BANK ALJAZIRA

(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021

pwc

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EY
Building a better working world

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Head Office - Riyadh
Registration NO. 45/11/323
C.R. No. 4030276644

Independent Auditors' Review Report on Interim Condensed Consolidated Financial Statements

To the Shareholders of Bank AlJazira
(A Saudi Arabian 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 September 2021, and the related interim condensed consolidated statements of income and comprehensive income for the three-month and nine-month period then ended and the interim condensed consolidated statement of changes in equity and cash flows for the nine-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 ('ISAs'), 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 of 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
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28 Rabi Al Awwal 1443H
3 November 2021

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ١٠١٠٣٧١٦٢٢
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شركة ارنست ويونغ وشركاهم محاسبون قانونيون
(شركة ذات مسئولية محدودة مهنية)
Ernst and Young & Co Public Accountants
(Professional LLC)

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2021 (Unaudited) SR'000	31 December 2020 (Audited) SR'000	30 September 2020 (Unaudited) SR'000
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)	15	**6,090,255**	5,248,294	4,926,100
Due from banks and other financial institutions, net		**540,668**	426,138	306,603
Investments held at fair value through statement of income (FVIS)	5	**449,958**	443,104	629,205
Investments held at fair value through other comprehensive income (FVOCI)	5	**2,425,844**	1,118,251	1,089,030
Investments held at amortised cost, net	5	**28,118,855**	28,334,118	28,375,596
Positive fair value of Shari'ah compliant derivatives	9	**40,199**	135,224	141,883
Financing, net	6	**58,439,318**	53,961,211	54,137,941
Investment in an associate	7	**209,936**	164,136	161,453
Other real estate		**511,523**	474,421	472,853
Property and equipment, net		**1,151,676**	1,155,609	1,089,358
Other assets		**599,514**	628,368	580,761
Total assets		**98,577,746**	92,088,874	91,910,783
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**8,323,813**	8,530,196	12,667,171
Customers' deposits	8	**74,263,749**	68,003,612	62,976,387
Negative fair value of Shari'ah compliant derivatives	9	**271,037**	303,495	346,757
Subordinated Sukuk	10	**-**	2,004,633	2,020,503
Other liabilities		**2,049,204**	1,882,439	2,097,991
Total liabilities		**84,907,803**	80,724,375	80,108,809
EQUITY				
Share capital	11	**8,200,000**	8,200,000	8,200,000
Statutory reserve		**2,808,942**	2,665,754	2,657,316
General reserve		**-**	-	68,000
Other reserves	12	**(130,601)**	(99,576)	(157,355)
Retained earnings		**916,602**	598,321	1,034,013
Equity attributable to shareholders' of the Bank		**11,794,943**	11,364,499	11,801,974
Tier 1 Sukuk	13	**1,875,000**	-	-
Total Equity		**13,669,943**	11,364,499	11,801,974
Total Liabilities and Equity		**98,577,746**	92,088,874	91,910,783

Tarek Al-Kasabi	Naif Al Abdulkareem	Hani Noori
Chairman	CEO and Managing Director	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 NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021

	Notes	For the three-month period ended		For the Nine-month period ended	
		30 September 2021 SR'000	30 September 2020 SR'000	30 September 2021 SR'000	30 September 2020 SR'000
Income from investments and financing		**757,648**	755,346	**2,217,340**	2,355,143
Return on deposits and financial liabilities		**(83,968)**	(138,570)	**(268,371)**	(596,571)
Net financing and investment income		**673,680**	616,776	**1,948,969**	1,758,572
Fees from banking services - income		**252,405**	236,549	**863,790**	660,383
Fees from banking services - expense		**(110,759)**	(108,815)	**(381,651)**	(277,467)
Fees from banking services, net		**141,646**	127,734	**482,139**	382,916
Exchange income, net		**42,107**	60,248	**124,677**	189,206
Net gain / (loss) on FVIS financial instruments		**6,837**	3,625	**(4,114)**	5,136
Dividend income		**28**	-	**643**	54
Net gains on de-recognition of financial assets measured at FVOCI - Sukuk		**11,440**	6	**14,977**	4,496
Net gains on de-recognition of financial assets measured at amortised cost		**825**	78	**78,504**	610
Other operating income		**1,694**	3,430	**6,341**	29,230
Total operating income		**878,257**	811,897	**2,652,136**	2,370,220
Salaries and employee-related expenses		**239,906**	246,370	**720,516**	743,134
Rent and premises-related expenses		**13,646**	12,678	**42,048**	37,066
Depreciation and amortisation		**51,031**	54,828	**148,385**	159,245
Other general and administrative expenses		**127,165**	118,109	**366,451**	337,613
Other operating expenses		**4,673**	3,942	**27,167**	15,406
Total operating expenses before impairment charge		**436,421**	435,927	**1,304,567**	1,292,464
Impairment charge for financing and other financial assets, net	6 (b)	**158,464**	180,079	**469,215**	475,077
Impairment charge for non-financial assets		**42,571**	-	**42,571**	-
Total operating expenses		**637,456**	616,006	**1,816,353**	1,767,541
Net operating income		**240,801**	195,891	**835,783**	602,679
Share in net income of an associate		**461**	4,949	**6,614**	13,516
Gain on deemed disposal of an associate	7	**-**	-	**39,390**	-
Net income for the period before Zakat and income tax		**241,262**	200,840	**881,787**	616,195
Zakat and income tax					
Zakat		**(35,020)**	(20,944)	**(98,813)**	(85,467)
Income tax		**(1,714)**	1,736	**(5,694)**	(1,720)
Net income for the period		**204,528**	181,632	**777,280**	529,008
Basic and diluted earnings per share for the period (expressed in SR per share)	11	**0.23**	0.22	**0.92**	0.65

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 COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021

	Notes	For the three-month period ended		For the Nine-month period ended	
		30 September 2021 SR'000	30 September 2020 SR'000	**30 September 2021 SR'000**	30 September 2020 SR'000
Net income for the period		**204,528**	181,632	**777,280**	529,008
Other comprehensive (loss)/ 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	**8,222**	286	**51,080**	(81,417)
- Net amount transferred to interim consolidated statement of income	12	**(5,418)**	(22)	**(6,682)**	(66)
Net changes in fair value of investments classified as at FVOCI Sukuk	12	**(40,030)**	(16,245)	**(75,423)**	10,932
Total other comprehensive loss for the period		**(37,226)**	(15,981)	**(31,025)**	(70,551)
Total comprehensive income for the period		**167,302**	165,651	**746,255**	458,457

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021

	Note	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Proposed dividend SR'000	Total shareholders' equity SR'000	Tier 1 Sukuk SR'000	Total Equity SR'000
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		-	-	-	-	777,280	-	777,280	-	777,280
Other comprehensive loss		-	-	-	(31,025)	-	-	(31,025)	-	(31,025)
Total comprehensive income for the period		-	-	-	(31,025)	777,280	-	746,255	-	746,255
Transfer to Statutory Reserve		-	143,188	-	-	(143,188)	-	-	-	-
Tier 1 Sukuk issued	13	-	-	-	-	-	-	-	1,875,000	1,875,000
Tier 1 Sukuk issuance costs		-	-	-	-	(8,937)	-	(8,937)	-	(8,937)
Tier 1 Sukuk related costs		-	-	-	-	(19,874)	-	(19,874)	-	(19,874)
Interim dividend Paid	19	-	-	-	-	(287,000)	-	(287,000)	-	(287,000)
Balance at 30 September 2021 (unaudited)		**8,200,000**	**2,808,942**	**-**	**(130,601)**	**916,602**	**-**	**11,794,943**	**1,875,000**	**13,669,943**
Balance at 1 January 2020 (audited)		8,200,000	2,657,316	68,000	(86,804)	505,005	246,000	11,589,517	-	11,589,517
Net income for the period		-	-	-	-	529,008	-	529,008	-	529,008
Other comprehensive loss		-	-	-	(70,551)	-	-	(70,551)	-	(70,551)
Total comprehensive income for the period		-	-	-	(70,551)	529,008	-	458,457	-	458,457
Final dividend Paid	19	-	-	-	-	-	(246,000)	(246,000)	-	(246,000)
Balance at 30 September 2020 (unaudited)		8,200,000	2,657,316	68,000	(157,355)	1,034,013	-	11,801,974	-	11,801,974

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021

	Notes	For the Nine month period ended 30 September 2021 SR'000	30 September 2020 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period before Zakat and income tax		881,787	616,195
Adjustments to reconcile net income to net cash from operating activities:			
Net loss / (gain) on FVIS financial instruments		4,114	(5,136)
Gain on investments not held as FVIS		(93,481)	(5,106)
Return on subordinated sukuk		23,476	55,802
Depreciation and amortization		148,385	159,245
Impairment charge for financing and other financial assets, net	6 (b)	469,215	475,077
Impairment charge on other real estate		42,571	-
Share in net income of an associate		(6,614)	(13,516)
Gain on deemed disposal of an associate		(39,390)	-
Net loss on disposal / write off of property and equipment		8,113	3,005
		1,438,176	1,285,566
Net changes in operating assets:			
Statutory deposit with SAMA		(601,177)	(158,068)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(16,880)	860,900
Investments held at FVIS		(3,058)	(337,045)
Positive fair value of Shari'ah compliant derivatives		95,024	(40,257)
Financing		(4,906,253)	(4,855,817)
Other real estate		(79,673)	(3,861)
Other assets		28,854	(95,211)
Net changes in operating liabilities:			
Due to banks and other financial institutions		(206,383)	4,413,417
Customers' deposits		6,260,137	279,593
Negative fair value of Shari'ah compliant derivatives		(40,368)	130,746
Other liabilities		33,001	204,001
		2,001,400	1,683,964
Zakat and income tax paid		(6,258)	(127,997)
Net cash from operating activities		1,995,142	1,555,967
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of investments not held as FVIS		2,059,423	172,477
Acquisition of investments not held as FVIS		(3,133,818)	(2,292,297)
Acquisition of property and equipment		(93,513)	(73,115)
Proceeds from sale of property and equipment		4	1,114
Net cash used in investing activities		(1,167,904)	(2,191,821)
CASH FLOWS FROM FINANCING ACTIVITIES			
Tier 1 Sukuk issuance		1,875,000	-
Repayment of subordinated Sukuk		(2,000,000)	-
Payment of special commission expense on Subordinated Sukuk		(28,109)	(42,220)
Payment of Tier 1 Sukuk issuance costs		(3,539)	-
Dividends paid		(276,376)	(239,337)
Payment for principal portion of lease liabilities		(57,188)	(54,798)
Net cash used in financing activities		(490,212)	(336,355)
Net change in cash and cash equivalents held		337,026	(972,209)
Cash and cash equivalents at the beginning of the period		2,076,343	2,646,838
Cash and cash equivalents at the end of the period	15	2,413,369	1,674,629
Income from investments and financing received during the period		2,112,316	2,291,493
Return on deposits and financial liabilities paid during the period		337,854	707,948
Supplemental non-cash information			
Right of Use assets		347,767	370,619
Lease liabilities		326,769	342,153
Net changes in fair value and transfers of cash flow hedge derivatives to the interim consolidated statement of income		44,398	(81,483)

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

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

Yaseen Ullah AAB

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 operates through its 80 branches (31 December 2020: 79 branches and 30 September 2020: 79 branches) and 62 Fawri Remittance Centers (31 December 2020: 62 and 30 September 2020: 61 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

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

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on 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) 30 September 2021**	Ownership (direct and indirect) 31 December 2020	Ownership (direct and indirect) 30 September 2020
Subsidiary					
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 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%**	-	-

1. GENERAL (continued)

Subsequent to the year ended 31 December 2020, 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 September 2021.

	Country of incorporation	Nature of business	**Ownership (direct and indirect) 30 September 2021**	Ownership (direct and indirect) 31 December 2020	Ownership (direct and indirect) 30 September 2020
Associate					
AlJazira Takaful Ta'awuni Company (note 7)	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**26.03%**	35%	35%

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the period ended 30 September 2021, 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 2020.

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 the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2020 except for the following:

- Judgement of equity vs liability for Tier 1 Sukuk

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

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 condense 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

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020 except for:

New standards, interpretations and amendments adopted by the Group

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

- Profit Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary relief that address the impact on financial reporting when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free profit rate (RFR). The amendments include the following practical expedients:

- ➢ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating profit rate, equivalent to a movement in a market rate of profit;
- ➢ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- ➢ Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

For further details, please refer note 21 to these interim condensed consolidated financial statements.

Accounting standards issued but not yet effective

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

- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities
- 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
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- IFRS 17, 'Insurance contracts', as amended in June 2020

5. INVESTMENTS

Investments are classified as follows:

	30 September 2021 SR'000		
	Domestic	**International**	**Total**
i) FVIS			
Mutual funds	**196,673**	**250,549**	**447,222**
Equities	**2,736**	**-**	**2,736**
	199,409	**250,549**	**449,958**
ii) FVOCI			
Equities	**4,143**	**755**	**4,898**
Sukuk investments	**2,420,946**	**-**	**2,420,946**
	2,425,089	**755**	**2,425,844**
iii) Amortised cost			
Sukuk investments	**23,221,447**	**-**	**23,221,447**
Wakala floating rate notes	**4,904,029**	**-**	**4,904,029**
	28,125,476	**-**	**28,125,476**
Allowance for impairment "ECL"	**(6,621)**	-	**(6,621)**
	28,118,855	**-**	**28,118,855**
Total	**30,743,353**	**251,304**	**30,994,657**

	31 December 2020 SR'000		
	Domestic	**International**	**Total**
i) FVIS			
Mutual funds	193,324	249,020	442,344
Equities	760	-	760
	194,084	249,020	443,104
ii) FVOCI			
Equities	4,143	789	4,932
Sukuk investments	1,113,319	-	1,113,319
	1,117,462	789	1,118,251

5. INVESTMENTS (continued)

	31 December 2020 SR'000		
	Domestic	International	Total
iii) Amortised cost			
Sukuk investments	23,436,322	-	23,436,322
Wakala floating rate notes	4,904,294	-	4,904,294
	28,340,616	-	28,340,616
Allowance for impairment	(6,498)	-	(6,498)
	28,334,118	-	28,334,118
Total	29,645,664	249,809	29,895,473

	30 September 2020 SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	192,200	436,334	628,534
Equities	671	-	671
	192,871	436,334	629,205
ii) FVOCI			
Equities	4,143	761	4,904
Sukuk investments	1,084,126	-	1,084,126
	1,088,269	761	1,089,030
iii) Amortised cost			
Sukuk investments	23,473,924	-	23,473,924
Wakala floating rate notes	4,904,644	-	4,904,644
	28,378,568	-	28,378,568
Allowance for impairment	(2,972)	-	(2,972)
	28,375,596	-	28,375,596
Total	29,656,736	437,095	30,093,831

6. FINANCING, NET

The financing is classified as at amortized cost.

	SR'000				
30 September 2021	**Credit cards**	**Consumer**	**Commercial**	**Others**	**Total**
Performing financing	**703,262**	**27,533,721**	**30,956,790**	**347,161**	**59,540,934**
Non-performing financing	**60,752**	**288,813**	**1,050,384**	**-**	**1,399,949**
Gross financing	**764,014**	**27,822,534**	**32,007,174**	**347,161**	**60,940,883**
Allowance for impairment	**(66,494)**	**(217,756)**	**(2,217,315)**	**-**	**(2,501,565)**
Financing, net	**697,520**	**27,604,778**	**29,789,859**	**347,161**	**58,439,318**

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

	SR'000				
30 September 2020	Credit cards	Consumer	Commercial	Others	Total
Performing financing	693,637	25,840,601	27,678,383	375,354	54,587,975
Non-performing financing	57,776	158,675	611,195	-	827,646
Gross financing	751,413	25,999,276	28,289,578	375,354	55,415,621
Allowance for impairment	(64,144)	(172,126)	(1,041,410)	-	(1,277,680)
Financing, net	687,269	25,827,150	27,248,168	375,354	54,137,941

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:

	30 September 2021 (Unaudited) SR'000	31 December 2020 (Audited) SR'000	30 September 2020 (Unaudited) SR'000
Balance at the beginning of the period / year	**2,192,997**	1,009,167	1,009,167
Impairment charge for financing	**573,509**	1,411,054	472,831
Bad debts written off	**(132,165)**	(134,946)	(132,093)
Reversal / recoveries of amounts previously impaired	**(132,945)**	(92,278)	(72,225)
Allowance written back	**169**	-	-
Balance at the end of the period / year	**2,501,565**	2,192,997	1,277,680

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

	30 September 2021 (Unaudited) SR'000	30 September 2020 (Unaudited) SR'000
Impairment charge for financing	**573,509**	472,831
Recoveries / reversal of amounts previously impaired	**(132,945)**	(72,225)
Recoveries from debts previously written off	**(12,419)**	(22,611)
Net charge / (reversal) of impairment charge for ECL in respect of due from banks and other financial institutions	**123**	(1,054)
Net (reversal) / impairment charge for ECL in respect of investments	**(1,407)**	2,972
Net impairment charge for ECL in respect of non-funded financing and credit related commitments	**42,354**	95,164
Impairment charge for financing and other financial assets, net	**469,215**	475,077

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 September 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	875,019	(869,652)	(5,367)	-
Transfer to lifetime ECL not credit – Impaired	(457,621)	467,550	(9,929)	-
Transfer to lifetime ECL credit impaired	(248,385)	(853,785)	1,102,170	-
New financial assets originated or purchased	11,770,232	84,122	37,158	11,891,512
Financial assets that have been derecognized	(5,362,262)	(253,616)	(253,030)	(5,868,908)
Changes in financing income accrual	9,884	-	-	9,884
Other movements	(970,496)	(127,214)	(15,938)	(1,113,648)
Write-offs	-	-	(132,165)	(132,165)
Gross carrying amount as at 30 September 2021	**54,357,529**	**2,739,497**	**3,843,857**	**60,940,883**

	30 September 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
		(SR'000)		
Gross carrying amount as at 1 January 2020	43,726,824	3,862,170	3,080,292	50,669,286
Transfer to 12-month ECL	808,558	(795,343)	(13,215)	-
Transfer to lifetime ECL not credit – Impaired	(330,944)	334,281	(3,337)	-
Transfer to lifetime ECL credit impaired	(227,246)	(59,188)	286,434	-
New financial assets originated or purchased	11,611,165	45,966	7,072	11,664,203
Financial assets that have been derecognized	(5,369,264)	(132,131)	(64,560)	(5,565,955)
Changes in financing income accrual	70,637	-	-	70,637
Other movements	(1,047,774)	(168,739)	(73,944)	(1,290,457)
Write-offs	-	-	(132,093)	(132,093)
Gross carrying amount as at 30 September 2020	49,241,956	3,087,016	3,086,649	55,415,621

6. FINANCING, NET (continued)

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

	30 September 2021			
	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	35,467	(32,771)	(2,696)	-
Transfer to lifetime ECL not credit – impaired	(2,345)	6,367	(4,022)	-
Transfer to lifetime ECL credit impaired	(1,730)	(127,510)	129,240	-
Net re-measurement of loss allowance	(118,410)	(14,244)	578,532	445,878
New financial assets originated or purchased	40,289	2,456	17,865	60,610
Financial assets that have been derecognized	(28,700)	(14,300)	(22,755)	(65,755)
Write-offs	-	-	(132,165)	(132,165)
ECL as at September 30, 2021	**260,180**	**118,168**	**2,123,217**	**2,501,565**

	30 September 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at January 1, 2020	170,747	94,820	743,600	1,009,167
Transfer to 12-month ECL	11,267	(7,243)	(4,024)	-
Transfer to lifetime ECL not credit – impaired	(1,515)	2,507	(992)	-
Transfer to lifetime ECL credit impaired	(2,683)	(1,999)	4,682	-
Net re-measurement of loss allowance	45,008	(10,126)	374,202	409,084
New financial assets originated or purchased	45,686	948	3,693	50,327
Financial assets that have been derecognized	(24,599)	(1,626)	(32,580)	(58,805)
Write-offs	-	-	(132,093)	(132,093)
ECL as at September 30, 2020	243,911	77,281	956,488	1,277,680

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 2020: 35% and 30 September 2020: 35%) 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. AJT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in AJT as of 30 September 2021 was SR 349.74 million (31 December 2020: SR 309.92 million and 30 September 2020: SR 305.76 million) based on Tadawul market price.

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

8. CUSTOMERS' DEPOSITS

	30 September 2021 (Unaudited) SR'000	31 December 2020 (Audited) SR'000	30 September 2020 (Unaudited) SR'000
Demand	**37,269,679**	37,411,390	35,721,604
Saving	**817,842**	284,182	151,733
Customers' time investments	**34,344,766**	28,543,641	25,264,007
Other	**1,831,462**	1,764,399	1,839,043
Total	**74,263,749**	68,003,612	62,976,387

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 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:

	30 September 2021 SR'000	30 September 2020 SR'000
Income from investments and financing	**7,776**	1,239
Return on deposits and financial liabilities	**(1,094)**	(1,173)
Net gains on cash flow hedges reclassified to the interim condensed consolidated statement of income	**6,682**	66

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 51.08 million (30 September 2020: unrealized loss of SR 81.42 million) included in the consolidated statement of comprehensive income comprised of net unrealized loss of SR 41.41 million (30 September 2020: unrealized loss of SR 81.42 million) and realized gain of SR 92.49 million (30 September 2020: 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.

	30 September 2021 (Unaudited) SR'000			31 December 2020 (Audited) SR'000			30 September 2020 (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:									
Profit rate swaps	**16,703**	**16,703**	**443,219**	18,792	18,792	1,254,753	23,599	23,599	1,281,633
Cross currency profit rate swaps	**18,927**	**29,013**	**1,875,000**	-	-	-	-	-	-
Currency swaps	**-**	**2,194**	**743,175**	3,780	40	265,106	-	1,863	484,748
Currency forwards (Wa'ad)	**11**	**106**	**166,013**	8	40	5,681	7	44	301,980
Total	**35,641**	**48,016**	**3,227,407**	22,580	18,872	1,525,540	23,606	25,506	2,068,361
Held as cash flow hedge:									
Profit rate swaps	**4,558**	**223,021**	**3,250,625**	112,644	284,623	3,550,625	118,277	321,251	3,550,625
Total	**40,199**	**271,037**	**6,478,032**	135,224	303,495	5,076,165	141,883	346,757	5,618,986

The negative fair values of profit rate swaps are mainly due to a downward shift in the yield curve. The fair values of these swaps are expected to be settled on or before April 2044 (31 December 2020: April 2044 and 30 September 2020: April 2044).

Held for trading profit rate swaps include accrued profit receivable amounting to SR 20.16 million (31 December 2020: SR 1.47 million and 30 September 2020: SR 1.83 million) and accrued profit payable amounting to SR 22.33 million (31 December 2020: SR 1.47 million and 30 September 2020: SR 1.83 million). Held as cash flow hedge profit rate swaps include accrued profit receivable amounting to SR 4.56 million (31 December 2020: SR 5.04 million and 30 September 2020: SR 11.80 million) and accrued profit payable amounting to SR 23.05 million (31 December 2020: SR 18.46 million and 30 September 2020: SR 22.94 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

During the current period, as per the terms mentioned in the related offering circular and on meeting certain conditions, the Bank on 9 May 2021 exercised its call option for settlement of Subordinated Sukuk Certificates. The Subordinated Sukuk Certificates were issued on 2 June 2016, having 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 190 basis point per annum and payable semi-annually in arrears on 2 June and 2 December each year.

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 2020: 820 million shares of SR 10 each and 30 September 2020: 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 Nine month period ended**	
	30 September 2021 (Unaudited) SR'000	30 September 2020 (Unaudited) SR'000	**30 September 2021 (Unaudited) SR'000**	30 September 2020 (Unaudited) SR'000
Profit attributable to ordinary shareholders (adjusted for Tier 1 sukuk related costs)				
For basic and diluted earnings per share	**185,065**	181,632	**757,406**	529,008
	Shares	Shares	**Shares**	Shares
Weighted-average number of ordinary shares				
For basic and diluted earnings per share	820,000,000	820,000,000	820,000,000	820,000,000
Basic and diluted earnings per share (in SR)	**0.23**	0.22	**0.92**	0.65

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

12. OTHER RESERVES

30 September 2021	**Cash flow hedges SR' 000**	**Fair value reserve – FVOCI Sukuk 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	**51,080**	**(75,423)**	**-**	**(24,343)**
Transfer to interim condensed consolidated statement of income	**(6,682)**	**-**	**-**	**(6,682)**
Net movement during the period	**44,398**	**(75,423)**	**-**	**(31,025)**
Balance at end of the period	**(114,240)**	**(38,863)**	**22,502**	**(130,601)**

30 September 2020	Cash flow hedges SR' 000	Fair value reserve – FVOCI Sukuk SR' 000	Actuarial gains SR' 000	Total SR' 000
Balance at beginning of the period	(110,411)	5,508	18,099	(86,804)
Net change in fair value	(81,417)	10,932	-	(70,485)
Transfer to interim condensed consolidated statement of income	(66)	-	-	(66)
Net movement during the period	(81,483)	10,932	-	(70,551)
Balance at end of the period	(191,894)	16,440	18,099	(157,355)

13. TIER 1 SUKUK

During 2021, the Bank through a Shariah compliant arrangement ("the arrangement") issued cross border Tier 1 Sukuk (the "Sukuk"), amounting to SAR 1.875 billion (denominated in US Dollars). This arrangement was approved by the regulatory authorities and the Board of Directors of the Bank.

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

13. TIER 1 SUKUK (continued)

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 2020.

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

	30 September 2021 (Unaudited) SR'000	31 December 2020 (Audited) SR'000	30 September 2020 (Unaudited) SR'000
Letter of credit	**1,128,527**	777,807	656,229
Letter of guarantee	**4,242,886**	4,589,950	4,241,264
Acceptances	**268,252**	170,509	188,070
Irrevocable commitments to extend credit	**476,168**	618,455	150,763
Total	**6,115,833**	6,156,721	5,236,326
Allowance for impairment (refer note (b)(i))	**(413,441)**	(371,087)	(188,652)
Net exposure	**5,702,392**	5,785,634	5,047,674

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

	30 September 2021			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR'000)			
ECL as at January 1, 2021	**27,788**	**6,547**	**336,752**	**371,087**
Transfer to 12-month ECL	**553**	**(553)**	**-**	**-**
Transfer to lifetime ECL not credit – Impaired	**(86)**	**86**	**-**	**-**
Transfer to lifetime ECL credit impaired	**(4,043)**	**(2,321)**	**6,364**	**-**
Net re-measurement of loss allowance	**(12,171)**	**4,634**	**52,831**	**45,294**
New financial assets originated or purchased	**1,199**	**106**	**-**	**1,305**
Financial assets that have been derecognized	**(1,603)**	**(43)**	**(2,599)**	**(4,245)**
ECL as at September 30, 2021	**11,637**	**8,456**	**393,348**	**413,441**

14. COMMITMENTS AND CONTINGENCIES (continued)

	30 September 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at January 1, 2020	18,630	2,602	72,257	93,489
Transfer to 12-month ECL	263	(263)	-	-
Transfer to lifetime ECL not credit – Impaired	(32)	32	-	-
Transfer to lifetime ECL credit impaired	(62)	(39)	101	-
Net re-measurement of loss allowance	(3,967)	1,243	99,186	96,462
New financial assets originated or purchased	27	-	-	27
Financial assets that have been derecognized	(995)	(294)	(37)	(1,326)
ECL as at September 30, 2020	13,864	3,281	171,507	188,652

b) During 2018, the Bank reached a Settlement Agreement (the "Agreement") with the 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 two instalments of SR 88.2 million each during the month of November 2019 and November 2020 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.

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

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

14. COMMITMENTS AND CONTINGENCIES (continued)

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

However, in order to avail the amnesty, the Bank has withdrawn the appeal. During the year 2020, the Bank received further VAT assessment for the years 2018 and 2019 with an additional VAT of SR 39.3 million and associated delay fines amounting to SR 63.9 million. The Bank has objected to the imposition of additional VAT and associated delay fines with the General Secretariat of Tax Committees (GSTC). 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.

15. CASH AND CASH EQUIVALENTS

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

	30 September 2021 (Unaudited) SR'000	31 December 2020 (Audited) SR'000	30 September 2020 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	**1,888,654**	1,647,870	1,367,551
Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition	**524,715**	428,473	307,078
Total	**2,413,369**	2,076,343	1,674,629

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

	30 September 2021 (Unaudited) SR'000	31 December 2020 (Audited) SR'000	30 September 2020 (Unaudited) SR'000
Cash and cash equivalents as per statement of cash flows	**2,413,369**	2,076,343	1,674,629
Statutory deposit	**4,201,601**	3,600,424	3,558,549
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	**(524,715)**	(428,473)	(307,078)
Cash and balances with SAMA	**6,090,255**	5,248,294	4,926,100

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 2020.

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 September 2021 and 30 September 2020, its total operating income and expenses, and its net income for the nine month period then ended, by operating segment, are as follows:

16. OPERATING SEGMENTS (continued)

30 September 2021 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Others	Total
Total assets	32,188,526	25,524,126	38,427,161	2,228,904	209,029	98,577,746
Total liabilities	46,116,010	26,359,616	11,243,873	1,189,211	(907)	84,907,803
Total operating income	1,425,815	511,913	639,560	233,765	(158,917)	2,652,136
Net financing and investment income	1,085,502	418,481	421,292	28,507	(4,813)	1,948,969
Fees from banking services, net	227,910	74,282	343	198,266	(18,662)	482,139
Net (loss) / gain on FVIS financial instruments	(4,540)	(2,341)	(1,028)	5,140	(1,345)	(4,114)
Share in net income of an associate	-	-	-	945	5669	6,614
Impairment charge for financing and other financial assets, net	5,766	(474,858)	(123)	-	-	(469,215)
Impairment charge for non-financial assets	-	(42,571)	-	-	-	(42,571)
Depreciation and amortization	(105,069)	(22,320)	(11,874)	(9,122)	-	(148,385)
Total operating expenses	(836,298)	(751,863)	(102,964)	(127,755)	2,527	(1,816,353)
Net income / (loss) before Zakat and income tax	589,517	(239,950)	536,596	106,955	(111,331)	881,787

16. OPERATING SEGMENTS (continued)

	Personal Banking	Corporate banking	Treasury	Brokerage and asset management	Others	Total
31 December 2020						
Total assets	30,563,365	23,467,253	36,150,152	1,745,053	163,051	92,088,874
Total liabilities	42,056,851	24,398,194	13,435,001	835,414	(1,085)	80,724,375
30 September 2020						
Total assets	29,649,996	24,617,971	35,764,109	1,718,360	160,347	91,910,783
Total liabilities	40,658,632	21,189,351	17,565,262	696,670	(1,106)	80,108,809
Total operating income	1,219,879	451,793	789,806	174,435	(265,693)	2,370,220
Net financing and investment Income	819,146	372,848	593,393	31,628	(58,443)	1,758,572
Fees from banking services, net	200,777	65,330	(299)	138,870	(21,762)	382,916
Net gain on FVIS financial instruments	-	-	-	5,136	-	5,136
Share in net income of an associate	-	-	-	1,931	11,585	13,516
Impairment charge for financing and other financial assets, net	(68,474)	(403,631)	(2,972)	-	-	(475,077)
Depreciation and amortization	(97,706)	(14,102)	(30,638)	(10,089)	(6,710)	(159,245)
Total operating expenses	(816,077)	(573,865)	(248,260)	(101,842)	(27,497)	(1,767,541)
Net income / (loss) before Zakat and income tax	403,802	(122,072)	541,546	74,524	(281,605)	616,195

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:

		30 September 2021 (SR'000)		
		Fair Value		
	Carrying Value	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value:				
FVIS - Mutual funds	**447,222**	**-**	**447,222**	**447,222**
FVIS - Equities	**2,736**	**2,736**	**-**	**2,736**
FVOCI – Sukuk	**2,420,946**	**-**	**2,420,946**	**2,420,946**
Shari'ah compliant derivatives	**40,199**	**-**	**40,199**	**40,199**
Total	**2,911,103**	**2,736**	**2,908,367**	**2,911,103**
Financial liabilities measured at fair value:				
Shari'ah compliant derivatives	**271,037**	**-**	**271,037**	**271,037**

		31 December 2020 (SR'000)		
		Fair Value		
	Carrying Value	Level 1	Level 2	Total
Financial assets measured at fair value:				
FVIS - Mutual funds	442,344	-	442,344	442,344
FVIS - Equities	760	760	-	760
FVOCI – Sukuk	1,113,319	-	1,113,319	1,113,319
Shari'ah compliant derivatives	135,224	-	135,224	135,224
Total	1,691,647	760	1,690,887	1,691,647
Financial liabilities measured at fair value:				
Shari'ah compliant derivatives	303,495	-	303,495	303,495

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

		30 September 2020 (SR'000) Fair Value		
	Carrying Value	Level 1	Level 2	Total
Financial assets measured at fair value:				
FVIS - Mutual funds	628,534	-	628,534	628,534
FVIS - Equities	671	671	-	671
FVOCI – Sukuk	1,084,126	-	1,084,126	1,084,126
Shari'ah compliant derivatives	141,883	-	141,883	141,883
Total	1,855,214	671	1,854,543	1,855,214
Financial liabilities measured at fair value:				
Shari'ah compliant derivatives	346,757	-	346,757	346,757

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 4.90 million (31 December 2020: SR 4.93 million and 30 September 2020: 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 fair value.

	30 September 2021 (SR'000)		
	Amortised cost	**Fair value Level 2**	**Fair value Level 3**
Financial assets:			
Due from banks and other financial institutions	**540,668**	**-**	**540,519**
Investment held at amortised cost, net	**28,118,855**	**28,952,546**	**-**
Financing, net	**58,439,318**	**-**	**61,203,484**
Total	**87,098,841**	**28,952,546**	**61,744,003**
Financial liabilities:			
Due to banks and other financial institutions	**8,323,813**	**-**	**8,803,841**
Customers' deposits	**74,263,749**	**-**	**74,326,742**
Total	**82,587,562**	**-**	**83,130,583**

	31 December 2020 (SR'000)		
	Amortised cost	Fair value Level 2	Fair value Level 3
Financial assets:			
Due from banks and other financial institutions	426,138	-	426,074
Investment held at amortised cost, net	28,334,118	29,115,386	-
Financing, net	53,961,211	-	56,815,209
Total	82,721,467	29,115,386	57,241,283
Financial liabilities:			
Due to banks and other financial institutions	8,530,196	-	8,509,548
Customers' deposits	68,003,612	-	68,169,001
Subordinated Sukuk	2,004,633	-	2,004,633
Total	78,538,441	-	78,683,182

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	30 September 2020 (SR'000)		
	Amortised cost	Fair value Level 2	Fair value Level 3
Financial assets:			
Due from banks and other financial institutions	306,603	-	306,577
Investment held at amortised cost, net	28,375,596	29,098,480	-
Financing, net	54,137,941	-	56,857,601
Total	82,820,140	29,098,480	57,164,178
Financial liabilities:			
Due to banks and other financial institutions	12,667,171	-	12,669,358
Customers' deposits	62,976,387	-	63,159,749
Subordinated Sukuk	2,020,503	-	2,020,503
Total	77,664,061	-	77,849,610

The fair value of the cash and balances with Saudi Central Bank, other assets and other liabilities approximate to their carrying amount, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to short duration of due from and due to banks and other financial institutions. The fair values of level 2 and level 3 financial instruments are estimated as at 30 September 2021 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 September 2021, 31 December 2020 and 30 September 2020, 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 **Profit rate swaps:** The fair value is determined by discounting the future cash flows using observable market data inputs for yield curves.	Not applicable	Not applicable
Due from banks and other financial institutions, Financing, Due to banks and other financial institutions, Customer Deposits	Amortised Cost	**Market Data**: Used observable market data inputs for yield curves. **Fair value technique**: The fair value is determined by discounting the future cash flows. A discounted cash flow is the product of: • The anticipated nominal magnitude and sign of a cash flow. • The accumulated discount over the amount of time remaining until the anticipated time of the cash flow, at a rate of discount. The fair value is determined only for the Customers' time investments.	Not applicable	Not applicable
Investment held at amortised cost - net	Amortised Cost	Fair valued using the quoted prices, where available.	Not applicable	Not applicable

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 of 8%.

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

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

	30 September 2021 (Unaudited)	31 December 2020 (Audited)	30 September 2020 (Unaudited)
	SR'000	SR'000	SR'000
Credit Risk RWA	**57,311,402**	55,360,267	54,371,676
Operational Risk RWA	**5,866,549**	5,496,895	5,300,789
Market Risk RWA	**1,571,301**	1,775,940	2,288,660
Total Pillar-I RWA	**64,749,252**	62,633,102	61,961,125
Common Equity Tier 1 (CET 1) Capital	**12,545,340**	12,159,294	12,630,024
Additional Tier 1 (AT1) Capital	**1,875,000**	-	-
Tier I Capital	**14,420,340**	12,159,294	12,630,024
Tier II Capital	**378,348**	2,633,778	2,373,890
Total Tier I and II Capital	**14,798,688**	14,793,072	15,003,914
Capital Adequacy Ratio (%)			
Tier I ratio	**22.27%**	19.41%	20.38%
Total Tier I and II Capital	**22.86%**	23.62%	24.22%

19. DIVIDEND

During the current period ended 30 September 2021, the Bank paid interim cash dividend of SR 287 million equal to SR 0.35 per share (30 September 2020: final cash dividend of SR 246 million equal to SR 0.3 per share for year ended December 31, 2019), net of Zakat. This dividend was calculated based on 820 million shares.

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

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies experienced multiple waves of infections despite having previously controlled the outbreak through aggressive precautionary measures.

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

The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date. However beginning October 17, 2021 social distancing requirements have been relaxed.

During 2020 management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio. The Group made updates to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately:

- Customers whose credit quality appear to have deteriorated on a permanent basis and thus the Group is required to recognise lifetime ECL losses on such exposures;
- Customers whose credit quality have either stayed stable (due to the offsetting nature of availing government programs) or have declined but the decline is deemed to be temporary as the customer may have sound fundamentals to emerge strongly post lockdown.

The Group continues to evaluate the current macroeconomic situation and conducts 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. The credit reviews also take into consideration the impact of the government and SAMA support relief programs.

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. This resulted in the additional ECL (overlay) of SR 86.5 million.

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

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

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

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

As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program subsequently announced, the Group deferred payments on lending facilities to all eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. The Group implemented the payment reliefs by deferring instalments falling due from March 14, 2020 to June 30, 2021 amounting to SR 2.5 billion and extended the tenure of the applicable loans at no additional costs to the customer.

Further to the above, SAMA on June 22, 2021 announced the extension of the DPP for three additional months from July 1, 2021 to September 30, 2021, only for those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard. On September 29, 2021, for these effected MSME customers, a further extension of three additional months was announced by SAMA i.e., for the installment falling due from October 1, 2021 to December 31, 2021. The Group performed an assessment to determine the pool of customers eligible for continued deferment and accordingly deferred the installment falling due from July 1, 2021 to September 30, 2021 amounting to SR 902.95 million and from October 1, 2021 to December 31, 2021 amounting to SR 328.37 million and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SR 15.99 million and SR 6.38 million during the quarters ended June 30, 2021 and September 30, 2021 respectively.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SR 192.39 million, out of which SAR 109.88 million has been recorded during the nine-month period ended September 30, 2021 (September 30, 2020: SR 53.42 million) which has been presented as part of net financing income.

During the nine months period ended September 30, 2021, SR 90.64 million (September 30, 2020: SAR 49.10 million) has been recognized in the statement of income relating to amortisation of modified loans.

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed as assessment with respect to SICR for the customers still under DPP program as at September 30, 2021 and recorded an overlay of SAR 33.35 million during the period as a result of the potential impact of stage movement as part of total overlays as reported above.

In order to compensate the related cost that the Group has incurred under the SAMA and other public authorities program, during the year 2020 and the nine-month period ended September 30, 2021, the Group has received multiple profit free deposits from SAMA amounting to SR 3.8 billion with varying maturities, which qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2020, total income of SR 106.3 million had been recognised in the statement of income with the remaining amount deferred. Grant income amounting to SR 8.99 million arose on the profit free deposit amounting to SR 1.38 billion received during the nine-month period ended September 30, 2021. During the nine months period ended September 30, 2021, a total of SR 129.32 million (September 30, 2020: SR 67.23 million) has been recognised in the statement of income with respect to related deposits with an

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

aggregate of SR 9.69 million deferred grant income as at September 30, 2021 (September 30, 2020: SR 108.93 million).

As at September 30, 2021, the Group has participated in SAMA's facility guarantee programs and the accounting impact for the period is immaterial.

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

In line with its monetary and financial stability mandate, SAMA injected SAR 50 billion into the banking sector to:

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

In this regard, during 2020, the Group received a SR 1.78 billion profit free deposit with one-year maturity. Management determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate was accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted total grant income of SR 44.32 million (June 30, 2020: SAR 44.32 million) out of which SR 8.60 million has been recognised in the interim consolidated statement of income during the period ended September 30, 2021 (September 30, 2020: SR 3.13 million). This deposit has been repaid during the quarter ended June 30, 2021.

21. IBOR Transition (Profit Rate Benchmark Reforms)

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") 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 interest rate, resulting in no immediate profit or loss 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.

As the Group believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate as at 30 September 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies. Regulatory authorities, relevant benchmark rate administrators and public and private sector working groups globally are considering, and have started to announce mechanisms for, transition to alternative benchmark rates. The Group continues to monitor this guidance as it emerges.

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

During 2019 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel to oversee the Group's USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR (Secured Overnight Financing Rate), with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at September 30, 2021, changes required to systems, processes and models have been identified and the same will be implemented before the IBOR transition cutover date. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management; and updating hedge designations. The Group continues to engage with industry participant, to ensure an orderly transition to SOFR (Secured Overnight Financing Rate), and to minimize the risks arising from transition, and it will continue to identify and assess risks associated with USD LIBOR replacement.

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

The following table contains details of all of the financial instruments that the Group holds at September 30, 2021 which reference USD LIBOR and have not yet transitioned to an alternative profit rate benchmark.

Non-derivative assets and liabilities exposed to USD LIBOR

	Carrying Value/Nominal Amount at September 30, 2021		Of which have yet to transition to an alternative benchmark profit rate as at September 30, 2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
		SR'000		
Measured at amortised cost				
Financing	1,761,845		1,761,845	
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:

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

Hedge accounting (continued)

	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	2,150,625	4,558	223,021	Customer Deposits	Nil	2,150,625

Of the SR 2,151 million nominal amount of profit rate swaps above, SR 922.5 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 25 October 2021 (corresponding to 19 Rabi ul Awal 1443H).