
BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL INFORMATION
FOR THE THREE-MONTH AND NINE-MONTH
PERIODS ENDED 30 SEPTEMBER 2023**



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Jeddah 21464
Kingdom of Saudi Arabia
License No. 25



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(Professional LLC)**
**Paid-Up Capital (SR 5,500,000 - Five Million Five
Hundred Thousand Saudi Riyal)**
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**Independent Auditors' Review Report on the Interim Condensed Consolidated Financial Information
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 September 2023, and the related interim condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended 30 September 2023, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended, and other explanatory notes (collectively referred to as the "interim condensed consolidated financial information"). The Board of Directors is responsible for the preparation and presentation of this interim condensed consolidated financial information 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 this interim condensed consolidated financial information 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 information is 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 the Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note 18 to the accompanying interim condensed consolidated financial information. 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.

**PricewaterhouseCoopers
Certified Public Accountants**

Waleed A. Alhidiri
Certified Public Accountant
License Number (559)



For Ernst & Young Professional Services

Rashid S. Roshod
Certified Public Accountant
License Number (366)



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Bank AlJazira

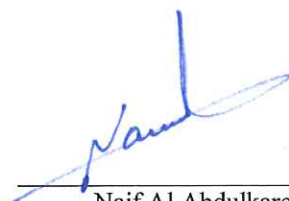
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	30 September 2022 (Unaudited) SR'000
	Notes			
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)	15	5,840,684	6,243,221	5,308,851
Due from banks and other financial institutions, net		3,986,777	1,688,803	895,392
Investments, net	5	36,483,280	34,634,053	33,005,589
Positive fair value of Shari'ah compliant derivatives	9	433,670	312,642	261,001
Financing, net	6	79,414,709	70,599,009	67,651,033
Other assets		1,265,279	581,039	1,380,785
Investment in an associate	7	238,609	217,871	215,305
Other real estate, net		498,249	505,785	505,864
Property, equipment and right of use assets, net		1,093,457	1,066,374	1,055,646
Total assets		129,254,714	115,848,797	110,279,466
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		18,192,538	12,116,687	10,250,861
Customers' deposits	8	90,646,853	86,022,839	82,279,800
Negative fair value of Shari'ah compliant derivatives	9	178,312	199,006	197,009
Subordinated Sukuk	10	2,041,868	2,002,819	2,023,504
Other liabilities		1,863,838	1,898,405	1,915,325
Total liabilities		112,923,409	102,239,756	96,666,499
EQUITY				
Share capital	11	8,200,000	8,200,000	8,200,000
Statutory reserve		3,194,545	3,194,545	3,075,441
Other reserves	12	(742,193)	(755,297)	(546,503)
Retained earnings		1,803,953	1,094,793	1,009,029
Equity attributable to shareholders of the Bank		12,456,305	11,734,041	11,737,967
Tier 1 Sukuk	13	3,875,000	1,875,000	1,875,000
Total equity		16,331,305	13,609,041	13,612,967
Total liabilities and equity		129,254,714	115,848,797	110,279,466



Tarek Al-Kasabi
Chairman



Naif Al Abdulkareem
CEO and Managing Director



Hani Noori
Chief Financial Officer


The accompanying notes 1 to 21 form an integral part of this interim condensed consolidated financial information.


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 2023

	For the three-month period ended		For the nine-month period ended	
	30 September 2023	30 September 2022	30 September 2023	30 September 2022
Notes	SR'000	SR'000	SR'000	SR'000
		Restated		Restated
Income from investments and financing	1,670,989	979,984	4,504,320	2,725,078
Return on deposits and financial liabilities	(1,063,162)	(325,655)	(2,772,341)	(710,773)
Net financing and investment income	607,827	654,329	1,731,979	2,014,305
Fees from banking services - income	254,316	213,841	720,959	688,976
Fees from banking services - expense	(106,786)	(90,582)	(313,699)	(313,177)
Fees from banking services, net	147,530	123,259	407,260	375,799
Exchange income, net	52,869	63,775	157,389	153,210
Net (loss)/gain on fair value through statement of income (FVIS) financial instruments	(8,709)	10,021	(16,708)	12,787
Dividend income	36,335	23,318	114,925	25,152
Net (loss)/gain on de-recognition of financial assets at fair value through other comprehensive income (FVOCI) – debt	(973)	3,295	3,352	7,113
Net gain on de-recognition of financial assets at amortised cost	430	671	8,590	25,512
Other operating income	17,846	2,459	37,966	60,342
Total operating income	853,155	881,127	2,444,753	2,674,220
Salaries and employee-related expenses	264,462	255,958	776,618	756,112
Rent and premises-related expenses	13,246	13,853	40,578	43,002
Depreciation and amortisation	45,449	47,039	138,096	144,288
Other general and administrative expenses	161,328	166,580	460,277	468,055
Other operating expenses	3,298	19,671	10,436	40,574
Total operating expenses before impairment charge	487,783	503,101	1,426,005	1,452,031
Impairment charge for financing and other financial assets, net	6 (b) 48,767	102,515	160,943	236,111
Total operating expenses	536,550	605,616	1,586,948	1,688,142
Net operating income	316,605	275,511	857,805	986,078
Share in net income of an associate	4,949	1,676	11,573	4,353
Net income for the period before zakat and income tax	321,554	277,187	869,378	990,431
Zakat and income tax				
Zakat	(43,009)	(43,213)	(123,056)	(118,938)
Income tax	(2,505)	(1,308)	(5,642)	(6,156)
Net income for the period	276,040	232,666	740,680	865,337
Basic and diluted earnings per share for the period (expressed in SR per share)	11 0.34	0.28	0.86	1.01


Tarek Al-Kasabi
Chairman


Naif Al Abdulkareem
CEO and Managing Director


Hani Noori
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of this interim condensed consolidated financial information.

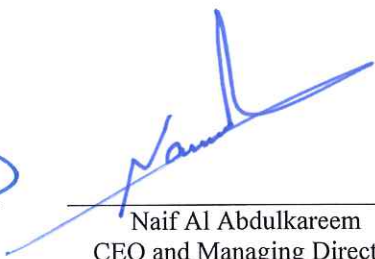
Bank AlJazira


(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2023

	Notes	For the three-month period ended		For the nine-month period ended	
		30	30	30	30
		September 2023	September 2022	September 2023	September 2022
		SR'000	SR'000	SR'000	SR'000
Net income for the period		276,040	232,666	740,680	865,337
Other comprehensive (loss) / income:					
<i>Items that will 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	77,705	71,544	125,541	245,786
- Net amount transferred to interim condensed consolidated statement of income	12	36	(25,583)	(3,490)	(79,425)
Net changes in fair value of investments classified as at FVOCI- debt	12	(274,172)	(164,000)	(94,719)	(546,198)
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods</i>					
Net changes in fair value of investments classified as at FVOCI- equity	12	(16,605)	(26,371)	(13,914)	(52,114)
Share in other comprehensive income of an associate	12	-	-	9,833	-
Total other comprehensive (loss) / income for the period		(213,036)	(144,410)	23,251	(431,951)
Total comprehensive income for the period		63,004	88,256	763,931	433,386


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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 2023

	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 2023 (audited)		8,200,000	3,194,545	(755,297)	1,094,793	11,734,041	1,875,000	13,609,041
Net income for the period		-	-	-	740,680	740,680	-	740,680
Other comprehensive income		-	-	23,251	-	23,251	-	23,251
Transfers to retained earnings on disposal of FVOCI equity investments	12	-	-	(10,147)	10,147	-	-	-
Total comprehensive income for the period		-	-	13,104	750,827	763,931	-	763,931
Tier 1 Sukuk issued	13	-	-	-	-	-	2,000,000	2,000,000
Tier 1 Sukuk issuance costs		-	-	-	(2,784)	(2,784)	-	(2,784)
Tier 1 Sukuk related costs		-	-	(742,193)	(38,883)	(38,883)	-	(38,883)
Balance at 30 September 2023 (unaudited)		8,200,000	3,194,545	(742,193)	1,803,953	12,456,305	3,875,000	16,331,305
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
Impact of adjustment	4(a)	-	-	-	(61,073)	(61,073)	-	(61,073)
Balance at 1 January 2022 (audited)-restated		8,200,000	2,917,273	(114,552)	956,277	11,958,998	1,875,000	13,833,998
Net income for the period		-	-	-	865,337	865,337	-	865,337
Other comprehensive loss		-	-	(431,951)	-	(431,951)	-	(431,951)
Total comprehensive income for the period		-	-	(431,951)	865,337	433,386	-	433,386
Transfer to Statutory reserve		-	158,168	-	(158,168)	-	-	-
Tier 1 Sukuk issuance costs		-	-	-	(946)	(946)	-	(946)
Tier 1 Sukuk related costs		-	-	-	(38,471)	(38,471)	-	(38,471)
2021 final dividend		-	-	-	(287,000)	(287,000)	-	(287,000)
2022 interim dividend		-	-	-	(328,000)	(328,000)	-	(328,000)
Balance at 30 September 2022 (unaudited) - restated		8,200,000	3,075,441	(546,503)	1,009,029	11,737,967	1,875,000	13,612,967

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of this interim condensed consolidated financial information.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023

	Notes	For the nine month period ended	
		30 September 2023	30 September 2022
		SR'000	SR'000
Net income for the period before zakat and income tax		869,378	990,431
OPERATING ACTIVITIES			
Adjustments to reconcile net income to net cash (used in) / generated from operating activities:			
Net gain on FVIS financial instruments		(8,015)	(21,724)
Gain on investments held at amortised cost and FVOCI, net		(11,942)	(32,625)
Dividend income		(78,310)	(20,789)
Return on subordinated sukuk		112,835	53,651
Depreciation and amortization		138,096	144,288
Impairment charge for financing and other financial assets, net	6 (b)	160,943	236,111
Provision for end of service benefit obligations		32,001	44,310
Share in net income of an associate		(11,573)	(4,353)
Net gain on disposal of property and equipment		(15,916)	(51,155)
		<u>1,187,497</u>	<u>1,338,145</u>
Net changes in operating assets:			
Statutory deposit with SAMA		(290,771)	(121,915)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(1,645,047)	(45,236)
Investments held at FVIS		(191,225)	(475,361)
Positive fair value of Shari'ah compliant derivatives		(121,028)	(248,943)
Financing		(8,966,797)	(5,492,234)
Other real estate		7,536	1,879
Other assets		(684,240)	(359,442)
Net changes in operating liabilities:			
Due to banks and other financial institutions		6,075,851	3,840,781
Customers' deposits		4,624,014	3,914,651
Negative fair value of Shari'ah compliant derivatives		(20,694)	(30,300)
Other liabilities		136,182	177,554
		<u>111,278</u>	<u>2,499,579</u>
End of service benefits paid		(29,923)	(22,262)
Zakat and income tax paid		(173,778)	(162,871)
Net cash (used in) / generated from operating activities		<u>(92,423)</u>	<u>2,314,446</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments held at amortised cost and FVOCI		3,038,933	7,087,558
Purchase of investments held at amortised cost and FVOCI		(4,777,748)	(8,732,319)
Dividend received		78,310	20,789
Acquisition of property and equipment		(140,474)	(138,325)
Proceeds from sale of property and equipment		37,540	158,217
Net cash used in investing activities		<u>(1,763,439)</u>	<u>(1,604,080)</u>

(CONTINUED)

The accompanying notes 1 to 21 form an integral part of this interim condensed consolidated financial information.

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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 2023 (continued)

	For the nine month period ended	
	30 September 2023 SR'000	30 September 2022 SR'000
FINANCING ACTIVITIES		
Issue of Tier 1 sukuk	2,000,000	-
Payment of sukuk related issuance costs	(3,969)	(4,076)
Payment of return on Tier 1 and Tier 2 sukuk	(110,923)	(61,775)
Dividends paid	(93)	(591,415)
Payment for principal portion of lease liabilities	(64,644)	(64,129)
Net cash generated from / (used in) financing activities	1,820,371	(721,395)
Net change in cash and cash equivalents held	(35,491)	(11,029)
Cash and cash equivalents at the beginning of the period	2,337,820	1,740,036
Cash and cash equivalents at the end of the period	2,302,329	1,729,007
Income from investments and financing received during the period	4,189,327	2,314,997
Return on deposits and financial liabilities paid during the period	2,590,923	488,514
Supplemental non-cash information		
Right of use assets and Lease liabilities	46,329	12,291
Net changes in fair value of cash flow hedges and transfers of cash flow hedge derivatives to the interim condensed consolidated statement of income	122,051	166,361



Tarek Al-Kasabi
Chairman



Naif Al Abdulkareem
CEO and Managing Director



Hani Noori
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of this interim condensed consolidated financial information.

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Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023

1. GENERAL

This interim condensed consolidated financial information includes the financial information 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 80 branches (31 December 2022: 82 branches and 30 September 2022: 82 branches) and 52 Fawri Remittance Centers (31 December 2022: 54 and 30 September 2022: 54 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 are as follows:

	Country of incorporation	Nature of business	Ownership (direct and indirect) 30 September 2023	Ownership (direct and indirect) 31 December 2022	Ownership (direct and indirect) 30 September 2022
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 CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

1. GENERAL (continued)

The details of the Bank's associate is as follows:

			Ownership (direct and indirect) 30 September 2023	Ownership (direct and indirect) 31 December 2022	Ownership (direct and indirect) 30 September 2022
Associate	Country of incorporation	Nature of business			
AlJazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	26.03%	26.03%	26.03%

- a) During financial year 2021, Aman Insurance Agency Company (the Company) applied for its license renewal from Saudi Central Bank ("SAMA"), however, it was not renewed, as SAMA had issued rules governing bancassurance activities during May 2020 which require the banks to carry out Bancassurance business directly. This, as a result, restricted the ability of the Company to carry out business activities and therefore, management of the Company decided to initiate the winding up procedures which are in process as at 30 September 2023.
- b) The Group invests in structured entities with the objective to resell the investment in a short period after the establishment. Structured entities are consolidated when the relationship between the Group and the structured entity indicates that the Group has power over the relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure. In other cases, the Group may sponsor or have exposure to such an entity but not consolidate the entities.

As at 30 September 2023, the Group has a substantial ownership in these entities amounting to SR 987.44 million (31 December 2022: SR 976.23 million and 30 September 2022: SR 663.18 million). For all these investments, the Group analyses whether and to what extent it controls the investee and any underlying entities. A material structured entity is consolidated into the Group's financial statements where the Group controls the structured entity, as per the determination above criteria. As at 30 September 2023, Group's investments in material structured entities do not meet the above criteria of control. Accordingly, such investments are recorded as fair value through statement of income (FVIS) into this interim condensed consolidated financial information.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group as at and for the period ended 30 September 2023, has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

This interim condensed consolidated financial information 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 2022. The consolidated financial statements of the Group as at and for the year ended 31 December 2022, 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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

2. BASIS OF PREPARATION (continued)

The preparation of interim condensed consolidated financial information 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 this interim condensed consolidated financial information, 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 2022, except for new amendments that are applicable from the period beginning 1 January 2023 as disclosed in note 4(b).

This interim condensed consolidated financial information is 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.

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management is in process of assessing the impact of the New Companies Law and will amend its by-laws for any changes to align the by-laws to the provisions of the Law. Consequently, the Bank shall present the amended by-laws to the shareholders in their Extraordinary / Annual General Assembly meeting for their ratification.

3. BASIS OF CONSOLIDATION

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

The interim condensed consolidated financial information 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.

Bank AlJazira

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

3. BASIS OF CONSOLIDATION (continued)

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 Group 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 (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial information. 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.

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3. BASIS OF CONSOLIDATION (continued)

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 adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. Several amendments apply for the first time in 2023 but do not have impact on this interim condensed consolidated financial information of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

a) Implication of change in accounting treatment

During 2022, the Group carried out a reassessment of the timing of the recognition of fee received in connection with its financing portfolio. Accordingly, the Group analysed whether any such fee was an integral component of the effective profit rate of the corresponding financial asset via consideration of factors such as provision of distinct service or product, presence of a separate performance obligation and related contract costs. As a result, the Group identified certain fees that were required to be adjusted to the amortised cost of the related financing. The impact of such adjustment in prior periods was determined to be insignificant in relation to the financial statements as a whole. Therefore, the identified fees were adjusted from the carrying value of financing, net with a corresponding debit to retained earnings as at 1 January 2022, amounting to SR 61.07 million. Accordingly, the balances for financing as at 30 September 2022 as reported previously have been restated.

b) 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 information of the Group, unless otherwise stated below:

Standard, interpretation, amendments	Description	Effective date
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023

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

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

Standard, interpretation, amendments	Description	Effective date
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023.
IFRS 17, 'Insurance contracts', as amended in December 2021	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.

c) 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
Amendment to IFRS 16 – Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	1 January 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	1 January 2024
Amendment to IAS 1 – Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	1 January 2024

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

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

c) Accounting standards issued but not yet effective (continued)

Standard, interpretation, amendments	Description	Effective date
IFRS S1, 'General requirements for disclosure of sustainability-related financial information'	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.	1 January 2024 subject to endorsement from SOCPA
IFRS S2, 'Climate-related disclosures'	This is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.	1 January 2024 subject to endorsement from SOCPA

5. INVESTMENTS, NET

Investments are classified as follows:

	30 September 2023 (Unaudited)		
	SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	119,247	1,221,912	1,341,159
Equities – quoted	61	-	61
Equities – unquoted	-	18,754	18,754
	119,308	1,240,666	1,359,974
ii) FVOCI			
Equities – quoted	46,485	-	46,485
Equities – unquoted	4,143	1,081	5,224
Sukuk investments – equities	1,902,951	196,960	2,099,911
Sukuk investments – debt	9,238,410	-	9,238,410
	11,191,989	198,041	11,390,030
Allowance for impairment	(2,412)	-	(2,412)
	11,189,577	198,041	11,387,618
iii) Amortised cost			
Sukuk investments	19,845,136	377,288	20,222,424
Wakala floating rate notes	3,522,465	-	3,522,465
	23,367,601	377,288	23,744,889
Allowance for impairment	(8,859)	(342)	(9,201)
	23,358,742	376,946	23,735,688
Total	34,667,627	1,815,653	36,483,280

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

5. INVESTMENTS, NET (continued)

	31 December 2022 (Audited)		
	SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	25,856	1,129,785	1,155,641
Equities – quoted	5,093	-	5,093
	30,949	1,129,785	1,160,734
ii) FVOCI			
Equities – quoted	48,714	-	48,714
Equities – unquoted	4,143	1,093	5,236
Sukuk investments – equities	1,877,973	201,317	2,079,290
Sukuk investments – debt	8,072,243	-	8,072,243
	10,003,073	202,410	10,205,483
Allowance for impairment	(6,457)	-	(6,457)
	9,996,616	202,410	10,199,026
iii) Amortised cost			
Sukuk investments	19,766,370	-	19,766,370
Wakala floating rate notes	3,520,943	-	3,520,943
	23,287,313	-	23,287,313
Allowance for impairment	(13,020)	-	(13,020)
	23,274,293	-	23,274,293
Total	33,301,858	1,332,195	34,634,053

	30 September 2022 (Unaudited)		
	SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	6,123	757,754	763,877
	6,123	757,754	763,877
ii) FVOCI			
Equities – unquoted	4,143	665	4,808
Sukuk investments – equities	1,460,976	196,433	1,657,409
Sukuk investments – debt	7,569,850	-	7,569,850
	9,034,969	197,098	9,232,067
Allowance for impairment	(3,117)	-	(3,117)
	9,031,852	197,098	9,228,950
iii) Amortised cost			
Sukuk investments	19,509,383	-	19,509,383
Wakala floating rate notes	3,511,248	-	3,511,248
	23,020,631	-	23,020,631
Allowance for impairment	(7,869)	-	(7,869)
	23,012,762	-	23,012,762
Total	32,050,737	954,852	33,005,589

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

6. FINANCING, NET

The financing is classified as at amortized cost as follows:

	SR'000				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Others</u>	<u>Total</u>
30 September 2023 (Unaudited)					
Performing financing	781,425	28,556,349	51,159,554	288,405	80,785,733
Non-performing financing	52,876	310,249	993,004	8,766	1,364,895
Gross financing	834,301	28,866,598	52,152,558	297,171	82,150,628
Allowance for impairment	(73,534)	(203,779)	(2,454,030)	(4,576)	(2,735,919)
Financing, net	760,767	28,662,819	49,698,528	292,595	79,414,709
31 December 2022 (Audited)					
Performing financing	767,265	30,057,394	40,953,561	298,490	72,076,710
Non-performing financing	62,135	304,654	866,744	7,411	1,240,944
Gross financing	829,400	30,362,048	41,820,305	305,901	73,317,654
Allowance for impairment	(81,722)	(220,761)	(2,412,039)	(4,123)	(2,718,645)
Financing, net	747,678	30,141,287	39,408,266	301,778	70,599,009
30 September 2022 (Unaudited) -Restated (note 4 (a))					
Performing financing	718,083	29,699,128	38,395,679	301,484	69,114,374
Non-performing financing	61,908	301,404	1,094,147	10,991	1,468,450
Gross financing	779,991	30,000,532	39,489,826	312,475	70,582,824
Allowance for impairment	(80,294)	(213,270)	(2,632,493)	(5,734)	(2,931,791)
Financing, net	699,697	29,787,262	36,857,333	306,741	67,651,033

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

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

6. FINANCING, NET (continued)

a) Movement in allowance for impairment is as follows:

	30 September 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	30 September 2022 (Unaudited) SR'000
Balance at the beginning of the period / year	2,718,645	2,637,997	2,637,997
Impairment charge for financing	256,049	572,113	472,265
Bad debts written off	(161,412)	(307,235)	(34,849)
(Reversal) / (recoveries) of amounts previously provided	(77,363)	(184,230)	(143,622)
Balance at the end of the period / year	<u>2,735,919</u>	<u>2,718,645</u>	<u>2,931,791</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 September 2023 (Unaudited) SR'000	30 September 2022 (Unaudited) SR'000
Impairment charge for financing	256,049	472,265
(Reversal) / (recoveries) of amounts previously provided	(77,363)	(143,622)
Recoveries from debts previously written off	(27,589)	(114,039)
Net impairment charge for ECL in respect of due from banks and other financial institutions	4,890	2,252
Net (reversal) / impairment charge for ECL in respect of investments	(7,864)	4,375
Net impairment charge for ECL in respect of non-funded financing and credit related commitments	12,820	14,880
Impairment charge for financing and other financial assets, net	<u>160,943</u>	<u>236,111</u>

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (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 September 2023 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Gross carrying amount as at 1 January 2023	66,966,856	2,840,214	3,510,584	73,317,654
Transfer to 12-month ECL	124,464	(116,474)	(7,990)	-
Transfer to lifetime ECL not credit – Impaired	(809,411)	862,210	(52,799)	-
Transfer to lifetime ECL credit impaired	(67,536)	(412,821)	480,357	-
New financial assets originated	13,510,814	284,121	9,390	13,804,325
Financial assets that have been derecognized	(5,944,011)	(235,923)	(36,473)	(6,216,407)
Changes in financing income accrual	278,134	-	-	278,134
Other movements	1,118,440	86,581	(76,687)	1,128,334
Write-offs	-	-	(161,412)	(161,412)
Gross carrying amount as at 30 September 2023	75,177,750	3,307,908	3,664,970	82,150,628
	31 December 2022(Audited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Gross carrying amount as at 1 January 2022	57,840,055	3,429,865	3,802,553	65,072,473
Transfer to 12-month ECL	260,875	(125,628)	(135,247)	-
Transfer to lifetime ECL not credit – Impaired	(427,603)	555,916	(128,313)	-
Transfer to lifetime ECL credit impaired	(141,640)	(282,519)	424,159	-
New financial assets originated	21,064,500	55,880	13,652	21,134,032
Financial assets that have been derecognized	(12,081,784)	(567,555)	(104,549)	(12,753,888)
Changes in financing income accrual	312,209	-	-	312,209
Other movements	140,244	(225,745)	(54,436)	(139,937)
Write-offs	-	-	(307,235)	(307,235)
Gross carrying amount as at 31 December 2022	66,966,856	2,840,214	3,510,584	73,317,654

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

6. FINANCING, NET (continued)

	30 September 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	156,002	(128,367)	(27,635)	-
Transfer to lifetime ECL not credit – Impaired	(299,553)	334,781	(35,228)	-
Transfer to lifetime ECL credit impaired	(117,153)	(270,880)	388,033	-
New financial assets originated	16,323,824	224,714	-	16,548,538
Financial assets that have been derecognized	(9,422,059)	(555,697)	(87,018)	(10,064,774)
Changes in financing income accrual	206,471	-	-	206,471
Other movements	(1,005,705)	(71,462)	(67,868)	(1,145,035)
Write-offs	-	-	(34,849)	(34,849)
Gross carrying amount as at 30 September 2022 - restated	<u>63,681,882</u>	<u>2,962,954</u>	<u>3,937,988</u>	<u>70,582,824</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 September 2023 (Unaudited)			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
ECL as at 1 January 2023	248,641	305,843	2,164,161	2,718,645
Transfer to 12-month ECL	4,886	(1,380)	(3,506)	-
Transfer to lifetime ECL not credit – impaired	(5,302)	10,849	(5,547)	-
Transfer to lifetime ECL credit impaired	(428)	(204,060)	204,488	-
Net re-measurement of loss allowance	(21,820)	71,961	101,197	151,338
New financial assets originated	64,683	752	4,741	70,176
Financial assets that have been derecognized	(21,544)	(8,004)	(13,280)	(42,828)
Write-offs	-	-	(161,412)	(161,412)
ECL as at 30 September 2023	<u>269,116</u>	<u>175,961</u>	<u>2,290,842</u>	<u>2,735,919</u>

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

6. FINANCING, NET (continued)

	31 December 2022 (Audited)			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	15,900	(1,788)	(14,112)	-
Transfer to lifetime ECL not credit – impaired	(2,677)	66,999	(64,322)	-
Transfer to lifetime ECL credit impaired	(1,376)	(5,800)	7,176	-
Net re-measurement of loss allowance	30,727	98,665	328,323	457,715
New financial assets originated	70,357	1,352	6,688	78,397
Financial assets that have been derecognized	(35,031)	(76,392)	(36,806)	(148,229)
Write-offs	-	-	(307,235)	(307,235)
ECL as at 31 December 2022	<u>248,641</u>	<u>305,843</u>	<u>2,164,161</u>	<u>2,718,645</u>
30 September 2022 (Unaudited)				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
(SR'000)				
ECL as at 1 January 2022	170,741	222,807	2,244,449	2,637,997
Transfer to 12-month ECL	14,992	(1,820)	(13,172)	-
Transfer to lifetime ECL not credit – impaired	(2,506)	20,170	(17,664)	-
Transfer to lifetime ECL credit impaired	(1,270)	(5,393)	6,663	-
Net re-measurement of loss allowance	31,810	103,619	291,744	427,173
New financial assets originated	57,300	622	-	57,922
Financial assets that have been derecognized	(27,888)	(76,092)	(52,472)	(156,452)
Write-offs	-	-	(34,849)	(34,849)
ECL as at 30 September 2022	<u>243,179</u>	<u>263,913</u>	<u>2,424,699</u>	<u>2,931,791</u>

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company ("ATT"). The Group effectively holds 26.03% (31 December 2022: 26.03% and 30 September 2022: 26.03%) shareholding in ATT.

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT for the period ended 30 June 2023. ATT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of 30 September 2023 was SR 274.50 million (31 December 2022: SR 210.43 million and 30 September 2022: SR 229.04 million) based on Tadawul market price.

8. CUSTOMERS' DEPOSITS

	30 September 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	30 September 2022 (Unaudited) SR'000
Demand	35,065,159	38,217,209	41,636,811
Saving	1,671,657	730,534	836,779
Customers' time investments	51,169,243	44,930,750	37,709,918
Other	2,740,794	2,144,346	2,096,292
Total	<u>90,646,853</u>	<u>86,022,839</u>	<u>82,279,800</u>

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

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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.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (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 September 2023 (Unaudited) SR'000	30 September 2022 (Unaudited) SR'000
Income from investments and financing	9,496	83,122
Return on deposits and financial liabilities	(6,006)	(3,697)
Net gains on cash flow hedges reclassified to the interim condensed consolidated statement of income	<u>3,490</u>	<u>79,425</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 125.54 million (30 September 2022: SR 245.79 million) included in the interim condensed consolidated statement of comprehensive income comprised of net unrealized gain of SR 140.71 million (30 September 2022: net unrealized gain of SR 276.73 million) and net realized loss of SR 15.17 million (30 September 2022: SR 30.94 million) on terminated hedge relationships.

During the current and prior periods, the Group 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 i.e. when profit receipts / payments impact the interim condensed consolidated statement of income which is over the remaining maturity of financial instrument / hedge items.

9.3 Details of shar'iah compliant derivatives

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.

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9. SHARIAH COMPLIANT DERIVATIVES (continued)

	30 September 2023 (Unaudited) SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	8,369	8,369	574,611
Profit rate swaps	108,791	104,975	5,540,317
Cross currency profit rate swaps	18,927	34,450	1,875,000
Currency swaps	12,949	4,430	1,511,914
Currency forwards (Wa'ad)	12	123	216,411
Total	149,048	152,347	9,718,253
Held as cash flow hedge:			
Profit rate swaps	284,622	25,965	5,100,000
Total	433,670	178,312	14,818,253
	31 December 2022 (Audited) SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	6,505	6,505	578,753
Profit rate swaps	137,157	132,886	5,211,843
Cross currency profit rate swaps	411	7,635	1,875,000
Currency swaps	13,146	3,624	4,072,558
Currency forwards (Wa'ad)	6	63	4,932
Total	157,225	150,713	11,743,086
Held as cash flow hedge:			
Profit rate swaps	155,417	48,293	5,087,500
Total	312,642	199,006	16,830,586
	30 September 2022 (Unaudited) SR'000		
	Positive fair value	Negative fair value	Notional amount
Held for trading:			
Options	4,960	4,960	63,239
Profit rate swaps	101,360	97,763	4,584,153
Cross currency profit rate swaps	18,927	40,332	1,875,000
Currency swaps	14,514	19,009	3,556,578
Currency forwards (Wa'ad)	1,620	1,379	232,369
Total	141,381	163,443	10,311,339
Held as cash flow hedge:			
Profit rate swaps	119,620	33,566	5,087,500
Total	261,001	197,009	15,398,839

Held for trading profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 34.84 million (31 December 2022: SR 34.70 million and 30 September 2022: SR 35.49 million) and accrued payable amounting to SR 36.95 million (31 December 2022: SR 36.15 million and 30 September 2022: SR 37.44 million). Held as cash flow hedge profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 39.92 million (31 December 2022: SR 32.68 million and 30 September 2022: SR 13.87 million) and accrued payable amounting to SR 25.97 million (31 December 2022: SR 29.54 million and 30 September 2022: SR 17.34 million).

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10. SUBORDINATED SUKUK

On 8 December 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 8 December and 8 June each year until 8 December 2031, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after 8 December 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 2022: 820 million shares of SR 10 each and 30 September 2022: 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 2023 (Unaudited) <u>SR'000</u>	30 September 2022 (Unaudited) <u>SR'000</u>	30 September 2023 (Unaudited) <u>SR'000</u>	30 September 2022 (Unaudited) <u>SR'000</u>
Net income for the period attributable to ordinary shareholders (adjusted for Tier 1 sukuk related costs)				
For basic and diluted earnings per share	<u>276,040</u>	<u>233,078</u>	<u>701,797</u>	<u>826,866</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>0.34</u>	<u>0.28</u>	<u>0.86</u>	<u>1.01</u>

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

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12. OTHER RESERVES

<u>30 September 2023</u> <u>(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>	Share in OCI of associate <u>SR' 000</u>	Total <u>SR' 000</u>
Balance at beginning of the period	73,235	(789,195)	(81,637)	42,300	-	(755,297)
Net change in fair value	125,541	(94,719)	(13,914)	-	9,833	26,741
Transfers to retained earnings on disposal	-	-	(10,147)	-	-	(10,147)
Transfer to interim condensed consolidated statement of income (note 9.2(b))	(3,490)	-	-	-	-	(3,490)
Net movement during the period	<u>122,051</u>	<u>(94,719)</u>	<u>(24,061)</u>	<u>-</u>	<u>9,833</u>	<u>13,104</u>
Balance at end of the period	<u><u>195,286</u></u>	<u><u>(883,914)</u></u>	<u><u>(105,698)</u></u>	<u><u>42,300</u></u>	<u><u>9,833</u></u>	<u><u>(742,193)</u></u>
<u>31 December 2022</u> <u>(Audited)</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>	Share in OCI of associate <u>SR' 000</u>	Total <u>SR' 000</u>
Balance at beginning of the year	(106,891)	(41,949)	-	34,288	-	(114,552)
Net change in fair value	260,243	(747,246)	(81,637)	-	-	(568,640)
Transfer to consolidated statement of income	(80,117)	-	-	-	-	(80,117)
Actuarial gains on employee benefit obligation	-	-	-	8,012	-	8,012
Net movement during the year	<u>180,126</u>	<u>(747,246)</u>	<u>(81,637)</u>	<u>8,012</u>	<u>-</u>	<u>(640,745)</u>
Balance at end of the year	<u><u>73,235</u></u>	<u><u>(789,195)</u></u>	<u><u>(81,637)</u></u>	<u><u>42,300</u></u>	<u><u>-</u></u>	<u><u>(755,297)</u></u>

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

12. OTHER RESERVES (continued)

<u>30 September 2022</u> <u>(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	(106,891)	(41,949)	-	34,288	(114,552)
Net change in fair value	245,786	(546,198)	(52,114)	-	(352,526)
Transfer to interim condensed consolidated statement of income (note 9.2(b))	(79,425)	-	-	-	(79,425)
Net movement during the period	<u>166,361</u>	<u>(546,198)</u>	<u>(52,114)</u>	<u>-</u>	<u>(431,951)</u>
Balance at end of the period	<u><u>59,470</u></u>	<u><u>(588,147)</u></u>	<u><u>(52,114)</u></u>	<u><u>34,288</u></u>	<u><u>(546,503)</u></u>

13. TIER 1 SUKUK

During the year 2021, the Bank issued cross border Tier 1 Sukuk (the “Sukuk”) through a Shari’ah compliant arrangement (“the arrangement”) amounting to SR 1.875 billion (denominated in US Dollars). This arrangement was approved by the regulatory authorities and the Board of Directors of the Bank. The applicable profit rate is 3.95% per annum from date of issue up to June 2026 and is subject to reset every 5 years.

In addition to the Tier 1 Sukuk issued above, during June 2023, the Bank has completed the issuance of an SAR-denominated additional Tier 1 sukuk of SR 2 billion (which is part of additional Tier 1 Capital Sukuk Programme of SR 5 billion) by way of a private placement in Saudi Arabia. This arrangement was approved by the regulatory authorities and the Board of Directors of the Bank. The applicable profit rate is 6% per annum from date of issue up to June 2028 and is subject to reset every 5 years.

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 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.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

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 2022.

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

	30 September 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	30 September 2022 (Unaudited) SR'000
Letters of credit	2,947,937	2,819,060	1,562,079
Letters of guarantee	8,945,811	5,196,958	5,095,939
Acceptances	645,476	439,312	413,562
Irrevocable commitments to extend credit	1,127,099	949,976	1,176,239
Total	13,666,323	9,405,306	8,247,819
Allowance for impairment [b(ii)]	(342,226)	(329,406)	(351,811)
Net exposure	13,324,097	9,075,900	7,896,008

- 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 September 2023 (Unaudited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
	(SR'000)			
Gross carrying amount as at 1 January 2023	8,818,321	40,135	546,850	9,405,306
Transfer to 12-month ECL	3,299	(3,299)	-	-
Transfer to lifetime ECL not credit – impaired	(18,215)	18,215	-	-
New financial assets originated	3,195,300	19,276	300	3,214,876
Financial assets derecognised during the period	(574,349)	(5,287)	(15,365)	(595,001)
Other movements	1,680,735	(27,765)	(11,828)	1,641,142
Gross carrying amount as at 30 September 2023	13,105,091	41,275	519,957	13,666,323
	31 December 2022 (Audited)			
	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	19,778	(18,220)	(1,558)	-
Transfer to lifetime ECL not credit – impaired	(103,451)	103,451	-	-
Transfer to lifetime ECL credit – impaired	(18,180)	2,085	16,095	-
New financial assets originated	3,770,256	5,813	-	3,776,069
Financial assets derecognised during the year	(351,241)	(36,096)	(32,436)	(419,773)
Other movements	(598,723)	(85,116)	(5,340)	(689,179)
Gross carrying amount as at 31 December 2022	8,818,321	40,135	546,850	9,405,306

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14. COMMITMENTS AND CONTINGENCIES (continued)

	30 September 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	19,777	(18,219)	(1,558)	-
Transfer to lifetime ECL not credit – impaired	(2,331)	4,416	(2,085)	-
Transfer to lifetime ECL credit – impaired	(7,027)	-	7,027	-
New financial assets originated	2,451,373	5,875	169	2,457,417
Financial assets derecognised during the period	(318,356)	(32,549)	(9,522)	(360,427)
Other movements	(582,832)	(4,528)	-	(587,360)
Gross carrying amount as at 30 September 2022	<u>7,660,486</u>	<u>23,213</u>	<u>564,120</u>	<u>8,247,819</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 September 2023 (Unaudited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at 1 January 2023	21,713	174	307,519	329,406
Transfer to 12-month ECL	15	(15)	-	-
Transfer to lifetime ECL not credit – Impaired	(94)	94	-	-
Net re-measurement of loss allowance	6,556	(38)	1,117	7,635
New financial assets originated	13,949	135	177	14,261
Financial assets that have been derecognized	(1,463)	(6)	(7,607)	(9,076)
ECL as at 30 September 2023	<u>40,676</u>	<u>344</u>	<u>301,206</u>	<u>342,226</u>

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14. COMMITMENTS AND CONTINGENCIES (continued)

	31 December 2022 (Audited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at 1 January 2022	13,569	8,153	386,368	408,090
Transfer to 12-month ECL	1,290	(511)	(779)	-
Transfer to lifetime ECL not credit – Impaired	(105)	105	-	-
Transfer to lifetime ECL credit impaired	(99)	1,042	(943)	-
Net re-measurement of loss allowance	(1,562)	(1,180)	22,115	19,373
New financial assets originated	9,460	11	-	9,471
Financial assets that have been derecognized	(840)	(7,446)	(22,040)	(30,326)
Write offs / settlements	-	-	(77,202)	(77,202)
ECL as at 31 December 2022	<u>21,713</u>	<u>174</u>	<u>307,519</u>	<u>329,406</u>
	30 September 2022 (Unaudited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
ECL as at 1 January 2022	13,569	8,153	386,368	408,090
Transfer to 12-month ECL	1,290	(511)	(779)	-
Transfer to lifetime ECL not credit – Impaired	(1)	1,043	(1,042)	-
Transfer to lifetime ECL credit impaired	(37)	-	37	-
Net re-measurement of loss allowance	2,681	(1,223)	18,953	20,411
New financial assets originated	11,811	14	84	11,909
Financial assets that have been derecognized	(651)	(7,369)	(9,420)	(17,440)
Write-offs / settlements	-	-	(71,159)	(71,159)
ECL as at 30 September 2022	<u>28,662</u>	<u>107</u>	<u>323,042</u>	<u>351,811</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 four instalments of SR 88.2 million each during the month of November 2019, November 2020, November 2021 and November 2022 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.

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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 Tax Violation and Dispute Resolution Committee [TVDRRC] 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. The Bank lodged another objection against the decision rendered by TVDRRC with the Tax Violation and Dispute Appeal Committee [TVDAC] on the remaining assessment points and awaits for the decision. 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 2022, 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 September 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	30 September 2022 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	896,902	1,590,210	875,053
Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition	1,405,427	747,610	853,954
Total	2,302,329	2,337,820	1,729,007

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

	30 September 2023 (Unaudited) SR'000	31 December 2022 (Audited) SR'000	30 September 2022 (Unaudited) SR'000
Cash and cash equivalents as per statement of cash flows	2,302,329	2,337,820	1,729,007
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	(1,405,427)	(747,610)	(853,954)
Cash and balances with SAMA, excluding statutory deposit	896,902	1,590,210	875,053
Statutory deposit	4,943,782	4,653,011	4,433,798
Cash and balances with SAMA	5,840,684	6,243,221	5,308,851

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15. CASH AND CASH EQUIVALENTS (continued)

15.1 Below is a reconciliation of liabilities arising from financing activities:

30 September 2023 (Unaudited)	Subordinated Sukuk	Dividend Payable	lease liabilities against right of use assets
	(SR' 000)		
Balances as at 1 January 2023	2,002,819	66,730	222,001
Changes from financing cash flows			
Payment of return on Subordinate Sukuk	(73,892)	-	-
Payment of leased liability - principal	-	-	(64,644)
Dividend paid	-	(93)	-
Other changes			
Increase due to additions	-	-	46,329
Payment of leased liability - profit	-	-	(7,041)
Financing cost	111,529	-	7,041
Amortisation of transaction cost	1,306	-	-
Other adjustments	106	-	-
Balances as at 30 September 2023	2,041,868	66,637	203,686
	(SR' 000)		
30 September 2022 (Unaudited)	Subordinated Sukuk	Dividend Payable	lease liabilities against right of use assets
Balances as at 1 January 2022	1,994,685	43,153	289,865
Changes from financing cash flows			
Payment of return on Subordinate Sukuk	(24,743)	-	-
Payment of leased liability - principal	-	-	(64,129)
Dividend paid	-	(591,415)	-
Other changes			
Increase due to additions	-	-	12,291
Payment of leased liability - profit	-	-	(7,591)
Financing cost	52,345	-	7,591
Amortisation of transaction cost	1,306	-	-
Other adjustments	(89)	-	-
Cash dividend declared	-	615,000	-
Balances as at 30 September 2022	2,023,504	66,738	238,027

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.

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16. OPERATING SEGMENTS (continued)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2022.

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 2023 and 30 September 2022, its total operating income and expenses, and its net income for the nine month periods then ended, by operating segment, are as follows:

(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 September 2023 (Unaudited)						
Total assets	36,081,765	42,007,077	47,366,454	3,560,890	238,528	129,254,714
Total liabilities	47,675,760	40,669,514	22,515,488	2,062,728	(81)	112,923,409
Total operating income	1,217,398	662,020	514,288	274,035	(222,988)	2,444,753
Of which:						
- Net financing and investment income / (loss)	901,457	534,869	264,164	39,947	(8,458)	1,731,979
- Fees from banking services, net	146,234	92,502	27	201,098	(32,601)	407,260
- Net (loss) / gain on FVIS financial instruments	-	-	(513)	(3,640)	(12,555)	(16,708)
Total operating expenses	(997,930)	(320,009)	(124,619)	(144,928)	538	(1,586,948)
Of which:						
- Impairment charge for financing and other financial assets, net	(29,676)	(134,241)	2,974	-	-	(160,943)
- Depreciation and amortization	(105,336)	(14,458)	(12,870)	(5,432)	-	(138,096)
Share in net income of an associate	-	-	-	1,653	9,920	11,573
Net income / (loss) before zakat and income tax	219,468	342,011	389,669	130,760	(212,530)	869,378

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (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>
31 December 2022						
(Audited)						
Total assets	35,719,471	33,694,784	43,412,881	2,803,871	217,790	115,848,797
Total liabilities	49,072,703	35,339,718	16,253,828	1,573,588	(81)	102,239,756
30 September 2022						
(Unaudited)						
Total assets	34,908,601	31,471,811	41,058,705	2,625,095	215,254	110,279,466
Total liabilities	48,694,302	31,821,527	14,719,202	1,431,519	(51)	96,666,499
Total operating income	1,422,764	574,786	653,683	229,704	(206,717)	2,674,220
Of which:						
- Net financing and investment income / (loss)	1,051,661	504,135	423,850	44,431	(9,772)	2,014,305
- Fees from banking services, net	199,759	35,061	2,136	171,971	(33,128)	375,799
- Net (loss) / gain on FVIS financial instruments	(7,441)	(1,882)	13,935	10,097	(1,922)	12,787
Total operating expenses	(1,012,215)	(399,934)	(138,650)	(139,307)	1,964	(1,688,142)
Of which:						
- Impairment charge for financing and other financial assets, net	(18,528)	(210,956)	(6,627)	-	-	(236,111)
- Depreciation and amortization	(109,584)	(14,712)	(12,795)	(7,196)	(1)	(144,288)
Share in net income of an associate	-	-	-	622	3,731	4,353
Net income / (loss) before zakat and income tax	410,549	174,852	515,033	91,019	(201,022)	990,431

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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.

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

		<u>30 September 2023 (Unaudited)</u>			
		<u>Fair value (SR'000)</u>			
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets measured at fair value:</u>					
FVIS - Mutual funds	1,341,159	-	1,341,159	-	1,341,159
FVIS – Equities	18,815	61	-	18,754	18,815
FVOCI- Equities	46,485	46,485	-	-	46,485
FVOCI – Sukuk – equity	2,099,911	-	2,099,911	-	2,099,911
FVOCI – Sukuk – debt	9,235,998	-	9,235,998	-	9,235,998
Shari'ah compliant derivatives	433,670	-	433,670	-	433,670
Total	13,176,038	46,546	13,110,738	18,754	13,176,038
<u>Financial liabilities measured at fair value:</u>					
Shari'ah compliant derivatives	178,312	-	178,312	-	178,312

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	Carrying Value	31 December 2022 (Audited)		
		Fair value (SR'000)		
		Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	1,155,641	-	1,155,641	1,155,641
FVIS - Equities	5,093	5,093	-	5,093
FVOCI- Equities	48,714	48,714	-	48,714
FVOCI – Sukuk – equity	2,079,290	-	2,079,290	2,079,290
FVOCI – Sukuk – debt	8,065,786	-	8,065,786	8,065,786
Shari'ah compliant derivatives	312,642	-	312,642	312,642
Total	11,667,166	53,807	11,613,359	11,667,166
<u>Financial liabilities</u>				
Shari'ah compliant derivatives	199,006	-	199,006	199,006
<u>30 September 2022 (Unaudited)</u>				
	Carrying Value	Fair value (SR'000)		
		Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	763,877	-	763,877	763,877
FVIS - Equities	-	-	-	-
FVOCI – Sukuk – equity	1,657,409	-	1,657,409	1,657,409
FVOCI – Sukuk – debt	7,566,733	-	7,566,733	7,566,733
Shari'ah compliant derivatives	261,001	-	261,001	261,001
Total	10,249,020	-	10,249,020	10,249,020
<u>Financial liabilities measured at fair value:</u>				
Shari'ah compliant derivatives	197,009	-	197,009	197,009

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 and wa'ad options are fair valued using forward profit rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between Levels 1 and 2 during the period. New investments acquired during the period / year are classified under the relevant levels. Level 3 includes recent investment in unquoted equities which will be subsequently fair valued considering the available information at the time of valuation.

Investments amounting to SR 5.22 million (31 December 2022: SR 5.24 million and 30 September 2022: SR 4.81 million) are carried at cost and, accordingly, are not fair valued.

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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 September 2023 (Unaudited) (SR'000)	
	Amortised cost	Fair value Level 2
Financial assets:		
Due from banks and other financial institutions, net	3,986,777	4,039,311
Investment held at amortised cost, net	23,735,688	23,146,665
Financing, net	79,414,709	79,162,858
Total	107,137,174	106,348,834
Financial liabilities:		
Due to banks and other financial institutions	18,192,538	18,661,007
Customers' deposits	90,646,853	91,058,378
Subordinated Sukuk	2,041,868	2,041,868
Total	110,881,259	111,761,253
	31 December 2022 (Audited) (SR'000)	
	Amortised cost	Fair value Level 2
Financial assets:		
Due from banks and other financial institutions, net	1,688,803	1,692,516
Investment held at amortised cost, net	23,274,293	22,813,597
Financing, net	70,599,009	70,428,515
Total	95,562,105	94,934,628
Financial liabilities:		
Due to banks and other financial institutions	12,116,687	12,540,077
Customers' deposits	86,022,839	86,240,714
Subordinated Sukuk	2,002,819	2,002,819
Total	100,142,345	100,783,610

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	30 September 2022 (Unaudited) (SR'000)	
	Amortised cost	Fair value Level 2
<u>Financial assets:</u>		
Due from banks and other financial institutions, net	895,392	893,425
Investment held at amortised cost, net	23,012,762	22,526,777
Financing, net	67,651,033	67,830,196
Total	91,559,187	91,250,398
<u>Financial liabilities:</u>		
Due to banks and other financial institutions	10,250,861	10,640,098
Customers' deposits	82,279,800	82,315,874
Subordinated Sukuk	2,023,504	2,023,504
Total	94,554,165	94,979,476

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 September 2023 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 2023, 31 December 2022 and 30 September 2022, as well as the significant unobservable inputs used.

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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 fund manager reports. The fund manager deploys various techniques for the valuation of underlying assets classified under level 2 of the respective fund's fair value hierarchy	Not applicable	Not applicable
Equities	FVIS	The subsidiary of the Bank has recently invested in unquoted equities which will be subsequently fair valued considering the available information at the time of valuation	Not applicable	Not applicable
Investment held at FVOCI – Sukuks (debt & equity)	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 or estimating present value by discounting cash flows using adjusted discount rate.	Not applicable	Not applicable

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (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.

SAMA has issued its final guidelines regarding implementation of Basel III (post-crisis regulatory reforms) Framework effective 1 January 2023. The new framework has brought significant amendments in the computation of Pillar I risk weighted assets.

The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the new Basel III Framework (SAMA circular number 44047144) except for prior period figures which are based on Basel III regulations.

	30 September 2023 (Unaudited)	31 December 2022 (Audited)	30 September 2022 (Unaudited)
	SR'000	SR'000	SR'000
Credit Risk RWA	86,348,291	73,503,969	69,835,846
Operational Risk RWA	4,537,448	6,352,124	6,315,087
Market Risk RWA	2,167,059	3,883,308	2,824,937
Total Pillar-I RWA	93,052,798	83,739,401	78,975,870
Common Equity Tier 1 (CET 1) Capital	12,473,071	12,084,910	12,163,674
Additional Tier 1 (AT1) Capital	3,875,000	1,875,000	1,875,000
Tier I Capital	16,348,071	13,959,910	14,038,674
Tier II Capital	2,439,564	2,547,559	2,499,732
Total Tier I and II Capital	18,787,635	16,507,469	16,538,406
Capital Adequacy Ratio (%)			
Common Equity Tier I Ratio	13.40%	14.43%	15.40%
Tier I ratio	17.57%	16.67%	17.78%
Total Tier I and II Capital	20.19%	19.71%	20.94%

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

19. IBOR Transition (Profit Rate Benchmark Reforms)

Management has completed the Group's overall transition activities through engagement with various stakeholders to support an orderly transition and concluded on the transition plan for the exposures not yet transitioned to alternate benchmark profit rates.

The following table contains details of all of the financial instruments that the Group holds at September 30, 2023 which reference USD LIBOR and have not yet transitioned to an alternative profit rate benchmark. These contracts are in the process to be transitioned.

Non-derivative assets and liabilities exposed to USD LIBOR

	Carrying Value/Nominal Amount at September 30, 2023		Of which have yet to transition to an alternative benchmark profit rate as at September 30, 2023	
	Assets	Liabilities	Assets	Liabilities
		<u>SR'000</u>		
<u>Measured at amortised cost</u>				
Due to banks and other financial institutions	-	144,335	-	144,335

20. COMPARATIVE FIGURES

During the year ended 31 December 2022, pursuant to change in accounting treatment for recognition of processing fee received in connection with the Group's financing portfolio as more fully explained in note 4(a), the financing related fee and directly attributable expenses which were previously booked as fees were reclassified from "Fees from banking services" to "Income from investments and financings".

Further during the current period, for the purpose of better presentation, the derivatives related financing income and financing costs have been presented on a gross basis in line with presentation in the annual financial statements.

The impact of above reclassifications on the comparative information included in interim condensed consolidated statement of income and interim condensed consolidated statement of financial position is disclosed below.

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.

For the three month period ended 30 September 2022	As originally reported	Impact of fee related adjustments (note 4(a))	Impact of hedging derivatives income gross up <u>SR'000</u>	Amounts reported after restatement
Income from investments and financings	930,728	32,863	16,393	979,984
Return on deposits and financial liabilities	(309,262)	-	(16,393)	(325,655)
Fees from banking services – income	253,676	(39,835)	-	213,841
Fees from banking services – expense	(97,554)	6,972	-	(90,582)
Fees from banking services, net	156,122	(32,863)	-	123,259

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (CONTINUED)

20. COMPARATIVE FIGURES (continued)

For the nine month period ended 30 September 2022	As originally reported	Impact of fee related adjustments (note 4(a))	Impact of hedging derivatives income gross up SR'000	Amounts reported after restatement
Income from investments and financings	2,569,317	95,986	59,775	2,725,078
Return on deposits and financial liabilities	(650,998)	-	(59,775)	(710,773)
Fees from banking services – income	811,293	(122,317)	-	688,976
Fees from banking services – expense	(339,508)	26,331	-	(313,177)
Fees from banking services, net	471,785	(95,986)	-	375,799
As at 30 September 2022				
Financing, net	67,712,106	(61,073)	-	67,651,033
Retained earnings	1,070,102	(61,073)	-	1,009,029

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial information was authorized for issue by the Board of Directors of the Bank on 24 October 2023 (corresponding to 9 Rabi Al-Akhar 1445H).