
BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH
PERIODS ENDED 30 JUNE 2022**



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



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

C.R. No.
4030276644

Tel: +966 12
221 8400
Fax: +966 12
664 4408

ey.ksa@sa.ey.com
ey.com

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 30 June 2022, and the related interim condensed consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the interim condensed consolidated statements of changes in equity and cash flows for the six-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 as 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 Ibrahim Reda
Certified Public Accountant
License Number 356

10 Muharram 1444H
8 August 2022



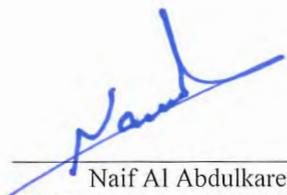
Bank AlJazira

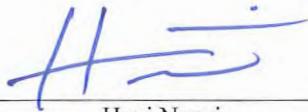
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022 (Unaudited) SR'000	31 December 2021 (Audited) SR'000	30 June 2021 (Unaudited) SR'000
	Notes			
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)	15	12,176,416	5,386,871	5,124,835
Due from banks and other financial institutions, net		2,455,830	663,502	538,644
Investments, net	5	32,040,728	31,433,805	30,573,620
Positive fair value of Shari'ah compliant derivatives	9	103,431	12,058	11,054
Financing, net	6	65,635,817	62,434,476	56,900,681
Investment in an associate	7	213,890	211,143	209,466
Other real estate, net		505,404	507,743	473,287
Property and equipment, net		1,028,192	1,156,380	1,156,135
Other assets		550,914	1,021,343	908,333
Total assets		114,710,622	102,827,321	95,896,055
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		9,914,552	6,410,080	9,112,326
Customers' deposits	8	86,583,652	78,365,149	70,690,780
Negative fair value of Shari'ah compliant derivatives	9	107,451	227,309	249,672
Subordinated Sukuk	10	1,997,668	1,994,685	-
Other liabilities		2,193,927	1,935,027	2,034,486
Total liabilities		100,797,250	88,932,250	82,087,264
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	(402,093)	(114,552)	(93,375)
Retained earnings		1,323,192	1,017,350	1,161,412
Equity attributable to shareholders' of the Bank		12,038,372	12,020,071	11,933,791
Tier 1 Sukuk	13	1,875,000	1,875,000	1,875,000
Total Equity		13,913,372	13,895,071	13,808,791
Total Liabilities and Equity		114,710,622	102,827,321	95,896,055


Tarek Al-Kasabi
Chairman


Naif Al Abdulkareem
CEO and Managing Director


Hani Noori
Chief Financial Officer

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 AND SIX-MONTH PERIODS ENDED 30 JUNE 2022

Notes	For the three-month period ended		For the six-month period ended	
	30 June 2022 SR'000	30 June 2021 SR'000	30 June 2022 SR'000	30 June 2021 SR'000
Income from investments and financing	817,141	722,617	1,638,589	1,459,692
Return on deposits and financial liabilities	(221,020)	(91,103)	(341,736)	(184,403)
Net financing and investment income	596,121	631,514	1,296,853	1,275,289
Fees from banking services - income	276,746	289,927	557,617	611,385
Fees from banking services - expense	(122,405)	(127,782)	(241,954)	(270,892)
Fees from banking services, net	154,341	162,145	315,663	340,493
Exchange income, net	47,065	39,570	89,435	82,570
Net gain/(loss) on FVIS financial instruments	6,565	(11,604)	2,766	(10,951)
Dividend income	840	615	1,834	615
Net (loss)/gain on de-recognition of financial assets at FVOCI - Sukuk	(1,036)	3,155	3,818	3,537
Net gain on de-recognition of financial assets at amortised cost	30	163	24,841	77,679
Other operating income	2,997	2,883	57,883	4,647
Total operating income	806,923	828,441	1,793,093	1,773,879
Salaries and employee-related expenses	246,849	245,277	500,154	480,610
Rent and premises-related expenses	15,041	14,039	29,149	28,402
Depreciation and amortisation	47,602	44,412	97,249	97,354
Other general and administrative expenses	148,472	117,557	301,475	239,286
Other operating expenses	16,064	16,248	20,903	22,494
Total operating expenses before impairment charge	474,028	437,533	948,930	868,146
Impairment charge for financing and other financial assets, net	6 (b) 39,582	157,937	133,596	310,751
Total operating expenses	513,610	595,470	1,082,526	1,178,897
Net operating income	293,313	232,971	710,567	594,982
Share in net income of an associate	2,459	4,562	2,677	6,153
Gain on deemed disposal of an associate	-	39,390	-	39,390
Net income for the period before Zakat and income tax	295,772	276,923	713,244	640,525
Zakat and income tax				
Zakat	(36,209)	(24,177)	(75,725)	(63,793)
Income tax	(1,742)	(1,587)	(4,848)	(3,980)
Net income for the period	257,821	251,159	632,671	572,752
Basic and diluted earnings per share for the period (expressed in SR per share)	11 0.29	0.31	0.72	0.70

Tarek Al-Kasabi
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Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
Chief Financial Officer

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

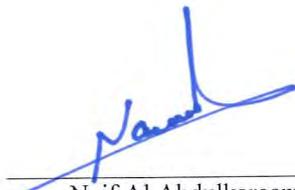
Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2022

	Notes	For the three-month period ended		For the six-month period ended	
		30 June 2022 SR'000	30 June 2021 SR'000	30 June 2022 SR'000	30 June 2021 SR'000
Net income for the period		257,821	251,159	632,671	572,752
Other comprehensive (loss) / income:					
<i>Items that can be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>					
Cash flow hedges:					
- Effective portion of change in the fair value	12	113,056	(9,339)	174,242	42,858
- Net amount transferred to interim condensed consolidated statement of income	12	(1,187)	(1,242)	(53,842)	(1,264)
Net changes in fair value of investments classified as at FVOCI- debt	12	(281,246)	(23,247)	(382,198)	(35,393)
<i>Items that cannot be reclassified to consolidated statement of income in subsequent periods</i>					
Net changes in fair value of investments classified as at FVOCI- equity	12	(12,745)	-	(25,743)	-
Total other comprehensive (loss) / income for the period		(182,122)	(33,828)	(287,541)	6,201
Total comprehensive income for the period		75,699	217,331	345,130	578,953


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Bank AlJazira

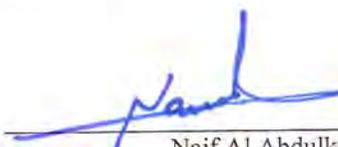
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

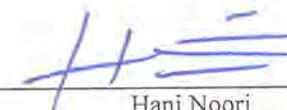
Notes	Share capital SR'000	Statutory reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total shareholders' equity SR'000	Tier 1 Sukuk SR'000	Total Equity SR'000
Balance at 1 January 2022 (audited)	8,200,000	2,917,273	(114,552)	1,017,350	12,020,071	1,875,000	13,895,071
Net income for the period	-	-	-	632,671	632,671	-	632,671
Other comprehensive loss	-	-	(287,541)	-	(287,541)	-	(287,541)
Total comprehensive income for the period	-	-	(287,541)	632,671	345,130	-	345,130
Tier 1 Sukuk issuance costs	-	-	-	(946)	(946)	-	(946)
Tier 1 Sukuk related costs	-	-	-	(38,883)	(38,883)	-	(38,883)
2021 final dividend	-	-	-	(287,000)	(287,000)	-	(287,000)
Balance at 30 June 2022 (unaudited)	8,200,000	2,917,273	(402,093)	1,323,192	12,038,372	1,875,000	13,913,372
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	-	-	-	572,752	572,752	-	572,752
Other comprehensive income	-	-	6,201	-	6,201	-	6,201
Total comprehensive income for the period	-	-	6,201	572,752	578,953	-	578,953
Tier 1 Sukuk issued	-	-	-	-	-	1,875,000	1,875,000
Tier 1 Sukuk issuance costs	-	-	-	(9,250)	(9,250)	-	(9,250)
Tier 1 Sukuk related costs	-	-	-	(411)	(411)	-	(411)
Balance at 30 June 2021 (unaudited)	8,200,000	2,665,754	(93,375)	1,161,412	11,933,791	1,875,000	13,808,791



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CEO and Managing Director



Hani Noori
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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

	Notes	For the six month period ended	
		30 June 2022 SR'000	30 June 2021 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period before Zakat and income tax		713,244	640,525
Adjustments to reconcile net income to net cash from operating activities:			
Net (gain) / loss on FVIS financial instruments		(8,807)	10,951
Gain on investments not held as FVIS		(28,659)	(81,216)
Return on subordinated sukuk		28,524	23,476
Depreciation and amortization		97,249	97,354
Impairment charge for financing and other financial assets, net	6 (b)	133,596	310,751
Provision of end of service benefit obligations		30,181	22,559
Share in net income of an associate		(2,677)	(6,153)
Gain on deemed disposal of an associate		-	(39,390)
Net (gain) / loss on disposal / write off of property and equipment		(51,304)	7,355
		<u>911,347</u>	<u>986,212</u>
Net changes in operating assets:			
Statutory deposit with SAMA		(231,727)	(263,922)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(11,267)	-
Investments held at FVIS		(656,852)	(40)
Positive fair value of Shari'ah compliant derivatives		(91,373)	124,170
Financing		(3,333,622)	(3,230,429)
Other real estate		2,339	1,134
Other assets		470,429	(279,965)
Net changes in operating liabilities:			
Due to banks and other financial institutions		3,504,472	582,130
Customers' deposits		8,218,503	2,687,168
Negative fair value of Shari'ah compliant derivatives		(119,858)	(53,823)
Other liabilities		468,981	85,785
		<u>9,131,372</u>	<u>638,420</u>
End of service benefits paid		(17,334)	(19,880)
Zakat and income tax paid		(160,571)	(6,258)
Net cash generated from operating activities		<u>8,953,467</u>	<u>612,282</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of investments not held as FVIS		5,891,581	1,351,516
Purchase of investments not held as FVIS		(6,213,870)	(1,980,958)
Acquisition of property and equipment		(65,721)	(60,255)
Proceeds from sale of property and equipment		158,203	4
Net cash used in investing activities		<u>(229,807)</u>	<u>(689,693)</u>

(CONTINUED)

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

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Bank AlJazira

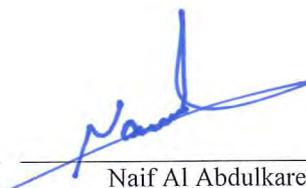
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (continued)

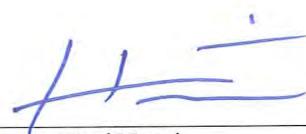
	Notes	For the six month period ended	
		30 June 2022 SR'000	30 June 2021 SR'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of Tier 1 Sukuk		-	1,875,000
Repayment of Tier 2 subordinated Sukuk		-	(2,000,000)
Payment of sukuk related transactions costs		(3,971)	-
Payment of return on Tier 1 and Tier 2 sukuku		(61,775)	(28,109)
Dividends paid		(276,154)	(31)
Payment for principal portion of lease liabilities		(40,888)	(44,994)
Net cash used in financing activities		(382,788)	(198,134)
Net change in cash and cash equivalents held		8,340,872	(275,545)
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	10,080,908	1,800,798
Income from investments and financing received during the period		1,494,855	1,453,122
Return on deposits and financial liabilities paid during the period		253,220	300,483
Supplemental non-cash information			
Right of use assets		10,239	44,983
Lease liabilities		10,239	44,983
Net changes in fair value and transfers of cash flow hedge derivatives to the interim consolidated statement of income		151,344	(50,900)



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Chairman



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CEO and Managing Director



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Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022

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 30 June 2021: 80 branches) and 54 Fawri Remittance Centers (31 December 2021: 62 and 30 June 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 Saudi Exchange in the Kingdom of Saudi Arabia.

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

	<u>Country of incorporation</u>	<u>Nature of business</u>	<u>Ownership (direct and indirect) 30 June 2022</u>	<u>Ownership (direct and indirect) 31 December 2021</u>	<u>Ownership (direct and indirect) 30 June 2021</u>
Subsidiaries					
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	100%	100%	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	100%	100%	100%
Aman Insurance Agency Company (under liquidation – note (a) below)	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank	100%	100%	100%
AlJazira Securities Limited	Cayman Islands	Carryout Shari’ah compliant derivative and capital market transactions	100%	100%	100%
BAJ Sukuk Tier 1 Limited	Cayman Islands	Trustee for issuance of Tier 1 capital certificates	100%	100%	100%

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

1. GENERAL (continued)

As at 30 June 2022, the Group has substantial ownership in seven mutual funds amounting to SR 870.25 million. However, the investments are held for the purpose of initial launch of the funds and will be reduced by the future subscriptions by incoming investors. Furthermore, should the funds be consolidated, the impact individually or collectively will not be material to the interim condensed consolidated financial statements. Accordingly, the funds are not consolidated in these interim condensed consolidated 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 30 June 2022.

	<u>Country of incorporation</u>	<u>Nature of business</u>	<u>Ownership (direct and indirect) 30 June 2022</u>	<u>Ownership (direct and indirect) 31 December 2021</u>	<u>Ownership (direct and indirect) 30 June 2021</u>
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 30 June 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 December 31, 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, except for new amendments that are applicable from the period beginning January 1, 2022 as disclosed in note 4(a).

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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 and the functional currency of the Bank is Saudi Riyal.

3. BASIS OF CONSOLIDATION

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

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

a) Subsidiaries

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

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

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

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

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.

Bank AlJazira

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

3. BASIS OF CONSOLIDATION (continued)

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.

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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. 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

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 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	<p><i>Amendments to IFRS 3, 'Business combinations'</i> update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.</p> <p><i>Amendments to IAS 16, 'Property, plant and equipment'</i> 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.</p> <p><i>Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'</i> specify which costs a company includes when assessing whether a contract will be loss-making.</p> <p><i>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'.</i></p>	Annual periods beginning on or after 1 January 2022.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment.	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. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	Annual periods beginning on or after 1 January 2023.
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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

5. INVESTMENTS

Investments are classified as follows:

	30 June 2022 (Unaudited)		
	SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	6,222	926,229	932,451
Equities – quoted	-	-	-
	<u>6,222</u>	<u>926,229</u>	<u>932,451</u>
ii) FVOCI			
Equities – unquoted	4,143	698	4,841
Sukuk investments	8,188,432	135,157	8,323,589
	<u>8,192,575</u>	<u>135,855</u>	<u>8,328,430</u>
Allowance for impairment	(1,529)	-	(1,529)
	<u>8,191,046</u>	<u>135,855</u>	<u>8,326,901</u>
iii) Amortised cost			
Sukuk investments	18,876,654	-	18,876,654
Wakala floating rate notes	3,911,549	-	3,911,549
	<u>22,788,203</u>	<u>-</u>	<u>22,788,203</u>
Allowance for impairment	(6,827)	-	(6,827)
	<u>22,781,376</u>	<u>-</u>	<u>22,781,376</u>
Total	<u>30,978,644</u>	<u>1,062,084</u>	<u>32,040,728</u>

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

5. INVESTMENTS (continued)

	30 June 2021 (Unaudited)		Total
	Domestic	International	
		SR'000	
i) FVIS			
Mutual funds	192,319	252,334	444,653
Equities – quoted	1,132	-	1,132
	<u>193,451</u>	<u>252,334</u>	<u>445,785</u>
ii) FVOCI			
Equities – unquoted	4,143	769	4,912
Sukuk investments	2,303,357	-	2,303,357
	<u>2,307,500</u>	<u>769</u>	<u>2,308,269</u>
Allowance for impairment	-	-	-
	<u>2,307,500</u>	<u>769</u>	<u>2,308,269</u>
iii) Amortised cost			
Sukuk investments	22,921,868	-	22,921,868
Wakala floating rate notes	4,903,995	-	4,903,995
	<u>27,825,863</u>	<u>-</u>	<u>27,825,863</u>
Allowance for impairment	(6,297)	-	(6,297)
	<u>27,819,566</u>	<u>-</u>	<u>27,819,566</u>
Total	<u>30,320,517</u>	<u>253,103</u>	<u>30,573,620</u>

6. FINANCING, NET

The financing is classified as at amortized cost as follows:

	SR'000				Total
	Credit cards	Consumer	Commercial	Others	
<u>30 June 2022</u> <u>(Unaudited)</u>					
Performing financing	693,080	29,482,829	36,504,613	307,677	66,988,199
Non-performing financing	62,973	292,157	1,050,708	8,711	1,414,549
	<u>756,053</u>	<u>29,774,986</u>	<u>37,555,321</u>	<u>316,388</u>	<u>68,402,748</u>
Allowance for impairment	(78,516)	(203,740)	(2,480,080)	(4,595)	(2,766,931)
	<u>677,537</u>	<u>29,571,246</u>	<u>35,075,241</u>	<u>311,793</u>	<u>65,635,817</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

6. FINANCING, NET (continued)

a) Movement in allowance for impairment is as follows:

	30 June 2022 (Unaudited) <u>SR'000</u>	31 December 2021 (Audited) <u>SR'000</u>	30 June 2021 (Unaudited) <u>SR'000</u>
Balance at the beginning of the period / year	2,637,997	2,192,997	2,192,997
Impairment charge for financing	255,136	764,896	384,041
Bad debts written off	(26,959)	(159,179)	(105,526)
Reversal / recoveries of amounts previously impaired	(99,243)	(160,886)	(85,331)
Allowance written back	-	169	-
Balance at the end of the period / year	<u>2,766,931</u>	<u>2,637,997</u>	<u>2,386,181</u>

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

	30 June 2022 (Unaudited) <u>SR'000</u>	30 June 2021 (Unaudited) <u>SR'000</u>
Impairment charge for financing	255,136	384,041
Reversal / recoveries of amounts previously impaired	(99,243)	(85,331)
Recoveries from debts previously written off	(23,612)	(7,751)
Net impairment charge / (reversal) for ECL in respect of due from banks and other financial institutions	1,993	(670)
Net impairment charge / (reversal) for ECL in respect of investments	1,745	(201)
Net (reversal) / impairment charge for ECL in respect of non-funded financing and credit related commitments	(2,423)	20,663
Impairment charge for financing and other financial assets, net	<u>133,596</u>	<u>310,751</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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.

	30 June 2022 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Gross carrying amount as at 1 January 2022	57,840,055	3,429,865	3,802,553	65,072,473
Transfer to 12-month ECL	61,011	(45,872)	(15,139)	-
Transfer to lifetime ECL not credit – Impaired	(233,547)	246,959	(13,412)	-
Transfer to lifetime ECL credit impaired	(98,726)	(70,885)	169,611	-
New financial assets originated	11,488,797	219,333	1,373	11,709,503
Financial assets that have been derecognized	(7,848,247)	(458,854)	(73,407)	(8,380,508)
Changes in financing income accrual	93,462	-	-	93,462
Other movements	80,964	(132,164)	(14,023)	(65,223)
Write-offs	-	-	(26,959)	(26,959)
Gross carrying amount as at 30 June 2022	61,383,769	3,188,382	3,830,597	68,402,748

	31 December 2021(Audited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(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	<u>57,840,055</u>	<u>3,429,865</u>	<u>3,802,553</u>	<u>65,072,473</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

6. FINANCING, NET (continued)

	30 June 2021 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(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	860,290	(855,428)	(4,862)	-
Transfer to lifetime ECL not credit – Impaired	(325,033)	336,841	(11,808)	-
Transfer to lifetime ECL credit impaired	(194,666)	(837,778)	1,032,444	-
New financial assets originated	7,727,163	27,429	22,599	7,777,191
Financial assets that have been derecognized	(3,413,170)	(251,459)	(166,167)	(3,830,796)
Changes in financing income accrual	(32,967)	-	-	(32,967)
Other movements	(415,930)	(269,022)	9,704	(675,248)
Write-offs	-	-	(105,526)	(105,526)
Gross carrying amount as at 30 June 2021	<u>52,946,845</u>	<u>2,442,675</u>	<u>3,897,342</u>	<u>59,286,862</u>

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

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

	30 June 2022 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 2022	170,741	222,807	2,244,449	2,637,997
Transfer to 12-month ECL	7,509	(996)	(6,513)	-
Transfer to lifetime ECL not credit – impaired	(1,395)	7,576	(6,181)	-
Transfer to lifetime ECL credit impaired	(758)	(1,241)	1,999	-
Net re-measurement of loss allowance	(35,011)	95,177	199,140	259,306
New financial assets originated	32,298	1,244	729	34,271
Financial assets that have been derecognized	(21,509)	(74,881)	(41,294)	(137,684)
Write-offs	-	-	(26,959)	(26,959)
ECL as at 30 June 2022	<u>151,875</u>	<u>249,686</u>	<u>2,365,370</u>	<u>2,766,931</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

6. FINANCING, NET (continued)

	31 December 2021 (Audited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
(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	<u>170,741</u>	<u>222,807</u>	<u>2,244,449</u>	<u>2,637,997</u>
30 June 2021 (Unaudited)				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
(SR'000)				
ECL as at January 1, 2021	335,609	298,170	1,559,218	2,192,997
Transfer to 12-month ECL	37,915	(33,095)	(4,820)	-
Transfer to lifetime ECL not credit – impaired	(1,483)	5,687	(4,204)	-
Transfer to lifetime ECL credit impaired	(1,419)	(127,436)	128,855	-
Net re-measurement of loss allowance	(100,676)	(12,867)	412,281	298,738
New financial assets originated or purchased	18,352	535	11,363	30,250
Financial assets that have been derecognized	(9,633)	(13,653)	(6,992)	(30,278)
Write-offs	-	-	(105,526)	(105,526)
ECL as at June 30, 2021	<u>278,665</u>	<u>117,341</u>	<u>1,990,175</u>	<u>2,386,181</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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 30 June 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 March 2022. AJT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in AJT as of 30 June 2022 was SR 231.90 million (31 December 2021: SR 286.87 million and 30 June 2021: SR 386.49 million) based on Tadawul market price.

8. CUSTOMERS' DEPOSITS

	30 June 2022 (Unaudited) <u>SR'000</u>	31 December 2021 (Audited) <u>SR'000</u>	30 June 2021 (Unaudited) <u>SR'000</u>
Demand	47,061,990	38,504,625	37,459,602
Saving	970,516	983,845	712,578
Customers' time investments	36,523,422	37,057,540	30,589,325
Others	2,027,724	1,819,139	1,929,275
Total	<u>86,583,652</u>	<u>78,365,149</u>	<u>70,690,780</u>

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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:

	30 June 2022 (Unaudited) <u>SR'000</u>	30 June 2021 (Unaudited) <u>SR'000</u>
Income from investments and financing	56,000	2,014
Return on deposits and financial liabilities	(2,158)	(750)
	<hr/>	<hr/>
Net gains on cash flow hedges reclassified to the interim condensed consolidated statement of income	<u>53,842</u>	<u>1,264</u>

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

Fair value gain on cash flow hedges amounting to SR 174.24 million (30 June 2021: SR 42.86 million) included in the interim condensed consolidated statement of comprehensive income comprised of net unrealized gain of SR 205.18 million (30 June 2021: net unrealized loss of SR 49.64 million) and net realized loss of SR 30.94 million (30 June 2021: realized gain of SR 92.49 million).

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.

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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

9. SHARIAH COMPLIANT DERIVATIVES (continued)

	30 June 2022 (Unaudited) SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	1,277	1,277	31,231
Profit rate swaps	71,861	65,370	3,362,486
Cross currency profit rate swaps	411	21,893	1,875,000
Currency swaps	1,771	7,853	2,189,953
Currency forwards (Wa'ad)	2,205	138	297,814
Total	77,525	96,531	7,756,484
Held as cash flow hedge:			
Profit rate swaps	25,906	10,920	1,287,500
Total	103,431	107,451	9,043,984
	31 December 2021 (Audited) SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	333	335	33,143
Profit rate swaps	4,998	4,998	431,429
Cross currency profit rate swaps	411	13,208	1,875,000
Currency swaps	1,464	2,384	647,475
Currency forwards (Wa'ad)	27	61	18,048
Total	7,233	20,986	3,005,095
Held as cash flow hedge:			
Profit rate swaps	4,825	206,323	3,250,625
Total	12,058	227,309	6,255,720
	30 June 2021 (Unaudited) SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	-	-	-
Profit rate swaps	9,269	9,269	1,231,983
Cross currency profit rate swaps	411	14,051	1,875,000
Currency swaps	-	590	111,305
Currency forwards (Wa'ad)	11	152	225,274
Total	9,691	24,062	3,443,562
Held as cash flow hedge:			
Profit rate swaps	1,363	225,610	2,150,625
Total	11,054	249,672	5,594,187

Held for trading profit rate swaps include accrued receivable amounting to SR 29.72 million (31 December 2021: SR 1.75 million and 30 June 2021: SR 1.71 million) and accrued payable amounting to SR 29.62 million (31 December 2021: SR 1.80 million and 30 June 2021: SR 1.76 million). Held as cash flow hedge profit rate swaps include accrued receivable amounting to SR 4.89 million (31 December 2021: SR 4.83 million and 30 June 2021: SR 1.36 million) and accrued payable amounting to SR 7.88 million (31 December 2021: SR 19.12 million and 30 June 2021: SR 17.42 million).

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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 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 30 June 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.

	For the three month period ended		For the six month period ended	
	30 June 2022 (Unaudited) <u>SR'000</u>	30 June 2021 (Unaudited) <u>SR'000</u>	30 June 2022 (Unaudited) <u>SR'000</u>	30 June 2021 (Unaudited) <u>SR'000</u>
Profit attributable to ordinary shareholders (adjusted for Tier 1 sukuk related costs)				
For basic and diluted earnings per share	<u>238,380</u>	<u>250,748</u>	<u>593,788</u>	<u>572,341</u>
Weighted-average number of ordinary shares				
For basic and diluted earnings per share	<u>820,000,000</u>	<u>820,000,000</u>	<u>820,000,000</u>	<u>820,000,000</u>
Basic and diluted earnings per share (in SR)	<u>0.29</u>	<u>0.31</u>	<u>0.72</u>	<u>0.70</u>

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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

12. OTHER RESERVES

<u>30 June 2022 (Unaudited)</u>	<u>Cash flow hedges SR' 000</u>	<u>Fair value reserve – FVOCI debt SR' 000</u>	<u>Fair value reserve – FVOCI equity SR' 000</u>	<u>Actuarial gains SR' 000</u>	<u>Total SR' 000</u>
Balance at beginning of the period	(106,891)	(41,949)	-	34,288	(114,552)
Net change in fair value	174,242	(382,198)	(25,743)	-	(233,699)
Transfer to interim condensed consolidated statement of income (note 9.2(b))	(53,842)	-	-	-	(53,842)
Net movement during the period	<u>120,400</u>	<u>(382,198)</u>	<u>(25,743)</u>	<u>-</u>	<u>(287,541)</u>
Balance at end of the period	<u><u>13,509</u></u>	<u><u>(424,147)</u></u>	<u><u>(25,743)</u></u>	<u><u>34,288</u></u>	<u><u>(402,093)</u></u>
<u>31 December 2021 (Audited)</u>	<u>Cash flow hedges SR' 000</u>	<u>Fair value reserve – FVOCI debt SR' 000</u>	<u>Fair value reserve – FVOCI equity SR' 000</u>	<u>Actuarial gains SR' 000</u>	<u>Total SR' 000</u>
Balance at beginning of the year	(158,638)	36,560	-	22,502	(99,576)
Net change in fair value	63,847	(78,509)	-	-	(14,662)
Transfer to consolidated statement of income	(12,100)	-	-	-	(12,100)
Actuarial gains on employee benefit obligation	-	-	-	11,786	11,786
Net movement during the year	<u>51,747</u>	<u>(78,509)</u>	<u>-</u>	<u>11,786</u>	<u>(14,976)</u>
Balance at end of the year	<u><u>(106,891)</u></u>	<u><u>(41,949)</u></u>	<u><u>-</u></u>	<u><u>34,288</u></u>	<u><u>(114,552)</u></u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

12. OTHER RESERVES (continued)

<u>30 June 2021 (Unaudited)</u>	Cash flow hedges <u>SR' 000</u>	Fair value reserve – FVOCI debt <u>SR' 000</u>	Fair value reserve – FVOCI equity <u>SR' 000</u>	Actuarial gains <u>SR' 000</u>	Total <u>SR' 000</u>
Balance at beginning of the period	(158,638)	36,560	-	22,502	(99,576)
Net change in fair value	42,858	(35,393)	-	-	7,465
Transfer to interim condensed consolidated statement of income (note 9.2(b))	(1,264)	-	-	-	(1,264)
Net movement during the period	41,594	(35,393)	-	-	6,201
Balance at end of the period	<u>(117,044)</u>	<u>1,167</u>	<u>-</u>	<u>22,502</u>	<u>(93,375)</u>

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

- 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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

14. COMMITMENTS AND CONTINGENCIES (continued)

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

	30 June 2022 (Unaudited) SR'000	31 December 2021 (Audited) SR'000	30 June 2021 (Unaudited) SR'000
Letter of credit	1,307,881	1,492,763	911,544
Letter of guarantee	4,851,865	4,645,285	4,205,221
Acceptances	577,215	245,223	265,928
Irrevocable commitments to extend credit	853,065	354,918	327,483
Total	7,590,026	6,738,189	5,710,176
Allowance for impairment	(405,667)	(408,090)	(391,750)
Net exposure	7,184,359	6,330,099	5,318,426

- 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.

	30 June 2022 (Unaudited)			
	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	3,027	(1,469)	(1,558)	-
Transfer to lifetime ECL not credit – impaired	-	-	-	-
Transfer to lifetime ECL credit – impaired	(5,751)	(1,253)	7,004	-
New financial assets originated	1,432,389	8,304	402	1,441,095
Financial assets derecognised during the period	(343,848)	(1,362)	(2,044)	(347,254)
Other movements	(254,113)	12,717	(608)	(242,004)
Gross carrying amount as at 30 June 2022	6,931,586	85,155	573,285	7,590,026
	31 December 2021 (Audited)			
	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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

14. COMMITMENTS AND CONTINGENCIES (continued)

	30 June 2021 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(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	73,776	(73,776)	-	-
Transfer to lifetime ECL not credit – impaired	(12,049)	12,049	-	-
Transfer to lifetime ECL credit – impaired	(16,979)	(29,175)	46,154	-
New financial assets originated	62,816	6,770	-	69,586
Financial assets derecognised during the period	(133,617)	(1,798)	(5,869)	(141,284)
Other movements	(358,192)	(5,453)	(11,202)	(374,847)
Gross carrying amount as at 30 June 2021	<u>5,153,472</u>	<u>47,063</u>	<u>509,641</u>	<u>5,710,176</u>

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

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

	30 June 2022 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 2022	13,569	8,153	386,368	408,090
Transfer to 12-month ECL	785	(6)	(779)	-
Transfer to lifetime ECL not credit Impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	(35)	(40)	75	-
Net re-measurement of loss allowance	(3,612)	534	(86)	(3,164)
New financial assets originated	3,141	10	201	3,352
Financial assets that have been derecognized	(557)	(45)	(2,009)	(2,611)
ECL as at 30 June 2022	<u>13,291</u>	<u>8,606</u>	<u>383,770</u>	<u>405,667</u>

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

14. COMMITMENTS AND CONTINGENCIES (continued)

	31 December 2021 (Audited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(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	<u>(1,888)</u>	<u>(40)</u>	<u>(9,159)</u>	<u>(11,087)</u>
ECL as at 31 December 2021	<u>13,569</u>	<u>8,153</u>	<u>386,368</u>	<u>408,090</u>
	30 June 2021 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 2021	27,788	6,547	336,752	371,087
Transfer to 12-month ECL	566	(566)	-	-
Transfer to lifetime ECL not credit – Impaired	(65)	65	-	-
Transfer to lifetime ECL credit impaired	(3,128)	(2,262)	5,390	-
Net re-measurement of loss allowance	554	4,565	18,189	23,308
New financial assets originated	701	44	-	745
Financial assets that have been derecognized	<u>(761)</u>	<u>(30)</u>	<u>(2,599)</u>	<u>(3,390)</u>
ECL as at 30 June 2021	<u>25,655</u>	<u>8,363</u>	<u>357,732</u>	<u>391,750</u>

- c) During 2018, the Bank reached a Settlement Agreement (the “Agreement”) with Zakat, Tax and Customs Authority [ZATCA] to comply with the directives provided by Royal Decree No. (26/M) dated 20 Rabi Al-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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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 2021, 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:

	30 June 2022 (Unaudited) SR'000	31 December 2021 (Audited) SR'000	30 June 2021 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	7,632,806	1,074,988	1,260,489
Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition	2,448,102	665,048	540,309
Total	10,080,908	1,740,036	1,800,798

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

	30 June 2022 (Unaudited) SR'000	31 December 2021 (Audited) SR'000	30 June 2021 (Unaudited) SR'000
Cash and cash equivalents as per statement of cash flows	10,080,908	1,740,036	1,800,798
Statutory deposit	4,543,610	4,311,883	3,864,346
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	(2,448,102)	(665,048)	(540,309)
Cash and balances with SAMA	12,176,416	5,386,871	5,124,835

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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 30 June 2022 and 30 June 2021, its total operating income and expenses, and its net income for the six month periods then ended, by operating segment, are as follows:

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

16. OPERATING SEGMENTS (continued)

(SR'000)	<u>Personal banking</u>	<u>Corporate banking</u>	<u>Treasury</u>	<u>Brokerage and asset management</u>	<u>Others</u>	<u>Total</u>
30 June 2022 (Unaudited)						
Total assets	34,706,051	29,715,917	47,488,020	2,586,892	213,742	114,710,622
Total liabilities	54,720,088	30,389,894	14,249,575	1,437,841	(148)	100,797,250
Total operating income	972,745	366,153	429,216	146,291	(121,312)	1,793,093
Of which:						
- Net financing and investment income	687,459	284,431	302,507	28,747	(6,291)	1,296,853
- Fees from banking services, net	163,577	56,317	2,272	112,616	(19,119)	315,663
- Net (loss) / gain on FVIS financial instruments	(839)	(212)	(183)	4,000	-	2,766
Total operating expenses	(656,846)	(249,617)	(87,508)	(90,251)	1,696	(1,082,526)
Of which:						
- Impairment charge for financing and other financial assets, net	(5,591)	(126,260)	(1,745)	-	-	(133,596)
- Depreciation and amortization	(73,754)	(9,992)	(8,710)	(4,793)	-	(97,249)
Share in net income of an associate	-	-	-	382	2,295	2,677
Net income / (loss) before zakat and income tax	315,899	116,536	341,708	56,422	(117,321)	713,244
31 December 2021 (Audited)						
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
30 June 2021						
Total assets	32,086,867	24,719,972	36,588,982	2,291,756	208,478	95,896,055
Total liabilities	45,471,310	23,574,012	11,750,665	1,292,265	(988)	82,087,264
Total operating income	928,300	332,481	444,659	167,914	(99,475)	1,773,879
Of which:						
- Net financing and investment income	703,361	275,895	281,202	17,103	(2,272)	1,275,289
- Fees from banking services, net	153,704	49,812	(64)	150,467	(13,426)	340,493
- Net (loss) / gain on FVIS financial instruments	(6,017)	(6,856)	(719)	3,985	(1,344)	(10,951)
Total operating expenses	(554,608)	(470,140)	(69,104)	(86,729)	1,684	(1,178,897)
Of which:						
- Impairment charge for financing and other financial assets, net	2,324	(313,276)	201	-	-	(310,751)
- Depreciation and amortization	(68,870)	(14,718)	(7,657)	(6,109)	-	(97,354)
Share in net income of an associate	-	-	-	879	5,274	6,153
Net income / (loss) before zakat and income tax	373,692	(137,659)	375,555	87,691	(58,754)	640,525

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments"

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

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

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

	30 June 2022 (Unaudited)			
	Fair Value (SR'000)			
	Carrying Value	Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	932,451	-	932,451	932,451
FVIS – Equities	-	-	-	-
FVOCI – Sukuk	8,322,060	-	8,322,060	8,322,060
Shari'ah compliant derivatives	103,431	-	103,431	103,431
Total	9,357,942	-	9,357,942	9,357,942
<u>Financial liabilities measured at fair value:</u>				
Shari'ah compliant derivatives	107,451	-	107,451	107,451

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	Carrying Value	31 December 2021 (Audited) Fair Value (SR'000)		Total
		Level 1	Level 2	
<u>Financial assets measured at fair value:</u>				
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
<u>Financial liabilities measured at fair value:</u>				
Shari'ah compliant derivatives	227,309	-	227,309	227,309
<u>30 June 2021 (Unaudited) Fair Value (SR'000)</u>				
	Carrying Value	Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	444,653	-	444,653	444,653
FVIS - Equities	1,132	1,132	-	1,132
FVOCI – Sukuk	2,303,357	-	2,303,357	2,303,357
Shari'ah compliant derivatives	11,054	-	11,054	11,054
Total	2,760,196	1,132	2,759,064	2,760,196
<u>Financial liabilities measured at fair value:</u>				
Shari'ah compliant derivatives	249,672	-	249,672	249,672

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 4.84 million (31 December 2021: SR 4.89 million and 30 June 2021: SR 4.91 million) are carried at cost and, accordingly, are not fair valued.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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.

	30 June 2022 (Unaudited) (SR'000)	
	Amortised cost	Fair value Level 2
Financial assets:		
Due from banks and other financial institutions, net	2,455,830	2,461,067
Investment held at amortised cost, net	22,781,376	22,571,659
Financing, net	65,635,817	66,280,705
Total	90,873,023	91,313,431
Financial liabilities:		
Due to banks and other financial institutions	9,914,552	10,295,452
Customers' deposits	86,583,652	86,650,470
Subordinated Sukuk	1,997,668	1,997,668
Total	98,495,872	98,943,590
	31 December 2021 (Audited) (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

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	30 June 2021 (Unaudited) (SR'000)	
	Amortised cost	Fair value Level 2
<u>Financial assets:</u>		
Due from banks and other financial institutions, net	538,644	538,361
Investment held at amortised cost, net	27,819,566	28,883,721
Financing, net	56,900,681	59,733,709
Total	85,258,891	89,155,791
<u>Financial liabilities:</u>		
Due to banks and other financial institutions	9,112,326	8,995,751
Customers' deposits	70,690,780	70,726,143
Subordinated Sukuk	-	-
Total	79,803,106	79,721,894

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 30 June 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 30 June 2022, 31 December 2021 and 30 June 2021, as well as the significant unobservable inputs used.

Bank AlJazira

(A Saudi Joint Stock Company)

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)**

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 Profit rate swaps: The fair value is determined by discounting the future cash flows using observable market data inputs for yield curves.	Not applicable	Not applicable
Due from banks and other financial institutions, Financing, Due to banks and other financial institutions, Customer Deposits	Amortised Cost	Market Data: Used observable market data inputs for yield curves. Fair value technique: The fair value is determined by discounting the future cash flows. A discounted cash flow is the product of: <ul style="list-style-type: none"> The anticipated nominal magnitude and sign of a cash flow. The accumulated discount over the amount of time remaining until the anticipated time of the cash flow, at a rate of discount. The fair value is determined only for the Customers' time investments.	Not applicable	Not applicable
Investment held at amortised cost - net	Amortised Cost	Fair valued using the quoted prices, where available.	Not applicable	Not applicable

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

18. CAPITAL ADEQUACY

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

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

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

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)	30 June 2021 (Unaudited)
	SR'000	SR'000	SR'000
Credit Risk RWA	71,054,342	62,154,881	56,223,169
Operational Risk RWA	6,221,262	5,993,235	5,736,587
Market Risk RWA	3,129,933	1,593,934	1,428,545
Total Pillar-I RWA	80,405,537	69,742,050	63,388,301
Common Equity Tier 1 (CET 1) Capital	12,448,967	12,763,118	12,686,992
Additional Tier 1 (AT1) Capital	1,875,000	1,875,000	1,875,000
Tier I Capital	14,323,967	14,638,118	14,561,992
Tier II Capital	2,393,056	2,384,970	396,006
Total Tier I and II Capital	16,717,023	17,023,088	14,957,998
Capital Adequacy Ratio (%)			
Common Equity Tier I Ratio	15.48%	18.30%	20.01%
Tier I ratio	17.81%	20.99%	22.97%
Total Tier I and II Capital	20.79%	24.41%	23.60%

19. DIVIDEND

The Board of Directors has approved on 1 August 2022 an interim dividend of SR 328 million for the first half of 2022 (30 June 2021: SR 287 million). This will yield a payment of SR 0.4 per share (30 June 2021: SR 0.35 per share), net of zakat to the shareholders of the Bank.

In addition, 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 which was paid during the current period ended 30 June 2022. This dividend was calculated based on 820 million shares.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

20. IMPACT OF SAMA PROGRAMS

The Private Sector Financing Support Program (“PSFSP”) launched by SAMA 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, has ended on 31 March 2022.

During the six month period ended June 30, 2022, SR 0.49 million (June 30, 2021: SR 115.53 million) has been recognized in the interim condensed consolidated statement of income with respect to the amortization of grant income on related deposits with an aggregate of SR 2.86 million deferred grant income as at June 30, 2022 (December 31, 2021: SR 3.34 million). During the three month period ended June 30, 2022, SR 0.24 million (June 30, 2021: SR 17.45 million) has been recognized in the interim condensed consolidated statement of income with respect to the amortization of grant income on related deposits. The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic.

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 June 30, 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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2022 (CONTINUED)

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

Hedge accounting (continued)

Of the SR 487.50 million nominal amount of profit rate swaps above, SR 93.75 million will mature before the anticipated USD LIBOR replacement in Q2 2023.

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

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 31 July 2022 (corresponding to 2 Muharram 1444H).