BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2021

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Head Office - Riyadh
C.R. No. 4030276644

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, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed by the Saudi Organization for Chartered and Professional 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 the key audit 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
Expected credit loss allowance against financing: As at December 31, 2021, the gross financing of the Group was Saudi Riyals ("SAR") 65,072 million (2020: SAR 56,154 million) against which an expected credit loss ("ECL") allowance of SAR 2,638 million (2020: SAR 2,193 million) was maintained. We considered impairment of financing as a key audit matter, as the determination of ECL involves significant estimation and management judgement and this has a material impact on the consolidated financial statements of the Group. Furthermore, the COVID-19 pandemic continues to pose challenges to businesses thus increasing the levels of judgement and uncertainty needed to determine the ECL. The key areas of judgment include: ➢ Categorisation of financing into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. 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 deferral of instalments to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves. ➢ 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. ➢ The need to apply post model overlays using expert credit judgement to reflect all relevant risk factors especially relating to ongoing COVID – 19 pandemic that might not have been captured by the ECL model.	▪ We obtained and updated our understanding of management's assessment of ECL allowance against financing including the Group's internal rating model, accounting policy and model methodology including key changes made during the year. ▪ 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: • the ECL model, including governance over the model, its validation, and any model updates performed during the year, including approval by credit committee of key inputs, assumptions and post model adjustments, if any; • the classification of financing into stages 1,2 and 3 and timely identification of SICR and the determination of default / individually impaired exposures; • the IT systems and applications supporting the ECL model; and • the integrity of data inputs into the ECL model. ▪ For a sample of customers, we assessed: • 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 continued impacts of the COVID-19 pandemic and also assessed that these were consistent with the ratings used as inputs in the ECL model; • management's computation of ECL. • for selected loans, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.

Key audit matter	How our audit addressed the key audit matter
Application of these judgements and estimates particularly in light of COVID - 19 pandemic, continues to result in greater estimation uncertainty and the associated audit risk around ECL calculation as at 31 December 2021. *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 financing; and note 31.2 for details of credit quality analysis and key assumptions and factors considered in determination of ECL and note 41 for the impact of the COVID 19 pandemic on ECL.*	▪ We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's financing portfolio with specific focus on customers operating in sectors most affected by the COVID - 19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on SAMA regulation and eligible definition for effected customers and industry as at 31 December 2021. ▪ 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 or otherwise. ▪ 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 supporting the ECL calculations as at 31 December 2021. ▪ Where required, 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.

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 2021 annual report

Management is responsible for the other information. Other information consists of the information included in the Group's 2021 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 KSA, the applicable requirements of the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal 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.

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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 control.

- 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's 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.

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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, 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 PricewaterhouseCoopers
Certified Public Accountants

Mufaddal A.Ali
Certified Public Accountant
License Number 447

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
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شركة إرنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

13 February 2022
12 Rajab 1443H

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2021

	Notes	2021 SR'000	2020 SR'000
ASSETS			
Cash and balances with Saudi Central Bank (SAMA)	4	**5,386,871**	5,248,294
Due from banks and other financial institutions, net	5	**663,502**	426,138
Investments, net	6	**31,433,805**	29,895,473
Positive fair value of Shari'ah compliant derivatives	11	**12,058**	135,224
Financing, net	7	**62,434,476**	53,961,211
Investment in an associate	8	**211,143**	164,136
Other real estate, net	7(h)	**507,743**	474,421
Property and equipment, net	9	**1,156,380**	1,155,609
Other assets	10	**1,021,343**	628,368
Total assets		**102,827,321**	92,088,874
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	12	**6,410,080**	8,530,196
Customers' deposits	13	**78,365,149**	68,003,612
Negative fair value of Shari'ah compliant derivatives	11	**227,309**	303,495
Subordinated Sukuk	14	**1,994,685**	2,004,633
Other liabilities	15	**1,935,027**	1,882,439
Total liabilities		**88,932,250**	80,724,375
EQUITY			
Share capital	16	**8,200,000**	8,200,000
Statutory reserve	17	**2,917,273**	2,665,754
Other reserves	18	**(114,552)**	(99,576)
Retained earnings		**1,017,350**	598,321
Equity attributable to shareholders' of the Bank		**12,020,071**	11,364,499
Tier 1 Sukuk	19	**1,875,000**	-
Total Equity		**13,895,071**	11,364,499
Total Liabilities and Equity		**102,827,321**	92,088,874

Tarek Al-Kasabi Chairman	Naif Al Abdulkareem CEO and Managing Director	Hani Noori 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)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

	Notes	2021 SR'000	2020 SR'000
Income from investments and financing	21	**3,034,326**	3,180,041
Return on deposits and financial liabilities	21	**(409,286)**	(789,705)
Net financing and investment income		**2,625,040**	2,390,336
Fees from banking services - income	22	**1,134,868**	1,025,207
Fees from banking services - expense	22	**(496,395)**	(417,699)
Fees from banking services, net		**638,473**	607,508
Exchange income, net		**172,555**	240,164
Net (loss) / gain on FVIS financial instruments	23	**(11,613)**	9,816
Dividend income		**804**	80
Net gains on derecognition of financial assets at FVOCI – Sukuk		**14,263**	4,703
Net gains on derecognition of financial assets at amortised cost		**95,508**	2,102
Other operating income	24	**12,135**	32,410
Total operating income		**3,547,165**	3,287,119
Salaries and employee-related expenses	37	**976,699**	982,608
Rent and premises-related expenses		**56,197**	52,944
Depreciation and amortisation	9	**198,723**	214,446
Other general and administrative expenses		**502,565**	429,891
Other operating expenses		**35,705**	16,571
Total operating expenses before impairment charge		**1,769,889**	1,696,460
Impairment charge for financing and other financial assets, net	7(f)	**624,566**	1,575,743
Impairment charge for other real estate	7(h)	**46,913**	-
Total operating expenses		**2,441,368**	3,272,203
Net operating income		**1,105,797**	14,916
Share in net income of an associate	8	**8,010**	16,279
Gain on deemed disposal of an associate	8	**39,390**	-
Net income for the year before Zakat and income tax		**1,153,197**	31,195
Zakat and income tax:			
Zakat	26	**(138,407)**	(286)
Income tax	26	**(8,714)**	2,845
Net income for the year		**1,006,076**	33,754
Basic and diluted earnings per share (expressed in SR per share)	25	**1.18**	0.04

Tarek Al-Kasabi	Naif Al Abdulkareem	Hani Noori
Chairman	CEO and Managing Director	Chief Financial Officer

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

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2021

	Notes	2021 SR'000	2020 SR'000
Net income for the year		**1,006,076**	33,754
Other comprehensive income:			
Items that can be reclassified to consolidated statement of income in subsequent years:			
Cash flow hedges:			
- Effective portion of change in the fair value	18	**63,847**	(48,138)
- Net amount transferred to consolidated statement of income	18	**(12,100)**	(89)
Net changes in fair value of investments classified as at FVOCI - Sukuk	18	**(78,509)**	31,052
Items that cannot be reclassified to consolidated statement of income in subsequent years:			
Remeasurement gains on employee benefit obligation	18	**11,786**	4,403
Total other comprehensive loss for the year		**(14,976)**	(12,772)
Total comprehensive income for the year		**991,100**	20,982

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
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)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

	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 shareholders' equity SR'000	Tier 1 Sukuk SR'000	Total Equity SR'000
2021										
Balance at January 1, 2021 (audited)		8,200,000	2,665,754	-	(99,576)	598,321	-	11,364,499	-	11,364,499
Net income for the year		-	-	-	-	1,006,076	-	1,006,076	-	1,006,076
Other comprehensive loss for the year		-	-	-	(14,976)	-	-	(14,976)	-	(14,976)
Total comprehensive income for the year		-	-	-	(14,976)	1,006,076	-	991,100	-	991,100
Transfer to statutory reserve	17	-	251,519	-	-	(251,519)	-	-	-	-
Tier 1 Sukuk issued	19	-	-	-	-	-	-	-	1,875,000	1,875,000
Tier 1 Sukuk issuance cost		-	-	-	-	(9,213)	-	(9,213)	-	(9,213)
Tier 1 Sukuk related costs		-	-	-	-	(39,315)	-	(39,315)	-	(39,315)
Interim dividend paid	27	-	-	-	-	(287,000)	-	(287,000)	-	(287,000)
Balance at December 31, 2021		8,200,000	2,917,273	-	(114,552)	1,017,350	-	12,020,071	1,875,000	13,895,071

	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 shareholders' equity SR'000	Tier 1 Sukuk SR'000	Total Equity 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	-	11,589,517
Net income for the year		-	-	-	-	33,754	-	33,754	-	33,754
Other comprehensive loss for the year		-	-	-	(12,772)	-	-	(12,772)	-	(12,772)
Total comprehensive income for the year		-	-	-	(12,772)	33,754	-	20,982	-	20,982
Transfer to statutory reserve	17	-	8,438	-	-	(8,438)	-	-	-	-
Transfer from general reserve		-	-	(68,000)	-	68,000	-	-	-	-
2019 Final dividend paid	27	-	-	-	-	-	(246,000)	(246,000)	-	(246,000)
Balance at December 31, 2020		8,200,000	2,665,754	-	(99,576)	598,321	-	11,364,499	-	11,364,499

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
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)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Notes	2021 SR'000	2020 SR'000
OPERATING ACTIVITIES			
Net income for the year before Zakat and income tax		1,153,197	31,195
Adjustments to reconcile net income to net cash from operating activities:			
Net loss / (gain) on FVIS financial instruments		7,739	(9,816)
Depreciation and amortisation	9	198,723	214,446
Gain on investments not held as FVIS		(109,771)	(6,805)
Net loss on disposal / write off of property and equipment		8,639	3,123
Impairment charge for financing and other financial assets, net	7(f)	624,566	1,575,743
Impairment charge for other real estate	7(h)	46,913	-
Share in net income of an associate	8	(8,010)	(16,279)
Gain on deemed disposal of an associate	8	(39,390)	-
Return on subordinated sukuks		26,738	70,941
		1,909,344	1,862,548
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(711,459)	(199,943)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		-	860,900
Investments held at FVIS		181,323	(146,264)
Positive fair value of Shari'ah compliant derivatives		123,166	(33,598)
Financing		(9,061,505)	(5,591,932)
Other real estate		(80,235)	(5,429)
Other assets		(392,975)	(142,818)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,120,116)	276,442
Customers' deposits		10,361,537	5,306,818
Negative fair value of Shari'ah compliant derivatives		(88,936)	87,484
Other liabilities		44,780	54,486
		164,924	2,328,694
Zakat and income tax paid		(94,497)	(218,451)
Net cash from operating activities		70,427	2,110,243
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS		3,309,166	214,119
Purchase of investments not held as FVIS		(4,992,662)	(2,303,389)
Acquisition of property and equipment	9	(146,710)	(185,929)
Proceeds from sale of property and equipment		233	1,400
Net cash used in investing activities		(1,829,973)	(2,273,799)
FINANCING ACTIVITIES			
Issue of Tier 1 Sukuk	19	1,875,000	-
Issue of Tier 2 subordinated sukuk	14	2,000,000	-
Repayment of Tier 2 subordinated Sukuk	14	(2,000,000)	-
Payment of sukuk related transactions costs		(13,444)	-
Payment of return on Tier 1 and Tier 2 sukuks		(65,140)	(73,229)
Dividends paid		(276,485)	(252,620)
Payment for principal portion of lease liabilities		(96,692)	(81,090)
Net cash inflow from / (used in) financing activities		1,423,239	(406,939)
Net change in cash and cash equivalents		(336,307)	(570,495)
Cash and cash equivalents at the beginning of the year		2,076,343	2,646,838
Cash and cash equivalents at the end of the year	28	1,740,036	2,076,343
Income from investments and financing received during the year		2,981,782	3,109,077
Return on deposits and financial liabilities paid during the year		504,430	864,656
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		51,747	(48,227)

Tarek Al-Kasabi Chairman	Naif Al Abdulkareem CEO and Managing Director	Hani Noori Chief Financial Officer

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

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 81 branches (2020: 79 branches) and 62 Fawri Remittance Centres (2020: 62 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2,420 staff as of December 31, 2021 (2020: 2,419 staff). The Bank's Head Office is located at the following address:

Bank AlJazira
7724 King Abdulaziz Road - Al-Shatea District
Jeddah 23513 - 3551
P.O. Box 6277, Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on 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, 2021**	Ownership (direct and indirect) December 31, 2020
Subsidiaries				
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	100%	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	100%	100%
Aman Insurance Agency Company (under liquidation – note (a) below)	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank	100%	100%
AlJazira Securities Limited	Cayman Islands	Carry out Shari'ah compliant derivative and capital market transactions	100%	100%
BAJ Sukuk Tier 1 Limited	Cayman Islands	Trustee for issuance of Tier 1 capital certificates	100%	-
Associate				
AlJazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	26.03%	35%

1. GENERAL (continued)

(a) Subsequent to the year ended 31 December 2020, the Aman Insurance Agency Company (the Company) applied for its license renewal from Saudi Central Bank ("SAMA"), however, it was refused, as SAMA had issued Rule governing bancassurance activities during May 2020 which require the banks to carry out Bancassurance business directly. This as a result has restricted the ability of the Company to carry out business activities and therefore, management of the Company has decided to initiate the winding up procedures which are in process as at 31 December 2021.

2. BASIS OF PREPARATION

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements of the Group as at and for the year ended 31 December 2021 and 31 December 2020, respectively, 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 Chartered and Professional Accountants (SOCPA); and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

ii. Basis of measurement and presentation

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.

2. BASIS OF PREPARATION (continued)

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

i. Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met:

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.

2. BASIS OF PREPARATION (continued)

b) Basis of consolidation (continued)

iv. Investment in an associate

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost-plus post-acquisition changes in the Group’s share of net assets of the associate (share of the results, reserves and accumulated gains / (losses) based on the latest available financial information) less impairment, if any.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in ‘share in net income / (loss) of an associate’ in the consolidated statement of income.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates.

c) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. Such judgments, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2021 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.

2. BASIS OF PREPARATION (continued)

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

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)(l))
xii. Government grant (note 3(i))
xiii. Judgement of equity vs liability for Tier 1/2 Sukuk (note 2(c)(viii))

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:

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 35 (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.

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 35).

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

iii. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

Other real estates are revalued through independent real estate evaluators on a periodic basis and any unrealised losses on revaluation are recognised in the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

vi. Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

vii. Employee Benefit Obligation

The Group operates an end of service benefit plan (the plan) for its employees based on the prevailing Saudi Labour laws. The liability for the plan is estimated in accordance with International Accounting Standard (IAS) 19 – Employee Benefits as endorsed in the Kingdom of Saudi Arabia, by a qualified actuary based on various assumptions. The key assumptions used to estimate the plan liability at the year end, are disclosed in note 29 to these consolidated financial statements.

viii. Judgement of equity vs liability for Tier 1/2 Sukuk

The determination of equity classification of Tier 1 Sukuk requires significant judgement as certain clauses of the Offering Circular require interpretation. The Group classifies as part of equity the Tier 1 Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Group for payment of profit upon the occurrence of a non-payment event or non-payment election by the Bank subject to certain terms and conditions and essentially mean that the remedies available to sukuk holders are limited in number and scope and very difficult to exercise. The related initial costs and distributions thereon are recognized directly in the consolidated statement of changes in equity under retained earnings.

3. 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, 2020. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective January 1, 2021 replacing, amending or adding to the corresponding accounting policies set out in 2020 annual consolidated financial statements.

New standards, interpretations and amendments adopted by the Group

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Following standard, interpretation or amendment are effective from the current year and are adopted by the Group, however, the management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

Standard, interpretation, amendments	**Description**	**Effective date**
Amendments to IFRS 7, IFRS 4 and IFRS 16 Profit Rate Benchmark Reform – Phase 2	The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform Whilst adoption is not mandatory for September 2021 year ends, earlier application is permitted. Please also refer note 42 to these consolidated financial statements.	Annual periods beginning on or after 1 January 2021
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 June 2021

Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments and revisions which are effective from periods on or after January 1, 2022. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Accounting standards issued but not yet effective (continued)

Standard, interpretation, amendments	**Description**	**Effective date**
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2021
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	*Amendments to IFRS 3, 'Business combinations'* update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. *Amendments to IAS 16, 'Property, plant and equipment'* prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income. *Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'* specify which costs a company includes when assessing whether a contract will be loss-making. *Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.*	Annual periods beginning on or after 1 January 2022.
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	Annual periods beginning on or after 1 January 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Accounting standards issued but not yet effective (continued)

Standard, interpretation, amendments	Description	Effective date
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023. However, the IASB plans to publish an exposure draft in the fourth quarter of 2021 proposing the deferral of the effective date to no earlier than 1 January 2024.
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023.
IFRS 17, ‘Insurance contracts’, as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.
A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts	The amendment relates to insurers’ transition to the new Standard only-it does not affect any other requirements in IFRS 17. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	Annual periods beginning on or after 1 January 2023.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

Income is recognised on an effective yield basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in the consolidated statement of income.

Debt instruments that are measured at amortised cost are subject to impairment.

Financial assets at FVOCI

A debt instrument: is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVIS:

- 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 profit on the principal amount outstanding.

Equity instruments: On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in consolidated other comprehensive income (OCI). This election is made on an investment-by-investment basis.

Investments in debt instruments as FVOCI are initially measured at fair value plus transaction costs. These are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI and recycled to consolidated statement of income at the time of sale. Income from investments and financing and foreign exchange gains and losses are recognised in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

Financial assets at FVOCI (continued)

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gains and losses on such equity instruments are never reclassified to the consolidated statement of income and no impairment is recognised in the consolidated statement of income. Investments in unquoted equity instruments are measured at fair value. The cumulative gains or losses will not be reclassified to the consolidated statement of income on disposal of the investments.

On initial recognition the Group designates all investments in equity instruments that are not FVIS as FVOCI.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividend is established, unless the dividend clearly represent a recovery of part of the cost of the investment.

Financial asset at FVIS

All other financial assets are classified as measured at FVIS (for example: equity held for trading and debt securities classified neither as amortised cost nor FVOCI).

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial assets at FVIS are measured at fair value at the end of each reporting period, with any gains or losses arising on measurement recognised in the consolidated statement of income.

Commission income on debt instruments as FVIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments as FVIS is recognised in the consolidated statement of income when the Group's right to receive the dividend is established.

a. Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

a. Business model assessment (continued)

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit’ is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

Designation at fair value through income statement

At initial recognition, the Group may designate certain financial assets at FVIS if this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

ii. Classification of financial liabilities

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

All money market deposits, customer deposits, term financing, subordinated debts and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at fair value through income statement as per the requirements of IFRS 9. A liability is classified at FVIS if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities classified as FVIS using fair value option, if any, after initial recognition, for such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI and all other fair value changes are presented in the consolidated statement of income.

Amounts in OCI relating to own credit are not recycled to the consolidated statement of income even when the liability is derecognized and the amounts are realized.

Financial guarantees and credit related commitments that Group choose to measure at fair value through income statement (FVIS) will have all fair value movements recognized in consolidated statement of income.

Designation at fair value through income statement

The Group may designate certain financial liabilities as FVIS in either of the following circumstances:

- 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

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.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Financial liabilities

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

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

iv. Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

- Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset 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 income from investments and financing.

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.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in consolidated statement of income.

v. Impairment

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;
- lease / Ijarah receivables;
- financial guarantee contracts issued; and
- credit related commitments issued.
- bank balances

No impairment loss is recognized on FVOCI equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

v. Impairment

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as ‘Stage1’ financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as ‘Stage 2 financial instruments’. Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which the lifetime ECL are recognized and that are credit-impaired are referred to as ‘Stage 3 financial instruments’.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn credit related commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and Ijarah receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate
- Ijarah receivables: the discount rate used in measuring Ijarah receivables.
- Undrawn credit related commitments: the effective profit rate, or an approximation thereof, that will be applied to the financial asset resulting from the credit related commitment; and
- Financial Guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

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 financing or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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;
- credit related commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the credit related commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision under “other liabilities”; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in consolidated statement of income and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

Financing and debt securities are written off (either partially or 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.

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 is it was under IAS 39. Collateral, unless repossessed, is not recorded on the consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as professional evaluators or based on housing price indices.

d) Financial guarantees 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. 'Credit related commitments' are firm commitments to provide credit under pre-specified terms and conditions.

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

The Group has issued no credit related commitments that are measured at FVIS. For other credit related commitments the Group recognizes loss allowance as a provision under "other liabilities".

e) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, profit rate swaps and profit rate options (both written and purchased) are initially measured at their fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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 consolidated statement of income 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the statement of income in 'net gain on FVIS financial instruments'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, changes in fair value of the derivative are recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the consolidated statement of income.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

Cash flow hedges (continued)

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in consolidated statement of comprehensive income is transferred immediately to the consolidated statement of income.

In accordance with risk management policies, the Group manages its cash flow profit rate risk on an entity-wide basis as well as variability of profit rate on Wakala floating rates notes. The Group designate profit rate swaps as hedging instrument against the cash flow risk resulting from a change in profit rates that occurs up to the repricing of the swap.

The Group first assesses forecasting of the “net cash flow” exposures from existing yield bearing assets and liabilities, including the rollover of short-term assets and short-term liabilities. This is mainly achieved through yield sensitivity gap. During forecasting of the net cash flows, the Group take into account historic information and market trends for withdrawal of deposits, yield rates and refinancing’s and repricing’s. The net cash flows are then compared with existing hedging positions to provide a basis for considering whether adjustment of the hedging relationship should be made.

The notional amounts of the profit rate swaps that are outstanding at the analysis date are included in each of the periods in which the profit rate swaps are outstanding to assess the impact of the outstanding profit rate swaps on the identified cash flow exposures. While a portion of the forecast transaction is no longer being hedged, the profit rate swap is not de-designated, and it continues to be a hedging instrument for the remaining transactions in the series that have not occurred. However, if the next forecast transaction does not occur until specified period, the remaining after the repricing of the profit rate swap, is not hedged.

The Group designates the hedging relationship in a manner that also consider the extent to which ineffectiveness is expected to be recognised for accounting purposes. The hedged exposure percentage is computed as the ratio of the notional amount of the receive-fixed, pay-variable swaps that are outstanding divided by the gross exposure. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in “trading income, net”. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedge transactions affect the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

Profit Rate Benchmark Reform issued in September 2019 (the Phase 1 amendments)

If a hedging relationship is directly affected by InterBank Offer Rate (IBOR) reform, then the Group applies certain exceptions in the Phase 1 amendments to the general hedge accounting policy. The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- a profit rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amount of profit rate benchmark-based cash flows of the hedged item or of the hedging instrument is uncertain.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the profit rate benchmark-based cash flows of the hedged item or hedging instrument or when the hedging relationship is discontinued, the Group ceases to apply the respective Phase 1 amendments.

However, when determining whether a previously designated forecast transaction is no longer expected to occur, the Group continues to assume that the hedged profit rate benchmark cash flows will not be altered as a result of IBOR reform in accordance with the Phase 1 exemption.

The Group has concluded that as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

Profit Rate Benchmark Reform issued in August 2020 (the Phase 2 amendments)

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- updating the description of the hedging instrument; or
- updating the description of how the entity will assess hedge effectiveness.

The Group amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument;
- the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

Profit Rate Benchmark Reform issued in August 2020 (the Phase 2 amendments) (continued)

The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those economically equivalent changes required by IBOR reform described above, then the Group considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

When the profit rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

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.

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

Income from investments and financing and Return on deposits and financial liabilities

Revenue and expenses related to profit bearing financial instruments are recognized in consolidated statement of income using the effective yield method. The 'effective yield rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability.

When calculating the effective yield rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective yield rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective yield rate includes transaction costs and fees and points paid or received that are an integral part of the effective yield rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective yield method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating revenue and expenses related to profit bearing financial instruments, the effective yield rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, income from investments and financing income is calculated by applying the effective yield rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of income from investments and financing income reverts to the gross basis.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue /expense recognition (continued)

When the Group enters into a profit rate swap to change profit from fixed to floating (or vice versa), the amount of revenue and expenses related to profit bearing financial instruments is adjusted by the net profit on the swap to the extent the hedge is considered to be effective.

Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred as disclosed in note 3(f).

Fees from banking services

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

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

Other fee expense on banking services relate mainly to transaction and service fees, which are expensed as the services are received.

Rendering of services

The Group provides various services to its customers. These services are either rendered separately or bundled together with rendering of other services.

The Group has concluded that revenue from rendering of various services related to share trading and fund management, trade finance, corporate finance and advisory, remittance and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the 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 to unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

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, financing and investment income, 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 Return on deposits and financial liabilities and is accrued over the life of the repo agreement using the effective yield rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in “cash and balances with SAMA”, “due from banks and other financial institutions” or “financing”, as appropriate. The difference between the purchase and resale price is treated as income from investments and financing and is accrued over the life of the reverse repo agreement using the effective yield rate.

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 financing. Such real estate are considered as assets held for sale and are initially stated at the lower of the net realizable value of due financing and the current fair value of related properties, less any costs to sell. No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to the initial recognition, such real estate is revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

l) Property and equipment

Property and equipment are measured at cost less accumulated depreciation / amortisation and accumulated impairment loss. Changes in the expected useful life are accounted by changing the period or method, as appropriate, and treated as changes in accounting estimates. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

Freehold land is not depreciated. The cost of property and equipment is depreciated / amortised using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	10 to 24 years or over the lease period, whichever is shorter
Furniture, equipment and vehicles	4 to10 years
Computer softwares and automation projects	4 to 10 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Bank purchases the Bank's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Bank as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the owners of the Bank.

Shares held by the Bank are disclosed as treasury shares and deducted from contributed equity.

n) Deposits, debt securities issued and subordinated liabilities

When the Group designates a financial liability as at FVIS, the amount of change in the fair value of the liability that is attributable to changes in its own credit risk is presented in consolidated other comprehensive income (OCI) as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- 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.

o) 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.

p) Accounting for leases

i. Where the Group is the lessee

Right of use asset / lease liabilities
On initial recognition, at inception of the contract, the Group shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Group and the Group can direct the usage of such assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Accounting for leases (continued)

i. Where the Group is the lessee (continued)

Right of use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities for lease modifications. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. Right-of-use assets are subject to impairment.

Lease liability
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of finance cost and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ii. Where the Group is the lessor

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (Ijarah) the present value of the lease payments is recognised as a receivable and disclosed under "financing, net". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair values.

r) Employees' benefits

Defined unfunded benefit plan

End-of-service benefits as required by Saudi Arabia Labour Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plan ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on high quality corporate bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligations.

The defined benefit liability comprises the present value of defined benefit obligations as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. The liability is included in 'other liabilities' in the consolidated statement of financial position.

Short term benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

s) Zakat and income tax

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) 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 ZATCA on a monthly basis.

Value Added Tax (VAT)

Output VAT related to revenue is payable to tax authorities on the earlier of:

(a) collection of receivables from customers or
(b) delivery of services to customers.

Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales/services and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and a liability. Where provision has been made for ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

VAT that is not recoverable is charged to the statement of income as expense

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) 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 Zakat, Tax and Customs Authority ("ZATCA"). Zakat is charged to the consolidated statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to Zakat.

t) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements.

The financial statements of investment management mutual funds are not included in these consolidated financial statements of the Group. Transactions with the Funds' are disclosed under related party transactions. The Group's share of these Funds', if any, are included in FVIS investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Shari'ah compliant (non-interest based) banking products

The Bank offers its customers Shari'ah compliant (non-interest based) banking products, which are approved by its Shari'ah Board, as follows:

Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Ijarah is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on the customer's promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for financing requirements.

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Sukuk are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these consolidated financial statements.

4. CASH AND BALANCES WITH SAMA

	2021 SR'000	2020 SR'000
Cash in hand	**969,993**	1,122,892
Wakala placement with SAMA	**104,995**	524,978
Cash and cash equivalents (note 28)	**1,074,988**	1,647,870
Statutory deposit with SAMA	**4,311,883**	3,600,424
Total	**5,386,871**	5,248,294

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 34). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2021 SR'000	2020 SR'000
Current accounts	**648,157**	428,473
Money market placements	**16,891**	-
	665,048	428,473
Less: impairment allowance (note (b) below)	**(1,546)**	(2,335)
Total	**663,502**	426,138

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

	2021 SR'000	2020 SR'000
Commodity murabaha	**16,891**	-
Wakala	**-**	-
	16,891	-

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.

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

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Gross carrying amount as at 1 January 2021	**279,628**	**146,181**	**2,664**	**428,473**
Transfer to 12-month ECL	**146,181**	**(146,181)**	**-**	**-**
Financial assets derecognised during the period other than write-offs	**-**	**-**	**-**	**-**
New financial assets originated	**168,087**	**-**	**-**	**168,087**
Changes in accrued profit	**16**	**-**	**-**	**16**
Other movements	**67,920**	**-**	**552**	**68,472**
Gross carrying amount as at 31 December 2021	**661,832**	**-**	**3,216**	**665,048**

	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	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	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

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

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Loss allowance as at January 1, 2021	**1,434**	**901**	**-**	**2,335**
Transfer to 12-month ECL	**901**	**(901)**	**-**	**-**
Net re-measurement of loss allowance	**(970)**	**-**	**-**	**(970)**
New financial assets originated	**181**	**-**	**-**	**181**
Financial assets that have been derecognized	**-**	**-**	**-**	**-**
Loss allowance as at December 31, 2021	**1,546**	**-**	**-**	**1,546**

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):

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(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

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 31.2.

6. INVESTMENTS

a) As of December 31, 2021, investments were classified as follows:

	2021 SR'000		
	Domestic	**International**	**Total**
i) FVIS			
Mutual funds	**202,755**	**59,688**	**262,443**
Equities – quoted	**4,349**	**-**	**4,349**
	207,104	**59,688**	**266,792**
ii) FVOCI			
Equities – unquoted	**4,143**	**742**	**4,885**
Sukuk investments	**3,923,353**	**135,548**	**4,058,901**
	3,927,496	**136,290**	**4,063,786**
Allowance for impairment	**(295)**	**(130)**	**(425)**
	3,927,201	**136,160**	**4,063,361**
iii) Amortised cost			
Sukuk investments	**22,205,575**	**-**	**22,205,575**
Wakala floating rate notes	**4,904,263**	**-**	**4,904,263**
	27,109,838	**-**	**27,109,838**
Allowance for impairment	**(6,186)**	**-**	**(6,186)**
	27,103,652	**-**	**27,103,652**
Total	**31,237,957**	**195,848**	**31,433,805**

6. INVESTMENTS (continued)

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

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

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

	2021			2020		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Sukuk investments-Fixed rate	**18,088,100**	**5,713,593**	**23,801,693**	17,024,073	5,344,338	22,368,411
Sukuk investments-Floating rate	**1,905,780**	**550,710**	**2,456,490**	1,924,265	250,467	2,174,732
Wakala floating rate notes	**4,903,945**	**-**	**4,903,945**	4,904,294	-	4,904,294
Equities	**4,349**	**4,885**	**9,234**	760	4,932	5,692
Mutual funds	**245,288**	**17,155**	**262,443**	441,411	933	442,344
Total investments	**25,147,462**	**6,286,343**	**31,433,805**	24,294,803	5,600,670	29,895,473

6. INVESTMENTS (continued)

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

	2021				2020			
	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	**22,199,707**	**650,094**	**44,428**	**22,805,373**	23,429,824	790,816	9,548	24,211,092
Wakala floating rate notes	**4,903,945**	**309**	**-**	**4,904,254**	4,904,294	-	-	4,904,294
Total	**27,103,652**	**650,403**	**44,428**	**27,709,627**	28,334,118	790,816	9,548	29,115,386

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

	2021 SR'000	2020 SR'000
Government and quasi Government	**30,675,943**	29,070,400
Corporate	**186,106**	447,848
Banks and other financial institutions	**571,756**	377,225
Total	**31,433,805**	29,895,473

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 (2020: SR 375 million), which have been pledged under repurchase agreements with other banks. The market value of such investment is SR 406.99 million (2020: SR 421.27 million).

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

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Loss allowance as at January 1, 2021	**6,498**	**-**	**-**	**6,498**
Net re-measurement of loss allowance	**(637)**	**-**	**-**	**(637)**
New financial assets originated	**340**	**-**	**-**	**340**
Financial assets that have been derecognized	**(15)**	**-**	**-**	**(15)**
Loss allowance as at December 31, 2021	**6,186**	**-**	**-**	**6,186**

6. INVESTMENTS (continued)

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

	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	6,498	-	-	6,498

7. FINANCING, NET

Consumer includes financing related to individuals for personal needs.

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

Others include financing to staff.

a) Financing, net comprised the following:

	SR'000				
2021	**Credit cards**	**Consumer**	**Commercial**	**Others**	**Total**
Performing financing	**685,545**	**27,826,969**	**34,844,008**	**336,836**	**63,693,358**
Non-performing financing	**60,130**	**264,663**	**1,054,322**	**-**	**1,379,115**
Gross financing	**745,675**	**28,091,632**	**35,898,330**	**336,836**	**65,072,473**
Allowance for impairment	**(65,623)**	**(225,570)**	**(2,346,248)**	**(556)**	**(2,637,997)**
Financing, net	**680,052**	**27,866,062**	**33,552,082**	**336,280**	**62,434,476**

7. FINANCING, NET (continued)

a) Financing, net comprised the following (continued)

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

Financing, 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:

	SR'000				
2021	**Credit cards**	**Consumer**	**Commercial**	**Others**	**Total**
Tawarruq	**745,675**	**-**	**29,446,340**	**-**	**30,192,015**
Murabaha	**-**	**22,226,855**	**4,203,082**	**-**	**26,429,937**
Ijarah	**-**	**5,854,797**	**1,054,967**	**-**	**6,909,764**
Qard Alhasan	**-**	**-**	**-**	**336,836**	**336,836**
Others	**-**	**9,980**	**1,193,941**	**-**	**1,203,921**
Gross financing	**745,675**	**28,091,632**	**35,898,330**	**336,836**	**65,072,473**
Allowance for impairment	**(65,623)**	**(225,570)**	**(2,346,248)**	**(556)**	**(2,637,997)**
Financing, net	**680,052**	**27,866,062**	**33,552,082**	**336,280**	**62,434,476**

7. FINANCING, NET (continued)

	SR'000				
2020	Credit cards	Consumer	Commercial	Others	Total
Tawarruq	751,284	-	22,732,987	-	23,484,271
Murabaha	-	19,293,948	2,710,405	-	22,004,353
Ijarah	-	7,414,928	1,273,794	-	8,688,722
Qard alhasan	-	-	-	371,189	371,189
Others	-	1,493	1,604,180	-	1,605,673
Gross financing	751,284	26,710,369	28,321,366	371,189	56,154,208
Allowance for impairment	(63,908)	(211,871)	(1,917,218)	-	(2,192,997)
Financing, net	687,376	26,498,498	26,404,148	371,189	53,961,211

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

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Financing				
Gross carrying amount as at 1 January 2021	**48,741,158**	**4,292,092**	**3,120,958**	**56,154,208**
Transfer to 12-month ECL	**1,020,894**	**(1,015,410)**	**(5,484)**	**-**
Transfer to lifetime ECL not credit – Impaired	**(1,436,813)**	**1,446,853**	**(10,040)**	**-**
Transfer to lifetime ECL credit impaired	**(230,227)**	**(850,657)**	**1,080,884**	**-**
Other Movements	**(529,092)**	**(261,504)**	**(17,360)**	**(807,956)**
New financial assets originated or purchased	**17,698,545**	**95,715**	**75,178**	**17,869,438**
Financial assets that have been derecognized	**(7,387,352)**	**(277,224)**	**(282,404)**	**(7,946,980)**
Changes in profit accrual	**(37,058)**	**-**	**-**	**(37,058)**
Write-offs	**-**	**-**	**(159,179)**	**(159,179)**
Gross carrying amount as at 31 December 2021	**57,840,055**	**3,429,865**	**3,802,553**	**65,072,473**

7. FINANCING, NET (continued)

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

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Financing				
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 profit accrual	(3,042)	-	-	(3,042)
Write-offs	-	-	(134,946)	(134,946)
Gross carrying amount as at 31 December 2020	48,741,158	4,292,092	3,120,958	56,154,208

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

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Financing				
ECL as at January 1, 2021	**335,609**	**298,170**	**1,559,218**	**2,192,997**
Transfer to 12-month ECL	**13,658**	**(10,909)**	**(2,749)**	**-**
Transfer to lifetime ECL not credit – impaired	**(9,876)**	**13,969**	**(4,093)**	**-**
Transfer to lifetime ECL credit impaired	**(1,345)**	**(127,549)**	**128,894**	**-**
Net re-measurement of loss allowance	**(183,775)**	**65,769**	**704,892**	**586,886**
New financial assets originated or purchased	**55,586**	**1,567**	**37,473**	**94,626**
Financial assets that have been derecognized	**(39,116)**	**(18,210)**	**(20,007)**	**(77,333)**
Write-offs	**-**	**-**	**(159,179)**	**(159,179)**
ECL as at December 31, 2021	**170,741**	**222,807**	**2,244,449**	**2,637,997**

7. FINANCING, NET (continued)

c) An analysis of changes in ECL for financing is as follows (continued):

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Financing				
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	335,609	298,170	1,559,218	2,192,997

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

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Credit cards				
ECL as at January 1, 2021	**26,055**	**1,661**	**36,192**	**63,908**
Transfer to 12-month ECL	**1,546**	**(595)**	**(951)**	**-**
Transfer to lifetime ECL not credit – impaired	**(389)**	**484**	**(95)**	**-**
Transfer to lifetime ECL credit impaired	**(604)**	**(445)**	**1,049**	**-**
Net re-measurement of loss allowance	**(7,165)**	**240**	**7,839**	**914**
New financial assets originated	**10,071**	**813**	**1,542**	**12,426**
Financial assets that have been derecognized	**(4,631)**	**(502)**	**(4,694)**	**(9,827)**
Write-offs	**-**	**-**	**(1,798)**	**(1,798)**
ECL as at December 31, 2021	**24,883**	**1,656**	**39,084**	**65,623**

7. FINANCING, NET (continued)

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

	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	26,055	1,661	36,192	63,908

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Consumer financing				
ECL as at January 1, 2021	**131,842**	**2,184**	**77,845**	**211,871**
Transfer to 12-month ECL	**2,344**	**(546)**	**(1,798)**	**-**
Transfer to lifetime ECL not credit – impaired	**(305)**	**4,303**	**(3,998)**	**-**
Transfer to lifetime ECL credit impaired	**(338)**	**(372)**	**710**	**-**
Net re-measurement of loss allowance	**(69,334)**	**(3,541)**	**102,172**	**29,297**
New financial assets originated	**32,108**	**620**	**4,347**	**37,075**
Financial assets that have been derecognized	**(30,649)**	**(1,028)**	**(15,224)**	**(46,901)**
Write-offs	**-**	**-**	**(5,772)**	**(5,772)**
ECL as at December 31, 2021	**65,668**	**1,620**	**158,282**	**225,570**

7. FINANCING, NET (continued)

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

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Consumer financing				
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	131,842	2,184	77,845	211,871

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Commercial financing				
ECL as at January 1, 2021	**177,712**	**294,325**	**1,445,181**	**1,917,218**
Transfer to 12-month ECL	**9,768**	**(9,768)**	**-**	**-**
Transfer to lifetime ECL not credit – impaired	**(9,182)**	**9,182**	**-**	**-**
Transfer to lifetime ECL credit impaired	**(403)**	**(126,732)**	**127,135**	**-**
Net re-measurement of loss allowance	**(107,832)**	**69,070**	**594,881**	**556,119**
New financial assets originated	**13,407**	**134**	**31,584**	**45,125**
Financial assets that have been derecognized	**(3,836)**	**(16,680)**	**(89)**	**(20,605)**
Write-offs	**-**	**-**	**(151,609)**	**(151,609)**
ECL as at December 31, 2021	**79,634**	**219,531**	**2,047,083**	**2,346,248**

7. FINANCING, NET (continued)

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

	2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Commercial financing				
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	177,712	294,325	1,445,181	1,917,218

e) Movements in allowance for impairment are as follows:

	SR'000				
2021	**Credit Cards**	**Consumer**	**Commercial**	**Others**	**Total**
Opening ECL allowance as at 1 January 2021	**63,908**	**211,871**	**1,917,218**	**-**	**2,192,997**
Impairment charge for the year	**3,513**	**119,763**	**641,064**	**556**	**764,896**
Bad debts written off during the year	**(1,798)**	**(5,772)**	**(151,609)**	**-**	**(159,179)**
Recoveries / reversals of amounts previously provided	**-**	**(100,461)**	**(60,425)**	**-**	**(160,886)**
Allowance written back	**-**	**169**	**-**	**-**	**169**
Balance at the end of the year	**65,623**	**225,570**	**2,346,248**	**556**	**2,637,997**

	SR'000				
2020	Credit Cards	Consumer	Commercial	Others	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	63,908	211,871	1,917,218	-	2,192,997

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2021 and that are still subject to enforcement activity is SR 147.06 million (2020: SR 128.42 million).

7. FINANCING, NET (continued)

f) Net impairment charge for financing and other financial assets for the year in the consolidated statement of income is as follows:

	2021 SR'000	2020 SR'000
Impairment charge for financing for the year	**764,896**	1,411,054
(Recoveries) / (reversal) of amounts previously impaired	**(160,886)**	(92,278)
(Recoveries) from debts previously written off	**(15,771)**	(27,936)
Net (reversal) / charge for impairment in respect of due from banks and other financial institutions	**(789)**	807
Net impairment charge for ECL in respect of investments	**113**	6,498
Net impairment charge for ECL in respect of non-funded financing and credit related commitments	**37,003**	277,598
Impairment charge for financing and other financial assets, net	**624,566**	1,575,743

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

2021	**Performing SR'000**	**Non performing SR'000**	**Allowance for impairment SR'000**	**Financing, net SR'000**
Government and quasi Government	**5,099,802**	**-**	**(14,803)**	**5,084,999**
Banks and other financial institutions	**1,265,676**	**-**	**(7,479)**	**1,258,197**
Agriculture and fishing	**73,155**	**-**	**(55)**	**73,100**
Manufacturing	**4,598,309**	**175,895**	**(741,545)**	**4,032,659**
Electricity, water, gas and health services	**120,984**	**-**	**(221)**	**120,763**
Building and construction	**2,118,094**	**140,614**	**(489,261)**	**1,769,447**
Commerce	**10,625,813**	**521,554**	**(743,288)**	**10,404,079**
Transportation and communication	**407,370**	-	**(1,760)**	**405,610**
Services	**1,649,409**	**82,514**	**(154,227)**	**1,577,696**
Consumer financing and credit cards	**28,512,514**	**324,793**	**(291,193)**	**28,546,114**
Share trading	**1,917,785**	**-**	**-**	**1,917,785**
Others	**7,304,447**	**133,745**	**(194,165)**	**7,244,027**
Total	**63,693,358**	**1,379,115**	**(2,637,997)**	**62,434,476**

7. FINANCING, NET (continued)

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

2020	Performing SR'000	Non performing SR'000	Allowance for impairment SR'000	Financing, net SR'000
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 financing 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	54,912,251	1,241,957	(2,192,997)	53,961,211

h) Other real estate

	2021 SR'000	2020 SR'000
Balance at the beginning of the year	**474,421**	468,992
Additions during the year	**82,845**	6,190
Disposals during the year	**(2,610)**	(761)
Gross balance at the end of the year	**554,656**	474,421
Provision for unrealised revaluation losses (note (i) below	**(46,913)**	-
Net balance at the end of the year	**507,743**	474,421

i) This represents impairment charge booked in respect of unrealised losses during the current year on certain properties which were acquired by the Bank in prior years in satisfaction of claims against the financing customers. The amount was calculated based on revaluations conducted by the independent real estate evaluators.

8. INVESTMENT IN AN ASSOCIATE

The Group holds 26.03% (31 December 2021: 35%) shareholding in AlJazira Takaful Ta'awuni Company ("ATT").

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT for the period ended September 30, 2021. ATT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of December 31, 2021 is SR 286.87 million (2020: SR 309.92 million).

During the current year, ATT has completed the merger of Solidarity Saudi Takaful Company (SSTC) into ATT diluting the effective shareholding of the BAJ Group. The purchase consideration for this merger was determined to be SR 317.95 million which has been settled by issuing 12.07 million new shares of ATT to shareholders of SSTC at a price of SAR 26.35 per share. This dilution of BAJ Group shareholding was treated as deemed disposal in line with the requirements of IAS 28 – 'Investments in Associates and Joint ventures'. This has resulted in recognition of a gain of SR 39.4 million which has been presented in the consolidated statement of income.

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

	2021	2020
	SR'000	SR'000
Total assets	**2,820,593**	1,848,003
Total liabilities	**(2,009,762)**	(1,379,091)
Total shareholders' equity	**811,243**	468,961
Proportion of the Group's ownership	**26.03%**	35%
Carrying amount of the investment	**211,143**	164,136

	2021	2020
	SR'000	SR'000
Total profit for the year before Zakat and income tax	**25,667**	46,510
The Group's share of profit for the year	**8,010**	16,279

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

	2021	2020
	SR'000	SR'000
Balance at the beginning of the year	**164,136**	148,332
Gain on deemed disposal of an associate	**39,390**	-
Share in profit for the year before zakat and income tax	**8,010**	16,279
Share of Zakat and income tax	**(393)**	(475)
Balance at the end of the year	**211,143**	164,136

9. PROPERTY AND EQUIPMENT, NET

	2021 SR'000	2020 SR'000
Property and equipment, net (note a)	**704,052**	664,198
Right of use assets, net (note b)	**326,810**	354,116
Intangible assets (note c)	**125,518**	137,295
Total	**1,156,380**	1,155,609

a) Property and equipment, net

	Land and buildings SR'000	**Leasehold improvements SR'000**	**Furniture, equipment and vehicles SR'000**	**Capital work in progress SR'000**	**Total SR'000**
Cost					
At January 1, 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 January 1, 2021	**307,832**	**556,799**	**621,096**	**92,461**	**1,578,188**
Additions during the year	**6,101**	**1,150**	**6,116**	**93,494**	**106,861**
Transfers during the year	**71,481**	**9,265**	**4,392**	**(85,138)**	**-**
Disposals during the year	**-**	**(41,045)**	**(8,854)**	**-**	**(49,899)**
At December 31, 2021	**385,414**	**526,169**	**622,750**	**100,817**	**1,635,150**
Accumulated depreciation					
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 January 1, 2021	**5,040**	**367,369**	**541,581**	**-**	**913,990**
Charge for the year	**1,435**	**27,530**	**29,929**	**-**	**58,894**
Disposals	**-**	**(33,719)**	**(8,067)**	**-**	**(41,786)**
At December 31, 2021	**6,475**	**361,180**	**563,443**	**-**	**931,098**
Net book value					
At December 31, 2021	**378,939**	**164,989**	**59,307**	**100,817**	**704,052**
At December 31, 2020	302,792	189,430	79,515	92,461	664,198

9. PROPERTY AND EQUIPMENT, NET (continued)

b) Right of use assets, net

	Land and buildings SR'000	Office Equipment SR'000	Vehicles SR'000	Total SR'000
Cost				
At January 1, 2020	508,018	7,103	1,232	516,353
Additions during the year	34,378	-	-	34,378
At January 1, 2021	**542,396**	**7,103**	**1,232**	**550,731**
Additions during the year	**61,655**	**-**	**-**	**61,655**
At December 31, 2021	**604,051**	**7,103**	**1,232**	**612,386**
Accumulated depreciation				
At January 1, 2020	93,764	2,345	587	96,696
Charge for the year	97,321	2,137	461	99,919
At January 1, 2021	**191,085**	**4,482**	**1,048**	**196,615**
Charge for the year	**87,323**	**1,493**	**145**	**88,961**
At December 31, 2021	**278,408**	**5,975**	**1,193**	**285,576**
Net book value				
At December 31, 2021	**325,643**	**1,128**	**39**	**326,810**
At December 31, 2020	351,311	2,621	184	354,116

Majority of the Right to use assets comprise of rented branches and ATM locations which have been leased by the Group for varying terms from the landlords and will be vacated and handed over to the owners unless extended for another term based on mutual consent. The Group is responsible for maintenance and insurance of these assets during the lease term. The Group does not have any buy back option as part of the rental contracts to purchase these assets. The Group has the right to terminate some of these contracts by giving advance notice and in some cases may be required to pay part of remaining contractual payments as penalty.

9. PROPERTY AND EQUIPMENT, NET (continued)

c) Intangible assets

	Computer softwares SR'000	Work in progress SR'000	Total SR'000
Cost			
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 January 1, 2021	**348,708**	**33,455**	**382,163**
Additions during the year	**2,212**	**37,637**	**39,849**
Transfers during the year	**14,756**	**(14,756)**	**-**
Disposals	**-**	**(758)**	**(758)**
Write-offs			
At December 31, 2021	**365,676**	**55,578**	**421,254**

	Computer Softwares SR'000	Work in progress SR'000	Total SR'000
Accumulated amortisation			
At January 1, 2020	200,629	-	200,629
Charge for the year	49,808	-	49,808
Disposals	(5,569)		(5,569)
At January 1, 2021	**244,868**	**-**	**244,868**
Charge for the year	**50,868**	**-**	**50,868**
Disposals	**-**	**-**	**-**
At December 31, 2021	**295,736**	**-**	**295,736**
Net book value			
At December 31, 2021	**69,940**	**55,578**	**125,518**
At December 31, 2020	103,840	33,455	137,295

10. OTHER ASSETS

	2021 SR'000	2020 SR'000
Advances, prepayments and other receivables	**186,923**	142,416
Margin deposits against financial instruments	**165,656**	152,531
Value Added Tax (VAT) related receivables	**206,810**	187,780
Advance against purchase of investments	**291,147**	-
Others	**170,807**	145,641
Total	**1,021,343**	628,368

11. SHARIAH COMPLIANT DERIVATIVES

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

11.1 Nature/type of derivatives held

a) Swaps

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

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

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 profit rate risk and foreign exchange risk.

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and profit rates to reduce its exposure to currency and profit rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and profit rate risk. This is generally achieved by hedging specific transactions.

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

2021 **SR'000**	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**24,382**	**48,906**	**48,913**	**42,677**
Cash outflows (liabilities)	**(183,559)**	**(408,579)**	**(417,349)**	**(2,495,717)**
Net cash outflow	**(159,177)**	**(359,673)**	**(368,436)**	**(2,453,040)**

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)

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

	2021 **SR'000**	2020 SR'000
Income from investments and financing	**13,538**	1,652
Return on deposits and financial liabilities	**(1,438)**	(1,563)
Net gains on cash flow hedges reclassified to the consolidated statement of income	**12,100**	89

11. SHARIAH COMPLIANT DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

	2021 SR'000	2020 SR'000
Balance at the beginning of the year	**(158,638)**	(110,411)
Gains / (losses) from change in fair value recognised directly in equity, net (effective portion)	**63,847**	(48,138)
Gains removed from equity and transferred to consolidated statement of income	**(12,100)**	(89)
Balance at the end of the year	**(106,891)**	(158,638)

Fair value gain on cash flow hedges amounting to SR 63.85 million (2020: unrealized loss of SR 48.14 million) included in the consolidated statement of comprehensive income comprised of net unrealized loss of SR 28.64 million (2020: unrealized loss of SR 48.14 million) and realized gain of SR 92.49 million (2020: SR nil).

During the current and prior years, the Bank sold certain of its profit rate swaps used for cash flows hedges. However, the gain / (loss) would continue to be classified in consolidated statement of comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS as endorsed in KSA requirements, the gain / (loss) will be reclassified to consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the consolidated statement of income.

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.

	2021 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:								
Options	**333**	**335**	**33,143**	**-**	**-**	**-**	**33,143**	**2,762**
Currency swaps	**1,464**	**2,384**	**647,475**	**84,975**	**562,500**	**-**		**461,870**
Currency forwards	**27**	**61**	**18,048**	**18,048**	**-**	**-**	**-**	**131,280**
Profit rate swaps	**4,998**	**4,998**	**431,429**	**-**	**200,000**	**31,429**	**200,000**	**996,912**
Cross currency profit rate swaps	**411**	**13,208**	**1,875,000**	**-**	**-**	**1,875,000**	**-**	**1,093,750**
Held as cash flow hedges:								
Profit rate swaps	**4,825**	**206,323**	**3,250,625**	**468,750**	**360,000**	**750,000**	**1,671,875**	**3,192,292**
Total	**12,058**	**227,309**	**6,255,720**	**571,773**	**1,122,500**	**2,656,429**	**1,905,018**	**5,878,866**

11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

	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
Profit 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:								
Profit rate swaps	112,644	284,623	3,550,625	-	-	1,778,750	1,771,875	3,550,625
Total	135,224	303,495	5,076,165	270,787	1,004,277	2,029,226	1,771,875	5,976,612

The negative fair values of profit rate swaps are mainly due to a downward shift in the yield curve. The fair values of these swaps are expected to be settled on or before April 2044 (31 December 2020: April 2044).

Held for trading profit rate swaps include accrued receivable amounting to SR 1.75 million (31 December 2020: SR 1.47 million) and accrued payable amounting to SR 1.80 million (31 December 2020: SR 1.47 million). Held as cash flow hedge profit rate swaps include accrued receivable amounting to SR 4.83 million (31 December 2020: SR 5.04 million) and accrued payable amounting to SR 19.12 million (31 December 2020: SR 18.46 million).

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

During the years ended on December 31, 2021 and December 31, 2020, there was no ineffectiveness in the cash flow hedges.

The tables below show a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

Description of hedged items (SR '000) **2021**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Floating rate investments	1,100,000	Cash flow	Profit rate swap	-	15,613
Floating rate deposits	2,150,625	Cash flow	Profit rate swap	-	171,589

11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Description of hedged items (SR '000) 2020	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Floating rate investments	1,400,000	Cash flow	Profit rate swap	107,605	-
Floating rate deposits	2,150,625	Cash flow	Profit rate swap	-	266,160

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

	2021 SR'000	2020 SR'000
Current accounts	**235,986**	177,278
Money market deposits from banks and other financial institutions (refer note 12.1)	**5,884,986**	8,063,770
Repo agreement borrowings	**289,108**	289,148
Total	**6,410,080**	8,530,196

The above comprise of Shariah approved balances as follows:

	2021 SR'000	2020 SR'000
Current accounts	**235,986**	177,278
Commodity murabaha	**2,189,241**	3,157,189
Wakala	**3,984,853**	5,195,729
Total	**6,410,080**	8,530,196

12.1 This balance includes profit free deposits received during financial year 2020 from SAMA with gross amount of SAR 2.41 billion (31 December 2020: SR 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 41).

As a result, the Group's income from investments and financing for the year ended December 31, 2021 included the fair value benefit of SR 59.69 million (2020: SR 80.72 million) arising from the profit free deposits.

13. CUSTOMERS' DEPOSITS

	2021 SR'000	2020 SR'000
Demand	**38,504,625**	37,411,390
Saving	**983,845**	284,182
Customers' time investments	**37,057,540**	28,543,641
Other	**1,819,139**	1,764,399
Total	**78,365,149**	68,003,612

The above comprise of Shariah approved customer deposits as follows:

	2021 SR'000	2020 SR'000
Demand - Qard	**38,504,625**	37,411,390
Saving - Wakala	**983,845**	284,182
Customers' time investments – Murabaha	**33,806,020**	26,298,819
Customers' time investments – Wakala	**3,251,520**	2,244,822
Other – Qard	**1,819,139**	1,764,399
Total	**78,365,149**	68,003,612

Other customers' deposits include SR 635.69 million (2020: SR 710.15 million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2021 SR'000	2020 SR'000
Demand	**1,030,173**	1,717,463
Customers' time investments	**3,947,355**	1,954,892
Other	**46,894**	90,389
Total	**5,024,422**	3,762,744

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

During the current year, as per the terms mentioned in the related offering circular and on meeting certain conditions, the Bank on 9 May 2021 exercised its call option for settlement of Subordinated Sukuk Certificates. The Subordinated Sukuk Certificates were issued on 2 June 2016, having 2,000 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 2 June and 2 December each year.

14. SUBORDINATED SUKUK (continued)

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

15. OTHER LIABILITIES

	2021	2020
	SR'000	SR'000
Accounts payable	**461,109**	395,476
Employee benefit obligations (refer note 29)	**289,275**	279,701
Lease Liability – discounted (note a below)	**289,865**	324,902
Loss allowance for credit related commitments and contingencies (refer note 20(c)(iii))	**408,090**	371,087
Dividend payable	**43,153**	32,638
AlJazira Philanthropic Program (note b below)	**9,825**	14,793
Others (note c below)	**433,710**	463,842
Total	**1,935,027**	1,882,439

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

	2021	2020
	SR'000	SR'000
Less than one year	**77,245**	84,614
One to five years	**202,711**	217,672
More than five years	**40,855**	66,250
Total undiscounted lease liabilities at December 31	**320,811**	368,536
Lease liabilities included in the consolidated statement of financial position at December 31	**289,865**	324,902
Current	**67,850**	72,414
Non-Current	**222,015**	252,488

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 176.48 million (2020: SR 264.72 million) accrued as a result of Zakat settlement agreement entered into with ZATCA in respect of assessment years from 2006 to 2017. The amount is payable in two (2020: three) instalments as more fully explained in note 26.

16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 820 million (2020: 820 million) shares of SR 10 each.

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

	2021	2020
Saudi shareholders	**82.57%**	80.22%
Non-Saudi shareholder - National Bank of Pakistan (NBP)	**3.70%**	3.70%
Non-Saudi shareholders – others	**13.73%**	16.08%

17. STATUTORY RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 251.52 million has been transferred from net income (2020: SR 8.44 million). The statutory reserve is not available for distribution.

18. OTHER RESERVES

2021	**Cash flow hedges SR' 000**	**Fair value reserve – FVOCI debt SR' 000**	**Actuarial gains (note 29) SR' 000**	**Total SR' 000**
Balance at beginning of the year	**(158,638)**	**36,560**	**22,502**	**(99,576)**
Net change in fair value	**63,847**	**(78,509)**	**-**	**(14,662)**
Transfer to consolidated statement of income	**(12,100)**	**-**	**-**	**(12,100)**
Actuarial gains on employee benefit obligation	**-**	**-**	**11,786**	**11,786**
Net movement during the year	**51,747**	**(78,509)**	**11,786**	**(14,976)**
Balance at the end of the year	**(106,891)**	**(41,949)**	**34,288**	**(114,552)**

18. OTHER RESERVES (continued)

2020	Cash flow hedges SR' 000	Fair value reserve – FVOCI debt SR' 000	Actuarial gains (note 29) SR' 000	Total SR' 000
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)

19. TIER 1 SUKUK

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

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

The applicable profit rate is 3.95% per annum from date of issue up to 2026 and is subjected to reset every 5 years. The applicable profit on the Sukuks is payable semi-annual in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

20. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2021, 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, 2021, the Group had capital commitments of SR 121.57 million (2020: SR 87.61 million) in respect of the construction of branches and IT related projects.

20. 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 financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and, therefore, have significantly less credit risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by customers.

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot be readily quantified, is expected to be considerably less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Group’s credit related commitments and contingencies are as follows:

			(SR’000)		
2021	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**632,898**	**829,865**	**30,000**	**-**	**1,492,763**
Letters of guarantee	**2,966,846**	**1,453,665**	**201,724**	**23,050**	**4,645,285**
Acceptances	**245,223**	**-**	**-**	**-**	**245,223**
Irrevocable commitments to extend credit	**-**	**354,918**	**-**	**-**	**354,918**
Total	**3,844,967**	**2,638,448**	**231,724**	**23,050**	**6,738,189**
Allowance for impairment					**(408,090)**
Net exposure					**6,330,099**

20. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

2020	Within 3 months	3-12 months	(SR'000) 1-5 years	Over 5 years	Total
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 impairment					(371,087)
Net exposure					5,785,634

The outstanding unused portion of commitments as at December 31, 2021, which can be revoked unilaterally at any time by the Group, amounts to SR 8.47 billion (2020: SR 3.84 billion).

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

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Gross carrying amount as at 1 January 2021	**5,537,717**	**138,446**	**480,558**	**6,156,721**
Transfer to 12-month ECL	**78,715**	**(73,073)**	**(5,642)**	**-**
Transfer to lifetime ECL not credit – impaired	**(36,249)**	**36,249**	**-**	**-**
Transfer to lifetime ECL credit – impaired	**(116,121)**	**(31,823)**	**147,944**	**-**
New financial assets originated or purchased	**792,465**	**10,866**	**-**	**803,331**
Financial assets derecognised during the year	**(297,705)**	**(2,628)**	**(13,375)**	**(313,708)**
Other movements	**141,060**	**(9,819)**	**(39,396)**	**91,845**
Gross carrying amount as at 31 December 2021	**6,099,882**	**68,218**	**570,089**	**6,738,189**

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

20. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

	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

iii) An analysis of changes in allowance for impairment for credit related commitments and contingencies is as follows:

	2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
ECL as at January 1, 2021	**27,788**	**6,547**	**336,752**	**371,087**
Transfer to 12-month ECL	**1,217**	**(556)**	**(661)**	**-**
Transfer to lifetime ECL not credit – Impaired	**(95)**	**95**	**-**	**-**
Transfer to lifetime ECL credit impaired	**(4,100)**	**(2,321)**	**6,421**	**-**
Net re-measurement of loss allowance	**(11,083)**	**4,265**	**53,015**	**46,197**
New financial assets originated or purchased	**1,730**	**163**	**-**	**1,893**
Financial assets that have been derecognized	**(1,888)**	**(40)**	**(9,159)**	**(11,087)**
ECL as at December 31, 2021	**13,569**	**8,153**	**386,368**	**408,090**

20. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

	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	27,788	6,547	336,752	371,087

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

	2021 SR'000	2020 SR'000
Government and quasi government	**204,918**	468,455
Corporate	**6,481,854**	5,681,555
Banks and other financial institutions	**51,417**	6,711
	6,738,189	6,156,721
Allowance for impairment	**(408,090)**	(371,087)
Total	**6,330,099**	5,785,634

d) Operating lease commitments

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

	2021 SR'000	2020 SR'000
Less than 1 year	**4,308**	4,665
1 to 5 years	**1,944**	420
Total	**6,252**	5,085

21. NET FINANCING AND INVESTMENT INCOME

	2021 SR'000	2020 SR'000
Income from investments and financing		
Financing	**2,174,717**	2,262,511
Investments held at amortised cost	**749,170**	806,098
Investments held at FVOCI	**61,555**	25,702
Shariah compliant derivatives	**45,966**	71,021
Due from banks and other financial institutions	**2,918**	14,709
Total	**3,034,326**	3,180,041
Return on deposits and financial liabilities		
Customers' deposits	**269,077**	491,231
Due to banks and other financial institutions	**29,031**	128,243
Shariah compliant derivatives	**70,543**	80,679
Subordinated Sukuk	**27,439**	72,274
Finance cost on leased assets	**12,246**	15,465
Others	**950**	1,813
Total	**409,286**	789,705
Net financing and investment income	**2,625,040**	2,390,336

All of the Group's income from investments and financing and return on deposits and financial liabilities is from Shari'ah approved products.

22. FEES FROM BANKING SERVICES, NET

	2021 SR'000	2020 SR'000
Fees from banking services - income		
Local share trading	**333,932**	310,289
Cards business	**318,875**	282,704
Loan commitment and management fees	**177,607**	136,238
Fees from remittance business	**71,811**	105,888
Mutual funds fees	**55,790**	49,758
International share trading	**54,259**	43,921
Trade finance	**42,972**	43,530
Investment banking	**36,596**	22,702
Others	**43,026**	30,177
Total fees from banking services	**1,134,868**	1,025,207
Fees from banking services - expense		
Brokerage fees	**(191,233)**	(168,217)
Cards related expenses	**(240,712)**	(189,928)
Financing related expenses	**(33,811)**	(33,247)
Mutual funds related expenses	**(16,059)**	(11,922)
International share trading	**(13,922)**	(13,381)
Remittance business fee expense	**(658)**	(1,004)
Total fees expense on banking services	**(496,395)**	(417,699)
Total	**638,473**	607,508

23. NET (LOSS) / GAIN ON FVIS FINANCIAL INSTRUMENTS

	2021 SR'000	2020 SR'000
Mutual funds	**4,045**	9,404
Equities	**965**	412
Derivatives	**(16,623)**	-
Total	**(11,613)**	9,816

Net (loss) / gain on FVIS financial instruments includes net unrealized loss of SR 9.10 million (2020: SR 9 million).

24. OTHER OPERATING INCOME

	2021 SR'000	2020 SR'000
Gain on transfer of Takaful business	**-**	17,034
Gain on sale of other real estate	**1,003**	139
Gain on sale of property and equipment	**168**	7
Others	**10,965**	15,230
Total	**12,135**	32,410

25. EARNINGS PER SHARE

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

	2021 SR'000	2020 SR'000
Profit attributable to ordinary share holders		
(adjusted for Tier 1 sukuk related costs)		
For basic and diluted earnings per share	**966,761**	33,754
	Shares	Shares
Weighted-average number of ordinary shares		
For basic and diluted earnings per share	**820,000,000**	820,000,000
Basic and diluted earnings per share (in SR)	**1.18**	0.04

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

26. ZAKAT AND INCOME TAX

	2021 SR'000	2020 SR'000
Zakat		
Current year	**138,390**	6,612
Prior year	**17**	(6,326)
	138,407	286
Income tax		
Current year	**8,448**	441
Prior year	**266**	(3,286)
	8,714	(2,845)
Total	**147,121**	(2,559)

Status of assessments:

During 2018, the Bank reached a Settlement Agreement (the "Agreement") with Zakat, Tax and Customs Authority [ZATCA] to comply with the directives provided by Royal Decree No. (26/M) dated 20 Rabi Al-Awaal 1440 H (28 November 2018) and the Ministerial Resolution No. 1260 dated 5 Rabi Al-Thani 1440 H (12 December 2018), in order to settle outstanding Zakat liabilities for the years from 2006 to 2017 against a full and final payment of SR 551 million, payable in 6 instalments over a period of 5 years ending 1 December 2023. The Bank paid the first instalment of SR 110 million in December 2018 and three instalments of SR 88.2 million each during the month of November 2019, November 2020 and November 2021 respectively. Under the Agreement, the Bank and ZATCA also agreed to settle Zakat for the year 2018 in accordance with the settlement framework provided by the Royal Decree and the Ministerial Resolution. As a result of the Agreement, all Zakat related disputes between the Bank and the ZATCA pertaining to the years 2006 to 2017 stand resolved.

During the year 2020, the Bank received VAT assessment for the years 2018 and 2019 with an additional VAT of SR 39.3 million and associated delay fines amounting to SR 63.9 million. The Bank objected to the imposition of additional VAT and associated delay fines with the GSTC as a result of which one of the assessment point was dropped by ZATCA which resulted in a reduction of the overall liability to approximately SR 37 million. Subsequently, however, the Bank decided to settle the additional tax of SR 39.3 million "under protest" in order to avail the amnesty so that associated delay fines are waived.

During the year 2020, the Bank received an Income Tax assessment for the years 2015 through 2018 which was accepted as a whole and an additional tax of SR 2.6 million was settled in order to avail the benefit of amnesty period. As a result of this, tax related disputes between the Bank and the ZATCA pertaining to years up to 2018 stand resolved. The Bank has filed its Zakat and Income Tax returns with the ZATCA and paid Zakat and Income Tax for the years up to and including the year 2020, except for the amounts agreed as a liability under the Agreement which will be paid to ZATCA as and when they fall due.

27. DIVIDENDS

During the current year, the Bank paid interim cash dividend of SR 287 million equal to SR 0.35 per share (2020: final cash dividend of SR 246 million equal to SR 0.3 per share for year ended December 31, 2019), net of Zakat. This dividend was calculated based on 820 million shares.

Further, subsequent to the year end, the Board of Directors in their meeting held on 7 February 2022 approved a dividend payment of SR 287 million equal to SR 0.35 per share for the second half of 2021, net of Zakat. The impact of this will be reflected in the consolidated financial statements for the year ending 31 December 2022.

28. CASH AND CASH EQUIVALENTS

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

	2021 **SR'000**	2020 SR'000
Cash and balances with SAMA, excluding statutory deposit (note 4)	**1,074,988**	1,647,870
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	**665,048**	428,473
Total	**1,740,036**	2,076,343

29. EMPLOYEE BENEFIT OBLIGATION

29.1 Defined Benefit obligation

a) General description

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

b) The amounts recognized in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2021 **SR'000**	2020 SR'000
Defined benefit obligation at the beginning of the year	**279,701**	273,833
Charge for the year	**49,820**	34,071
Finance cost	**5,479**	6,547
Benefits paid	**(33,939)**	(30,347)
Remeasurements	**(11,786)**	(4,403)
Defined benefit obligation at the end of the year	**289,275**	279,701

29. EMPLOYEE BENEFIT OBLIGATION (continued)

29.1 Defined Benefit obligation (continued)

c) Amounts recognized in statement of income

	2021 **SR'000**	2020 SR'000
Current service cost	**34,157**	34,071
Past service cost	**15,663**	-
	49,820	34,071

d) Re-measurement recognised in consolidated other comprehensive income

	2021 **SR'000**	2020 SR'000
Changes in experience assumptions	**(6,434)**	(3,835)
Changes in financial assumptions	**(5,352)**	(568)
	(11,786)	(4,403)

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

	2021	2020
Discount rate	2.50%p.a	2.11%p.a
Expected rate of salary increase	2.25%p.a	2.11%p.a
Withdrawal rate	8%p.a	8%p.a
Average duration	7.61 years	7.79 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:

		2021 SR'000	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1%	**(20,487)**	**23,378**
Expected rate of salary increase	1%	**24,720**	**(22,040)**
Withdrawal rate	10%	**(3,040)**	**3,389**

		2020 SR'000	
	Change in assumption	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

29. EMPLOYEE BENEFIT OBLIGATION (continued)

29.1 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, 2021	**31,239**	**25,371**	**70,601**	**227,216**	**354,427**
December 31, 2020	36,582	23,492	67,364	203,202	330,640

h) The expected contribution for next year amounts to SR 39.77 million (2020: SR 36.48 million) comprising of service cost and finance cost.

29.2 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 44.77 million (2020: SR 44.18 million).

30. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (Chief Executive Officer) in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

For management reporting purposes, the Group is organized into following main operating segments:

Personal banking
Deposit, credit and investment products for individuals.

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

Treasury
Treasury includes money market, foreign exchange, trading and treasury services.

Brokerage and asset management
Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

30. OPERATING SEGMENTS (continued)

Others
Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

2021	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Others	Total
Total assets	34,768,520	28,579,132	36,691,354	2,577,924	210,391	102,827,321
Total liabilities	49,372,448	27,578,632	10,506,992	1,474,930	(752)	88,932,250
Total operating income	1,912,639	680,043	861,750	311,223	(218,490)	3,547,165
of which:						
- Net financing and investment income	1,453,098	556,586	580,944	41,903	(7,491)	2,625,040
- Fees from banking services, net	307,355	97,929	341	260,189	(27,341)	638,473
- Net (loss) / gain on FVIS financial instruments	(9,994)	(5,154)	(1,475)	6,354	(1,344)	(11,613)
Total operating expenses	(1,141,760)	(984,484)	(140,859)	(177,629)	3,364	(2,441,368)
of which - Impairment charge for financing and other financial assets, net	(4,332)	(620,121)	(113)	-	-	(624,566)
- Impairment charge for other real estate	-	(46,913)	-	-	-	(46,913)
- Depreciation and amortisation	(141,127)	(29,929)	(16,072)	(11,595)	-	(198,723)
Share in net income of an associate	-	-	-	1,144	6,866	8,010
Net income / (loss) before Zakat and income tax	770,879	(304,441)	720,891	134,738	(168,870)	1,153,197

30. OPERATING SEGMENTS (continued)

2020	Personal banking	Corporate banking	Treasury	Brokerage and asset management	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
of which:						
- Net financing and investment income	1,118,646	498,728	802,941	40,158	(70,137)	2,390,336
- Fees from banking services, net	320,046	87,188	(496)	233,540	(32,770)	607,508
- Net gain on FVIS financial instruments	-	-	-	9,816	-	9,816
Total operating expenses	(1,091,008)	(1,679,980)	(324,045)	(140,855)	(36,315)	(3,272,203)
of which: - Impairment charge for financing and other financial assets, 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)
Share in net income of an associate	-	-	-	2,326	13,953	16,279
Net income / (loss) before Zakat and income tax	596,949	(1,074,683)	728,863	143,424	(363,358)	31,195

30. OPERATING SEGMENTS (continued)

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

	(SR'000)				
2021	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Total**
Assets	**32,456,164**	**28,026,271**	**1,945,957**	**31,831,714**	**94,260,106**
Commitments and contingencies	**-**	**5,707,874**	**-**	**-**	**5,707,874**
Derivatives				**129,841**	**129,841**

	(SR'000)				
2020	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Total
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

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.

31. FINANCIAL RISK MANAGEMENT

31.1 Credit Risk

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has set up Board Risk Committee (BRC) which has the responsibility to monitor the overall risk process within the Bank.

The BRC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The BRC is responsible for supervising risk management decisions and monitoring risk levels and reviewing Risk Management reports / Dashboards on a regular basis. BRC is mandated to escalate to the Board any risk management issue which warrants attention of the Board of Directors of the Bank.

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to financing, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as credit related commitments.

The Group assesses the probability of default of counterparties using internal rating tools. Also, the Group uses the external ratings, of the major rating agency, where available.

31. FINANCIAL RISK MANAGEMENT (continued)

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

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

The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6. For details of the composition of financing refer to note 7. Information on credit risk relating to shari'ah compliant derivative instruments is provided in note 11 and for commitments and contingencies in note 20. The information on Bank's maximum credit exposure by business segment is given in note 30.

31. FINANCIAL RISK MANAGEMENT (continued)

31.1 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%

31. FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit quality analysis

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

	December 31, 2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Due from banks and other financial institutions				
Investment grade	**575,071**	**-**	**-**	**575,071**
Non-investment grade	**50,043**	**-**	**-**	**50,043**
Unrated	**36,718**	**-**	**3,216**	**39,934**
	661,832	**-**	**3,216**	**665,048**
Allowance for ECL	**(1,546)**	**-**	**-**	**(1,546)**
Carrying amount	**660,286**	**-**	**3,216**	**663,502**
Financing to customers at amortized cost				
Low – fair risk	**57,840,055**	**-**	**-**	**57,840,055**
Watch list	**-**	**3,429,865**	**2,423,438**	**5,853,303**
Default	**-**	**-**	**1,379,115**	**1,379,115**
	57,840,055	**3,429,865**	**3,802,553**	**65,072,473**
Allowance for ECL	**(170,741)**	**(222,807)**	**(2,244,449)**	**(2,637,997)**
Carrying amount	**57,669,314**	**3,207,058**	**1,558,104**	**62,434,476**

	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

31. FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit quality analysis (continued)

	December 31, 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Financing to customers at amortized cost				
Low – fair risk	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

a) The following table sets out information about the credit quality of financing to customers at amortized cost on a product basis.

	December 31, 2021			
Credit cards	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Financing to customers at amortized cost				
Low – fair risk	**667,449**	**-**	**-**	**667,449**
Watch list	**-**	**18,096**	**-**	**18,096**
Default	**-**	**-**	**60,130**	**60,130**
	667,449	**18,096**	**60,130**	**745,675**
Allowance for ECL	**(24,883)**	**(1,656)**	**(39,084)**	**(65,623)**
Carrying amount	**642,566**	**16,440**	**21,046**	**680,052**

	December 31, 2020			
Credit cards	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Financing to customers at amortized cost				
Low – fair risk	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

31. FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit quality analysis (continued)

	December 31, 2021			
Consumer financing	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		(SR'000)		
Financing to customers at amortized cost				
Low – fair risk	**27,612,644**	**-**	**-**	**27,612,644**
Watch list	**-**	**214,325**	**-**	**214,325**
Default	**-**	**-**	**264,663**	**264,663**
	27,612,644	**214,325**	**264,663**	**28,091,632**
Allowance for ECL	**(65,668)**	**(1,620)**	**(158,282)**	**(225,570)**
Carrying amount	**27,546,976**	**212,705**	**106,381**	**27,866,062**

	December 31, 2020			
Consumer financing	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
		(SR'000)		
Financing to customers at amortized cost				
Low – fair risk	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, 2021			
Commercial financing	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		(SR'000)		
Financing to customers at amortized cost				
Low – fair risk	**29,223,126**	**-**	**-**	**29,223,126**
Watch list	**-**	**3,197,444**	**2,423,438**	**5,620,882**
Default	**-**	**-**	**1,054,322**	**1,054,322**
	29,223,126	**3,197,444**	**3,477,760**	**35,898,330**
Allowance for ECL	**(79,634)**	**(219,531)**	**(2,047,083)**	**(2,346,248)**
Carrying amount	**29,143,492**	**2,977,913**	**1,430,677**	**33,552,082**

31. FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit quality analysis (continued)

	December 31, 2020			
Commercial financing	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Financing to customers at amortized cost				
Low – fair risk	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

The following table sets out information about the credit quality debt investments and commitments and contingencies.

	December 31, 2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Debt investment securities at amortized cost				
Low – fair risk	**27,109,838**	**-**	**-**	**27,109,838**
Allowance for ECL	**(6,186)**	**-**	**-**	**(6,186)**
Carrying amount	**27,103,652**	**-**	**-**	**27,103,652**
Debt investment securities at FVOCI				
Low – fair risk	**4,058,901**	**-**	**-**	**4,058,901**
Allowance for ECL	**(425)**	**-**	**-**	**(425)**
Carrying amount	**4,058,476**	**-**	**-**	**4,058,476**

	December 31, 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Debt investment securities at amortized cost				
Low – fair risk	28,340,616	-	-	28,340,616
Allowance for ECL	(6,498)	-	-	(6,498)
Carrying amount	28,334,118	-	-	28,334,118
Debt investment securities at FVOCI				
Low – fair risk	1,113,319	-	-	1,113,319
Allowance for ECL	-	-	-	-
Carrying amount	1,113,319	-	-	1,113,319

31. FINANCIAL RISK MANAGEMENT (continued)

31.2 Credit quality analysis (continued)

	December 31, 2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
Commitments and contingencies				
Low – fair risk	**6,099,882**	**-**	**-**	**6,099,882**
Watch list	**-**	**68,218**	**457,673**	**525,891**
Default	**-**	**-**	**112,416**	**112,416**
	6,099,882	**68,218**	**570,089**	**6,738,189**
Allowance for ECL	**(13,569)**	**(8,153)**	**(386,368)**	**(408,090)**
Carrying amount (net of provision)	**6,086,313**	**60,065**	**183,721**	**6,330,099**

	December 31, 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
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

31.3 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 it's financing into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

31. FINANCIAL RISK MANAGEMENT (continued)

31.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

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

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

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective yield rate. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

a) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Significant increase in credit risk is also evaluated based on the credit monitoring framework, including decrease in internal rating and macroeconomic factors and is subject to management overrides.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Due dates are determined without considering any grace period that might be available to the borrower. The Group monitors the effectiveness of the criteria used to identify SICR by regular reviews to confirm that:

- the criteria are capable of identifying SICR before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in ECL from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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 41 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.

31. 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 behaviour – 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

31. FINANCIAL RISK MANAGEMENT (continued)

31.3 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 analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, oil prices, real wages and unemployment rates. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the credit risk managers and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

c) Definition of 'Default'

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Group considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

31. FINANCIAL RISK MANAGEMENT (continued)

31.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

d) Modified financial assets

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing whose terms have been modified may be derecognized and the renegotiated financing recognized as a new financing at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financings to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, financing forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants. Both retail and corporate financing are subject to the forbearance/remedial policy. The Bank Board Risk Committee regularly reviews reports on forbearance activities.

The following 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 41.

	2021 **SR '000**	2020 SR '000
Financial assets modified during the year		
Amortized cost before modification	**1,774,525**	882,566
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	**192,381**	15,017

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect profit and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a SICR and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the ECL reverts to being measured at an amount equal to 12-month ECL.

31. FINANCIAL RISK MANAGEMENT (continued)

31.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

d) Modified financial assets (continued)

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark profit rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of profit rate benchmark reform, then the Group updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by profit rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by profit rate benchmark reform, the Group first updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by profit rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in profit rate when remeasuring a lease liability because of a lease modification that is required by profit rate benchmark reform.

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, 2021 included the following key indicators.

31. FINANCIAL RISK MANAGEMENT (continued)

31.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

e) Incorporation of forward looking information (continued)

- GDP
- Oil prices
- Unemployment rates
- Real wages / inflation rate

Predicted relationships between the key indicators and default / loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years. The Group has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2021 ECL model			Forecast calendar years used in 2020 ECL model		
	2022	**2023**	**2024**	**2021**	**2022**	**2023**
GDP	2773.25	2828.54	2,893.17	2656.70	2730.20	2794.43
Brent oil prices	65.88	64.24	64.85	53.22	61.59	63.77
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:

2021	**Due from Banks and investments**	**Financing**	**credit related commitment and financial guarantees**	**Total**
		SR '000'		
Most likely	**8,157**	**2,637,997**	**408,090**	**3,054,244**
More optimistic (Upside)	**7,917**	**2,264,409**	**372,106**	**2,644,433**
More pessimistic (Downside)	**10,348**	**3,030,056**	**486,502**	**3,526,906**

2020	Due from Banks and investments	Financing	credit related 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

31. FINANCIAL RISK MANAGEMENT (continued)

31.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

e) Measurement of ECL

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

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD for each line of business based on expert judgment and historical experience The Bank has made an assessment of the data driven approaches for LGD. However, on account of data limitations and associated challenges, the Bank uses regulatory LGD benchmarks, based on Basel guidelines and LGD estimates determined in line with National Credit Data Pooling Consortium report.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a credit related commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a financing and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a financing with fixed repayment terms.

31. FINANCIAL RISK MANAGEMENT (continued)

31.3 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 year-end:

Assumptions sensitized	**Statement of income Impact (2021) (SR '000)**
Macro-economic factors:	
Decrease in $10 oil price per barrel	159,049
Decrease in $20 oil price per barrel	318,098
Decrease in GDP by 5%	84,928
Increase in inflation by 10%	169,857

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV (financing to value) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Grouping is subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

		External benchmarks used	
	Exposure (SR '000)	PD	LGD
Due from Banks and other financial institutions	**663,502**	Moody's / FITCH – lower of the two ratings for each bank is considered for assignment of Risk Weights under Standardised Approach	N/A

31. FINANCIAL RISK MANAGEMENT (continued)

31.4 Ageing of financing (past due but not impaired)

	2021 (SR '000)			
	Credit Cards	**Consumer financing**	**Commercial financing**	**Total**
From 1 day to 30 days	**17,736**	**753,676**	**33,481**	**804,893**
From 31 Days to 90 days	**13,972**	**205,214**	**15,803**	**234,989**
From 91 Days to 180 days	**-**	**130**	**60,478**	**60,608**
More than 180 days	**-**	**-**	**471,433**	**471,433**
Total financing	**31,708**	**959,020**	**581,195**	**1,571,923**

	2020 (SR '000)			
	Credit Cards	Consumer financing	Commercial financing	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 financing	33,100	1,318,874	756,141	2,108,115

31.5 Economic Sector risk concentration

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

31. FINANCIAL RISK MANAGEMENT (continued)

31.6 Collateral

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

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

	2021 **SR'000**	2020 SR'000
Less than 50%	**55,995**	44,605
51-70%	**29,532**	25,065
More than 70%	**877,331**	477,565
Total	**962,858**	547,235

31.7 Maximum credit exposure

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

	2021 **SR'000**	2020 SR'000
Assets		
Due from banks and other financial institutions (note 5)	**663,502**	426,138
Investments at FVOCI (note 6)	**4,058,476**	1,113,319
Investments at amortised cost (note 6)	**27,103,652**	28,334,118
Financing, net (note 7)	**62,434,476**	53,961,211
Other assets - margin deposits against financial instruments (note 10)	**165,656**	152,531
Total assets	**94,425,762**	83,987,317
Contingencies and commitments, net (note 20)	**6,330,099**	5,785,634
Derivatives - positive fair value (note 11)	**12,058**	135,224
Total maximum exposure	**100,767,919**	89,908,175

32. 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)						
2021	**Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other countries**	**Total**
Financial Assets							
Cash and balances with SAMA							
Cash in hand	**969,993**	-	-	-	-	-	**969,993**
Balances with SAMA	**4,416,878**	-	-	-	-	-	**4,416,878**
Due from Banks and other financial institutions							
Current accounts	**27,017**	**61,519**	**114,730**	**391,974**	**18,251**	**33,120**	**646,611**
Money market placements	**16,891**	-	-	-	-	-	**16,891**
Investments							
Held as FVIS	**260,173**	-	-	**6,619**	-	-	**266,792**
Held as FVOCI	**3,925,874**	**136,932**	**555**	-	-	-	**4,063,361**
Held at amortised cost	**27,103,652**	-	-	-	-	-	**27,103,652**
Positive fair value of derivatives							
Held for trading	**5,856**	**956**	**421**	-	-	-	**7233**
Held as cash flow hedges	**4,825**	-	-	-	-	-	**4,825**
Financing, net							
Credit Cards	**680,052**	-	-	-	-	-	**680,052**
Consumer Financing	**27,866,062**	-	-	-	-	-	**27,866,062**
Commercial Financing	**32,558,905**	**568,673**				**424,504**	**33,552,082**
Others	**336,280**	-	-	-	-	-	**336,280**
Investment in an associate	**211,143**	-	-	-	-	-	**211,143**
Other assets	**764,347**	-	**165,656**	-	-	-	**930,003**
Total	**99,147,948**	**768,080**	**281,362**	**398,593**	**18,251**	**457,624**	**101,071,858**

32. GEOGRAPHICAL CONCENTRATION (continued)

	(SR'000)						
2021	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial liabilities							
Due to banks and other financial institutions							
Current accounts	93,385	57,739	42,779	224	-	41,859	235,986
Money market deposits	4,772,371	782,175	-	-	330,440	-	5,884,986
Repo agreement borrowing	-	-	289,108	-	-	-	289,108
Customer deposits							
Demand	38,470,738	33,750	21	-	-	116	38,504,625
Saving	983,845	-	-	-	-	-	983,845
Customers' time investments	37,057,540	-	-	-	-	-	37,057,540
Other	1,818,739	-	-	-	-	400	1,819,139
Negative fair value of derivatives							
Held for trading	4,870	1,430	14,666	-	-	20	20,986
Held as cash flow hedges	23,368	42,577	140,378	-	-	-	206,323
Subordinated Sukuk	1,994,685	-	-	-	-	-	1,994,685
Other liabilities	1,592,822	-	-	-	-	-	1,592,822
Total	86,812,363	917,671	486,952	224	330,440	42,395	88,590,045
Commitments and Contingencies							
Letters of credit	1,492,763	-	-	-	-	-	1,492,763
Letters of guarantee	4,457,756	139,895	11,275	34,946	1,125	288	4,645,285
Acceptances	245,223	-	-	-	-	-	245,223
Irrevocable commitments to extend credit	150,000	110,806	-	-	-	94,112	354,918
	6,345,742	250,701	11,275	34,946	1,125	94,400	6,738,189
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	746,382	-	-	-	-	-	746,382
Letters of guarantee	4,457,756	139,895	11,275	34,946	1,125	288	4,645,285
Acceptances	245,223	-	-	-	-	-	245,223
Irrevocable commitments to extend credit	30,000	22,161	-	-	-	18,822	70,983
Derivatives							
Held for trading	45,527	4	44,692	-	-	-	90,223
Held for hedging	35,671	101	3,846	-	-	-	39,618
	5,560,559	162,161	59,813	34,946	1,125	19,110	5,837,714

32. GEOGRAPHICAL CONCENTRATION (continued)

	(SR'000)						
2020	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	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
Financing, net							
Credit Cards	687,376	-	-	-	-	-	687,376
Consumer Financing	26,498,498	-	-	-	-	-	26,498,498
Commercial Financing	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	89,184,020	162,944	340,627	98,016	37,468	564,821	90,387,896

32. GEOGRAPHICAL CONCENTRATION (continued)

	(SR'000)						
2020	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
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
Customers' time investments	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

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.

32. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing financing and allowance for impairment are as follows:

	Non-performing financing, net		Allowance for impairment	
	2021	2020	**2021**	2020
	SR' 000	SR' 000	**SR' 000**	SR' 000
Kingdom of Saudi Arabia				
Credit cards	**60,130**	55,679	**65,623**	63,908
Consumer financing	**264,663**	168,344	**225,570**	211,871
Commercial financing	**1,054,322**	1,017,934	**2,341,454**	1,917,218
Others	-	-	**556**	-
	1,379,115	1,241,957	**2,633,203**	2,192,997
GCC and Middle East				
Commercial financing	**-**	-	**2,201**	-
Other countries				
Commercial financing	**-**	-	**2,593**	-
Total	**1,379,115**	1,241,957	**2,637,997**	2,192,997

33. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as profit rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book is managed and monitored using Value at Risk (VaR) methodology and sensitivity analysis. The market risk for the non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK - TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Group periodically applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

33. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

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.

	2021	2020
	SR’000	SR’000
Foreign exchange rate		
VaR as at end of the year	**297**	298
Minimum VaR	**67**	175
Maximum VaR	**1,558**	1,979
Average VaR for the year	**415**	294

i) FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant exposure in its trading book, denominated in foreign currencies as at December 31:

	2021	2020
	SR’000	SR’000
US Dollar	**41,217**	41,573
Hong Kong Dollar	**3,019**	5,923
Taiwan Dollar	**3,200**	2,955

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.

33. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

Currency	2021		2020	
	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	± 0.31	± 128	± 0.60	± 249
Taiwan Dollar	± 7.42	± 237	± 3.11	± 92
Hong Kong Dollar	± 1.05	± 32	± 0.49	± 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:

	2021		2020	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in equity price %	Effect on consolidated statement of income SR'000
Global Emerging Market Fund	±18.17%	±2,750	± 4.40%	± 694
AlJazira GCC Income Fund	±10.35%	±575	± 10.61%	± 433
AlJazira Sukuk Fund	±2.04%	±774	± 4.34%	± 1,653
Others	±5.00%	±10,191	± 3.58%	± 13,788

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, 2021 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

33. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

ii) EQUITY PRICE RISK (continued)

	2021		2020	
Market index	**Increase / decrease in index %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in index %	Effect on consolidated statement of income SR'000
Tadawul	± 29.83%	± 1,297	± 3.58%	± 27

b) MARKET RISK – NON TRADING OR BANKING BOOK

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

i) PROFIT RATE RISK

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group's Market Risk Policy Committee (MRPC) has established limits on the profit rate gap. Positions are monitored on a daily basis and reported regularly to senior management and MRPC to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to MRPC more frequently.

The following table depicts the sensitivity due to reasonably possible changes in profit rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in profit rates on the net financing and investment income for one year, based on the profit bearing non-trading financial assets and financial liabilities held as at December 31, 2021 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.

33. MARKET RISK (continued)

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

i) PROFIT RATE RISK (continued)

Currency	**2021**		2020	
	Increase / decrease in basis points	**Sensitivity of income from investments and financing SR'000**	Increase / decrease in basis points	Sensitivity of income from investments and financing SR'000
SR	± 25	± 17,747	± 25	± 20,104
USD	± 25	± 1,387	± 25	± 2,114
INR	± 25	± 4	± 25	± 9
PKR	± 25	± 1	± 25	± 3
AED	± 25	± 96	± 25	± 44

2021

Currency	**Increase in basis points**	**Sensitivity income from investments and financing**	**Sensitivity of equity: 6 months or less**	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SR	± 25	±17,747	±11,236	±6,511	±(29,193)	±81,933	± 70,487
USD	± 25	± 1,387	± 18	±1,369	± 6,407	±(4,460)	± 3,334
INR	± 25	± 4	± 4	-	-	-	± 4
PKR	± 25	± 1	± 1	-	-	-	± 1
AED	± 25	± 96	± 54	±42	± 258	± 99	± 453

2020

Currency	**Increase in basis points**	**Sensitivity income from investments and financing**	**Sensitivity of equity: 6 months or less**	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SR	± 25	±20,104	±7,052	±13,052	±54,776	±96,864	±171,744
USD	± 25	± 2,114	± 1,697	± 417	± 7,148	±10,418	± 19,680
INR	± 25	± 9	± 9	-	-	-	± 9
PKR	± 25	± 3	± 3	-	-	-	± 3
AED	± 25	± 44	± 19	±25	± 13	± 7	± 64

33. MARKET RISK (continued)

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

i) PROFIT RATE RISK (continued)

Profit rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The table below summarizes the Group's exposure to profit rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	(SR'000)						
2021	Within 3 months	3-12 months	1-5 years	Over 5 years	Non profit bearing	Total	Effective profit rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	969,993	969,993	-
Balances with SAMA	104,995	-	-	-	4,311,883	4,416,878	0.5%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	646,611	646,611	-
Money market placements	16,875	-	-	-	16	16,891	0.67%
Investments							
Held as FVIS					266,792	266,792	-
Held as FVOCI	-	-	208,703	3,814,675	39,983	4,063,361	2.95%
Held at amortised cost	-	-	6,375,980	20,524,222	203,450	27,103,652	3.20%
Positive fair value of derivatives							
Held for trading	-	-	-	-	7,233	7,233	-
Held as cash flow hedges	-	-	-	-	4,825	4,825	-
Financing, net							
Credit cards	680,052	-	-	-	-	680,052	25.12%
Consumer Financing	2,621,573	4,309,987	8,927,951	11,893,717	112,834	27,866,062	4.08%
Commercial Financing	15,160,658	18,208,669	-	-	182,755	33,552,082	2.84%
Others	-	-	-	-	336,280	336,280	-
Investment in an associate	-	-	-	-	211,143	211,143	-
Other real estate, net	-	-	-	-	507,743	507,743	-
Property and equipment, net	-	-	-	-	1,156,380	1,156,380	-
Other assets	-	-	-	-	1,021,343	1,021,343	-
Total assets	18,584,153	22,518,656	15,512,634	36,232,614	9,979,264	102,827,321	

33. MARKET RISK (continued)

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

i) PROFIT RATE RISK (continued)

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

2021	Within 3 months	3-12 months	1-5 years	Over 5 years	Non profit bearing	Total	Effective profit rate
	(SR'000)						
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	235,986	235,986	-
Money market deposits	3,612,375	-	-	-	2,272,611	5,884,986	0.66%
Repo agreement borrowings	-	288,671	-	-	437	289,108	0.74%
Customer deposits							
Demand	-	-	-	-	38,504,625	38,504,625	-
Saving	983,845	-	-	-	-	983,845	0.50%
Customers' time investments	27,337,550	9,662,286	3,365	-	54,339	37,057,540	0.98%
Other	-	-	-	-	1,819,139	1,819,139	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	20,986	20,986	-
Held as cash flow hedges	-	-	-	-	206,323	206,323	-
Subordinated Sukuk	-	1,991,422	-	-	3,263	1,994,685	2.45%
Other liabilities	-	-	-	-	1,935,027	1,935,027	-
Equity	-	-	-	-	13,895,071	13,895,071	-
Total liabilities and Equity	31,933,770	11,942,379	3,365	-	58,947,807	102,827,321	
Profit rate sensitivity of on consolidated statement of financial position gap	(13,349,617)	10,576,277	15,509,269	36,232,614	(48,968,543)		
Profit rate sensitivity of off consolidated statement of financial position gap	(2,218,125)	(360,000)	2,050,000	528,125	-	-	
Total profit rate sensitivity gap	(15,567,742)	10,216,277	17,559,269	36,760,739	(48,968,543)	-	
Cumulative profit rate sensitivity gap	(15,567,742)	(5,351,465)	12,207,804	48,968,543	-	-	

33. MARKET RISK (continued)

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

i) PROFIT RATE RISK (continued)

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

(SR'000)

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Non profit bearing	Total	Effective profit rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	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	-
Financing, net							
Credit cards	687,376	-	-	-	-	687,376	25.13%
Consumer Financing	1,619,991	4,834,876	12,842,717	7,057,290	143,624	26,498,498	4.46%
Commercial Financing	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	

33. MARKET RISK (continued)

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

i) PROFIT RATE RISK (continued)

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

(SR'000)

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Non profit bearing	Total	Effective profit rate
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%
Customers' time investments	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	
Profit rate sensitivity of on consolidated statement of financial position gap	2,093,825	4,213,040	25,352,995	16,286,862	(47,946,722)	-	
Profit rate sensitivity of off consolidated statement of financial position gap	750,625	-	(1,378,750)	628,125	-	-	
Total profit rate sensitivity gap	2,844,450	4,213,040	23,974,245	16,914,987	(47,946,722)	-	
Cumulative profit rate sensitivity gap	2,844,450	7,057,490	31,031,735	47,946,722	-	-	

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

33. 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:

	2021 SR' 000 Long / (Short)	2020 SR'000 Long /(Short)
USD	**997,718**	816,560
INR	**15,026**	42,963
PKR	**13,412**	16,000
AED	**4,246**	4,479

A long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2021. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2021**			2020		
	Increase / decrease in currency rate in %	**Effect on net income SR'000**	**Effect on equity SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000	Effect on equity SR'000
USD	±0.05	±499	± 499	±0.05	±541	± 408
INR	±0.05	± 8	± 8	±0.05	± 21	± 21
PKR	±0.05	± 7	± 7	±0.05	± 8	± 8
AED	±0.05	± 2	± 2	±0.05	± 2	± 2

34. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they become due, both under normal and stressful conditions. Market disruptions or credit downgrades can cause liquidity risk, making certain sources of funding less readily available. To mitigate this risk, management has diversified its funding sources beyond its core deposit base, manages assets with a focus on liquidity, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities, and monitors future cash flows and liquidity on a daily basis. In addition, the Bank has committed lines of credit that can be used to meet any liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the 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 94.8% of the value of debt securities issued by the government (Ministry of Finance), SAMA or guaranteed by government.

In addition, the Group keeps a Liquidity Contingency Funding Plan (CFP) in place to provide guidance to senior management. The CFP establishes early warning indicators to alert management of impending stress, establishes responsibilities, and describes the approach management may take at various stages of crisis severity.

a) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2021 and December 31, 2020 based on contractual undiscounted repayment obligations. As profit payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history and liquidity risk management policy.

34. LIQUIDITY RISK (continued)

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

	(SR' 000)						
	On demand	**with in 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Financial liabilities							
As at December 31, 2021							
Due to banks and other financial institutions							
Current accounts	**235,986**	**-**	**-**	**-**	**-**	**-**	**235,986**
Money market deposits	**-**	**3,615,951**	**-**	**2,270,381**	**-**	**-**	**5,886,332**
Repo agreement borrowing	**-**	**-**	**2,262**	**24,318**	**294,757**	**-**	**321,337**
Customers' deposits							
Demand	**38,504,625**	**-**	**-**	**-**	**-**	**-**	**38,504,625**
Saving	**983,845**	**-**	**-**	**-**	**-**	**-**	**983,845**
Customers' time investments	**-**	**27,407,229**	**9,719,598**	**3,562**	**-**	**-**	**37,130,389**
Other	**1,819,139**	**-**	**-**	**-**	**-**	**-**	**1,819,139**
Negative fair value of derivatives							
Held for trading	**-**	**3,270**	**2,686**	**13,265**	**1,765**	**-**	**20,986**
Held as cash flow hedges	**-**	**24,972**	**4,532**	**27,069**	**149,750**	**-**	**206,323**
Subordinated Sukuk	**-**	**-**	**49,681**	**198,858**	**2,248,539**	**-**	**2,497,078**
Other liabilities	**-**	**13,953**	**151,531**	**290,951**	**40,856**	**1,468,683**	**1,965,974**
Total undiscounted financial liabilities	**41,543,595**	**31,065,375**	**9,930,290**	**2,828,404**	**2,735,667**	**1,468,683**	**89,572,014**
Shari'ah compliant derivatives	**-**	**585,260**	**1,071,565**	**2,853,783**	**2,050,234**	**-**	**6,560,842**

	(SR' 000)						
	On demand	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities							
As at December 31, 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
Customers' time investments	-	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	-	-	56,372	225,643	2,028,109		2,310,124
Other liabilities	-	39,854	171,451	494,327	66,250	1,154,191	1,926,073
Total undiscounted financial liabilities	39,637,249	23,092,410	13,893,353	827,400	2,580,663	1,154,191	81,185,266
Shari'ah compliant derivatives	-	284,835	563,487	2,124,488	2,004,289	-	4,977,099

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 20 (d).

34. 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)

2021	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	969,993	969,993
Balances with SAMA	-	-	-	-	-	-	4,416,878	4,416,878
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	646,611	646,611
Money market placements	-	16,891	16,891	-	-	-	-	16,891
Investments								
Held as FVIS	-	-	-	-	-	-	266,792	266,792
Held as FVOCI	-	28,721	28,721	214,266	3,815,489	4,029,755	4,885	4,063,361
Held at amortised cost	-	1,639,069	1,639,069	14,627,153	10,837,430	25,464,583	-	27,103,652
Positive fair value of derivatives								
Held for trading	1,370	3,585	4,955	515	1,763	2,278	-	7,233
Held as cash flow hedges	4,825	-	4,825	-	-	-	-	4,825
Financing, net								
Credit cards	282,778	-	282,778	-	-	-	397,274	680,052
Consumer financing	84,166	138,408	222,574	12,741,672	14,901,816	27,643,488	-	27,866,062
Commercial financing	17,987,801	13,081,727	31,069,528	964,319	1,518,235	2,482,554	-	33,552,082
Others		336,280	336,280				-	336,280
Investment in an associate	-	-	-	-	-	-	211,143	211,143
Other real estate, net	-	-	-	-	-	-	507,743	507,743
Property and equipment, net	-	-	-	-	-	-	1,156,380	1,156,380
Other assets	81,073	74,176	155,249	-	-	-	866,094	1,021,343
Total assets	18,442,013	15,318,857	33,760,870	28,547,925	31,074,733	59,622,658	9,443,793	102,827,321

34. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2021	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	235,986	235,986
Money market deposits	601,857	3,012,748	3,614,605	2,270,381		2,270,381	-	5,884,986
Repo agreement borrowing	-	437	437	-	288,671	288,671	-	289,108
Customer deposits								
Demand	-	-	-	-	-	-	38,504,625	38,504,625
Saving	-	-	-	-	-	-	983,845	983,845
Customers' time investments	8,211,595	22,065,023	30,276,618	6,780,922		6,780,922		37,057,540
Other	-	-	-	-	-	-	1,819,139	1,819,139
Negative fair value of derivatives								
Held for trading	3,270	2,686	5,956	13,265	1,765	15,030	-	20,986
Held as cash flow hedges	24,972	4,532	29,504	27,069	149,750	176,819	-	206,323
Subordinated Sukuk	-	3,263	3,263	-	1,991,422	1,991,422	-	1,994,685
Other liabilities	11,318	144,772	156,090	273,987	36,267	310,254	1,468,683	1,935,027
Total liabilities	8,853,012	25,233,461	34,086,473	9,365,624	2,467,875	11,833,499	43,012,278	88,932,250

34. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2020	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	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
Financing, net								
Credit cards	267,471	-	267,471	-	-	-	419,905	687,376
Consumer financing	93,132	172,648	265,780	12,216,793	14,015,925	26,232,718	-	26,498,498
Commercial financing	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	14,946,248	10,429,431	25,375,679	26,182,851	31,692,248	57,875,099	8,838,096	92,088,874

34. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2020	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	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
Customers' time investments	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	5,574,149	21,949,028	27,523,177	9,874,755	2,535,003	12,409,758	40,791,440	80,724,375

35. 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:

	2021 (SR’000)		
	Level 1	**Level 2**	**Total**
Financial assets			
FVIS			
Mutual Funds	**-**	**262,443**	**262,443**
Equities	**4,349**	**-**	**4,349**
FVOCI			
Sukuks	**-**	**4,058,476**	**4,058,476**
Derivatives	**-**	**12,058**	**12,058**
Total	**4,349**	**4,332,977**	**4,337,326**
Financial liabilities			
Derivatives	**-**	**227,309**	**227,309**
Total	**-**	**227,309**	**227,309**

35. 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)

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

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options and profit rate swaps. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Profit rate swaps and options are fair valued using forward profit rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 3.

Investments amounting to SR 4.89 million (2020: SR 4.93 million) are carried at cost and, accordingly, are not fair valued.

35. 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 and level 3 fair value.

	Amortised cost	**Level 2**
Financial assets:		
Due from banks and other financial institutions	**663,502**	**663,433**
Investment held at amortised cost - net	**27,103,652**	**27,709,627**
Financing, net	**62,434,476**	**64,795,397**
Total	**90,201,630**	**93,168,457**
Financial liabilities:		
Due to banks and other financial institutions	**6,410,080**	**6,875,477**
Customers' deposits	**78,365,149**	**78,426,210**
Subordinated Sukuk	**1,994,685**	**1,994,685**
Total	**86,769,914**	**87,296,372**

	Amortised cost	Level 2
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
Financing, net	53,961,211	56,815,209
Total	82,721,467	86,356,669
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

The fair value of the cash and balances with SAMA, other assets and other liabilities approximate to their carrying amount. The fair values of level 2 financial instruments are estimated as at December 31, 2021 at the current applicable yield curve taking into account the counterparty risks and applicable market rate.

35. 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 2021 and 31 December 2020, as well as the significant unobservable inputs used.

Type	Accounting Classification	Valuation Technique	Significant unobservable Inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Mutual Fund units	FVIS	Fair valued using the quoted prices of underlying securities.	Not applicable	Not applicable
Investment held at FVOCI – Sukuk	FVOCI	Fair valued using the broker quoted prices or estimating present value by discounting cash flows using adjusted discount rate.	Not applicable	Not applicable
Forward exchange contracts (Wa'ad) and Profit rate swaps	FVIS	**Forward exchange contracts (Wa'ad)**: Fair valued using discounted Notional techniques that use observable market data inputs for Foreign Exchange (FX) and yield curves **Profit rate swaps:** The fair value is determined by discounting the future cash flows using observable market data inputs for yield curves.	Not applicable	Not applicable
Due from banks and other financial institutions, Financing, Due to banks and other financial institutions, Customer Deposits	Amortised Cost	**Market Data**: Used observable market data inputs for yield curves. **Fair value technique**: The fair value is determined by discounting the future cash flows. A discounted cash flow is the product of: • The anticipated nominal magnitude and sign of a cash flow. • The accumulated discount over the amount of time remaining until the anticipated time of the cash flow, at a rate of discount. The fair value is determined only for the Customers' time investments.	Not applicable	Not applicable
Investment held at amortised cost - net	Amortised Cost	Fair valued using the quoted prices, where available.	Not applicable	Not applicable

36. 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 on an arm's length basis. 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:

	2021 **SR' 000**	2020 SR' 000
Subsidiary companies		
Investments	**501,480**	501,480
Customer deposits	**13,937**	14,271
Due from banks and other financial institutions	**1,331,550**	698,548
Due to banks and other financial institutions	**290,658**	289,148
Receivables	**175,999**	155,320
Payables	**16,341**	41,055
Commitments and contingencies	**530,247**	530,247
Notional values of outstanding shari'ah compliant contracts	**4,271,339**	2,707,585
Associate and affiliate entities with significant influence		
Investments	**211,143**	164,136
Customer deposits	**87,223**	303,056
Accrued expenses payables	**-**	5,400
Accrued fee receivable	**-**	5,400
Contingencies and commitments	**7,280**	-
Directors, key management personnel, other major shareholders and their affiliates		
Financing	**441,221**	31,788
Customers' deposits	**5,341,214**	3,488,360
Contingencies and commitments	**6,948**	2,920

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

Mutual Funds under subsidiary's management		
Investments	**255,823**	251,244
Customers' deposits	**519,901**	47,049
Receivables	**214**	-

36. RELATED PARTY TRANSACTIONS (continued)

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

	2021 SR' 000	2020 SR'000
Income from investments and financing	**77,559**	57,631
Return on deposits and financial liabilities	**180,620**	201,357
Fees income	**2,537**	6,813
Fee expense	**9,053**	4,846
Net share of expenses to associate	**-**	5,400
Insurance premium	**50,329**	49,860
Surplus distribution received from associate	**-**	957
Claims received	**32,277**	25,290
Directors' remuneration	**8,134**	8,014
Income under shared service agreements	**3,391**	3,391
Reimbursement of expense to a subsidiary	**37**	78
Reimbursement of building related expense	**6,971**	7,591
Rent expense for branches	**768**	704
Sale of sukuk to an associate	**-**	22,353
Dividend paid	**7**	-
Participation in DMO sukuk auction for an associate	**99,251**	-
Face value of bonus shares received	**20,649**	-
Value of reserves and liabilities transferred to ATT for old Insurance portfolio	**-**	53,552

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

	2021 SR' 000	2020 SR'000
Short-term employee benefits	**105,480**	115,088
Termination benefits	**39,314**	38,942

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.

37. SALARIES AND EMPLOYEE RELATED EXPENSES

	2021			
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR' 000**	**Variable compensation (on cash basis) SR' 000**	**Total SR' 000**
Senior executives that require SAMA no objection	**24**	**39,612**	**14,571**	**54,183**
Employees involved in control functions	**330**	**106,576**	**15,700**	**122,276**
Employees involved in risk taking activities	**198**	**74,863**	**15,458**	**90,321**
Other employees	**2,086**	**519,942**	**76,578**	**596,520**
Outsourced employees	**539**	**77,783**	**33,600**	**111,383**
Total	**3,177**	**818,776**	**155,907**	**974,683**
Variable compensation (accrual basis)		**137,591**		
Other employee related benefits		**20,332**		
Total salaries and employee-related expenses		**976,699**		

37. SALARIES AND EMPLOYEE RELATED EXPENSES (continued)

	2020			
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR' 000	Variable compensation (on cash basis) SR' 000	Total 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	3,833	90,612
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		

The compensation and benefits program philosophy

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Group to keep abreast of the local and regional market conditions relating to the Group's staff employed in the Kingdom of Saudi Arabia, which are contrasted to cyclical performance levels and mitigated for any associate risks.

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

According to labour law of the Kingdom of Saudi Arabia and Group's internal policies, staff end of services benefits is due for payment at the end of an employee's period of services. The end of service benefits outstanding at December 31, 2021 amounted to SR 289.28 million (2020: SR 279.70 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.

38. 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.

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

As part of the latest SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two years' period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years.

The impact of these revised transitional arrangements to the Group's Tier 1 and Tier 1 + 2 ratio have been an improvement of 73 bips for the year ended December 31, 2021.

The following table summarizes the Group's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

	2021		2020	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Common Equity Tier 1 (CET 1) Capital	**12,763,118**	**18.30%**	12,159,294	19.41%
Additional Tier 1 (AT1) Capital	**1,875,000**	**-**	-	-
Tier I Capital	**14,638,118**	**20.99%**	12,159,294	19.41%
Supplementary capital (Tier 2)	**2,384,970**	**-**	2,633,778	-
Core and supplementary capital (Tier 1 + Tier 2)	**17,023,088**	**24.41%**	14,793,072	23.62%

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.

38. CAPITAL ADEQUACY (continued)

The Group seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the Bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans, ICAAP and ILAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the Bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the Group to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2021 **SR '000**	2020 SR '000
Credit risk	**62,154,881**	55,360,267
Operational risk	**5,993,235**	5,496,895
Market risk	**1,593,934**	1,775,940
Total pillar-1 – risk weighted assets	**69,742,050**	62,633,102

39. 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. Fourteen 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 2 and AlJazira Mawten REIT Fund. All of the above are open ended funds except for AlJazira Residential Projects Fund 2 which is closed-ended fund 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.

39. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES (continued)

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 81.4 billion (2020: SR 68.3 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 6.9 billion (2020: SR 5.7 billion).

40. 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	Mutual Funds managed by AlJazira Capital Company (Subsidiary of the Bank AlJazira)	**% of holding**	**SR '000**
	AlJazira Saudi Riyal Murabaha Fund	4.30%	4,264,315
	AlJazira Dawaween Fund	2.76%	513,317
	AlJazira Global Emerging Markets Fund	18.96%	81,554
	AlJazira Sukuk Fund	40.06%	95,052
	AlJazira GCC Income Fund	8.13%	69,055
	AlJazira Residential Projects Fund 2	13.05%	29,123

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
AlJazira Saudi Riyal Murabaha Fund	183,209
AlJazira Sukuk Fund	37,937
AlJazira Global Emerging Markets Fund	15,132
AlJazira Residential Projects Fund 2	3,450
AlJazira GCC Income Fund	5,560
AlJazira Dawaween Fund	10,535

41. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections, despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financings, where required.

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

SAMA support programs and initiatives
Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Group deferred payments and extended maturities on lending facilities to all eligible MSMEs as follows:

Support Programs	Type	Instalment deferred/Tenor extended (SR 'million)	Cost of deferral/extension (SR '000)
April 2020 – September 2020	Instalments deferred	1,192	49,097
October 2020 – December 2020	Instalments deferred	672	4,325
January 2021 – March 2021	Instalments deferred	993	29,086
April 2021 – June 2021	Tenor extension	2,903	87,508
July 2021 – September 2021	Tenor extension	903	15,989
October 2021 – December 2021	Tenor extension	328	6,385
January 2022 – March 2022	Tenor extension	308	5,690

The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. Since July 2021 this support only applied to those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement.

41. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES AND SAMA PROGRAMS (continued)

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed an assessment with respect to SICR for the customers still under DPP program as at December 31, 2021 and recorded an appropriate additional overlay during the period as a result of the potential impact of stage movement.

The Group has performed an assessment with respect to SICR for customers for whom DPP program ended on December 31, 2021 and migrated customers amounting to SR 496.65 million from Stage 1/2 to Stage 2/3 by downgrading the customer credit rating during the year ended December 31, 2021.

In order to compensate the related cost that the Group has incurred under the SAMA and other public authorities program, during the years 2021 and 2020, the Group has received multiple profit free deposits from SAMA amounting to SR 2,414 million and SR 1,384 million respectively with varying maturities, which qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2021, total income of SR 242 million had been recognised in the statement of income with the remaining amount deferred. Grant income amounting to SR 9 million arose on the profit free deposit amounting to SR 1,384 million received during the year ended December 31, 2021. During the year ended December 31, 2021, a total of SR 135.68 million (December 31, 2020: SR 106.33 million) has been recognised in the statement of income with respect to related deposits with an aggregate of SR 3.34 million deferred grant income as at December 31, 2021 (December 31, 2020: SR 130.03 million).

42. IBOR Transition (Profit Rate Benchmark Reforms)

A fundamental review and reform of major profit rate benchmarks are being undertaken globally. The IASB has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate (“IBOR”) with an alternative Risk-Free Rate (“RFR”). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective profit rate resulting in no immediate statement of income impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.

The Group has exposure to IBOR rates that are subject to reform through its borrowing under repo agreements, financing and profit rate swaps used for hedging purpose.

42. IBOR Transition (Profit Rate Benchmark Reforms) (continued)

During 2019 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel to oversee the Group's USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR (Secured Overnight Financing Rate), with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at December 31, 2021, changes required to systems, processes and models have been identified and the same will be implemented before the IBOR transition cutover date. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and financing transitioning from USD LIBOR and the resulting impact on economic risk management; and updating hedge designations. The Group continues to engage with industry participant, to ensure an orderly transition to SOFR (Secured Overnight Financing Rate), and to minimize the risks arising from transition, and it will continue to identify and assess risks associated with USD LIBOR replacement.

The Group currently has a number of contracts which reference USD LIBOR and extend beyond 2021, including swaps which will transition under the ISDA protocols. These contracts are disclosed within the table below.

The following table contains details of all of the financial instruments that the Group holds at December 31, 2021 which reference USD LIBOR and have not yet transitioned to an alternative profit rate benchmark.

Non-derivative assets and liabilities exposed to USD LIBOR

	Carrying Value/Nominal Amount at December 31, 2021		**Of which have yet to transition to an alternative benchmark profit rate as at December 31, 2021**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
		SR'000		
Measured at amortised cost				
Financing	2,006,387		2,006,387	
Due to banks and other financial institutions		144,335		144,335

Hedge accounting

The Group holds a portfolio of short term variable rate exposures and therefore is exposed to changes in cashflows due to movements in market profit rates. The Group manages this risk exposure by entering into pay fixed / receive floating profit rate swaps.

The following table contains details of only the hedging instruments used in the Group's hedging strategies which reference USD LIBOR and have not yet transitioned to an alternative profit rate benchmark, such that phase 1 relief(s) have been applied to the hedging relationship:

42. IBOR Transition (Profit Rate Benchmark Reforms) (continued)

	Carrying amount (SR '000)					
	Notional	Assets	Liabilities	Balance sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness	Notional amount directly impacted by IBOR reform
Cash flow hedges						
Profit rate swaps	2,150,625	975	189,254	Customer Deposits	Nil	2,150,625

Of the SR 2,151 million nominal amount of profit rate swaps above, SR 922.50 million will mature before the anticipated USD LIBOR replacement in Q2 2023.

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.

43. COMPARATIVE FIGURES

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

44. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 02 February 2022 (corresponding to 1st Rajab 1443H).