for COVID-19 rent related concessions (continued)*

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no significant impact on the consolidated financial statements of the Group.

- *IFRS 17 – “Insurance contracts”, applicable for the period beginning on or after January 1, 2023*

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is expected to have no significant impact on the consolidated financial statements of the Group.

- *Amendments to IAS 1 – “Classification of Liabilities as Current or Non-current”, applicable for the period beginning on or after January 1, 2022*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Accounting Standards issued but not yet effective (continued)

- *Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)*
- *Profit Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)*
- *Reference to Conceptual Framework (Amendments to IFRS 3)*

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:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and special commission 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

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:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and special commission 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. Special commission income 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

Financial asset at FVIS (continued)

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 special commission revenue, maintaining a particular special commission 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

b. Assessments whether contractual cash flows are solely payments of principal and special commission (SPPI)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Special Commission' 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 special commission, 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 special commission 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

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Yield Rate (EIR).

All money market deposits, customer deposits, term loans, 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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

ii. Classification of financial liabilities (continued)

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 loan 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:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

iii. Derecognition

Financial assets

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

Financial assets (continued)

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.

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 and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income.

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 profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

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
- loan 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.

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 loan 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

v. Impairment (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be 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 are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the 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 loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

v. Impairment (continued)

Credit-impaired financial assets (continued)

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.

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;
- loan 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 loan 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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

v. Impairment (continued)

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 as 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 and loan 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. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market special commission rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVIS. For other loan 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, special commission rate swaps and commission 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

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:

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

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

iii) Hedge Accounting

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

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.

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.

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 special commission 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

Cash flow hedges (continued)

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Special commission income and expenses

Special commission income and expense 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 and special commission income

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective 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 special commission income and expense, 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, special commission 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 special commission income reverts to the gross basis.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue /expense recognition (continued)

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission 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 and commissions

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

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

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

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 Bank 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 unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue /expense recognition (continued)

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, special commission, dividends and foreign exchange differences.

Dividend income

Dividend income is recognised when the right to receive income is established.

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 bank 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 "SAMA cash borrowing" under "due to banks and other financial institutions", "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense 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 "loans and advances", as appropriate. The difference between the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective yield rate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of the net realizable value of due loans and advances 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 to 10 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) 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:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- The impact on profit or loss of expected changes in fair value of the related instruments.

n) Provisions

Provisions (other than provisions for credit losses and investments) 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.

o) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Accounting for leases (continued)

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 special commission expense 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 “loans and advances, 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.

p) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) 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 obligation.

The defined benefit liability comprises the present value of defined benefit obligation 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.

r) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Zakat and income tax (continued)

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 GAZT 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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to profit and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments.

The Group considers whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings may include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Zakat and income tax (continued)

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 the General Authority of Zakat and Income Tax ("GAZT"). 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.

s) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

4. CASH AND BALANCES WITH SAMA

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Cash in hand	1,122,892	1,214,248
Wakala placement with SAMA	524,978	862,958
Cash and cash equivalents (note 27)	1,647,870	2,077,206
Statutory deposit with SAMA	3,600,424	3,400,481
Total	5,248,294	5,477,687

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 at the end of each Gregorian month (see note 33). 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

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Current accounts	428,473	381,787
Money market placements	-	1,048,745
	428,473	1,430,532
Less: impairment allowance (note (b) below)	(2,335)	(1,528)
Total	426,138	1,429,004

The money market placements represent funds placed on Shari'ah compliant (non-interest based) basis as follows.

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Commodity murabaha	-	760,800
Wakala	-	287,945
	-	1,048,745

- a) The following table explains changes in gross carrying amount of the due from bank and other financial institutions to help explain their significance to the changes in the loss allowance for the same portfolio.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

	2020			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Gross carrying amount as at 1 January 2020	1,340,828	89,704	-	1,430,532
Transfer to lifetime ECL not credit – Impaired	(354)	354	-	-
Transfer to lifetime ECL credit – Impaired	-	(340)	340	-
Financial assets derecognised during the period other than write-offs	(1,168,291)	-	-	(1,168,291)
New financial assets originated or purchased	14,662	-	-	14,662
Other movements	92,783	56,463	2,324	151,570
Gross carrying amount as at 31 December 2020	279,628	146,181	2,664	428,473
	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Gross carrying amount as at 1 January 2019	1,102,704	195,681	-	1,298,385
Transfer to 12-month ECL	90,408	(90,408)	-	-
Financial assets derecognised during the period other than write-offs	(303,305)	(1,597)	-	(304,902)
New financial assets originated or purchased	765,953	494	-	766,447
Other movements	(314,932)	(14,466)	-	(329,398)
Gross carrying amount as at 31 December 2019	<u>1,340,828</u>	<u>89,704</u>	<u>-</u>	<u>1,430,532</u>

- b) An analysis of changes in loss allowance for due from banks and other financial institutions is, as follows:

	2020			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Loss allowance as at January 1, 2020	1,161	367	-	1,528
Transfer to lifetime ECL not credit – impaired	(1)	1	-	-
Net re-measurement of loss allowance	736	533	-	1,269
New financial assets originated	50	-	-	50
Financial assets that have been derecognized	(512)	-	-	(512)
Loss allowance as at December 31, 2020	1,434	901	-	2,335

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

- b) An analysis of changes in loss allowance for due from banks and other financial institutions is, as follows (continued):

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loss allowance as at January 1, 2019	122	514	-	636
Transfer to 12-month ECL	190	(190)	-	-
Net re-measurement of loss allowance	841	49	-	890
New financial assets originated	21	1	-	22
Financial assets that have been derecognized	(13)	(7)	-	(20)
Loss allowance as at December 31, 2019	<u>1,161</u>	<u>367</u>	<u>-</u>	<u>1,528</u>

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 30.2.

6. INVESTMENTS

- a) As of December 31, 2020, investments were classified as follows:

	2020 SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	193,324	249,020	442,344
Equities	760	-	760
	<u>194,084</u>	<u>249,020</u>	<u>443,104</u>
ii) FVOCI			
Equities	4,143	789	4,932
Sukuk investments	1,113,319	-	1,113,319
	<u>1,117,462</u>	<u>789</u>	<u>1,118,251</u>
iii) Amortised cost			
Sukuk investments	23,436,322	-	23,436,322
Wakala floating rate notes	4,904,294	-	4,904,294
	<u>28,340,616</u>	<u>-</u>	<u>28,340,616</u>
Allowance for ECL (refer note (e) below)	(6,498)	-	(6,498)
	<u>28,334,118</u>	<u>-</u>	<u>28,334,118</u>
Total	<u>29,645,664</u>	<u>249,809</u>	<u>29,895,473</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

6. INVESTMENTS (continued)

a) As of December 31, 2019, investments were classified as follows (continued):

	2019 SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	200,182	86,842	287,024
ii) FVOCI			
Equities	4,143	737	4,880
Sukuk investments	101,921	-	101,921
	106,064	737	106,801
iii) Amortised cost			
Sukuk investments	22,313,847	-	22,313,847
Wakala floating rate notes	4,911,092	-	4,911,092
	27,224,939	-	27,224,939
Total	27,531,185	87,579	27,618,764

b) The composition of investments as quoted and unquoted is as follows:

	2020			2019		
	Quoted SR'000	Unquoted SR'000	Total SR'000	Quoted SR'000	Unquoted SR'000	Total SR'000
Sukuk investments-Fixed rate	17,024,073	5,344,338	22,368,411	14,836,858	5,348,551	20,185,409
Sukuk investments-Floating rate	1,924,265	250,467	2,174,732	1,955,083	275,276	2,230,359
Wakala floating rate notes	4,904,294	-	4,904,294	4,911,092	-	4,911,092
Equities	760	4,932	5,692	-	4,880	4,880
Mutual funds	441,411	933	442,344	286,205	819	287,024
Total investments	24,294,803	5,600,670	29,895,473	21,989,238	5,629,526	27,618,764

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

6. INVESTMENTS (continued)

- c) The analysis of unrealized gains and losses and the fair values of investments carried at amortised cost are as follows:

	2020				2019			
	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	23,429,824	790,816	9,548	24,211,092	22,313,847	481,572	(21,548)	22,773,871
Wakala Floating rate notes	4,904,294	-	-	4,904,294	4,911,092	-	-	4,911,092
Total	28,334,118	790,816	9,548	29,115,386	27,224,939	481,572	(21,548)	27,684,963

- d) The analysis of the Group's investments by nature of counterparty is as follows:

	2020 SR'000	2019 SR'000
Government and quasi Government	29,070,400	26,926,011
Corporate	447,848	291,717
Banks and other financial institutions	377,225	401,036
Total	29,895,473	27,618,764

Certain of the sukuk investments (disclosed in note 6(c)) are quoted in different markets but 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 investments include SR 375 million (2019: SR 375 million), which have been pledged under repurchase agreements with other banks. The market value of such investment is SR 421.27 million (2019: SR 388.3 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

6. INVESTMENTS (continued)

e) An analysis of changes in loss allowance for debt instruments carried at amortised cost is as follows:

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loss allowance as at January 1, 2020	-	-	-	-
Net re-measurement of loss allowance	6,498	-	-	6,498
New financial assets originated	-	-	-	-
Financial assets that have been Derecognized	-	-	-	-
Loss allowance as at December 31, 2020	<u>6,498</u>	<u>-</u>	<u>-</u>	<u>6,498</u>

7. LOANS AND ADVANCES, NET

Consumer includes loans and advances related to individuals for personal needs.

Commercial include loans and advances to corporate, medium and small sized business and institutional customers.

Others include loans and advances to staff.

a) Loans and advances, net comprised the following:

	SR'000				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Others</u>	<u>Total</u>
2020					
Performing loans and advances	695,605	26,542,025	27,303,432	371,189	54,912,251
Non-performing loans and advances	55,679	168,344	1,017,934	-	1,241,957
Total loans and advances	<u>751,284</u>	<u>26,710,369</u>	<u>28,321,366</u>	<u>371,189</u>	<u>56,154,208</u>
Allowance for expected credit losses ("ECL")	(63,908)	(211,871)	(1,917,218)	-	(2,192,997)
Loans and advances, net	<u>687,376</u>	<u>26,498,498</u>	<u>26,404,148</u>	<u>371,189</u>	<u>53,961,211</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

	SR'000				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Others</u>	<u>Total</u>
2019					
Performing loans and advances	725,560	23,376,999	25,486,099	407,546	49,996,204
Non-performing loans and advances	48,371	154,727	469,984	-	673,082
Total loans and advances	773,931	23,531,726	25,956,083	407,546	50,669,286
Allowance for expected credit losses ("ECL")	(57,779)	(155,928)	(795,460)	-	(1,009,167)
Loans and advances, net	<u>716,152</u>	<u>23,375,798</u>	<u>25,160,623</u>	<u>407,546</u>	<u>49,660,119</u>

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

The above comprise of shariah approved balances as follows:

<u>Credit cards</u>	2020 SR'000	2019 SR'000
Tawarruq	751,284	773,931
Less: Allowance for ECL	(63,908)	(57,779)
Total	<u>687,376</u>	<u>716,152</u>
<u>Consumer</u>	2020 SR'000	2019 SR'000
Murabaha	19,293,948	15,040,025
Ijarah	7,414,928	8,490,520
Others	1,493	1,181
	<u>26,710,369</u>	<u>23,531,726</u>
Less: Allowance for ECL	(211,871)	(155,928)
Total	<u>26,498,498</u>	<u>23,375,798</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

Commercial	2020 SR'000	2019 SR'000
Tawarruq	22,732,987	21,618,843
Mura baha	2,710,405	1,835,645
Ijarah	1,273,794	1,435,505
Others	1,604,180	1,066,090
	<u>28,321,366</u>	<u>25,956,083</u>
Less: Allowance for ECL	(1,917,218)	(795,460)
Total	<u>26,404,148</u>	<u>25,160,623</u>

- b) The following table explains changes in gross carrying amount of the loans and advances to help explain their significance to the changes in the loss allowance.

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loans and advances				
Gross carrying amount as at 1 January 2020	43,726,824	3,862,170	3,080,292	50,669,286
Transfer to 12-month ECL	169,985	(129,404)	(40,581)	-
Transfer to lifetime ECL not credit – Impaired	(766,220)	773,027	(6,807)	-
Transfer to lifetime ECL credit impaired	(247,047)	(120,730)	367,777	-
Other Movements	1,000,820	(21,522)	172,914	1,152,212
New financial assets originated or purchased	8,397,583	53,188	6,240	8,457,011
Financial assets that have been derecognized	(3,537,745)	(124,637)	(323,931)	(3,986,313)
Changes in special commission accrual	(3,042)	-	-	(3,042)
Write-offs	-	-	(134,946)	(134,946)
Gross carrying amount as at 31 December 2020	<u>48,741,158</u>	<u>4,292,092</u>	<u>3,120,958</u>	<u>56,154,208</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

- b) The following table explains changes in gross carrying amount of the loans and advances to help explain their significance to the changes in the loss allowance (continued)

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loans and advances				
Gross carrying amount as at 1 January 2019	36,199,180	4,433,403	1,197,813	41,830,396
Transfer to 12-month ECL	504,335	(447,086)	(57,249)	-
Transfer to lifetime ECL not credit – Impaired	(950,004)	958,229	(8,225)	-
Transfer to lifetime ECL credit impaired	(1,182,906)	(1,156,637)	2,339,543	-
Other Movements	(369,796)	(103,698)	(162,675)	(636,169)
New financial assets originated or purchased	11,687,872	290,424	15,033	11,993,329
Financial assets that have been derecognized	(2,144,210)	(112,465)	(56,182)	(2,312,857)
Changes in special commission accrual	(17,647)	-	-	(17,647)
Write-offs	-	-	(187,766)	(187,766)
Gross carrying amount as at 31 December 2019	<u>43,726,824</u>	<u>3,862,170</u>	<u>3,080,292</u>	<u>50,669,286</u>

- c) An analysis of changes in ECL for loans and advances is, as follows:

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loans and advances				
ECL as at January 1, 2020	170,747	94,820	743,600	1,009,167
Transfer to 12-month ECL	18,450	(2,988)	(15,462)	-
Transfer to lifetime ECL not credit – impaired	(5,322)	7,717	(2,395)	-
Transfer to lifetime ECL credit impaired	(2,723)	(3,692)	6,415	-
Net re-measurement of loss allowance	124,154	202,732	982,111	1,308,997
New financial assets originated or purchased	45,291	1,352	3,415	50,058
Financial assets that have been derecognized	(14,988)	(1,771)	(23,520)	(40,279)
Write-offs	-	-	(134,946)	(134,946)
ECL as at December 31, 2020	<u>335,609</u>	<u>298,170</u>	<u>1,559,218</u>	<u>2,192,997</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

c) An analysis of changes in ECL for loans and advances is, as follows (continued):

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loans and advances				
ECL as at January 1, 2019	138,334	193,055	602,116	933,505
Transfer to 12-month ECL	21,040	(3,190)	(17,850)	-
Transfer to lifetime ECL not credit – impaired	(2,256)	5,667	(3,411)	-
Transfer to lifetime ECL credit impaired	(3,611)	(109,771)	113,382	-
Net re-measurement of loss allowance	(24,445)	7,265	249,848	232,668
New financial assets originated or purchased	50,245	6,426	7,316	63,987
Financial assets that have been derecognized	(8,560)	(4,632)	(20,035)	(33,227)
Write-offs	-	-	(187,766)	(187,766)
ECL as at December 31, 2019	<u>170,747</u>	<u>94,820</u>	<u>743,600</u>	<u>1,009,167</u>

d) An analysis of changes in ECL by each class of financial instrument is, as follows:

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Credit cards				
ECL as at January 1, 2020	24,509	1,834	31,436	57,779
Transfer to 12-month ECL	1,977	(684)	(1,293)	-
Transfer to lifetime ECL not credit – impaired	(338)	462	(124)	-
Transfer to lifetime ECL credit impaired	(597)	(577)	1,174	-
Net re-measurement of loss allowance	(5,898)	150	7,899	2,151
New financial assets originated	10,141	958	2,036	13,135
Financial assets that have been derecognized	(3,739)	(482)	(3,820)	(8,041)
Write-offs	-	-	(1,116)	(1,116)
ECL as at December 31, 2020	<u>26,055</u>	<u>1,661</u>	<u>36,192</u>	<u>63,908</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

d) An analysis of changes in ECL by each class of financial instrument is, as follows (continued):

	2019			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Credit cards				
ECL as at January 1, 2019	15,589	1,864	25,625	43,078
Transfer to 12-month ECL	2,290	(768)	(1,522)	-
Transfer to lifetime ECL not credit – impaired	(309)	554	(245)	-
Transfer to lifetime ECL credit impaired	(439)	(417)	856	-
Net re-measurement of loss allowance	(3,146)	24	8,811	5,689
New financial assets originated	12,352	1,136	2,984	16,472
Financial assets that have been derecognized	(1,828)	(559)	(3,981)	(6,368)
Write-offs	-	-	(1,092)	(1,092)
ECL as at December 31, 2019	<u>24,509</u>	<u>1,834</u>	<u>31,436</u>	<u>57,779</u>

	2020			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Consumer loans				
ECL as at January 1, 2020	86,418	1,290	68,220	155,928
Transfer to 12-month ECL	14,010	(560)	(13,450)	-
Transfer to lifetime ECL not credit – impaired	(571)	2,368	(1,797)	-
Transfer to lifetime ECL credit impaired	(243)	(150)	393	-
Net re-measurement of loss allowance	20,856	(814)	34,608	54,650
New financial assets originated	16,880	254	1,379	18,513
Financial assets that have been derecognized	(5,508)	(204)	(6,176)	(11,888)
Write-offs	-	-	(5,332)	(5,332)
ECL as at December 31, 2020	<u>131,842</u>	<u>2,184</u>	<u>77,845</u>	<u>211,871</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

d) An analysis of changes in ECL by each class of financial instrument is, as follows (continued):

	2019			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Consumer loans				
ECL as at January 1, 2019	92,205	2,517	69,535	164,257
Transfer to 12-month ECL	18,027	(1,699)	(16,328)	-
Transfer to lifetime ECL not credit – impaired	(427)	2,130	(1,703)	-
Transfer to lifetime ECL credit impaired	(335)	(179)	514	-
Net re-measurement of loss allowance	(40,394)	(1,303)	26,815	(14,882)
New financial assets originated	22,047	85	4,123	26,255
Financial assets that have been derecognized	(4,705)	(261)	(10,451)	(15,417)
Write-offs	-	-	(4,285)	(4,285)
ECL as at December 31, 2019	<u>86,418</u>	<u>1,290</u>	<u>68,220</u>	<u>155,928</u>
	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Commercial loans				
ECL as at January 1, 2020	59,820	91,696	643,944	795,460
Transfer to 12-month ECL	2,463	(1,744)	(719)	-
Transfer to lifetime ECL not credit – impaired	(4,413)	4,887	(474)	-
Transfer to lifetime ECL credit impaired	(1,883)	(2,965)	4,848	-
Net re-measurement of loss allowance	109,196	203,396	939,604	1,252,196
New financial assets originated	18,270	140	-	18,410
Financial assets that have been derecognized	(5,741)	(1,085)	(13,524)	(20,350)
Write-offs	-	-	(128,498)	(128,498)
ECL as at December 31, 2020	<u>177,712</u>	<u>294,325</u>	<u>1,445,181</u>	<u>1,917,218</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

d) An analysis of changes in ECL by each class of financial instrument is, as follows (continued):

	2019			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Commercial loans				
ECL as at January 1, 2019	30,540	188,674	506,956	726,170
Transfer to 12-month ECL	723	(723)	-	-
Transfer to lifetime ECL not credit – impaired	(1,520)	2,983	(1,463)	-
Transfer to lifetime ECL credit impaired	(2,837)	(109,175)	112,012	-
Net re-measurement of loss allowance	19,095	8,544	214,222	241,861
New financial assets originated	15,846	5,205	209	21,260
Financial assets that have been derecognized	(2,027)	(3,812)	(5,603)	(11,442)
Write-offs	-	-	(182,389)	(182,389)
ECL as at December 31, 2019	<u>59,820</u>	<u>91,696</u>	<u>643,944</u>	<u>795,460</u>

e) Movements in allowance for ECL are as follows:

<u>2020</u>	SR'000			
	Credit Cards	Consumer	Commercial	Total
Opening ECL allowance as at 1 January 2020	57,779	155,928	795,460	1,009,167
Impairment charge for the year	7,245	105,753	1,298,056	1,411,054
Bad debts written off during the year	(1,116)	(5,332)	(128,498)	(134,946)
Recoveries / reversals of amounts previously provided	-	(44,478)	(47,800)	(92,278)
Balance at the end of the year	<u>63,908</u>	<u>211,871</u>	<u>1,917,218</u>	<u>2,192,997</u>

<u>2019</u>	SR'000			
	Credit Cards	Consumer	Commercial	Total
Opening ECL allowance as at 1 January 2019	43,078	164,257	726,170	933,505
Impairment charge for the year	15,793	76,794	292,899	385,486
Bad debts written off during the year	(1,092)	(4,285)	(182,389)	(187,766)
Recoveries / reversals of amounts previously provided	-	(80,838)	(41,220)	(122,058)
Balance at the end of the year	<u>57,779</u>	<u>155,928</u>	<u>795,460</u>	<u>1,009,167</u>

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2020 and that are still subject to enforcement activity is SR 128.42 million (2019: SR 174.6 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

f) Net impairment charge for ECL for the year in the consolidated statement of income is as follows:

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Impairment charge for ECL on loans and advances for the year	1,411,054	385,486
Recoveries / reversal of amounts previously provided	(92,278)	(122,058)
Recoveries from debts previously written off	(27,936)	(46,727)
Net impairment charge for ECL in respect of due from banks and other financial institutions	807	892
Net impairment charge for ECL in respect of investments	6,498	-
Charge / (reversal) for ECL in respect of credit related contingent liabilities	277,598	(60,640)
Impairment charge for ECL, net	<u>1,575,743</u>	<u>156,953</u>

The Bank has performed a detailed credit risk assessment in respect of a number of exposures during the year to assess the adequacy of the expected credit loss allowance against these exposures. This assessment was performed taking into account the specific developments that took place in relation to these exposures and the overall economic environment post COVID lock downs etc. As a result of this assessment, the Bank has increased the level of ECL allowance required against these specific exposures.

g) Economic sector risk concentrations for the loans and advances and allowance for impairment are as follows:

<u>2020</u>	Performing <u>SR'000</u>	Non performing <u>SR'000</u>	Allowance for ECL <u>SR'000</u>	Loans and advances, net <u>SR'000</u>
Government and quasi Government	3,157,197	-	(17,682)	3,139,515
Banks and other financial institutions	1,869,830	-	(15,393)	1,854,437
Agriculture and fishing	54,822	-	(80)	54,742
Manufacturing	4,649,626	174,777	(565,727)	4,258,676
Building and construction	968,218	68,713	(392,797)	644,134
Commerce	10,177,608	619,853	(500,531)	10,296,930
Transportation and communication	137,015	-	(894)	136,121
Services	1,403,035	134,086	(137,758)	1,399,363
Consumer loans and credit cards	27,237,630	224,023	(275,779)	27,185,874
Share trading	1,152,572	-	-	1,152,572
Others	4,104,698	20,505	(286,356)	3,838,847
Total	<u>54,912,251</u>	<u>1,241,957</u>	<u>(2,192,997)</u>	<u>53,961,211</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

7. LOANS AND ADVANCES, NET (continued)

g) Economic sector risk concentrations for the loans and advances and allowance for impairment are as follows: (continued)

<u>2019</u>	Performing <u>SR'000</u>	Non performing <u>SR'000</u>	Allowance for ECL <u>SR'000</u>	Loans and advances, net <u>SR'000</u>
Government and quasi Government	1,741,356	-	(6,672)	1,734,684
Banks and other financial institutions	1,557,879	-	(3,606)	1,554,273
Agriculture and fishing	25,000	-	(32)	24,968
Manufacturing	4,298,634	14,464	(237,229)	4,075,869
Building and construction	915,081	70,225	(60,924)	924,382
Commerce	9,905,979	207,066	(311,460)	9,801,585
Transportation and communication	119,097	-	(1,165)	117,932
Services	1,369,659	162,799	(114,352)	1,418,106
Consumer loans and credit cards	24,102,559	203,098	(213,707)	24,091,950
Share trading	1,270,654	-	-	1,270,654
Others	4,690,306	15,430	(60,020)	4,645,716
Total	<u>49,996,204</u>	<u>673,082</u>	<u>(1,009,167)</u>	<u>49,660,119</u>

h) Other real estate

	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
Balance at the beginning of the year	468,992	453,150
Additions during the year	6,190	18,285
Disposals during the year	(761)	(2,443)
Balance at the end of the year	<u>474,421</u>	<u>468,992</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

8. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in AlJazira Takaful Ta'awuni Company ("ATT"). The details related to ATT are explained in note 29 and 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2020 is SR 309.92 million (2019: SR 217.32 million).

The following table summarises the latest available financial information of ATT as of December 31 and for the year then ended:

	2020 SR'000	2019 SR'000
Total assets	1,848,003	680,825
Total liabilities	(1,379,091)	(256,936)
Total shareholders' equity	468,961	423,807
Proportion of the Group's ownership	35%	35%
Carrying amount of the investment	164,136	148,332
	2020 SR'000	2019 SR'000
Total profit for the year before Zakat and income tax	46,510	36,821
The Group's share of profit for the year	16,279	12,888

The following table summarises the movement of the investment in associate during the year:

	2020 SR'000	2019 SR'000
Balance at the beginning of the year	148,332	135,770
Share in profit for the year before zakat and income tax	16,279	12,888
Share of Zakat and income tax	(475)	(326)
Dividend received	-	-
Balance at the end of the year	164,136	148,332

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

9. PROPERTY AND EQUIPMENT, NET

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Property and equipment, net (note a)	664,198	582,426
Right of use assets, net (note b)	354,116	419,657
Intangible assets (note c)	137,295	152,187
Total	1,155,609	1,154,270

a) Property and equipment, net

	Land and buildings <u>SR'000</u>	Leasehold improvements <u>SR'000</u>	Furniture, equipment and vehicles <u>SR'000</u>	Capital work in progress <u>SR'000</u>	Total <u>SR'000</u>
Cost					
At January 1, 2019	241,126	542,787	593,299	36,216	1,413,428
Additions during the year	-	2,893	4,192	33,703	40,788
Transfers during the year	-	3,062	6,227	(9,289)	-
Disposals during the year	-	-	(3,385)	-	(3,385)
At January 1, 2020	241,126	548,742	600,333	60,630	1,450,831
Additions during the year	-	2,866	9,479	135,797	148,142
Transfers during the year	66,706	13,118	24,024	(103,848)	-
Disposals during the year	-	(7,927)	(12,740)	(118)	(20,785)
At December 31, 2020	307,832	556,799	621,096	92,461	1,578,188
Accumulated depreciation					
At January 1, 2019	5,040	319,598	481,817	-	806,455
Charge for the year	-	27,481	37,679	-	65,160
Disposals	-	-	(3,210)	-	(3,210)
At January 1, 2020	5,040	347,079	516,286	-	868,405
Charge for the year	-	27,340	37,379	-	64,719
Disposals	-	(7,050)	(12,084)	-	(19,134)
At December 31, 2020	5,040	367,369	541,581	-	913,990
Net book value					
At December 31, 2020	302,792	189,430	79,515	92,461	664,198
At December 31, 2019	236,086	201,663	84,047	60,630	582,426

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

9. PROPERTY AND EQUIPMENT, NET (continued)

b) Right of use assets, net

	Land and buildings <u>SR'000</u>	Office Equipment <u>SR'000</u>	Vehicles <u>SR'000</u>	Total <u>SR'000</u>
Cost				
Adjustments on transition to IFRS 16 at January 1, 2019	462,825	6,573	1,165	470,563
Additions during the year	45,193	530	67	45,790
At January 1, 2020	508,018	7,103	1,232	516,353
Additions during the year	34,378	-	-	34,378
At December 31, 2020	542,396	7,103	1,232	550,731
Accumulated depreciation				
Charge for the year	93,764	2,345	587	96,696
At January 1, 2020	93,764	2,345	587	96,696
Charge for the year	97,321	2,137	461	99,919
At December 31, 2020	191,085	4,482	1,048	196,615
Net book value				
At December 31, 2020	351,311	2,621	184	354,116
At December 31, 2019	414,254	4,758	645	419,657

c) Intangible assets

	Computer softwares <u>SR'000</u>	Work in progress <u>SR'000</u>	Total <u>SR'000</u>
Cost			
At January 1, 2019	276,924	38,809	315,733
Additions during the year	510	36,573	37,083
Transfers during the year	28,153	(28,153)	-
At January 1, 2020	305,587	47,229	352,816
Additions during the year	11	37,776	37,787
Transfers during the year	48,696	(48,696)	-
Disposals	(5,586)	-	(5,586)
Write-offs	-	(2,854)	(2,854)
At December 31, 2020	348,708	33,455	382,163

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

9. PROPERTY AND EQUIPMENT, NET (continued)

c) Intangible assets (continued)

	Computer Softwares <u>SR'000</u>	Work in progress <u>SR'000</u>	Total <u>SR'000</u>
Accumulated amortisation			
At January 1, 2019	161,459	-	161,459
Charge for the year	39,170	-	39,170
At January 1, 2020	200,629	-	200,629
Charge for the year	49,808	-	49,808
Disposals	(5,569)		(5,569)
At December 31, 2020	244,868	-	244,868
Net book value			
At December 31, 2020	103,840	33,455	137,295
At December 31, 2019	104,958	47,229	152,187

10. OTHER ASSETS

	<u>2020</u> <u>SR'000</u>	<u>2019</u> <u>SR'000</u>
Advances, prepayments and other receivables	142,416	198,315
Margin deposits against financial instruments	152,531	111,731
Value Added Tax (VAT) receivable	187,780	105,899
Others	145,641	69,605
Total	628,368	485,550

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11. DERIVATIVES

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

11.1 Nature/type of derivatives held

a) Swaps

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

b) 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.

11.2 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 commission 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 commission rates to reduce its exposure to currency and commission 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 commission rate risk. This is generally achieved by hedging specific transactions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate risk. The Group uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated statement of income:

2020 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	45,098	86,008	78,662	12,997
Cash outflows (liabilities)	(93,697)	(211,514)	(259,944)	(1,696,744)
Net cash outflow	(48,599)	(125,506)	(181,282)	(1,683,747)
2019 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	42,068	90,196	80,241	52,328
Cash outflows (liabilities)	(188,512)	(386,189)	(385,133)	(2,124,239)
Net cash outflow	(146,444)	(295,993)	(304,892)	(2,071,911)

The gains / (losses) on cash flow hedges reclassified to the consolidated statement of income during the year are as follows:

	2020 SR'000	2019 SR'000
Special commission income	1,652	1,760
Special commission expense	(1,563)	(1,822)
Net gains / (losses) on cash flow hedges reclassified to the consolidated statement of income	89	(62)

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11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Cash flow hedges

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Balance at the beginning of the year	(110,411)	(96,367)
Losses from change in fair value recognised directly in equity, net (effective portion)	(48,138)	(14,106)
(Gains) / losses removed from equity and transferred to consolidated statement of income	(89)	62
Balance at the end of the year	<u>(158,638)</u>	<u>(110,411)</u>

During the prior years, the Bank sold certain of its special commission 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.

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.

	2020 SR'000							
	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Currency swaps	3,780	40	265,106	265,106	-	-	-	282,581
Currency forwards	8	40	5,681	5,681	-	-	-	200,388
Special commission rate swaps	18,792	18,792	1,254,753	-	1,004,277	250,476	-	1,409,685
Structured deposits	-	-	-	-	-	-	-	533,333
Held as cash flow hedges:								
Special commission rate swaps	112,644	284,623	3,550,625	-	-	1,778,750	1,771,875	3,550,625
Total	<u>135,224</u>	<u>303,495</u>	<u>5,076,165</u>	<u>270,787</u>	<u>1,004,277</u>	<u>2,029,226</u>	<u>1,771,875</u>	<u>5,976,612</u>

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11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Cash flow hedges

	2019 SR'000							
	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Currency swaps	-	172	112,500	112,500	-	-	-	382,813
Currency forwards	14	138	301,899	301,899	-	-	-	254,054
Special commission rate swaps	26,717	26,717	1,795,603	261,801	224,498	1,309,304	-	2,029,018
Structured deposits	2,000	2,000	800,000	-	800,000	-	-	800,000
Held as cash flow hedges:								
Special commission rate swaps	72,895	186,984	3,550,625	-	-	1,778,750	1,771,875	3,550,625
Total	101,626	216,011	6,560,627	676,200	1,024,498	3,088,054	1,771,875	7,016,510

Held for trading special commission rate swaps include special commission income receivable and payable amounting to SR 1.47 million (2019: SR 4.63 million). Held as cash flow hedge special commission rate swaps include special commission income receivable amounting to SR 5.04 million (2019: SR 16.32 million) and special commission payable amounting to SR 18.46 million (2019: SR 19.99 million).

All the derivative products in the above table are Shariah approved.

During the years ended on December 31, 2020 and December 31, 2019, there was no ineffectiveness in the cash flow hedges.

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

	2020 SR'000	2019 SR'000
Current accounts	177,278	199,366
Money market deposits from banks and other financial institutions (refer note 12.1)	8,063,770	7,764,271
Repo agreement borrowings	289,148	290,117
Total	8,530,196	8,253,754

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12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

The above comprise of Shariah approved balances as follows:

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Current accounts	177,278	199,366
Commodity murabaha	3,157,189	6,754,136
Wakala	5,195,729	1,300,252
Total	8,530,196	8,253,754

12.1 This balance includes profit free deposits received during the year from SAMA with gross amount of SAR 4.19 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 (refer to note 42).

As a result, the Bank's 'Special Commission Income' for the year ended December 31, 2020 included the fair value benefit of SAR 80.72 million arising from the profit free deposits.

13. CUSTOMERS' DEPOSITS

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Demand	37,411,390	30,839,375
Saving	284,182	-
Time	28,543,641	30,259,540
Other	1,764,399	1,597,879
Total	68,003,612	62,696,794

The above comprise of Shariah approved customer deposits as follows:

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Demand - Qard	37,411,390	30,839,375
Saving - Wakala	284,182	-
Time - Murabaha	26,298,819	26,371,012
Time - Wakala	2,244,822	3,888,528
Other - Qard	1,764,399	1,597,879
Total	68,003,612	62,696,794

Other customers' deposits include SR 710.15 million (2019: SR 600.22 million) of margins held for irrevocable contingencies and commitments.

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13. CUSTOMERS' DEPOSITS (continued)

The above includes foreign currency deposits as follows:

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Demand	1,717,463	1,092,593
Time	1,954,892	2,002,712
Other	90,389	88,460
Total	<u>3,762,744</u>	<u>3,183,765</u>

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 June 2, 2016, 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 190 basis point per annum and payable semi-annually in arrears on June 2 and December 2 each year until June 2, 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after June 2, 2021 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 Stock Exchange (Tadawul).

15. OTHER LIABILITIES

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Accounts payable	395,476	344,758
Employee benefit obligation (refer note 28)	279,701	273,833
Lease Liability (note a below)	324,902	371,613
ECL allowance for loan commitments and contingencies (refer note 19(c)(iii))	371,087	93,489
Dividend payable	32,638	39,259
AlJazira Philanthropic Program (note b below)	14,793	16,263
Others (note c below)	463,842	642,132
Total	<u>1,882,439</u>	<u>1,781,347</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

15. OTHER LIABILITIES (continued)

- a) The maturity analysis of lease liabilities based on contractual undiscounted cash flows is as follows:

	2020	2019
	SR'000	SR'000
Less than one year	84,614	82,081
One to five years	217,672	288,077
More than five years	66,250	58,518
Total undiscounted lease liabilities at December 31	368,536	428,676

Lease liabilities included in the consolidated statement of financial position at December 31

	324,902	371,613
Current	72,414	66,823
Non-Current	252,488	304,790

- 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 264.72 million (2019: SR 352.96 million) accrued as a result of Zakat settlement agreement entered into with GAZT in respect of assessment years from 2006 to 2017. The amount is payable in three (2019: four) instalments as more fully explained in note 25.

16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (2019: 820 million shares of SR 10 each).

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

	2020	2019
Saudi shareholders	80.22%	78.13%
Non-Saudi shareholder - National Bank of Pakistan (NBP)	3.70%	3.70%
Non-Saudi shareholder – others	16.08%	18.17%

17. STATUTORY AND GENERAL RESERVES

Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 8.44 million has been transferred from net income (2019: SR 247.76 million). The statutory reserve is not available for distribution.

General reserve

In addition, when considered appropriate, the Bank set asides its profits to cater general banking risks. During the current year the Bank transferred SR 68 million from general reserve to retained earnings pursuant to the shareholders approval in their Extra Ordinary General Assembly meeting held on December 30, 2020 (corresponding to Jumada al-awwal 15, 1442H).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

18. OTHER RESERVES

<u>2020</u>	<u>Cash flow hedges SR' 000</u>	<u>Fair value reserve – FVOCI debt SR' 000</u>	<u>Actuarial gains (note 28) SR' 000</u>	<u>Total SR' 000</u>
Balance at beginning of the year	(110,411)	5,508	18,099	(86,804)
Net change in fair value	(48,138)	31,052	-	(17,086)
Transfer to consolidated statement of income	(89)	-	-	(89)
Actuarial gains on employee benefit obligation	-	-	4,403	4,403
Net movement during the year	(48,227)	31,052	4,403	(12,772)
Balance at the end of the year	(158,638)	36,560	22,502	(99,576)

<u>2019</u>	<u>Cash flow hedges SR' 000</u>	<u>Fair value reserve – FVOCI debt SR' 000</u>	<u>Actuarial gains (note 28) SR' 000</u>	<u>Total SR' 000</u>
Balance at beginning of the year	(96,367)	-	83	(96,284)
Net change in fair value	(14,106)	5,508	-	(8,598)
Transfer to consolidated statement of income	62	-	-	62
Actuarial gains on employee benefit obligation	-	-	18,016	18,016
Net movement during the year	(14,044)	5,508	18,016	9,480
Balance at the end of the year	(110,411)	5,508	18,099	(86,804)

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2020, 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, 2020, the Group had capital commitments of SR 87.61 million (2019: SR 179.90 million) in respect of the construction of branches and IT related projects.

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19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies

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

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 loans and advances. 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 loans and advances, 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)				
<u>2020</u>	<u>Within 3</u>	<u>3-12</u>	<u>1-5</u>	<u>Over 5</u>	<u>Total</u>
	<u>months</u>	<u>months</u>	<u>years</u>	<u>years</u>	
Letters of credit	347,503	424,804	5,500	-	777,807
Letters of guarantee	3,335,469	1,110,544	123,337	20,600	4,589,950
Acceptances	170,509	-	-	-	170,509
Irrevocable commitments to extend credit	-	468,455	150,000	-	618,455
Total	3,853,481	2,003,803	278,837	20,600	6,156,721
Allowance for ECL					(371,087)
Net exposure					5,785,634

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

			(SR'000)		
<u>2019</u>	<u>Within 3</u>	<u>3-12</u>	<u>1-5</u>	<u>Over 5</u>	<u>Total</u>
	<u>months</u>	<u>months</u>	<u>years</u>	<u>years</u>	
Letters of credit	412,464	416,232	11,912	-	840,608
Letters of guarantee	1,905,183	1,217,627	672,102	17,900	3,812,812
Acceptances	239,871	-	-	-	239,871
Irrevocable commitments to extend credit	-	314,618	150,000	-	464,618
Total	2,557,518	1,948,477	834,014	17,900	5,357,909
Allowance for ECL					(93,489)
Net exposure					5,264,420

The outstanding unused portion of commitments as at December 31, 2020, which can be revoked unilaterally at any time by the Group, amounts to SR 3.84 billion (2019: SR 6.24 billion).

ii) The following table explains changes in gross carrying amount of the loan commitments and contingencies to help explain their significance to the changes in the loss allowance for the same portfolio.

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Gross carrying amount as at 1 January 2020	4,726,321	166,455	465,133	5,357,909
Transfer to 12-month ECL	16,648	(16,648)	-	-
Transfer to lifetime ECL not credit – impaired	(3,006)	3,006	-	-
Transfer to lifetime ECL credit – impaired	(30,260)	(7,889)	38,149	-
Financial assets derecognised during the period other than write-offs	(265,726)	(22,191)	(4,286)	(292,203)
New financial assets originated or purchased	1,184,229	-	36	1,184,265
Other movements	(90,489)	15,713	(18,474)	(93,250)
Gross carrying amount as at 31 December 2020	5,537,717	138,446	480,558	6,156,721

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19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Gross carrying amount as at 1 January 2019	4,748,375	239,979	230,342	5,218,696
Transfer to 12-month ECL	20,674	(20,674)	-	-
Transfer to lifetime ECL not credit – impaired	(31,662)	31,662	-	-
Transfer to lifetime ECL credit – impaired	(431,153)	(1,846)	432,999	-
Financial assets derecognised during the period other than write-offs	(365,271)	(1,229)	(115,576)	(482,076)
New financial assets originated or purchased	867,344	4,169	-	871,513
Other movements	(81,986)	(85,606)	(82,632)	(250,224)
Gross carrying amount as at 31 December 2019	<u>4,726,321</u>	<u>166,455</u>	<u>465,133</u>	<u>5,357,909</u>

iii) An analysis of changes in allowance for ECL for loan commitments and contingencies is, as follows:

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at January 1, 2020	18,630	2,602	72,257	93,489
Transfer to 12-month ECL	322	(322)	-	-
Transfer to lifetime ECL not credit – Impaired	(19)	19	-	-
Transfer to lifetime ECL credit impaired	(261)	(189)	450	-
Net re-measurement of loss allowance	2,774	4,713	264,064	271,551
New financial assets originated or purchased	7,914	-	18	7,932
Financial assets that have been derecognized	(1,572)	(276)	(37)	(1,885)
ECL as at December 31, 2020	<u>27,788</u>	<u>6,547</u>	<u>336,752</u>	<u>371,087</u>

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19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at January 1, 2019	13,265	1,683	139,181	154,129
Transfer to 12-month ECL	72	(72)	-	-
Transfer to lifetime ECL not credit – Impaired	(54)	54	-	-
Transfer to lifetime ECL credit impaired	(1,633)	(138)	1,771	-
Net re-measurement of loss allowance	5,664	1,017	(3,280)	3,401
New financial assets originated or purchased	2,295	61	-	2,356
Financial assets that have been derecognized	(979)	(3)	(65,415)	(66,397)
ECL as at December 31, 2019	<u>18,630</u>	<u>2,602</u>	<u>72,257</u>	<u>93,489</u>

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

	2020 SR'000	2019 SR'000
Government and quasi government	468,455	314,618
Corporate	5,681,555	4,979,441
Banks and other financial institutions	6,711	63,850
	<u>6,156,721</u>	<u>5,357,909</u>
Allowance for ECL	(371,087)	(93,489)
Total	<u>5,785,634</u>	<u>5,264,420</u>

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	2020 SR'000	2019 SR'000
Less than 1 year	4,665	6,609
1 to 5 years	420	5,085
Total	<u>5,085</u>	<u>11,694</u>

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20. NET SPECIAL COMMISSION INCOME

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Special commission income		
Loans and advances	2,262,511	2,255,640
Investments held at amortised cost	806,098	839,627
Investments held at FVOCI	25,702	1,796
Derivatives	71,021	100,303
Due from banks and other financial institutions	14,709	30,181
Total	3,180,041	3,227,547
Special commission expense		
Customers' deposits	491,231	773,966
Due to banks and other financial institutions	128,243	180,382
Derivatives	80,679	101,272
Subordinated Sukuk	72,274	99,111
Finance cost on leased assets	15,465	18,159
Others	1,813	2,493
Total	789,705	1,175,383
Net special commission income	2,390,336	2,052,164

All of the Group's Special commission income and expense is from Shari'ah approved products.

21. FEES AND COMMISSION INCOME, NET

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Fees and commission income		
Local share trading	310,289	124,604
Cards business	282,704	314,729
Loan commitment and management fees	136,238	185,955
Fees from remittance business	105,888	140,818
Mutual funds fees	49,758	66,121
International share trading	43,921	6,632
Trade finance	43,530	43,165
Fee and commission from Takaful Ta'awuni	1,997	19,046
Others	50,882	31,563
Total fees and commission income	1,025,207	932,633
Fees and commission expense		
Cards related expenses	(189,928)	(201,687)
Brokerage fees	(168,217)	(71,418)
Loans related expenses	(33,247)	(39,594)
Mutual funds related expenses	(11,922)	(12,408)
International share trading	(13,381)	(1,002)
Remittance business fee expense	(1,004)	(1,203)
Trade finance	-	(90)
Takaful Ta'awuni – sales commission	-	(1)
Total fees and commission expense	(417,699)	(327,403)
Total	607,508	605,230

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22. NET GAIN ON FVIS FINANCIAL INSTRUMENTS

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Mutual funds	9,404	5,670
Equities	412	122
Total	<u>9,816</u>	<u>5,792</u>

Net gain on FVIS financial instruments includes unrealized gain of SR 9 million (2019: SR 5.58 million).

23. OTHER OPERATING INCOME, NET

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Gain on transfer of Takaful business (refer note 40)	17,034	-
Gain on sale of other real estate	139	1,107
Gain on sale of property and equipment	7	216
Others	15,230	10,857
Total	<u>32,410</u>	<u>12,180</u>

24. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2020 and December 31, 2019 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding, as follows.

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Profit attributable to ordinary share holders		
For basic and diluted earnings per share	<u>33,754</u>	<u>991,023</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>0.04</u>	<u>1.21</u>

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

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25. ZAKAT AND INCOME TAX

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Zakat		
Current year	6,612	126,790
Prior year	(6,326)	4,160
	<u>286</u>	<u>130,950</u>
Income tax		
Current year	441	5,642
Prior year	(3,286)	(5,585)
	<u>(2,845)</u>	<u>57</u>
Total	<u><u>(2,559)</u></u>	<u><u>131,007</u></u>

Status of assessments:

During 2018, the Bank reached a Settlement Agreement (the "Agreement") with the GAZT 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 two instalments of SR 88.2 million each during the month of November 2019 and November 2020 respectively. Under the Agreement, the Bank and GAZT 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 GAZT pertaining to the years 2006 to 2017 stand resolved.

For tax matters, the Bank has withdrawn all of its appeals pertaining to the years 2006 through 2011 and 2017 and settled the associated disputed liabilities to avail the amnesty offered by the GAZT as a result of which the tax related disputes between the Bank and the GAZT stand resolved.

During 2019, the Bank received VAT assessments with an additional Value Added Tax (VAT) of SR 61 million and associated delay fines amounting to SR 29 million. The Bank has objected to the imposition of additional VAT and associated delay fines and has paid the additional VAT "under protest" in order to adhere to the regulations. The settlement of additional VAT has been recorded as a receivable from the customers and Ministry of Housing in the consolidated financial statements. However, in order to avail the amnesty, the Bank has withdrawn the appeal. During the year 2020, the Bank received further 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 will object to the imposition of additional VAT and associated delay fines. 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.

During the year 2020, the Bank received Income Tax assessment for the years 2015 through 2018. The Bank did not appeal against the assessment and decided to settle the additional tax of SR 2.6 million within the amnesty period in order to get a waiver on the associated delay fines as a result of which tax related disputes between the Bank and the GAZT pertaining to these years stand resolved. The Bank has filed its Zakat and income tax returns with the GAZT and paid Zakat and income tax for the years up to and including the year 2019, except for the amounts agreed as a liability under the Agreement which will be paid to GAZT as and when they fall due.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

26. DIVIDENDS

The Board of Directors on January 26, 2020 proposed a final dividend (net of Zakat) of SR 246 million equal to SR 0.3 per share for the year ended December 31, 2019 (2019: interim cash dividend of SR 246 million equal to SR 0.3 per share and final cash dividend for year ended December 31, 2018 of SR 410 million equal to SR 0.5 per share). This was paid during the current year after approval of the shareholders' in their Ordinary General Assembly meeting held on 15 April 2020. This dividend was calculated based on 820 million shares.

27. CASH AND CASH EQUIVALENTS

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

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Cash and balances with SAMA, excluding statutory deposit (note 4)	1,647,870	2,077,206
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	<u>428,473</u>	<u>569,632</u>
Total	<u>2,076,343</u>	<u>2,646,838</u>

28. EMPLOYEE BENEFIT OBLIGATION

28.1 Defined Benefit obligation

a) General description

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

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:

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Defined benefit obligation at the beginning of the year	273,833	265,599
Charge for the year	34,071	34,993
Special commission cost	6,547	11,214
Benefits paid	(30,347)	(19,957)
Remeasurements	<u>(4,403)</u>	<u>(18,016)</u>
Defined benefit obligation at the end of the year	<u>279,701</u>	<u>273,833</u>

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28. EMPLOYEE BENEFIT OBLIGATION (continued)

28.1 Defined Benefit obligation (continued)

c) Amounts recognized in statement of income

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Current service cost	34,071	34,885
Past service cost	-	108
	<u>34,071</u>	<u>34,993</u>

d) Re-measurement recognised in consolidated other comprehensive income

	2020 <u>SR'000</u>	2019 <u>SR'000</u>
Changes in experience assumptions	(3,835)	(23,385)
Changes in financial assumptions	(568)	5,369
	<u>(4,403)</u>	<u>(18,016)</u>

e) Principal actuarial assumptions used in estimating the defined benefit obligation included:

	2020	2019
Discount rate	2.11%p.a	2.55%p.a
Expected rate of salary increase	2.11%p.a	2.55%p.a
Withdrawal rate	8%p.a	8%p.a
Average duration	7.79 years	7.58 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:

		2020 SR'000	
		Increase in assumption	Decrease in assumption
Discount rate	1%	(19,446)	22,260
Expected rate of salary increase	1%	23,473	(20,872)
Withdrawal rate	10%	(3,180)	3,537
		2019 SR'000	
		Increase in assumption	Decrease in assumption
Discount rate	1%	(18,539)	21,244
Expected rate of salary increase	1%	22,422	(19,920)
Withdrawal rate	10%	(3,040)	3,384

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28. EMPLOYEE BENEFIT OBLIGATION (continued)

28.1 Defined Benefit obligation (continued)

- 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, 2020	36,582	23,492	67,364	203,202	330,640
December 31, 2019	44,740	20,993	64,630	203,886	334,249

- h) The expected contribution for next year amounts to SR 36.48 million (2019: SR 38.05 million) comprising of service cost and special commission cost.

28.2 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 44.18 million (2019: SR 43.42 million).

29. 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 decision maker 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, except AlJazira Securities Limited (SPV).

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

Loans, 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).

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29. OPERATING SEGMENTS (continued)

Takaful Ta'awuni

Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (ATT) formed under the new Insurance Law of Saudi Arabia (Co-operative Insurance Companies Control Law). This segment represented the insurance portfolio of policies entered into by the Bank before 2014.

As more fully explained in note 40 to these consolidated financial statements this insurance portfolio has been transferred with effect from 1 January 2020 at zero value (no cost to ATT), including the transfer of all assets and liabilities related to this business.

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:

	(SR'000)						
2020	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	30,563,365	23,467,253	36,150,152	1,745,053	-	163,051	92,088,874
Total liabilities	42,056,851	24,398,194	13,435,001	835,414	-	(1,085)	80,724,375
Total operating income	1,687,957	605,297	1,052,908	281,953	-	(340,996)	3,287,119
Net special commission income	1,118,646	498,728	802,941	40,158	-	(70,137)	2,390,336
Fee and commission income, net	320,046	87,188	(496)	233,540	-	(32,770)	607,508
Net gain on FVIS financial instruments	-	-	-	9,816	-	-	9,816
Share in net income of an associate	-	-	-	2,326	-	13,953	16,279
Impairment charge for ECL, net	(108,652)	(1,460,593)	(6,498)	-	-	-	(1,575,743)
Depreciation and amortisation	(131,551)	(19,071)	(41,467)	(13,450)	-	(8,907)	(214,446)
Total operating expenses	(1,091,008)	(1,679,980)	(324,045)	(140,855)	-	(36,315)	(3,272,203)
Net income / (loss) before Zakat and income tax	596,949	(1,074,683)	728,863	143,424	-	(363,358)	31,195

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29. OPERATING SEGMENTS (continued)

	(SR'000)						
2019	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	27,568,359	22,083,463	34,908,570	1,734,127	101,493	148,332	86,544,344
Total liabilities	42,038,284	20,757,629	11,283,423	773,998	101,493	-	74,954,827
Total operating income	1,402,208	556,712	1,138,666	167,642	17,599	(305,668)	2,977,159
Net special commission income	747,725	444,704	833,172	53,127	472	(27,036)	2,052,164
Fee and commission income, net	405,329	96,293	746	109,863	17,127	(24,128)	605,230
Net gain on FVIS financial instruments	-	-	-	-	5,792	-	5,792
Share in net income of an associate	-	-	-	1,841	-	11,047	12,888
Impairment charge for ECL, net	15,765	(172,718)	-	-	-	-	(156,953)
Depreciation and amortisation	(124,830)	(15,865)	(36,810)	(14,520)	(871)	(8,130)	(201,026)
Total operating expenses	(941,010)	(395,118)	(324,918)	(140,774)	(26,090)	(40,107)	(1,868,017)
Net income / (loss) before Zakat and income tax	461,198	161,594	813,748	28,709	(8,491)	(334,728)	1,122,030

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29. OPERATING SEGMENTS (continued)

a) The Group's credit exposure by operating segment is as follows:

(SR'000)					
<u>2020</u>	<u>Personal banking</u>	<u>Corporate banking</u>	<u>Brokerage and asset management</u>	<u>Treasury</u>	<u>Total</u>
Assets	30,026,290	22,916,419	1,173,523	29,718,554	83,834,786
Commitments and contingencies	-	5,318,054	-	-	5,318,054
Derivatives	-	-	-	234,482	234,482
(SR'000)					
<u>2019</u>	<u>Personal banking</u>	<u>Corporate banking</u>	<u>Brokerage and asset management</u>	<u>Treasury</u>	<u>Total</u>
Assets	26,796,800	21,465,518	1,300,298	28,853,368	78,415,984
Commitments and contingencies	-	4,610,911	-	-	4,610,911
Derivatives	-	-	-	383,351	383,351

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.

30. FINANCIAL RISK MANAGEMENT

30.1 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 loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan 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.

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30. FINANCIAL RISK MANAGEMENT (continued)

30.1 Credit Risk (continued)

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The 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 loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The information on banks maximum credit exposure by business segment is given in note 29.

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30. FINANCIAL RISK MANAGEMENT (continued)

30.1 Credit Risk (continued)

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, Watchlist		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%

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30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis

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

	December 31, 2020			
	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	195,699	69,046	-	264,745
Non-investment grade	22,574	41,803	-	64,377
Unrated	61,355	35,332	2,664	99,351
	279,628	146,181	2,664	428,473
Allowance for ECL	(1,434)	(901)	-	(2,335)
Carrying amount	278,194	145,280	2,664	426,138
Loans and advances to customers at amortized cost				
Low – fair risk	48,741,158	-	-	48,741,158
Watch list	-	4,292,092	1,879,001	6,171,093
Default	-	-	1,241,957	1,241,957
	48,741,158	4,292,092	3,120,958	56,154,208
Allowance for ECL	(335,609)	(298,170)	(1,559,218)	(2,192,997)
Carrying amount	48,405,549	3,993,922	1,561,740	53,961,211
	December 31, 2019			
	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	1,260,077	66,505	-	1,326,582
Non-investment grade	12,150	2,762	-	14,912
Unrated	68,601	20,437	-	89,038
	1,340,828	89,704	-	1,430,532
Allowance for ECL	(1,161)	(367)	-	(1,528)
Carrying amount	1,339,667	89,337	-	1,429,004

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30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis (continued)

	December 31, 2019			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
			(SR'000)	
Loans and advances to customers at amortized cost				
Low – fair risk	43,726,824	-	-	43,726,824
Watch list	-	3,862,170	2,407,210	6,269,380
Default	-	-	673,082	673,082
	43,726,824	3,862,170	3,080,292	50,669,286
Allowance for ECL	(170,747)	(94,820)	(743,600)	(1,009,167)
Carrying amount	43,556,077	3,767,350	2,336,692	49,660,119

- a) The following table sets out information about the credit quality of loans and advances, debt investments and commitments and contingencies to customers at amortized cost on a product basis.

	December 31, 2020			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
			(SR'000)	
Credit cards				
Loans and advances to customers at amortized cost				
Low – fair risk	678,639	-	-	678,639
Watch list	-	16,966	-	16,966
Default	-	-	55,679	55,679
	678,639	16,966	55,679	751,284
Allowance for ECL	(26,055)	(1,661)	(36,192)	(63,908)
Carrying amount	652,584	15,305	19,487	687,376

	December 31, 2019			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
			(SR'000)	
Credit cards				
Loans and advances to customers at amortized cost				
Low – fair risk	706,396	-	-	706,396
Watch list	-	19,164	-	19,164
Default	-	-	48,371	48,371
	706,396	19,164	48,371	773,931
Allowance for ECL	(24,509)	(1,834)	(31,436)	(57,779)
Carrying amount	681,887	17,330	16,935	716,152

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis (continued)

December 31, 2020				
Consumer loans	12 month ECL	Life time ECL	Lifetime ECL	Total
		not credit impaired	credit impaired	
(SR'000)				
Loans and advances to customers at amortized cost				
Low – fair risk	26,235,899	-	-	26,235,899
Watch list	-	306,126	-	306,126
Default	-	-	168,344	168,344
	26,235,899	306,126	168,344	26,710,369
Allowance for ECL	(131,842)	(2,184)	(77,845)	(211,871)
Carrying amount	26,104,057	303,942	90,499	26,498,498
December 31, 2019				
Consumer loans	12 month ECL	Life time ECL	Lifetime ECL	Total
		not credit impaired	credit impaired	
(SR'000)				
Loans and advances to customers at amortized cost				
Low – fair risk	23,211,637	-	-	23,211,637
Watch list	-	165,362	-	165,362
Default	-	-	154,727	154,727
	23,211,637	165,362	154,727	23,531,726
Allowance for ECL	(86,418)	(1,290)	(68,220)	(155,928)
Carrying amount	23,125,219	164,072	86,507	23,375,798
December 31, 2020				
Commercial loans	12 month ECL	Life time ECL	Lifetime ECL	Total
		not credit impaired	credit impaired	
(SR'000)				
Loans and advances to customers at amortized cost				
Low – fair risk	21,455,431	-	-	21,455,431
Watch list	-	3,968,999	1,879,002	5,848,001
Default	-	-	1,017,934	1,017,934
	21,455,431	3,968,999	2,896,936	28,321,366
Allowance for ECL	(177,712)	(294,325)	(1,445,181)	(1,917,218)
Carrying amount	21,277,719	3,674,674	1,451,755	26,404,148

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30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis (continued)

	December 31, 2019			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
Commercial loans			(SR'000)	
Loans and advances to customers at amortized cost				
Low – fair risk	19,401,245	-	-	19,401,245
Watch list	-	3,677,644	2,407,210	6,084,854
Default	-	-	469,984	469,984
	19,401,245	3,677,644	2,877,194	25,956,083
Allowance for ECL	(59,820)	(91,696)	(643,944)	(795,460)
Carrying amount	19,341,425	3,585,948	2,233,250	25,160,623

	December 31, 2020			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
Debt investment securities at amortized cost			(SR'000)	
Low – fair risk	28,340,616	-	-	28,340,616
Allowance for ECL	(6,498)	-	-	(6,498)
Carrying amount	28,334,118	-	-	28,334,118
Commitments and contingencies				
Low – fair risk	5,537,717	-	-	5,537,717
Watch list	-	138,446	370,275	508,721
Default	-	-	110,283	110,283
	5,537,717	138,446	480,558	6,156,721
Allowance for ECL	(27,788)	(6,547)	(336,752)	(371,087)
Carrying amount (net of provision)	5,509,929	131,899	143,806	5,785,634

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis (continued)

	December 31, 2019			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Debt investment securities at amortized cost				
Low – fair risk	27,224,939	-	-	27,224,939
Allowance for ECL	-	-	-	-
Carrying amount	<u>27,224,939</u>	<u>-</u>	<u>-</u>	<u>27,224,939</u>
Commitments and contingencies				
Low – fair risk	4,726,321	-	-	4,726,321
Watch list	-	166,455	356,472	522,927
Default	-	-	108,661	108,661
	<u>4,726,321</u>	<u>166,455</u>	<u>465,133</u>	<u>5,357,909</u>
Allowance for ECL	<u>(18,630)</u>	<u>(2,602)</u>	<u>(72,257)</u>	<u>(93,489)</u>
Carrying amount (net of provision)	<u>4,707,691</u>	<u>163,853</u>	<u>392,876</u>	<u>5,264,420</u>

30.3 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 Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk (“SICR”) since origination, the Bank records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The bank records an allowance for the Lifetime ECL.

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30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

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 special commission income 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 Bank's quantitative modeling, 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).

Consideration due to COVID-19

In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer note 42 for further details). The exercise of the deferment option by a customer, on its own, is not considered by the Group as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after-effects of COVID-19 lock down, the Group obtained further information from the customers to understand their financial positions and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

30. FINANCIAL RISK MANAGEMENT (continued)

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

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Retail exposures

- Internally collected data and customer behavior – e.g. utilization of credit card facilities
- Affordability metrics
- External data from credit reference agencies including industry-standard credit scores

All exposures

- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Utilization of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

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30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

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 analyzed 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 analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

d) Modified financial assets

The contractual terms of a loan 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 loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan 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 loans 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, loan 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 loan covenants. Both retail and corporate loans are subject to the forbearance/remedial policy. The Bank Board Risk Committee regularly reviews reports on forbearance activities.

The following table provides information on financial assets that were modified while they had an ECL measured at an amount equal to lifetime ECL. For financial assets modified during the year from deferral of contractual cash flows under SAMA DPP program, refer note 42.

	2020 SR '000	2019 SR '000
Financial assets modified during the year		
Amortized cost before modification	882,566	946,746
Financial assets modified since initial recognition		
Gross carrying amount at December 31 of financial assets for which loss allowance has changed to 12-month measurement during the year	15,017	144,859

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 behavioral 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 behavior 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.

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30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

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, 2020 included the following key indicators.

- GDP
- Oil prices
- Unemployment rates
- Real wages

Consideration due to COVID-19

Types of forward looking variables:

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year.

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30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

e) Incorporation of forward looking information (continued)

Consideration due to COVID-19 (continued)

Scenario assumptions

As at 31 December 2020, the projections for all macroeconomic scenarios i.e., best, worst and baseline, were downloaded from Moody’s data buffet consider prevailing Covid-19 situation. No special assumptions were made as Moody’s projections are found to be reasonably conservative.

Probability weightings

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank’s credit portfolios in determining them.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current year is the continuing impact of COVID-19. Since Moody’s Projections for all three macroeconomic scenarios i.e., best, worst and baseline, specifically in the context of the prevailing COVID-19 are found to be reasonably conservative, no further modifications are made to the probability weightings.

Predicted relationships between the key indicators and default / loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years. To account for the impact of COVID-19, 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 2020 ECL model			Forecast calendar years used in 2019 ECL model		
	(Dec 2020 Covid-19 projections)			(Dec 2019 pre Covid-19 projections)		
	2021	2022	2023	2021	2022	2023
GDP	2656.70	2730.20	2794.43	2762.64	2822.50	2880.13
Brent oil prices	53.22	61.59	63.77	65.81	66.42	67.46
Inflation	N/A	N/A	N/A	N/A	N/A	N/A

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

<u>2020</u>	Due from Banks and investments	Loans and advances	Loan commitment and financial guarantees	Total
	SR ‘000’			
Most likely	8,833	2,192,997	371,087	2,572,917
More optimistic (Upside)	8,442	2,129,306	364,657	2,502,405
More pessimistic (Downside)	9,462	2,325,518	383,589	2,718,569

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30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

e) Incorporation of forward looking information (continued)

Consideration due to COVID-19 (continued)

<u>2019</u>	Due from Banks and investments	Loans and advances	Loan commitment and financial guarantees	Total
		SR '000'		
Most likely	1,528	1,009,167	93,489	1,104,184
More optimistic (Upside)	1,417	993,559	89,428	1,084,404
More pessimistic (Downside)	1,905	1,101,545	100,435	1,203,885

COVID-19 overlays

The prevailing economic conditions do require the Group to continue to revise certain inputs and assumptions used for the determination of ECL. These primarily revolve around either adjusting macroeconomic factors used by the Group in the estimation of ECL or revisions to the scenario probabilities currently being used by the Group. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management's ECL assessment includes sector-based analysis depending on the impacted portfolios and macroeconomic analysis. The Group has therefore recognised overlays of SR 86.5 million as at 31 December 2020. The Group will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

f) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- 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. For wholesale exposures LGD is estimated to be 50%, for personal finance it is estimated to be 50%, for credit cards it is estimated to be 65% and retail mortgages it is estimated to be 40%.

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30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

f) Measurement of ECL (continued)

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 modeling 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 loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan 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 loan with fixed repayment terms.

Sensitivity of ECL allowance

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

f) Measurement of ECL (continued)

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the yearend:

Assumptions sensitized	PL Impact(2020) SR in ‘000
Macro-economic factors: To assess the impact of change in macroeconomic projections between pre-Covid period and Covid period on ECL, two sets of computations were performed. First, using macroeconomic projections downloaded from Moody’s data buffet as at December 31, 2019 and the second, using macroeconomic projections downloaded as at December 31, 2020, both computations were performed using December 31, 2020 exposure data. The difference in ECL computed using the two sets of computations is considered as the impact of COVID19 pandemic. Since BAJ uses Moody’s Macroeconomic Projections for all three scenarios i.e., best, worst and baseline, which take into consideration COVID19 effects, the scenario weightages i.e., 30% for best, 30% for worst and 40% for the baseline were kept unchanged.	SR 50,660

Where modeling 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 (Loan 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:

	Exposure (SR ‘000)	External benchmarks used	
		PD	LGD
Due from Banks and other financial institutions	426,138	Moody’s / FITCH – lower of the two ratings for each bank is considered for assignment of Risk Weights under Standardised Approach	N/A

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

f) Measurement of ECL (continued)

Consideration due to COVID-19

The PD, EAD and LGD models are subject to the Bank’s Model Management Policy that stipulates periodic model monitoring, periodic revalidation and defines governance process, approval procedures and authorities according to model materiality.

During the period, the Bank has not made any material changes in its ECL methodology to reflect the validation exercise undertaken by the Bank.

30.4 Ageing of loans and advances (past due but not impaired)

	2020 (SR ‘000)			
	Credit Cards	Consumer loans	Commercial loans	Total
From 1 day to 30 days	20,199	1,025,425	97,357	1,142,981
From 31 Days to 90 days	12,901	293,241	82,953	389,095
From 91 Days to 180 days	-	208	88,098	88,306
More than 180 days	-	-	487,733	487,733
Total loans & advances	33,100	1,318,874	756,141	2,108,115

	2019 (SR ‘000)			
	Credit Cards	Consumer loans	Commercial loans	Total
From 1 day to 30 days	19,735	1,004,157	133,990	1,157,882
From 31 Days to 90 days	14,680	161,577	21,664	197,921
From 91 Days to 180 days	-	484	111,009	111,493
More than 180 days	-	-	432,584	432,584
Total loans & advances	34,415	1,166,218	699,247	1,899,880

30.5 Economic Sector risk concentration

Economic Sector risk concentration for the loans and advances and allowance for impairment has been disclosed in note 7(g).

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30. FINANCIAL RISK MANAGEMENT (continued)

30.6 Collateral

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

The amount of collateral held as security for loans along with loan to collateral value percentage that are credit-impaired are as follows:

	2020 SR'000	2019 SR'000
Less than 50%	44,605	30,862
51-70%	25,065	2,700
More than 70%	477,565	424,202
Total	547,235	457,764

30.7 Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2020 SR'000	2019 SR'000
Assets		
Due from banks and other financial institutions (note 5)	426,138	1,429,004
Investments at FVOCI (note 6)	1,113,319	101,921
Investments at amortised cost (note 6)	28,334,118	27,224,939
Loans and advances, net (note 7)	53,961,211	49,660,119
Other assets - margin deposits against financial instruments (note 10)	152,531	111,731
Total assets	83,987,317	78,527,714
Contingencies and commitments, net (note 19)	5,785,634	5,264,420
Derivatives - positive fair value (note 11)	135,224	101,626
Total maximum exposure	89,908,175	83,893,760

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

31. 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)						
<u>2020</u>	<u>Kingdom of Saudi Arabia</u>	<u>GCC and Middle East</u>	<u>Europe</u>	<u>North America</u>	<u>South East Asia</u>	<u>Other countries</u>	<u>Total</u>
Financial Assets							
Cash and balances with SAMA							
Cash in hand	1,122,892	-	-	-	-	-	1,122,892
Balances with SAMA	4,125,402	-	-	-	-	-	4,125,402
Due from Banks and other financial institutions							
Current accounts	57,342	41,366	127,476	98,016	37,468	64,470	426,138
Money market placements	-	-	-	-	-	-	-
Investments							
Held as FVIS	443,104	-	-	-	-	-	443,104
Held as FVOCI	1,117,462	187	602	-	-	-	1,118,251
Held at amortised cost	28,334,118	-	-	-	-	-	28,334,118
Positive fair value of derivatives							
Held for trading	22,580	-	-	-	-	-	22,580
Held as cash flow hedges	52,626	-	60,018	-	-	-	112,644
Loans and advances, net							
Credit Cards	687,376	-	-	-	-	-	687,376
Consumer Loans	26,498,498	-	-	-	-	-	26,498,498
Commercial Loans	25,782,406	121,391	-	-	-	500,351	26,404,148
Others	371,189	-	-	-	-	-	371,189
Investment in an associate	164,136	-	-	-	-	-	164,136
Other assets	404,889	-	152,531	-	-	-	557,420
Total	<u>89,184,020</u>	<u>162,944</u>	<u>340,627</u>	<u>98,016</u>	<u>37,468</u>	<u>564,821</u>	<u>90,387,896</u>

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31. GEOGRAPHICAL CONCENTRATION (continued)

	(SR'000)						
<u>2020</u>	<u>Kingdom of Saudi Arabia</u>	<u>GCC and Middle East</u>	<u>Europe</u>	<u>North America</u>	<u>South East Asia</u>	<u>Other countries</u>	<u>Total</u>
Financial liabilities							
Due to banks and other financial institutions							
Current accounts	23,791	29,650	84,249	24,162	1,978	13,448	177,278
Money market deposits	6,716,725	1,178,098	-	-	168,947	-	8,063,770
Repo agreement borrowing	-	-	289,148	-	-	-	289,148
Customer deposits							
Demand	37,379,705	31,558	101	5	-	21	37,411,390
Saving	284,182	-	-	-	-	-	284,182
Time	28,543,641	-	-	-	-	-	28,543,641
Other	1,761,652	-	1,747	-	-	1,000	1,764,399
Negative fair value of derivatives							
Held for trading	2,457	40	16,375	-	-	-	18,872
Held as cash flow hedges	18,462	75,400	190,761	-	-	-	284,623
Subordinated Sukuk	2,004,633	-	-	-	-	-	2,004,633
Other liabilities	1,592,465	-	-	-	-	-	1,592,465
Total	78,327,713	1,314,746	582,381	24,167	170,925	14,469	80,434,401
Commitments and Contingencies							
Letters of credit	775,686	-	-	-	-	2,121	777,807
Letters of guarantee	4,335,602	209,725	30,335	8,162	1,926	4,200	4,589,950
Acceptances	170,509	-	-	-	-	-	170,509
Irrevocable commitments to extend credit	150,000	305,346	-	-	-	163,109	618,455
	5,431,797	515,071	30,335	8,162	1,926	169,430	6,156,721
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	387,843	-	-	-	-	1,061	388,904
Letters of guarantee	4,335,602	209,725	30,335	8,162	1,926	4,200	4,589,950
Acceptances	170,509	-	-	-	-	-	170,509
Irrevocable commitments to extend credit	75,000	61,069	-	-	-	32,622	168,691
Derivatives							
Held for trading	36,600	1	276	-	-	-	36,877
Held for hedging	87,046	440	110,119	-	-	-	197,605
	5,092,600	271,235	140,730	8,162	1,926	37,883	5,552,536

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

31. GEOGRAPHICAL CONCENTRATION (continued)

	(SR'000)						
<u>2019</u>	<u>Kingdom of Saudi Arabia</u>	<u>GCC and Middle East</u>	<u>Europe</u>	<u>North America</u>	<u>South East Asia</u>	<u>Other countries</u>	<u>Total</u>
Financial Assets							
Cash and balances with SAMA							
Cash in hand	1,214,248	-	-	-	-	-	1,214,248
Balances with SAMA	4,263,439	-	-	-	-	-	4,263,439
Due from Banks and other financial institutions							
Current accounts	41,979	34,179	190,201	62,191	17,793	33,916	380,259
Money market placements	1,048,745	-	-	-	-	-	1,048,745
Investments							
Held as FVIS	287,024	-	-	-	-	-	287,024
Held as FVOCI	106,064	187	550	-	-	-	106,801
Held at amortised cost	27,224,939	-	-	-	-	-	27,224,939
Positive fair value of derivatives							
Held for trading	26,729	-	2,002	-	-	-	28,731
Held as cash flow hedges	39,645	-	33,250	-	-	-	72,895
Loans and advances, net							
Credit Cards	716,152	-	-	-	-	-	716,152
Consumer Loans	23,375,798	-	-	-	-	-	23,375,798
Commercial Loans	24,912,741	-	-	-	-	247,882	25,160,623
Others	407,546	-	-	-	-	-	407,546
Investment in an associate	148,332	-	-	-	-	-	148,332
Other assets	303,980	-	111,731	-	-	-	415,711
Total	<u>84,117,361</u>	<u>34,366</u>	<u>337,734</u>	<u>62,191</u>	<u>17,793</u>	<u>281,798</u>	<u>84,851,243</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

31. GEOGRAPHICAL CONCENTRATION (continued)

	(SR'000)						
<u>2019</u>	Kingdom of Saudi <u>Arabia</u>	GCC and Middle <u>East</u>	<u>Europe</u>	<u>North America</u>	South East <u>Asia</u>	<u>Other countries</u>	<u>Total</u>
Financial liabilities							
Due to banks and other financial institutions							
Current accounts	46,817	80,152	11,961	40,499	2,388	17,549	199,366
Money market deposits	7,175,881	550,888	37,502	-	-	-	7,764,271
Repo agreement borrowing	-	-	290,117	-	-	-	290,117
Customer deposits							
Demand	30,838,943	419	4	6	-	3	30,839,375
Time	30,259,540	-	-	-	-	-	30,259,540
Other	1,591,755	-	4,524	-	-	1,600	1,597,879
Negative fair value of derivatives							
Held for trading	7,752	513	20,762	-	-	-	29,027
Held as cash flow hedges	19,992	45,794	121,198	-	-	-	186,984
Subordinated Sukuk	2,006,921	-	-	-	-	-	2,006,921
Other liabilities	1,269,888	-	-	-	-	-	1,269,888
Total	<u>73,217,489</u>	<u>677,766</u>	<u>486,068</u>	<u>40,505</u>	<u>2,388</u>	<u>19,152</u>	<u>74,443,368</u>
Commitments and Contingencies							
Letters of credit	831,483	226	-	-	-	8,899	840,608
Letters of guarantee	3,538,328	223,392	36,111	3,855	2,526	8,600	3,812,812
Acceptances	229,786	-	-	-	-	10,085	239,871
Irrevocable commitments to extend credit	150,000	-	-	-	-	314,618	464,618
	<u>4,749,597</u>	<u>223,618</u>	<u>36,111</u>	<u>3,855</u>	<u>2,526</u>	<u>342,202</u>	<u>5,357,909</u>
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	415,741	113	-	-	-	4,450	420,304
Letters of guarantee	3,538,328	223,392	36,111	3,855	2,526	8,600	3,812,812
Acceptances	229,786	-	-	-	-	10,085	239,871
Irrevocable commitments to extend credit	75,000	-	-	-	-	62,924	137,924
Derivatives							
Held for trading	139,583	130	97,068	-	-	-	236,781
Held for hedging	59,071	2,517	84,982	-	-	-	146,570
	<u>4,457,509</u>	<u>226,152</u>	<u>218,161</u>	<u>3,855</u>	<u>2,526</u>	<u>86,059</u>	<u>4,994,262</u>

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31. GEOGRAPHICAL CONCENTRATION (continued)

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 loans and advances and allowance for ECL are as follows:

	Non-performing loans, net		Allowance for ECL	
	2020	2019	2020	2019
	<u>SR' 000</u>	<u>SR' 000</u>	<u>SR' 000</u>	<u>SR' 000</u>
Kingdom of Saudi Arabia				
Credit cards	55,679	48,371	63,908	57,779
Consumer loans	168,344	154,727	211,871	155,928
Commercial loans	1,017,934	469,984	1,917,218	795,460
Total	<u>1,241,957</u>	<u>673,082</u>	<u>2,192,997</u>	<u>1,009,167</u>

32. 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 special commission 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

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.

	2020	2019
	<u>SR'000</u>	<u>SR'000</u>
Foreign exchange rate		
VaR as at end of the year	298	249
Average VaR for the year	294	338

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

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:

	2020 SR'000	2019 SR'000
US Dollar	41,573	78,397
Hong Kong Dollar	5,923	3,793
Taiwan Dollar	2,955	2,111

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	2020			2019		
	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	±	0.60	± 249	±	0.70	± 549
Taiwan Dollar	±	3.11	± 92	±	3.64	± 77
Hong Kong Dollar	±	0.49	± 29	±	0.77	± 29

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:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

ii) EQUITY PRICE RISK (continued)

Portfolio	2020		2019	
	Increase / decrease in equity price %	Effect on consolidated statement of income <u>SR'000</u>	Increase / decrease in equity price %	Effect on consolidated statement of income <u>SR'000</u>
Global Emerging Market Fund	± 4.40%	± 694	± 22.32%	± 2,637
AlJazira GCC Income Fund	± 10.61%	± 433	-	-
AlJazira Sukuk Fund	± 4.34%	± 1,653	-	-
Others	± 3.58%	± 13,788	± 7.19%	± 19,779

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, 2020 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	2020		2019	
	Increase / decrease in index %	Effect on consolidated statement of income <u>SR'000</u>	Increase / decrease in index %	Effect on consolidated statement of income <u>SR'000</u>
Tadawul	± 3.58%	± 27	± 7.19%	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK

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

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission 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 special commission 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 special commission 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 special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2020 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	2020		2019	
	Increase / decrease in basis points	Sensitivity of special commission income <u>SR'000</u>	Increase / decrease in basis points	Sensitivity of special commission income <u>SR'000</u>
SR	± 25	± 20,104	± 25	± 20,077
USD	± 25	± 2,114	± 25	± 2,330
INR	± 25	± 9	± 25	± 4
PKR	± 25	± 3	± 25	± 1
AED	± 25	± 44	± 25	± -

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

Commission 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 commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission 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 commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	(SR'000)						
2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,122,892	1,122,892	-
Balances with SAMA	524,978	-	-	-	3,600,424	4,125,402	0.50%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	426,138	426,138	-
Money market placements	-	-	-	-	-	-	-
Investments							
Held as FVIS	-	-	-	-	443,104	443,104	-
Held as FVOCI	-	-	552,393	549,457	16,401	1,118,251	2.61%
Held at amortised cost	7,140,000	338,111	11,959,585	8,680,115	216,307	28,334,118	2.74%
Positive fair value of derivatives							
Held for trading	-	-	-	-	22,580	22,580	-
Held as cash flow hedges	-	-	-	-	112,644	112,644	-
Loans and advances, net							
Credit cards	687,376	-	-	-	-	687,376	25.13%
Consumer loans	1,619,991	4,834,876	12,842,717	7,057,290	143,624	26,498,498	4.46%
Commercial loans	14,789,871	11,425,254	-	-	189,023	26,404,148	3.06%
Others	-	-	-	-	371,189	371,189	-
Investment in an associate	-	-	-	-	164,136	164,136	-
Other real estate, net	-	-	-	-	474,421	474,421	-
Property and equipment, net	-	-	-	-	1,155,609	1,155,609	-
Other assets	-	-	-	-	628,368	628,368	-
Total assets	24,762,216	16,598,241	25,354,695	16,286,862	9,086,860	92,088,874	

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32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

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

	(SR'000)						
<u>2020</u>	<u>Within 3</u> <u>months</u>	<u>3-12</u> <u>months</u>	<u>1-5</u> <u>years</u>	<u>Over 5</u> <u>years</u>	<u>Non</u> <u>commission</u> <u>bearing</u>	<u>Total</u>	<u>Effective</u> <u>commission</u> <u>rate</u>
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	177,278	177,278	-
Money market deposits	4,088,750	-	-	-	3,975,020	8,063,770	0.62%
Repo agreement borrowings	-	288,671	-	-	477	289,148	0.80%
Customer deposits							
Demand	-	-	-	-	37,411,390	37,411,390	-
Saving	284,178	-	-	-	4	284,182	0.50%
Time	18,295,463	10,096,530	1,700	-	149,948	28,543,641	1.11%
Other	-	-	-	-	1,764,399	1,764,399	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	18,872	18,872	-
Held as cash flow hedges	-	-	-	-	284,623	284,623	-
Subordinated Sukuk	-	2,000,000	-	-	4,633	2,004,633	2.78%
Other liabilities	-	-	-	-	1,882,439	1,882,439	-
Equity	-	-	-	-	11,364,499	11,364,499	-
Total liabilities and Equity	22,668,391	12,385,201	1,700	-	57,033,582	92,088,874	
Commission rate sensitivity on consolidated statement of financial position gap	2,093,825	4,213,040	25,352,995	16,286,862	(47,946,722)	-	
Commission rate sensitivity off consolidated statement of financial position gap	750,625	-	(1,378,750)	628,125	-	-	
Total commission rate sensitivity gap	2,844,450	4,213,040	23,974,245	16,914,987	(47,946,722)	-	
Cumulative commission rate sensitivity gap	2,844,450	7,057,490	31,031,735	47,946,722	-	-	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

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

	(SR'000)						
<u>2019</u>	<u>Within 3</u> <u>months</u>	<u>3-12</u> <u>months</u>	<u>1-5</u> <u>years</u>	<u>Over 5</u> <u>years</u>	<u>Non</u> <u>commission</u> <u>bearing</u>	<u>Total</u>	<u>Effective</u> <u>commission</u> <u>rate</u>
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,214,248	1,214,248	-
Balances with SAMA	862,958	-	-	-	3,400,481	4,263,439	1.75%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	380,259	380,259	-
Money market placements	437,500	600,000	-	-	11,245	1,048,745	2.63%
Investments							
Held as FVIS	-	-	-	-	287,024	287,024	-
Held as FVOCI	-	-	-	101,147	5,654	106,801	4.23%
Held at amortised cost	6,765,000	373,099	10,454,578	9,405,374	226,888	27,224,939	3.29%
Positive fair value of derivatives							
Held for trading	-	-	-	-	28,731	28,731	-
Held as cash flow hedges	-	-	-	-	72,895	72,895	-
Loans and advances, net							
Credit cards	716,152	-	-	-	-	716,152	24.81%
Consumer loans	2,344,868	5,522,776	11,730,123	3,721,072	56,959	23,375,798	4.60%
Commercial loans	12,474,679	12,407,214	-	-	278,730	25,160,623	5.17%
Others	-	-	-	-	407,546	407,546	-
Investment in an associate	-	-	-	-	148,332	148,332	-
Other real estate, net	-	-	-	-	468,992	468,992	-
Property and equipment, net	-	-	-	-	1,154,270	1,154,270	-
Other assets	-	-	-	-	485,550	485,550	-
Total assets	<u>23,601,157</u>	<u>18,903,089</u>	<u>22,184,701</u>	<u>13,227,593</u>	<u>8,627,804</u>	<u>86,544,344</u>	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

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

	(SR'000)						
<u>2019</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Non commission bearing</u>	<u>Total</u>	<u>Effective commission rate</u>
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	199,366	199,366	-
Money market deposits	6,720,000	1,000,000	-	-	44,271	7,764,271	2.23%
Repo agreement borrowings	-	288,671	-	-	1,446	290,117	2.37%
Customer deposits							
Demand	-	-	-	-	30,839,375	30,839,375	-
Time	18,563,109	11,255,711	186,000	-	254,720	30,259,540	2.69%
Other	-	-	-	-	1,597,879	1,597,879	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	29,027	29,027	-
Held as cash flow hedges	-	-	-	-	186,984	186,984	-
Subordinated Sukuk	-	2,000,000	-	-	6,921	2,006,921	4.30%
Other liabilities	-	-	-	-	1,781,347	1,781,347	-
Equity	-	-	-	-	11,589,517	11,589,517	-
Total liabilities and Equity	25,283,109	14,544,382	186,000	-	46,530,853	86,544,344	
Commission rate sensitivity on consolidated statement of financial position gap	(1,681,952)	4,358,707	21,998,701	13,227,593	(37,903,049)	-	
Commission rate sensitivity off consolidated statement of financial position gap	750,625	-	(1,378,750)	628,125	-	-	
Total commission rate sensitivity gap	(931,327)	4,358,707	20,619,951	13,855,718	(37,903,049)	-	
Cumulative commission rate sensitivity gap	(931,327)	3,427,380	24,047,331	37,903,049	-	-	

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

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:

	2020 SR' 000 <u>Long / (Short)</u>	2019 SR'000 <u>Long/(Short)</u>
USD	816,560	1,070,911
INR	42,963	21,036
PKR	16,000	7,002
AED	4,479	355

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2020. 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	2020			2019		
	Increase/ decrease in currency rate in %	Effect on net income <u>SR'000</u>	Effect on equity <u>SR'000</u>	Increase/ decrease in currency rate in %	Effect on net income <u>SR'000</u>	Effect on equity <u>SR'000</u>
USD	±0.05	±541	± 408	±0.05	± 619	± 535
INR	±0.05	± 21	± 21	±0.05	± 11	± 11
PKR	±0.05	± 8	± 8	±0.05	± 4	± 4
AED	±0.05	± 2	± 2	±0.05	± -	± -

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33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank 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 Bank 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 Bank has the ability to raise additional funds through repo facilities available with SAMA up to 89.48% of the value of debt securities issued by the government (Ministry of Finance), SAMA or guaranteed by government.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposit liabilities include both customers and banks, excluding non-resident bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio.

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, 2020 and December 31, 2019 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

33. LIQUIDITY RISK (continued)

a) Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

	(SR' 000)					
	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2020						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	177,278	177,278
Money market deposits	4,611,695	3,453,986	-	-	-	8,065,681
Repo agreement borrowing	-	2,262	21,167	299,065	-	322,494
Customers' deposits						
Demand	-	-	-	-	37,411,390	37,411,390
Saving	-	-	-	-	284,182	284,182
Time	18,420,846	10,197,441	1,863	-	-	28,620,150
Other	1,764,399	-	-	-	-	1,764,399
Negative fair value of derivatives						
Held for trading	1,552	11,841	5,479	-	-	18,872
Held as cash flow hedges	18,463	-	78,921	187,239	-	284,623
Subordinated Sukuk						
Other liabilities	39,854	171,451	494,327	66,250	1,154,191	1,926,073
Total undiscounted financial liabilities	24,856,809	13,893,353	827,400	2,580,663	39,027,041	81,185,266
Derivatives	284,835	563,487	2,124,488	2,004,289	-	4,977,099
	(SR' 000)					
	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2019						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	199,366	199,366
Money market deposits	6,723,689	1,065,688	-	-	-	7,789,377
Repo agreement borrowing	-	6,848	-	338,427	-	345,275
Customers' deposits						
Demand	-	-	-	-	30,839,375	30,839,375
Time	18,744,122	11,513,964	207,680	-	-	30,465,766
Other	1,597,879	-	-	-	-	1,597,879
Negative fair value of derivatives						
Held for trading	5,103	2,534	21,390	-	-	29,027
Held as cash flow hedges	19,992	-	43,522	123,470	-	186,984
Subordinated Sukuk						
Other liabilities	23,937	146,384	552,796	58,518	1,056,775	1,838,410
Total undiscounted financial liabilities	27,114,722	12,819,859	1,162,462	2,646,616	32,095,516	75,839,175
Derivatives	562,332	587,096	2,733,935	2,063,321	-	5,946,684

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 19 (d).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

33. LIQUIDITY RISK (continued)

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. See note (a) above for the Group's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

	(SR' 000)							
<u>2020</u>	<u>Within 3 Months</u>	<u>3-12 months</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>More than 1 year</u>	<u>No fixed maturity</u>	<u>Total</u>
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,122,892	1,122,892
Balances with SAMA	-	-	-	-	-	-	4,125,402	4,125,402
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	426,138	426,138
Money market placements	-	-	-	-	-	-	-	-
Investments								
Held as FVIS	-	-	-	-	-	-	443,104	443,104
Held as FVOCI	-	10,270	10,270	549,689	553,360	1,103,049	4,932	1,118,251
Held at amortised cost	-	521,616	521,616	12,369,151	15,443,351	27,812,502	-	28,334,118
Positive fair value of derivatives								
Held for trading	5,261	11,841	17,102	5,478	-	5,478	-	22,580
Held as cash flow hedges	5,039	-	5,039	8,216	99,389	107,605	-	112,644
Loans and advances, net								
Credit cards	267,471	-	267,471	-	-	-	419,905	687,376
Consumer loans	93,132	172,648	265,780	12,216,793	14,015,925	26,232,718	-	26,498,498
Commercial loans	14,511,161	9,279,240	23,790,401	1,033,524	1,580,223	2,613,747	-	26,404,148
Others	-	371,189	371,189	-	-	-	-	371,189
Investment in an associate	-	-	-	-	-	-	164,136	164,136
Other real estate, net	-	-	-	-	-	-	474,421	474,421
Property and equipment, net	-	-	-	-	-	-	1,155,609	1,155,609
Other assets	64,184	62,627	126,811	-	-	-	501,557	628,368
Total assets	<u>14,946,248</u>	<u>10,429,431</u>	<u>25,375,679</u>	<u>26,182,851</u>	<u>31,692,248</u>	<u>57,875,099</u>	<u>8,838,096</u>	<u>92,088,874</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

	(SR' 000)							
<u>2020</u>	<u>Within 3 Months</u>	<u>3-12 months</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>More than 1 year</u>	<u>No fixed maturity</u>	<u>Total</u>
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	177,278	177,278
Money market deposits	-	5,850,107	5,850,107	2,213,663	-	2,213,663	-	8,063,770
Repo agreement borrowing	-	477	477	-	288,671	288,671	-	289,148
Customer deposits								
Demand	-	-	-	-	-	-	37,411,390	37,411,390
Saving	-	-	-	-	-	-	284,182	284,182
Time	5,517,614	15,919,385	21,436,999	7,106,642	-	7,106,642	-	28,543,641
Other	-	-	-	-	-	-	1,764,399	1,764,399
Negative fair value of derivatives								
Held for trading	1,552	11,841	13,393	5,479	-	5,479	-	18,872
Held as cash flow hedges	18,463	-	18,463	78,921	187,239	266,160	-	284,623
Subordinated Sukuk	-	4,633	4,633	-	2,000,000	2,000,000	-	2,004,633
Other liabilities	36,520	162,585	199,105	470,050	59,093	529,143	1,154,191	1,882,439
Total liabilities	<u>5,574,149</u>	<u>21,949,028</u>	<u>27,523,177</u>	<u>9,874,755</u>	<u>2,535,003</u>	<u>12,409,758</u>	<u>40,791,440</u>	<u>80,724,375</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

	(SR' 000)							
<u>2019</u>	<u>Within 3 Months</u>	<u>3-12 months</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>More than 1 year</u>	<u>No fixed maturity</u>	<u>Total</u>
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,214,248	1,214,248
Balances with SAMA	-	-	-	-	-	-	4,263,439	4,263,439
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	380,259	380,259
Money market placements	-	438,632	438,632	610,113	-	610,113	-	1,048,745
Investments								
Held as FVIS	-	-	-	-	-	-	287,024	287,024
Held as FVOCI	-	10	10	763	101,148	101,911	4,880	106,801
Held at amortised cost	-	155,410	155,410	11,753,451	15,316,078	27,069,529	-	27,224,939
Positive fair value of derivatives								
Held for trading	4,807	2,534	7,341	21,390	-	21,390	-	28,731
Held as cash flow hedges	16,321	-	16,321	4,333	52,241	56,574	-	72,895
Loans and advances, net								
Credit cards	273,923	-	273,923	-	-	-	442,229	716,152
Consumer loans	125,520	178,555	304,075	11,151,453	11,920,270	23,071,723	-	23,375,798
Commercial loans	12,075,424	10,836,773	22,912,197	980,761	1,267,665	2,248,426	-	25,160,623
Others	-	407,546	407,546	-	-	-	-	407,546
Investment in an associate	-	-	-	-	-	-	148,332	148,332
Other real estate, net	-	-	-	-	-	-	468,992	468,992
Property and equipment, net	-	-	-	-	-	-	1,154,270	1,154,270
Other assets	62,562	65,125	127,687	-	-	-	357,863	485,550
Total assets	<u>12,558,557</u>	<u>12,084,585</u>	<u>24,643,142</u>	<u>24,522,264</u>	<u>28,657,402</u>	<u>53,179,666</u>	<u>8,721,536</u>	<u>86,544,344</u>

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33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

	(SR' 000)							
<u>2019</u>	<u>Within 3 Months</u>	<u>3-12 months</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>More than 1 year</u>	<u>No fixed maturity</u>	<u>Total</u>
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	199,366	199,366
Money market deposits	-	6,719,665	6,719,665	1,044,606	-	1,044,606	-	7,764,271
Repo agreement borrowing	-	1,446	1,446	-	288,671	288,671	-	290,117
Customer deposits								
Demand	-	-	-	-	-	-	30,839,375	30,839,375
Time	5,608,658	16,495,745	22,104,403	8,155,137	-	8,155,137	-	30,259,540
Other	-	-	-	-	-	-	1,597,879	1,597,879
Negative fair value of derivatives								
Held for trading	5,103	2,534	7,637	21,390	-	21,390	-	29,027
Held as cash flow hedges	19,992	-	19,992	43,522	123,470	166,992	-	186,984
Subordinated Sukuk	-	6,921	6,921	-	2,000,000	2,000,000	-	2,006,921
Other liabilities	19,832	135,232	155,064	517,047	52,461	569,508	1,056,775	1,781,347
Total liabilities	<u>5,653,585</u>	<u>23,361,543</u>	<u>29,015,128</u>	<u>9,781,702</u>	<u>2,464,602</u>	<u>12,246,304</u>	<u>33,693,395</u>	<u>74,954,827</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

34. 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:

	<u>2020 (SR'000)</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Financial assets</u>			
FVIS			
Mutual Funds	-	442,344	442,344
Equities	760	-	760
FVOCI			
Debt	-	1,113,319	1,113,319
Derivatives	-	135,224	135,224
Total	760	1,690,887	1,691,647
<u>Financial liabilities</u>			
Derivatives	-	303,495	303,495
Total	-	303,495	303,495

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

34. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

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

	<u>2019 (SR'000)</u>	
	<u>Level2</u>	<u>Total</u>
<u>Financial assets</u>		
FVIS		
Mutual Funds	287,024	287,024
FVOCI		
Debt	101,921	101,921
Derivatives	101,626	101,626
Total	490,571	490,571
<u>Financial liabilities</u>		
Derivatives	216,011	216,011
Total	216,011	216,011

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, profit rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Profit rate swaps, options and structured deposits are fair valued using forward special commission 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 (2019: level 1 and level 3).

Investments amounting to SR 4.93 million (2019: SR 4.88 million) are carried at cost and, accordingly, are not fair valued.

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34. FAIR VALUE MEASUREMENT (continued)

- 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 fair value.

	December 31, 2020 (SR'000)		
	Amortised cost	Level 2	Level 3
Financial assets:			
Due from banks and other financial institutions	426,138	-	426,074
Investment held at amortised cost - net	28,334,118	29,115,386	-
Loans and advances, net	53,961,211	-	56,815,209
Total	82,721,467	29,115,386	57,241,283
Financial liabilities:			
Due to banks and other financial institutions	8,530,196	-	8,509,548
Customers' deposits	68,003,612	-	68,169,001
Subordinated Sukuk	2,004,633	-	2,004,633
Total	78,538,441	-	78,683,182
	December 31, 2019 (SR'000)		
	Amortised cost	Level 2	Level 3
Financial assets:			
Due from banks and other financial institutions	1,429,004	-	1,441,363
Investment held at amortised cost - net	27,224,939	27,684,963	-
Loans and advances, net	49,660,119	-	51,282,736
Total	78,314,062	27,684,963	52,724,099
Financial liabilities:			
Due to banks and other financial institutions	8,253,754	-	8,304,612
Customers' deposits	62,696,794	-	62,986,854
Subordinated Sukuk	2,006,921	-	2,006,921
Total	72,957,469	-	73,298,387

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 and level 3 financial instruments are estimated as at December 31, 2020 at the current applicable yield curve taking into account the counterparty risks and applicable market rate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

34. FAIR VALUE MEASUREMENT (continued)

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 2020 and 31 December 2019, as well as the significant unobservable inputs used.

S.No	Type	Accounting Classification	Valuation Technique	Significant unobservable Inputs	Inter-relationship between significant unobservable inputs and fair value measurement
1	Mutual Fund units	FVIS	Fair valued using the quoted prices of underlying securities.	Not applicable	Not applicable
2	Investment held at FVOCI – debt	FVOCI	Fair valued using the broker quoted prices or estimating present value by discounting cash flows using adjusted discount rate.	Not applicable	Not applicable
3	forward exchange contracts and Profit rate swaps	FVIS	Forward exchange contracts: Fair valued using discounted Notional techniques that use observable market data inputs for Forex 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
4	Due from banks and other financial institutions, Loans and advances, 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 Time Deposits.	Not applicable	Not applicable
5	Investment held at amortised cost - net	Amortised Cost	Fair valued using the quoted prices, where available.	Not applicable	Not applicable

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35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board of Directors, the related party transactions are conducted on approved terms. 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:

	2020 SR' 000	2019 SR' 000
Subsidiary companies		
Investments	501,480	501,480
Customer deposits	14,271	20,730
Due from banks and other financial institutions	698,548	651,371
Due to banks and other financial institutions	289,148	290,117
Receivables	155,320	289,599
Payables	41,055	14,625
Commitments and contingencies	530,247	530,247
Notional values of outstanding derivative contracts	2,707,585	2,796,949
Associate and affiliate entities with significant influence		
Investments	164,136	148,332
Customer deposits	303,056	238,400
Accrued expenses payables	5,400	24,850
Accrued fee receivable	5,400	-
Advance against sale of investments	-	22,353
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	31,788	28,955
Customers' deposits	3,488,360	4,139,319
Contingencies and commitments	2,920	977
Mutual Funds under subsidiary's management		
Investments	251,244	287,024
Loans and advances, net	-	418,182

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

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35. RELATED PARTY TRANSACTIONS (continued)

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

	2020 <u>SR' 000</u>	2019 <u>SR' 000</u>
Special commission income	57,631	128,861
Special commission expense	201,357	242,521
Fees and commission income	6,813	404
Custody fee	4,846	2,624
Net share of expenses to an associate	5,400	22,850
Insurance premium paid	49,860	55,032
Surplus distribution received from an associate	957	1,169
Claims received	25,290	10,729
Directors' remuneration	8,014	7,315
Income under shared service agreements	3,391	3,391
Reimbursement of expense to a subsidiary	78	117
Reimbursement of rent expense	7,591	7,983
Rent expense for branches	704	2,705
Sale of sukuk to an associate	22,353	99,895
Participation in DMO sukuk auction for an associate	-	75,552
Value of reserves and liabilities transferred to ATT for old Insurance portfolio (refer note 40)	53,552	-

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2020 <u>SR' 000</u>	2019 <u>SR' 000</u>
Short-term employee benefits	115,088	104,597
Termination benefits	38,942	33,416

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.

36. SALARIES AND EMPLOYEE RELATED EXPENSES

Categories of employees	Number of employees	2020		Total SR' 000
		Fixed compensation (on accrual basis) SR' 000	Variable compensation (on cash basis) SR' 000	
Senior executives that require SAMA no objection	26	49,308	24,230	73,538
Employees involved in control functions	241	90,698	9,481	100,179
Employees involved in risk taking activities	180	70,996	13,724	84,720
Other employees	2,137	528,966	80,043	609,009
Outsourced employees	537	86,779	3,834	90,613
Total	3,121	826,747	131,311	958,058
Variable compensation (accrual basis)		127,999		
Other employee related benefits		27,862		
Total salaries and employee-related expenses		982,608		

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36. SALARIES AND EMPLOYEE RELATED EXPENSES (continued)

Categories of employees	Number of employees	2019		Total SR ' 000
		Fixed compensation (on accrual basis) SR ' 000	Variable compensation (on cash basis) SR ' 000	
Senior executives that require SAMA no objection	16	43,270	22,312	65,582
Employees involved in control functions	213	85,816	9,886	95,702
Employees involved in risk taking activities	202	77,192	13,987	91,179
Other employees	2,186	530,764	76,156	606,920
Outsourced employees	609	85,970	3,500	89,470
Total	3,226	823,012	125,841	948,853
Variable compensation (accrual basis)		124,859		
Other employee related benefits		20,658		
Total salaries and employee-related expenses		968,529		

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 benefit outstanding at December 31, 2020 amounted to SR 279.70 million (2019: SR 273.83 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.

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37. 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 of 8%.

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 consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

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:

	2020		2019	
	Eligible capital SR '000	Capital adequacy ratio %	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	12,159,294	19.41%	12,081,624	20.68%
Supplementary capital (Tier 2)	2,633,778	-	2,300,699	-
Core and supplementary capital (Tier 1 + Tier 2)	14,793,072	23.62%	14,382,323	24.62%

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (continued)

37. CAPITAL ADEQUACY (continued)

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.

	2020 <u>SR '000</u>	2019 <u>SR '000</u>
Credit risk	55,360,267	51,675,067
Operational risk	5,496,895	5,059,741
Market risk	1,775,940	1,677,030
Total pillar-1 – risk weighted assets	<u>62,633,102</u>	<u>58,411,838</u>

38. 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. Fifteen such funds for which AJC acts as the manager are AlJazira International Equities Fund, AlJazira European Equities Fund, AlJazira Japanese Equities Fund, AlJazira Global Emerging Markets Fund, AlJazira Saudi Equities Fund, AlJazira GCC Income Fund, AlJazira Saudi Riyal Murabaha Fund, AlJazira USD Murabaha Fund, AlJazira Sukuk Fund, AlJazira Diversified Aggressive Fund, AlJazira Diversified Balanced Fund, AlJazira Diversified Conservative Fund, AlJazira Residential Projects Fund, AlJazira Residential Projects Fund 2 and AlJazira Mawten REIT Fund. All of the above are open ended funds except for AlJazira Residential Projects Fund and AlJazira Residential Projects Fund 2 which are closed-ended funds and AlJazira Mawten REIT Fund which is a public traded fund on Tadawul. AlJazira International Equities Fund, AlJazira European Equities Fund, AlJazira Japanese Equities Fund invests in foreign equities, while AlJazira Saudi Equities Fund invests in local equities. AlJazira Saudi Riyal Murabaha Fund and AlJazira USD Murabaha Fund trade in commodities through Murabaha.

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 68.3 billion (2019: SR 55.4 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 5.7 billion (2019: SR 5.6 billion).

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39. UNCONSOLIDATED ENTITIES

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
Investment in funds		<u>% of holding</u>	<u>SR '000</u>
	Mutual Funds managed by AlJa zira Capital Company (Subsidiary of the Bank AlJa zira)		
	AlJa zira Saudi Riyal Murabaha Fund	5.06%	3,585,633
	AlJa zira Da waween Fund	0.24%	444,005
	AlJa zira Global Emerging Markets Fund	24.41%	65,196
	AlJa zira Sukuk Fund	76.10%	50,014
	AlJa zira GCC Income Fund	9.16%	44,807
	AlJa zira Residential Projects Fund	43.64%	14,411
	AlJa zira Residential Projects Fund 2	13.05%	30,562

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Investment in funds – Carrying Amount	SR '000
AlJa zira Saudi Riyal Murabaha Fund	181,290
AlJa zira Sukuk Fund	38,061
AlJa zira Global Emerging Markets Fund	15,781
AlJa zira Residential Projects Fund	7,530
AlJa zira Residential Projects Fund 2	3,570
AlJa zira GCC Income Fund	4,079
AlJa zira Da waween Fund	933

40. TAKAFUL TA'WUNI

Takaful Ta'awuni provides protection and saving products services that are fully Shari'ah compliant.

As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

AlJazira Takaful Ta'awuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2020. The current division represented the insurance portfolio of policies entered into by the Bank before 2014.

During 2019, ATT obtained from SAMA no objection to transfer the insurance portfolio through letter dated 26 Rabi 'Al-Thani 1441 AH (corresponding to 23 December 2019). The insurance portfolio has been transferred with effect from 1 January 2020 at zero value (no cost to ATT), including the transfer of all assets and liabilities related to this business. Further as a consideration for the other reserves and all other liabilities related to insurance business currently existing or arising in future the Bank has paid an amount equal to SR 53.55 million. Therefore, ATT will be fully liable for all current and future liabilities in connection with insurance business in both Policyholder and shareholder accounts. As a result of business transfer the Bank has recognized a settlement gain of SR 17 million which has been presented in other operating income in these consolidated financial statements.

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41. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

IBOR Transition (Profit Rate Benchmark Reforms):

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

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

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

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

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

SR '000 31 December 2020	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount
LIBOR USD	1,358,467	144,335	2,150,625

42. SAMA SUPPORT PROGRAMS AND INITIATIVES

Private Sector Financing Support Program (“PSFSP”)

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

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

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42. SAMA SUPPORT PROGRAMS AND INITIATIVES (continued)

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months and then further deferring the installments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses amounting to SR 53.42 million which have been presented as part of net financing income during the nine months period ended September 30, 2020.

Further to the above, SAMA on 08 December 2020 extended the deferred payment program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Bank recognizing an additional modification loss of SR 29.09 million.

As a result of the above program and related extensions, the Bank has deferred the payments of SR 2,856 million (DPP1 – SR 1,192 million, DPP2 – 671 million and DPP3 SR 993 million) million on MSMEs portfolio and accordingly, has recognised total modification losses of SR 82.51 million during the year. The total exposures against these customers amounted to SR 3,238 million as at the year end.

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

The Bank has booked SR 31.21 million incremental total ECL for the MSME portfolio having total exposure of SR 621.06 million.

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

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SR 2.41 billion of profit free deposit in number of tranches from SAMA during the year ended 31 December 2020, with varying maturities, tenure of some of which was extended during the month of December 2020. Management had determined based on the communication from SAMA, that the profit free deposits primarily relate to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 236.36 million, of which SR 106.33 million has been recognised in the statement of income and SR 130.03 million has been deferred. The management has exercised certain judgments in the recognition and measurement of this grant income. During the year ended 31 December 2020, SR 53.42 million has been charged to the statement of income relating to unwinding of the day 1 income.

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42. SAMA SUPPORT PROGRAMS AND INITIATIVES (continued)

As at 31 December 2020, the Bank has participated in SAMA's funding for lending and facility guarantee programs and the accounting impact for the period is immaterial.

Furthermore, during the year ended 31 December 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SR 34.32 million.

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

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

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

In this regard, during the year ended 31 December 2020, the Bank received SR 1.78 billion profit free deposit with one year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 44.32 million, of which SR 35.72 million has been recognised in the statement of income for the year ended 31 December 2020 and with the remaining amount deferred.

Bank's initiative – Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of KSA citizens and residents in response to the COVID-19 outbreak, during Q1 2020, the Bank decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognising a day 1 modification loss of SR 19.88 million during the year ended 31 December 2020, which was presented as part of net financing income. SR 2.62 million has been charged to the consolidated statement of income on unwinding the discount on financing during the year ended 31 December 2020.

In addition the Bank during Q3 2020 also postponed payments for certain public and private workers mainly employed in health care and aviation sectors and covered by SANID program who had credit facilities with the Bank for a period ranging from three to six months. This resulted in the Bank recognizing a day 1 modification loss of SR 24.15 million, which was presented as part of net financing income. SR 2.17 million has been charged to the consolidated statement of income on unwinding the discount on these financings modified during the year ended 31 December 2020.

43. COMPARATIVE FIGURES

Certain prior period amounts have been reclassified so as to align with the current period presentation.

44. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 10 February 2021 (corresponding to 28 Jumad al thani 1442H).