# BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022**

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

Building a better working world

Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
King's Road Tower, 13th Floor
King Abdul Aziz Road (Malek Road)
P.O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Head Office – Riyadh

## Independent Auditors' Review Report on the Interim Condensed Consolidated Financial Statements

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

***Introduction***

We have reviewed the accompanying interim condensed consolidated statement of financial position of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2022, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

***Scope of review***

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

***Conclusion***

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

***Other regulatory matter***

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

**for PricewaterhouseCoopers**
**Certified Public Accountants**

Mufaddal A.Ali
Certified Public Accountant
License Number 447

**for Ernst & Young**
**Professional Services**

Ahmed I. Reda
Certified Public Accountant
License Number 356

**10 Shawwal 1443H**
**11 May 2022**

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س ت ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO.25
C.R.1010371622

J14
سجل تجاري ٤٠٣٠٢٧٦٦٤٤
CR.4030276644
شركة إرنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

# Bank AlJazira

(A Saudi Joint Stock Company)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **31 March 2022 (Unaudited) SR'000** | 31 December 2021 (Audited) SR'000 | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with Saudi Central Bank (SAMA) | 15 | **5,942,497** | 5,386,871 | 7,152,890 |
| Due from banks and other financial institutions, net | | **636,016** | 663,502 | 815,944 |
| Investments, net | 5 | **31,941,128** | 31,433,805 | 29,050,169 |
| Positive fair value of Shari'ah compliant derivatives | 9 | **37,939** | 12,058 | 106,950 |
| Financing, net | 6 | **63,264,850** | 62,434,476 | 55,174,633 |
| Investment in an associate | 7 | **211,530** | 211,143 | 165,676 |
| Other real estate, net | | **506,004** | 507,743 | 474,421 |
| Property and equipment, net | | **1,044,298** | 1,156,380 | 1,138,410 |
| Other assets | | **732,890** | 1,021,343 | 504,245 |
| **Total assets** | | **104,317,152** | 102,827,321 | 94,583,338 |
| | | | | |
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Due to banks and other financial institutions | | **7,015,770** | 6,410,080 | 8,121,054 |
| Customers' deposits | 8 | **79,277,392** | 78,365,149 | 70,680,875 |
| Negative fair value of Shari'ah compliant derivatives | 9 | **174,629** | 227,309 | 230,895 |
| Subordinated Sukuk | 10 | **2,007,373** | 1,994,685 | 2,018,533 |
| Other liabilities | | **1,984,873** | 1,935,027 | 1,805,860 |
| **Total liabilities** | | **90,460,037** | 88,932,250 | 82,857,217 |
| | | | | |
| **EQUITY** | | | | |
| Share capital | 11 | **8,200,000** | 8,200,000 | 8,200,000 |
| Statutory reserve | | **2,917,273** | 2,917,273 | 2,665,754 |
| Other reserves | 12 | **(219,971)** | (114,552) | (59,547) |
| Retained earnings | | **1,084,813** | 1,017,350 | 919,914 |
| **Equity attributable to shareholders' of the Bank** | | **11,982,115** | 12,020,071 | 11,726,121 |
| Tier 1 Sukuk | 13 | **1,875,000** | 1,875,000 | - |
| **Total Equity** | | **13,857,115** | 13,895,071 | 11,726,121 |
| **Total Liabilities and Equity** | | **104,317,152** | 102,827,321 | 94,583,338 |

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
Chief Financial Officer

AAA

NY

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira
(A Saudi Joint Stock Company)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022

| | Notes | For the three-month period ended 31 March 2022 SR'000 | 31 March 2021 SR'000 |
|---|---|---|---|
| Income from investments and financing | | **821,448** | 737,075 |
| Return on deposits and financial liabilities | | **(120,716)** | (93,300) |
| **Net financing and investment income** | | **700,732** | 643,775 |
| Fees from banking services - income | | **280,871** | 321,458 |
| Fees from banking services - expense | | **(119,549)** | (143,110) |
| Fees from banking services, net | | **161,322** | 178,348 |
| Exchange income, net | | **42,370** | 43,000 |
| Net (loss) /gain on FVIS financial instruments | | **(3,799)** | 653 |
| Dividend income | | **994** | - |
| Net gains on de-recognition of financial assets at FVOCI - Sukuk | | **4,854** | 382 |
| Net gains on de-recognition of financial assets at amortised cost | | **24,811** | 77,516 |
| Other operating income | | **54,886** | 1,764 |
| **Total operating income** | | **986,170** | 945,438 |
| Salaries and employee-related expenses | | **253,305** | 235,333 |
| Rent and premises-related expenses | | **14,108** | 14,363 |
| Depreciation and amortisation | | **49,647** | 52,942 |
| Other general and administrative expenses | | **153,003** | 121,729 |
| Other operating expenses | | **4,839** | 6,246 |
| **Total operating expenses before impairment charge** | | **474,902** | 430,613 |
| Impairment charge for financing and other financial assets, net | 6 (b) | **94,014** | 152,814 |
| **Total operating expenses** | | **568,916** | 583,427 |
| **Net operating income** | | **417,254** | 362,011 |
| Share in net income of an associate | | **218** | 1,591 |
| **Net income for the period before Zakat and income tax** | | **417,472** | 363,602 |
| **Zakat and income tax** | | | |
| Zakat | | **(39,516)** | (39,616) |
| Income tax | | **(3,106)** | (2,393) |
| **Net income for the period** | | **374,850** | 321,593 |
| Basic and diluted earnings per share for the period (expressed in SR per share) | 11 | **0.43** | 0.39 |

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

AAA
NY

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira
(A Saudi Joint Stock Company)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
## FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022

| | Notes | For the three-month period ended 31 March 2022 SR'000 | 31 March 2021 SR'000 |
|---|---|---|---|
| Net income for the period | | **374,850** | 321,593 |
| **Other comprehensive income:** | | | |
| ***Items that can be reclassified to consolidated statement of income in subsequent periods:*** | | | |
| Cash flow hedges: | | | |
| - Effective portion of change in the fair value | 12 | **61,186** | 52,197 |
| - Net amount transferred to interim consolidated statement of income | 12 | **(52,655)** | (22) |
| Net changes in fair value of investments classified as at FVOCI- debt | 12 | **(100,952)** | (12,146) |
| ***Items that cannot be reclassified to consolidated statement of income in subsequent periods*** | | | |
| Net changes in fair value of investments classified as at FVOCI- equity | 12 | **(12,998)** | - |
| ***Total other comprehensive income for the period*** | | **(105,419)** | 40,029 |
| **Total comprehensive income for the period** | | **269,431** | 361,622 |

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

NY AAA

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
## FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022

| | Note | Share capital SR'000 | Statutory reserve SR'000 | Other reserves SR'000 | Retained earnings SR'000 | Total shareholders' equity SR'000 | Tier 1 Sukuk SR'000 | Total Equity SR'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2022 (audited)** | | 8,200,000 | 2,917,273 | (114,552) | 1,017,350 | 12,020,071 | 1,875,000 | 13,895,071 |
| Net income for the period | | - | - | - | 374,850 | 374,850 | - | 374,850 |
| Other comprehensive income | 12 | - | - | (105,419) | - | (105,419) | - | (105,419) |
| Total comprehensive income for the period | | - | - | (105,419) | 374,850 | 269,431 | - | 269,431 |
| Tier 1 Sukuk issuance costs | | - | - | - | (946) | (946) | - | (946) |
| Tier 1 Sukuk related costs | | - | - | - | (19,441) | (19,441) | - | (19,441) |
| 2021 final dividend paid | 19 | - | - | - | (287,000) | (287,000) | - | (287,000) |
| **Balance at 31 March 2022 (unaudited)** | | 8,200,000 | 2,917,273 | (219,971) | 1,084,813 | 11,982,115 | 1,875,000 | 13,857,115 |
| Balance at 1 January 2021 (audited) | | 8,200,000 | 2,665,754 | (99,576) | 598,321 | 11,364,499 | - | 11,364,499 |
| Net income for the period | | - | - | - | 321,593 | 321,593 | - | 321,593 |
| Other comprehensive income | 12 | - | - | 40,029 | - | 40,029 | - | 40,029 |
| Total comprehensive income for the period | | - | - | 40,029 | 321,593 | 361,622 | - | 361,622 |
| Balance at 31 March 2021 (unaudited) | | 8,200,000 | 2,665,754 | (59,547) | 919,914 | 11,726,121 | - | 11,726,121 |

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
Chief Financial Officer

AAA
NY

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022

| | Notes | For the three month period ended 31 March 2022 SR'000 | 31 March 2021 SR'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Net income for the period before Zakat and income tax** | | 417,472 | 363,602 |
| **Adjustments to reconcile net income to net cash from operating activities:** | | | |
| Net gain on FVIS financial instruments | | (3,520) | (653) |
| Gain on investments not held as FVIS | | (29,665) | (77,898) |
| Return on subordinated sukuk | | 12,671 | 13,900 |
| Depreciation and amortization | | 49,647 | 52,942 |
| Impairment charge for financing and other financial assets, net | 6 (b) | 94,014 | 152,814 |
| Provision of end of service benefit obligations | | 19,605 | 10,789 |
| Share in net income of an associate | | (218) | (1,591) |
| Net (gain) / loss on disposal / write off of property and equipment | | (51,411) | 28 |
| | | 508,595 | 513,933 |
| **Net changes in operating assets:** | | | |
| Statutory deposit with SAMA | | (217,598) | (358,591) |
| Investments held at FVIS | | (542,435) | (41) |
| Positive fair value of Shari'ah compliant derivatives | | (25,881) | 28,274 |
| Financing | | (922,491) | (1,387,898) |
| Other real estate | | 1,739 | - |
| Other assets | | 288,453 | 124,123 |
| **Net changes in operating liabilities:** | | | |
| Due to banks and other financial institutions | | 605,690 | (409,142) |
| Customers' deposits | | 912,243 | 2,677,263 |
| Negative fair value of Shari'ah compliant derivatives | | (52,680) | (72,600) |
| Other liabilities | | (18,498) | (27,575) |
| | | 537,137 | 1,087,746 |
| End of service benefits paid | | (10,498) | (9,875) |
| Zakat and income tax paid | | - | (46) |
| **Net cash from operating activities** | | 526,639 | 1,077,825 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from maturity and sale of investments not held as FVIS | | 4,912,921 | 1,190,882 |
| Purchase of investments not held as FVIS | | (4,960,712) | (279,819) |
| Acquisition of property and equipment | | (33,969) | (33,674) |
| Proceeds from sale of property and equipment | | 158,143 | 4 |
| **Net cash from investing activities** | | 76,383 | 877,393 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payment of sukuk related transaction costs | | (3,156) | - |
| Dividends paid | | (273,737) | - |
| Payment for principal portion of lease liabilities | | (14,942) | (19,563) |
| **Net cash used in financing activities** | | (291,835) | (19,563) |
| Net change in cash and cash equivalents held | | 311,187 | 1,935,655 |
| Cash and cash equivalents at the beginning of the period | | 1,740,036 | 2,076,343 |
| **Cash and cash equivalents at the end of the period** | 15 | 2,051,223 | 4,011,998 |
| Income from investments and financing received during the period | | 750,155 | 737,767 |
| Return on deposits and financial liabilities paid during the period | | 55,398 | 152,402 |
| **Supplemental non-cash information** | | | |
| Right of use assets | | 5,223 | 2,101 |
| Lease liabilities | | 5,223 | 2,101 |
| Net changes in fair value and transfers of cash flow hedge derivatives to the interim consolidated statement of income | | 8,531 | 52,175 |

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

AAA
NY

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

## 1. GENERAL

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated 12 Jumad Al-Thani 1395H (21 June 1975). The Bank commenced its business on 16 Shawwal 1396H (9 October 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated 29 Rajab 1396H (27 July 1976) issued in Jeddah. The Bank is regulated by the Saudi Central Bank (SAMA). The Bank operates through its 82 branches (31 December 2021: 81 branches and 31 March 2021: 80 branches) and 61 Fawri Remittance Centers (31 December 2021: 62 and 31 March 2021: 62 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

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

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on 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) 31 March 2022** | Ownership (direct and indirect) 31 December 2021 | Ownership (direct and indirect) 31 March 2021 |
|---|---|---|---|---|---|
| **Subsidiaries** | | | | | |
| AlJazira Capital Company | Kingdom of Saudi Arabia | Brokerage, margin financing and asset management | 100% | 100% | 100% |
| Aman Development and Real Estate Investment Company | Kingdom of Saudi Arabia | Holding and managing real estate collaterals on behalf of the Bank | 100% | 100% | 100% |
| Aman Insurance Agency Company (under liquidation – note (a) below) | Kingdom of Saudi Arabia | Acting as an agent for bancassurance activities on behalf of the Bank | 100% | 100% | 100% |
| AlJazira Securities Limited | Cayman Islands | Carryout Shari'ah compliant derivative and capital market transactions | 100% | 100% | 100% |
| BAJ Sukuk Tier 1 Limited | Cayman Islands | Trustee for issuance of Tier 1 capital certificates | 100% | 100% | - |

## 1. GENERAL (continued)

As at 31 March 2022, the Group had more than 50% ownership in four mutual funds amounting to SR 731.66 million. However, the management represents that investments are held for the purpose of initial launch of the funds and will be reduced by the future subscription rounds by incoming investors. Furthermore, should the funds be consolidated, the impact individually or collectively will not be material. Accordingly, the funds are not consolidated in these condensed interim financial statements.

(a) During financial year 2021, 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 March 2022.

| | **Country of incorporation** | **Nature of business** | **Ownership (direct and indirect) 31 March 2022** | Ownership (direct and indirect) 31 December 2021 | Ownership (direct and indirect) 31 March 2021 |
|---|---|---|---|---|---|
| **Associate** | | | | | |
| AlJazira Takaful Ta'awuni Company | Kingdom of Saudi Arabia | Fully Shari'ah compliant protection and saving products | **26.03%** | 26.03% | 26.03% |

## 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the period ended 31 March 2022, have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021. The consolidated financial statements of the Group as at and for the year ended December 31, 2021, were prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

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

In preparing these interim condensed consolidated financial statements, significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation were consistent with those that were applied to the consolidated financial statements as at and for the year ended 31 December 2021, expect for new amendments that are applicable from the period beginning January 1, 2022 as disclosed in note 4(a).

## 2. BASIS OF PREPARATION (continued)

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

## 3. BASIS OF CONSOLIDATION

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

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

a) Subsidiaries

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

i. the Group has power over an entity;
ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Group in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c) Transactions eliminated on consolidation

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

## 3. BASIS OF CONSOLIDATION (continued)

d) Investment in an associate

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

Several amendments apply for the first time in 2022 but do not have impact on these interim condensed consolidated financial statements of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

### a) 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. Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

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

| Standard, interpretation, amendments | Description | Effective date |
|---|---|---|
| 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 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 | effective<br>1 April 2021 |
| A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 | *Amendments to IFRS 3, 'Business combinations'* update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.<br>*Amendments to IAS 16, 'Property, plant and equipment'* prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.<br>*Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'* specify which costs a company includes when assessing whether a contract will be loss-making.<br>*Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.* | Annual periods beginning on or after 1 January 2022. |

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

### b) Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments and revisions which are effective from periods on or after 1 January 2023. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements of the Group.

| Standard, interpretation, amendments | Description | Effective date |
|---|---|---|
| Amendments to IAS 1, Presentation of financial statements', on classification of liabilities | These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.<br><br>Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.<br><br>Note that the IASB has issued a new exposure draft proposing changes to this amendment. | Deferred until accounting periods starting not earlier than 1 January 2024 |
| Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 | The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. | Annual periods beginning on or after 1 January 2023 |
| 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.<br><br>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.<br><br>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. |
| 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. |

## 5. INVESTMENTS

Investments are classified as follows:

| | 31 March 2022 SR'000 | | |
|---|---|---|---|
| | **Domestic** | **International** | **Total** |
| **i) FVIS** | | | |
| Mutual funds | **23,307** | **789,440** | **812,747** |
| Equities – quoted | **-** | **-** | **-** |
| | **23,307** | **789,440** | **812,747** |
| **ii) FVOCI** | | | |
| Equities – unquoted | **4,143** | **730** | **4,873** |
| Sukuk investments | **7,596,276** | **136,281** | **7,732,557** |
| | **7,600,419** | **137,011** | **7,737,430** |
| Allowance for impairment | **(2,044)** | **-** | **(2,044)** |
| | **7,598,375** | **137,011** | **7,735,386** |
| **iii) Amortised cost** | | | |
| Sukuk investments | **19,494,361** | **-** | **19,494,361** |
| Wakala floating rate notes | **3,905,340** | **-** | **3,905,340** |
| | **23,399,701** | **-** | **23,399,701** |
| Allowance for impairment | **(6,706)** | **-** | **(6,706)** |
| | **23,392,995** | **-** | **23,392,995** |
| Total | **31,014,677** | **926,451** | **31,941,128** |

| | 31 December 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 |

## 5. INVESTMENTS (continued)

| | 31 March 2021 SR'000 | | |
|---|---|---|---|
| | Domestic | International | Total |
| i) FVIS | | | |
| Mutual funds | 192,465 | 250,504 | 442,969 |
| Equities – quoted | 829 | - | 829 |
| | 193,294 | 250,504 | 443,798 |
| ii) FVOCI | | | |
| Equities – unquoted | 4,143 | 762 | 4,905 |
| Sukuk investments | 1,177,056 | - | 1,177,056 |
| | 1,181,199 | 762 | 1,181,961 |
| Allowance for impairment | - | - | - |
| | 1,181,199 | 762 | 1,181,961 |
| iii) Amortised cost | | | |
| Sukuk investments | 22,527,579 | - | 22,527,579 |
| Wakala floating rate notes | 4,904,015 | - | 4,904,015 |
| | 27,431,594 | - | 27,431,594 |
| Allowance for impairment | (7,184) | - | (7,184) |
| | 27,424,410 | - | 27,424,410 |
| Total | 28,798,903 | 251,266 | 29,050,169 |

## 6. FINANCING, NET

The financing is classified as at amortized cost as follows:

| | SR'000 | | | | |
|---|---|---|---|---|---|
| **31 March 2022** | **Credit cards** | **Consumer** | **Commercial** | **Others** | **Total** |
| Performing financing | **683,200** | **28,531,925** | **35,029,833** | **322,156** | **64,567,114** |
| Non-performing financing | **62,363** | **291,474** | **1,071,529** | **-** | **1,425,366** |
| **Gross financing** | **745,563** | **28,823,399** | **36,101,362** | **322,156** | **65,992,480** |
| Allowance for impairment | **(67,947)** | **(202,925)** | **(2,456,475)** | **(283)** | **(2,727,630)** |
| **Financing, net** | **677,616** | **28,620,474** | **33,644,887** | **321,873** | **63,264,850** |

## 6. FINANCING, NET (continued)

| | SR'000 | | | | |
|---|---|---|---|---|---|
| **31 December 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 |

| | SR'000 | | | | |
|---|---|---|---|---|---|
| **31 March 2021** | Credit cards | Consumer | Commercial | Others | Total |
| Performing financing | 669,637 | 26,633,163 | 28,355,787 | 355,877 | 56,014,464 |
| Non-performing financing | 57,683 | 294,066 | 1,075,806 | - | 1,427,555 |
| Gross financing | 727,320 | 26,927,229 | 29,431,593 | 355,877 | 57,442,019 |
| Allowance for impairment | (64,043) | (220,206) | (1,983,137) | - | (2,267,386) |
| Financing, net | 663,277 | 26,707,023 | 27,448,456 | 355,877 | 55,174,633 |

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

## 6. FINANCING, NET (continued)

a) Movement in allowance for impairment is as follows:

| | **31 March 2022 (Unaudited) SR'000** | 31 December 2021 (Audited) SR'000 | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|---|
| Balance at the beginning of the period / year | **2,637,997** | 2,192,997 | 2,192,997 |
| Impairment charge for financing | **155,962** | 764,896 | 210,378 |
| Bad debts written off | **(23,289)** | (159,179) | (104,601) |
| (Reversal) / (recoveries) of amounts previously impaired | **(43,040)** | (160,886) | (31,388) |
| Allowance written back | **-** | 169 | - |
| Balance at the end of the period / year | **2,727,630** | 2,637,997 | 2,267,386 |

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

| | **31 March 2022 (Unaudited) SR'000** | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|
| Impairment charge for financing | **155,962** | 210,378 |
| (Reversal) / (recoveries) of amounts previously impaired | **(43,040)** | (31,388) |
| (Recoveries) from debts previously written off | **(20,805)** | (4,513) |
| Net impairment charge / (reversal) for ECL in respect of due from banks and other financial institutions | **646** | (156) |
| Net impairment charge for ECL in respect of investments | **2,139** | 686 |
| Net (reversal) for ECL in respect of non-funded financing and credit related commitments | **(888)** | (22,193) |
| Impairment charge for financing and other financial assets, net | **94,014** | 152,814 |

## 6. FINANCING, NET (continued)

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

| | **31 March 2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Gross carrying amount as at 1 January 2022** | **57,840,055** | **3,429,865** | **3,802,553** | **65,072,473** |
| Transfer to 12-month ECL | **75,480** | **(66,818)** | **(8,662)** | **-** |
| Transfer to lifetime ECL not credit – Impaired | **(158,906)** | **166,137** | **(7,231)** | **-** |
| Transfer to lifetime ECL credit impaired | **(62,240)** | **(70,164)** | **132,404** | **-** |
| New financial assets originated | **5,055,267** | **8,004** | **211** | **5,063,482** |
| Financial assets that have been derecognized | **(4,627,958)** | **(35,358)** | **(35,056)** | **(4,698,372)** |
| Changes in financing income accrual | **38,900** | **-** | **-** | **38,900** |
| Other movements | **591,491** | **(49,470)** | **(2,735)** | **539,286** |
| Write-offs | **-** | **-** | **(23,289)** | **(23,289)** |
| **Gross carrying amount as at 31 March 2022** | **58,752,089** | **3,382,196** | **3,858,195** | **65,992,480** |

| | **31 December 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** | 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 | - |
| New financial assets originated | 17,698,545 | 95,715 | 75,178 | 17,869,438 |
| Financial assets that have been derecognized | (7,387,352) | (277,224) | (282,404) | (7,946,980) |
| Changes in financing income accrual | (37,058) | - | - | (37,058) |
| Other movements | (529,092) | (261,504) | (17,360) | (807,956) |
| 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 |

## 6. FINANCING, NET (continued)

| | 31 March 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 | 48,741,158 | 4,292,092 | 3,120,958 | 56,154,208 |
| Transfer to 12-month ECL | 468,417 | (464,723) | (3,694) | - |
| Transfer to lifetime ECL not credit – Impaired | (347,649) | 352,752 | (5,103) | - |
| Transfer to lifetime ECL credit impaired | (105,110) | (743,487) | 848,597 | - |
| New financial assets originated | 3,622,741 | 23,499 | 8 | 3,646,248 |
| Financial assets that have been derecognized | (1,693,784) | (195,615) | (152,686) | (2,042,085) |
| Changes in financing income accrual | (35,933) | - | - | (35,933) |
| Other movements | 48,682 | (233,872) | 9,372 | (175,818) |
| Write-offs | - | - | (104,601) | (104,601) |
| Gross carrying amount as at 31 March 2021 | 50,698,522 | 3,030,646 | 3,712,851 | 57,442,019 |

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

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

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

## 6. FINANCING, NET (continued)

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

| | 31 March 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| ECL as at 1 January 2021 | 335,609 | 298,170 | 1,559,218 | 2,192,997 |
| Transfer to 12-month ECL | 30,754 | (28,824) | (1,930) | - |
| Transfer to lifetime ECL not credit – impaired | (1,379) | 3,521 | (2,142) | - |
| Transfer to lifetime ECL credit impaired | (940) | (125,804) | 126,744 | - |
| Net re-measurement of loss allowance | (82,121) | 25,320 | 250,942 | 194,141 |
| New financial assets originated | 16,103 | 320 | 5 | 16,428 |
| Financial assets that have been derecognized | (9,137) | (16,845) | (5,597) | (31,579) |
| Write-offs | - | - | (104,601) | (104,601) |
| ECL as at 31 March 2021 | 288,889 | 155,858 | 1,822,639 | 2,267,386 |

## 7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company ("AJT"). The Group effectively holds 26.03% (31 December 2021: 26.03% and 31 March 2021: 26.03%) shareholding in AJT.

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of AJT and was based on the latest available financial information of AJT for the period ended 31 December 2021. AJT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in AJT as of 31 March 2022 was SR 277.71 million (31 December 2021: SR 286.87 million and 31 March 2021: SR 368.11 million) based on Tadawul market price.

## 8. CUSTOMERS' DEPOSITS

| | **31 March 2022 (Unaudited) SR'000** | 31 December 2021 (Audited) SR'000 | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|---|
| Demand | **40,062,028** | 38,504,625 | 38,434,168 |
| Saving | **1,007,693** | 983,845 | 753,458 |
| Customers' time investments | **36,018,380** | 37,057,540 | 29,646,053 |
| Other | **2,189,291** | 1,819,139 | 1,847,196 |
| Total | **79,277,392** | 78,365,149 | 70,680,875 |

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

## 9. SHARIAH COMPLIANT DERIVATIVES

### 9.1 Nature/type of derivatives held

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

**a) Swaps**

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

**b) Options (Wa'ad Fx)**

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

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

### 9.2 Purpose of derivatives

**a) Held for trading purposes**

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from, price differentials between markets or products.

**b) Held for hedging purposes**

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to profit rate risk and foreign exchange risk.

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

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

## 9. SHARIAH COMPLIANT DERIVATIVES (continued)

### 9.2 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 at a variable rate. The Group uses profit rate swaps as cash flow hedges of these profit rate risks.

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

| | **31 March 2022 SR'000** | 31 March 2021 SR'000 |
|---|---|---|
| Income from investments and financing | **53,380** | 413 |
| Return on deposits and financial liabilities | **(725)** | (391) |
| Net gains on cash flow hedges reclassified to the interim condensed consolidated statement of income | **52,655** | 22 |

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

Fair value gain on cash flow hedges amounting to SR 61.19 million (31 March 2021: SR 52.20 million) included in the consolidated statement of comprehensive income comprised of net unrealized gain of SR 97.64 million (31 March 2021: unrealized gain of SR 52.20 million) and realized loss of SR 36.45 million (31 March 2021: SR nil).

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

## 9. SHARIAH COMPLIANT DERIVATIVES (continued)

The table below summarize the positive and negative fair values of the Group's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volume of transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

| | **31 March 2022 (Unaudited) SR'000** | | | 31 December 2021 (Audited) SR'000 | | | 31 March 2021 (Unaudited) SR'000 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Positive fair value** | **Negative fair value** | **Notional amount** | Positive fair value | Negative fair value | Notional amount | Positive fair value | Negative fair value | Notional amount |
| **Held for trading:** | | | | | | | | | |
| Options | **667** | **667** | **31,231** | 333 | 335 | 33,143 | - | - | - |
| Profit rate swaps | **15,339** | **17,324** | **2,240,466** | 4,998 | 4,998 | 431,429 | 14,417 | 14,417 | 1,240,040 |
| Cross currency profit rate swaps | **18,927** | **36,942** | **1,875,000** | 411 | 13,208 | 1,875,000 | - | - | - |
| Currency swaps | **1,432** | **4,599** | **1,130,737** | 1,464 | 2,384 | 647,475 | - | - | - |
| Currency forwards (Wa'ad) | **6** | **5,512** | **389,092** | 27 | 61 | 18,048 | 6 | 48 | 197,492 |
| **Total** | **36,371** | **65,044** | **5,666,526** | 7,233 | 20,986 | 3,005,095 | 14,423 | 14,465 | 1,437,532 |
| **Held as cash flow hedge:** | | | | | | | | | |
| Profit rate swaps | **1,568** | **109,585** | **3,681,875** | 4,825 | 206,323 | 3,250,625 | 92,527 | 216,430 | 3,550,625 |
| **Total** | **37,939** | **174,629** | **9,348,401** | 12,058 | 227,309 | 6,255,720 | 106,950 | 230,895 | 4,988,157 |

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 2021: April 2044 and 31 March 2021: April 2044).

Held for trading profit rate swaps include accrued receivable amounting to SR 20.70 (31 December 2021: SR 1.75 million and 31 March 2021: SR 1.58 million) and accrued payable amounting to SR 22.76 (31 December 2021: SR 1.80 million and 31 March 2021: SR 1.58 million). Held as cash flow hedge profit rate swaps include accrued receivable amounting to SR 1.41 (31 December 2021: SR 4.83 million and 31 March 2021: SR 5.10 million) and accrued payable amounting to SR 19.86 million (31 December 2021: SR 19.12 million and 31 March 2021: SR 22.65 million).

## 9. SHARIAH COMPLIANT DERIVATIVES (continued)

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.

## 10. SUBORDINATED SUKUK

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

## 11. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (31 December 2021: 820 million shares of SR 10 each and 31 March 2021: 820 million shares of SR 10 each).

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

| | **31 March 2022 (Unaudited) SR'000** | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|
| **Profit attributable to ordinary shareholders** (adjusted for Tier 1 sukuk related costs) | | |
| For basic and diluted earnings per share | **355,409** | 321,593 |
| | **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) | **0.43** | 0.39 |

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

## 12. OTHER RESERVES

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

| **31 December 2021** | **Cash flow hedges SR' 000** | **Fair value reserve – FVOCI debt SR' 000** | **Fair value reserve – FVOCI equity SR' 000** | **Actuarial gains SR' 000** | **Total SR' 000** |
|---|---|---|---|---|---|
| Balance at beginning of the period | (158,638) | 36,560 | - | 22,502 | (99,576) |
| Net change in fair value | 63,847 | (78,509) | - | - | (14,662) |
| Transfer to interim condensed consolidated statement of income | (12,100) | - | - | - | (12,100) |
| Actuarial gains on employee benefit obligation | - | - | - | 11,786 | 11,786 |
| Net movement during the period | 51,747 | (78,509) | | 11,786 | (14,976) |
| Balance at end of the period | (106,891) | (41,949) | - | 34,288 | (114,552) |

## 12. OTHER RESERVES (continued)

| 31 March 2021 | Cash flow hedges SR' 000 | Fair value reserve – FVOCI debt SR' 000 | Fair value reserve – FVOCI equity SR' 000 | Actuarial gains SR' 000 | Total SR' 000 |
|---|---|---|---|---|---|
| Balance at beginning of the period | (158,638) | 36,560 | - | 22,502 | (99,576) |
| Net change in fair value | 52,197 | (12,146) | - | - | 40,051 |
| Transfer to interim condensed consolidated statement of income | (22) | - | - | - | (22) |
| Net movement during the period | 52,175 | (12,146) | - | - | 40,029 |
| Balance at end of the period | (106,463) | 24,414 | - | 22,502 | (59,547) |

## 13. TIER 1 SUKUK

During the year 2021, the Bank through a Shari'ah compliant arrangement ("the arrangement") issued cross border Tier 1 Sukuk (the "Sukuk"), amounting to 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.

## 14. COMMITMENTS AND CONTINGENCIES

a) The Group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings as disclosed at 31 December 2021.

## 14. COMMITMENTS AND CONTINGENCIES (continued)

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

| | **31 March 2022 (Unaudited) SR'000** | 31 December 2021 (Audited) SR'000 | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|---|
| Letter of credit | **1,373,868** | 1,492,763 | 677,130 |
| Letter of guarantee | **5,032,128** | 4,645,285 | 4,175,044 |
| Acceptances | **400,954** | 245,223 | 244,235 |
| Irrevocable commitments to extend credit | **150,000** | 354,918 | 186,016 |
| **Total** | **6,956,950** | 6,738,189 | 5,282,425 |
| Allowance for impairment | **(407,202)** | (408,090) | (348,894) |
| **Net exposure** | **6,549,748** | 6,330,099 | 4,933,531 |

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

| | **31 March 2022** | | | |
|---|---|---|---|---|
| | **12 month ECL** | **Life time ECL not credit impaired** | **Lifetime ECL credit impaired** | **Total** |
| | **(SR'000)** | | | |
| **Gross carrying amount as at 1 January 2022** | **6,099,882** | **68,218** | **570,089** | **6,738,189** |
| Transfer to 12-month ECL | **95** | **-** | **(95)** | **-** |
| Transfer to lifetime ECL not credit – impaired | **-** | **-** | **-** | **-** |
| Transfer to lifetime ECL credit – impaired | **(38)** | **-** | **38** | **-** |
| New financial assets originated | **273,670** | **3,913** | **1,000** | **278,583** |
| Financial assets derecognised during the period | **(155,457)** | **(2,822)** | **(44)** | **(158,323)** |
| Other movements | **84,796** | **12,467** | **1,238** | **98,501** |
| **Gross carrying amount as at 31 March 2022** | **6,302,948** | **81,776** | **572,226** | **6,956,950** |

| | **31 December 2021** | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2021 | 5,537,717 | 138,446 | 480,558 | 6,156,721 |
| Transfer to 12-month ECL | 78,715 | (73,073) | (5,642) | - |
| Transfer to lifetime ECL not credit – impaired | (36,249) | 36,249 | - | - |
| Transfer to lifetime ECL credit – impaired | (116,121) | (31,823) | 147,944 | - |
| New financial assets originated | 792,465 | 10,866 | - | 803,331 |
| Financial assets derecognised during the period | (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 |

## 14. COMMITMENTS AND CONTINGENCIES (continued)

| | 31 March 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 | 5,564 | (5,564) | - | - |
| Transfer to lifetime ECL not credit – impaired | (3,001) | 3,001 | - | - |
| Transfer to lifetime ECL credit – impaired | (6,128) | (9,900) | 16,028 | - |
| New financial assets originated | 129,399 | 17 | - | 129,416 |
| Financial assets derecognised during the period | (175,471) | (96) | (38,283) | (213,850) |
| Other movements | (804,060) | 15,586 | (1,388) | (789,862) |
| Gross carrying amount as at 31 March 2021 | 4,684,020 | 141,490 | 456,915 | 5,282,425 |

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

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

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

## 14. COMMITMENTS AND CONTINGENCIES (continued)

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

| | 31 March 2021 | | | |
|---|---|---|---|---|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| ECL as at 1 January 2021 | 27,788 | 6,547 | 336,752 | 371,087 |
| Transfer to 12-month ECL | 26 | (26) | - | - |
| Transfer to lifetime ECL not credit – Impaired | (7) | 7 | - | - |
| Transfer to lifetime ECL credit impaired | (3,022) | (2,120) | 5,142 | - |
| Net re-measurement of loss allowance | (9,701) | 4,606 | 2,542 | (2,553) |
| New financial assets originated | 260 | - | - | 260 |
| Financial assets that have been derecognized | (1,094) | - | (18,806) | (19,900) |
| ECL as at 31 March 2021 | 14,250 | 9,014 | 325,630 | 348,894 |

c) During 2018, the Bank reached a Settlement Agreement (the "Agreement") with Zakat, Tax and Customs Authority [ZATCA] to comply with the directives provided by Royal Decree No. (26/M) dated 20 Rabi Al-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. In addition, Tax related disputes between the Bank and the ZATCA pertaining to years up to 2018 also stand resolved.

## 14. COMMITMENTS AND CONTINGENCIES (continued)

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.

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.

## 15. CASH AND CASH EQUIVALENTS

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

| | **31 March 2022 (Unaudited) SR'000** | 31 December 2021 (Audited) SR'000 | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|---|
| Cash and balances with SAMA, excluding statutory deposit | **1,413,016** | 1,074,988 | 3,193,875 |
| Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition | **638,207** | 665,048 | 818,123 |
| **Total** | **2,051,223** | 1,740,036 | 4,011,998 |

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

| | **31 March 2022 (Unaudited) SR'000** | 31 December 2021 (Audited) SR'000 | 31 March 2021 (Unaudited) SR'000 |
|---|---|---|---|
| Cash and cash equivalents as per statement of cash flows | **2,051,223** | 1,740,036 | 4,011,998 |
| Statutory deposit | **4,529,481** | 4,311,883 | 3,959,015 |
| Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition | **(638,207)** | (665,048) | (818,123) |
| Cash and balances with SAMA | **5,942,497** | 5,386,871 | 7,152,890 |

## 16. OPERATING SEGMENTS

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

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2021.

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

**Personal banking**
Deposit, credit and investment products for individuals.

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

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

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

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

The Group's total assets and liabilities at 31 March 2022 and 31 March 2021, its total operating income and expenses, and its net income for the three month period then ended, by operating segment, are as follows:

## 16. OPERATING SEGMENTS (continued)

**31 March 2022 (SR'000)**

| | Personal banking | Corporate banking | Treasury | Brokerage and asset management | Others | Total |
|---|---|---|---|---|---|---|
| Total assets | 33,325,306 | 28,470,883 | 39,719,371 | 2,590,691 | 210,901 | 104,317,152 |
| Total liabilities | 49,057,339 | 27,243,848 | 12,688,222 | 1,471,257 | (629) | 90,460,037 |
| **Total operating income** | 515,104 | 188,057 | 262,948 | 76,674 | (56,613) | 986,170 |
| Of which: | | | | | | |
| - Net financing and investment income | 360,237 | 145,104 | 184,383 | 13,912 | (2,904) | 700,732 |
| - Fees from banking services, net | 79,570 | 27,029 | 1,004 | 59,675 | (5,956) | 161,322 |
| - Net (loss) / gain on FVIS financial instruments | (4,977) | (1,259) | (1,083) | 3,520 | - | (3,799) |
| **Total operating expenses** | (321,518) | (158,659) | (45,207) | (44,379) | 847 | (568,916) |
| Of which: | | | | | | |
| - Impairment charge for financing and other financial assets, net | 4,817 | (96,693) | (2,138) | - | - | (94,014) |
| - Depreciation and amortization | (37,477) | (5,227) | (4,518) | (2,425) | - | (49,647) |
| Share in net income of an associate | - | - | - | 31 | 187 | 218 |
| Net income / (loss) before Zakat and income tax | 193,586 | 29,398 | 217,741 | 32,326 | (55,579) | 417,472 |

## 16. OPERATING SEGMENTS (continued)

| | Personal Banking | Corporate banking | Treasury | Brokerage and asset management | Others | Total |
|---|---|---|---|---|---|---|
| 31 December 2021 | | | | | | |
| 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 |
| 31 March 2021 | | | | | | |
| Total assets | 30,975,996 | 24,467,387 | 37,052,577 | 1,922,628 | 164,750 | 94,583,338 |
| Total liabilities | 43,390,686 | 25,601,492 | 12,925,900 | 940,065 | (926) | 82,857,217 |
| **Total operating income** | 474,066 | 175,373 | 256,468 | 95,800 | (56,269) | 945,438 |
| Of which: | | | | | | |
| - Net financing and investment Income | 355,377 | 145,144 | 135,396 | 8,296 | (438) | 643,775 |
| - Fees from banking services, net | 78,119 | 23,204 | (60) | 85,267 | (8,182) | 178,348 |
| - Net gain / (loss) on FVIS financial instruments | - | - | - | 1,997 | (1,344) | 653 |
| **Total operating expenses** | (274,935) | (228,707) | (37,311) | (41,933) | (541) | (583,427) |
| Of which: | | | | | | |
| - Impairment charge for financing and other financial assets, net | (314) | (151,814) | (686) | - | - | (152,814) |
| - Depreciation and amortization | (36,942) | (8,738) | (4,032) | (3,230) | - | (52,942) |
| Share in net income of an associate | - | - | - | 227 | 1,364 | 1,591 |
| Net income / (loss) before Zakat and income tax | 199,131 | (53,334) | 219,157 | 54,094 | (55,446) | 363,602 |

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date 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 or identical instrument that an entity can access at the measurement date,
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data, and
Level 3: valuation techniques for which any significant input is not based on observable market data.

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

| | | 31 March 2022 (SR'000) Fair Value | | |
|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Total** |
| **Financial assets measured at fair value:** | | | | |
| FVIS - Mutual funds | **812,747** | **-** | **812,747** | **812,747** |
| FVIS – Equities | **-** | **-** | **-** | **-** |
| FVOCI – Sukuk | **7,730,513** | | **7,730,513** | **7,730,513** |
| Shari'ah compliant derivatives | **37,939** | **-** | **37,939** | **37,939** |
| **Total** | **8,581,199** | **-** | **8,581,199** | **8,581,199** |
| **Financial liabilities measured at fair value:** | | | | |
| Shari'ah compliant derivatives | **174,629** | **-** | **174,629** | **174,629** |

| | | 31 December 2021 (SR'000) Fair Value | | |
|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Total |
| **Financial assets measured at fair value:** | | | | |
| FVIS - Mutual funds | 262,443 | - | 262,443 | 262,443 |
| FVIS - Equities | 4,349 | 4,349 | - | 4,349 |
| FVOCI – Sukuk | 4,058,476 | - | 4,058,476 | 4,058,476 |
| Shari'ah compliant derivatives | 12,058 | - | 12,058 | 12,058 |
| **Total** | 4,337,326 | 4,349 | 4,332,977 | 4,337,326 |
| **Financial liabilities measured at fair value:** | | | | |
| Shari'ah compliant derivatives | 227,309 | - | 227,309 | 227,309 |

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| | | 31 March 2021 (SR'000) Fair Value | | |
|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Total |
| Financial assets measured at fair value: | | | | |
| FVIS - Mutual funds | 442,969 | - | 442,969 | 442,969 |
| FVIS - Equities | 829 | 829 | - | 829 |
| FVOCI – Sukuk | 1,181,961 | - | 1,181,961 | 1,181,961 |
| Shari'ah compliant derivatives | 106,950 | - | 106,950 | 106,950 |
| Total | 1,732,709 | 829 | 1,731,880 | 1,732,709 |
| Financial liabilities measured at fair value: | | | | |
| Shari'ah compliant derivatives | 230,895 | - | 230,895 | 230,895 |

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

There were no changes in valuation techniques during the period.

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

Investments amounting to SR 4.87 million (31 December 2021: SR 4.89 million and 31 March 2021: SR 4.90 million) are carried at cost and, accordingly, are not fair valued.

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

| | **31 March 2022 (SR'000)** | |
|---|---|---|
| | **Amortised cost** | **Fair value Level 2** |
| **Financial assets:** | | |
| Due from banks and other financial institutions, net | **636,016** | **635,477** |
| Investment held at amortised cost, net | **23,392,995** | **23,576,113** |
| Financing, net | **63,264,850** | **65,079,355** |
| **Total** | **87,293,861** | **89,290,945** |
| **Financial liabilities:** | | |
| Due to banks and other financial institutions | **7,015,770** | **7,414,431** |
| Customers' deposits | **79,277,392** | **79,326,292** |
| Subordinated Sukuk | **2,007,373** | **2,007,373** |
| **Total** | **88,300,535** | **88,748,096** |

| | 31 December 2021 (SR'000) | |
|---|---|---|
| | Amortised cost | Fair value Level 2 |
| **Financial assets:** | | |
| Due from banks and other financial institutions, net | 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 |

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| | 31 March 2021 (SR'000) | |
|---|---|---|
| | Amortised cost | Fair value Level 2 |
| **Financial assets:** | | |
| Due from banks and other financial institutions, net | 815,944 | 815,793 |
| Investment held at amortised cost, net | 27,424,410 | 28,093,299 |
| Financing, net | 55,174,633 | 57,793,835 |
| **Total** | 83,414,987 | 86,702,927 |
| **Financial liabilities:** | | |
| Due to banks and other financial institutions | 8,121,054 | 8,097,969 |
| Customers' deposits | 70,680,875 | 70,753,721 |
| Subordinated Sukuk | 2,018,533 | 2,018,533 |
| **Total** | 80,820,462 | 80,870,223 |

The fair value of the cash and balances with Saudi Central Bank, other assets and other liabilities approximate to their carrying amount. The fair values of level 2 financial instruments are estimated as at 31 March 2022 at the current applicable yield curve taking into account the counterparty risks and applicable market rate.

**Valuation technique and significant unobservable inputs**

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at 31 March 2022, 31 December 2021 and 31 March 2021, as well as the significant unobservable inputs used.

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| Type | Accounting Classification | Valuation Technique | Significant unobservable Inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|---|
| Mutual Fund units | FVIS | Fair valued using the 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<br>**Profit rate swaps:** The fair value is determined by discounting the future cash flows using observable market data inputs for yield curves. | Not applicable | Not applicable |
| Due from banks and other financial institutions, Financing, Due to banks and other financial institutions, Customer Deposits | Amortised Cost | **Market Data**: Used observable market data inputs for yield curves.<br>**Fair value technique**: The fair value is determined by discounting the future cash flows. A discounted cash flow is the product of:<br>• The anticipated nominal magnitude and sign of a cash flow.<br>• The accumulated discount over the amount of time remaining until the anticipated time of the cash flow, at a rate of discount.<br>The fair value is determined only for the Customers' time investments. | Not applicable | Not applicable |
| Investment held at amortised cost - net | Amortised Cost | Fair valued using the quoted prices, where available. | Not applicable | Not applicable |

## 18. CAPITAL ADEQUACY

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

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

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

The following table summarizes the Group's Pillar-I Risk Weighted Assets ("RWA"), Tier I and Tier II Capital and Capital Adequacy Ratios:

| | **31 March 2022 (Unaudited)** | 31 December 2021 (Audited) | 31 March 2021 (Unaudited) |
|---|---|---|---|
| | **SR'000** | SR'000 | SR'000 |
| Credit Risk RWA | **62,877,229** | 62,154,881 | 56,766,443 |
| Operational Risk RWA | **6,159,548** | 5,993,235 | 5,629,603 |
| Market Risk RWA | **2,612,547** | 1,593,934 | 1,895,480 |
| **Total Pillar-I RWA** | **71,649,324** | 69,742,050 | 64,291,526 |
| Common Equity Tier 1 (CET 1) Capital | **12,504,578** | 12,763,118 | 12,520,916 |
| Additional Tier 1 (AT1) Capital | **1,875,000** | 1,875,000 | - |
| Tier I Capital | **14,379,578** | 14,638,118 | 12,520,916 |
| Tier II Capital | **2,397,992** | 2,384,970 | 2,497,446 |
| **Total Tier I and II Capital** | **16,777,570** | 17,023,088 | 15,018,362 |
| Capital Adequacy Ratio (%) | | | |
| Common Equity Tier I Ratio | **17.45%** | 18.30% | 19.48% |
| Tier I ratio | **20.07%** | 20.99% | 19.48% |
| Total Tier I and II Capital | **23.42%** | 24.41% | 23.36% |

## 19. DIVIDEND

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 (31 March 2021: Nil) which was paid during the current period ended 31 March 2022. This dividend was calculated based on 820 million shares.

## 20. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

During 2020 and 2021, the Coronavirus ("COVID-19") pandemic disrupted global markets as many geographies experienced issues due to identification of multiple new variants of this infections. Significant improvement have been witnessed around the world after vaccination of mass population by various countries resulting in the reduction of active cases and relaxation of COVID restrictions.

The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures to date, 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 loans, where required.

**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. The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. The accounting impact of the above changes in terms of the credit facilities were assessed and has been treated as per the requirements of IFRS 9 as modification in terms of arrangement. The deferred payments program has ended on March 31, 2022.

In order to compensate the related cost that the Group had incurred under the SAMA and other public authorities program, during 2020 and 2021, the Group received multiple profit free deposits from SAMA of varying maturities, which qualified as government grants and were accounted for as such.

During the period ended March 31, 2022, SR 0.24 million (March 31, 2021: SAR 12.3 million) has been recognized in the statement of income with respect to the amortization of grant income on related deposits with an aggregate of SR 3.10 million deferred grant income as at March 31, 2022 (December 31, 2021: SAR 3.34 million).

## 21. 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.

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 March 31, 2022, 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.

## 21. IBOR Transition (Profit Rate Benchmark Reforms) (continued)

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 reporting date, including swaps which will transition under the ISDA protocols. These contracts are disclosed within the table below.

The following table contains details of all of the financial instruments that the Group holds at March 31, 2022 which reference USD LIBOR and have not yet transitioned to an alternative profit rate benchmark.

**Non-derivative assets and liabilities exposed to USD LIBOR**

| | Carrying Value/Nominal Amount at March 31, 2022 | | Of which have yet to transition to an alternative benchmark profit rate as at March 31, 2022 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| | | SR'000 | | |
| **Measured at amortised cost** | | | | |
| Financing | 1,644,459 | | 1,644,459 | |
| 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:

| | Carrying amount (SR '000) | | | Balance sheet line item(s) | Changes in fair value used for calculating hedge ineffectiveness | Notional amount directly impacted by IBOR reform |
|---|---|---|---|---|---|---|
| | Notional | Assets | Liabilities | | | |
| **Cash flow hedges** | | | | | | |
| Profit rate swaps | 1,681,875 | 1,108 | 106,673 | Customer Deposits | Nil | 1,681,875 |

Of the SR 1,682 million nominal amount of profit rate swaps above, SR 453.75 million will mature before the anticipated USD LIBOR replacement in Q2 2023.

## 21. IBOR Transition (Profit Rate Benchmark Reforms) (continued)

### Hedge accounting (continued)

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.

## 22. 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 interim condensed consolidated statement of income and interim condensed consolidated statement of changes in equity.

## 23. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on 25 April 2022 (corresponding to 24 Ramadan 1443H).