THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six month period ended June 30, 2021

(Unaudited)

KPMG Professional Services

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Independent Auditors' Report on Review of the Interim Condensed Consolidated Financial Statements to the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of **The Saudi Investment Bank** ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2021, and the interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the interim consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Other Regulatory Matters

As required by the Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note 20 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 20 to the relevant analysis prepared by the Bank for its submission to SAMA and found no material inconsistencies.

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23 Dhual-Hijja 1442H
(2 August 2021)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the six month periods ended June 30, 2021 and 2020

1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia ("KSA"). The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 25 1397H, corresponding to March 16, 1977 through its 52 branches (December 31, 2020: 52 branches; and June 30, 2020: 52 branches) in KSA. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P.O. Box 3533
Riyadh 11481, KSA

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

2. Basis of preparation

These interim condensed consolidated financial statements as of and for the six month period ended June 30, 2021 have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2020.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand, except where indicated herein.

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2020.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 22 Dhul-Hijjah 1442H, corresponding to August 01, 2021.

3. Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group" in these interim condensed consolidated financial statements):

a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in KSA under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory and custody services relating to financial securities;

b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in KSA under commercial registration No.1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The primary objective of the Company is to hold title deeds as collateral on behalf of the Bank for real estate related lending transactions;

3. Basis of consolidation – continued

c) "Saudi Investment First Company", a limited liability company, which is registered in KSA under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. During 2020, the Company completed the formalities for deregistration with regulatory authorities and has been liquidated; and

d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank.

References to the Bank hereafter in these interim condensed consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the interim condensed consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group obtains control and until the date when the Group ceases to control the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim condensed consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Amounts in SAR'000

3. Basis of consolidation – continued

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The Group acts as Fund Manager to several investment funds. Determining whether the Group controls individual investment funds usually focuses on the assessment of the aggregate economic interests of the Group in an individual fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

All intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim condensed consolidated financial statements.

4. Summary of significant accounting policies

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

Other Standards, amendments or interpretations

Other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2021, did not have a significant impact on the Group's interim condensed consolidated financial statements.

5. Cash and balances with SAMA and cash and cash equivalents

a) Cash and balances with SAMA as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Cash on hand	768,354	704,645	1,058,247
Reverse repurchase agreement	2,870,000	4,610,000	4,590,000
Other balances, net	(236,802)	(217,704)	58,952
Cash and balances before statutory deposit (note 5b)	3,401,552	5,096,941	5,707,199
Statutory deposit	3,203,097	3,226,549	3,463,241
Cash and balances with SAMA	6,604,649	8,323,490	9,170,440

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day to day operations and therefore do not form a part of cash and cash equivalents.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the six month periods ended June 30, 2021 and 2020

5. Cash and balances with SAMA and cash and cash equivalents - continued

b) Cash and cash equivalents included in the interim consolidated statement of cash flows as of June 30, 2021 and 2020 and as of December 31, 2020 are comprised of the following:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Cash and balances with SAMA excluding statutory deposit (note 5a)	3,401,552	5,096,941	5,707,199
Due from banks and other financial institutions maturing within three months from the date of acquisition	2,045,099	2,169,843	1,939,198
Cash and cash equivalents	5,446,651	7,266,784	7,646,397

6. Due from banks and other financial institutions, net

a) Due from banks and other financial institutions, net as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Current accounts	1,545,091	1,669,843	1,711,045
Money market placements	500,008	500,101	330,037
Total due from banks and other financial institutions	2,045,099	2,169,944	2,041,082
Allowance for credit losses	(4,325)	(3,202)	(2,247)
Due from banks and other financial institutions, net	2,040,774	2,166,742	2,038,835

b) The movement of the allowance for credit losses for the six month periods ended June 30, 2021 and 2020 and the year ended December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Balances at the beginning of the year / period	3,202	2,088	2,088
Provision for credit losses	1,123	1,114	159
Balances at the end of the year / period	4,325	3,202	2,247

Amounts in SAR'000

6. Due from banks and other financial institutions, net - continued

c) A reconciliation from the opening to the closing balances of the allowance for credit losses for the six month periods ended June 30, 2021 and 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	3,092	110	-	3,202
Changes in exposures and re-measurement	1,123	-	-	1,123
Balances at the end of the period	4,215	110	-	4,325

	Jun. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	1,730	358	-	2,088
Transfers from Stage 2 to Stage 1	18	(358)	-	(340)
Changes in exposures and re-measurements	499	-	-	499
Net movement for the period	517	(358)	-	159
Balances at the end of the period	2,247	-	-	2,247

7. Investments

a) Investments as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Fixed rate debt securities	27,858,600	27,616,293	27,545,334
Floating rate debt securities	1,450,973	2,343,616	2,831,217
Total debt securities	29,309,573	29,959,909	30,376,551
Equities	371,707	373,819	344,328
Mutual funds	145,882	144,212	127,247
Other securities	33,443	35,903	38,404
Investments	29,860,605	30,513,843	30,886,530

Debt securities and equities are classified as FVOCI, and mutual funds and other securities are classified as FVTPL.

The Group's investments in equities include SAR 8.6 million as of June 30, 2021 (December 31, 2020: SAR 8.6 million, and June 30, 2020: SAR 8.6 million) which the Bank acquired in prior years in connection with the settlement of certain loans and advances.

The Group also holds strategic investments in equities totaling SAR 363.0 million as of June 30, 2021 (December 31, 2020: SAR 365.1 million, and June 30, 2020: SAR 335.6 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, SIMAH (the Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

As of June 30, 2021, investments include SAR 13.6 billion (December 31, 2020: SAR 13.5 billion, and June 30, 2020: SAR 14.6 billion) which have been pledged under repurchase agreements with other financial institutions.

Amounts in SAR'000

7. Investments – continued

b) The credit quality of debt securities at FVOCI as of June 30, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Grades 1-6 and unrated	29,309,573	29,959,909	30,376,551
Grades 7-9	-	-	-
Total debt securities	29,309,573	29,959,909	30,376,551

c) The movement of the allowance for credit losses for the six month periods ended June 30, 2021 and 2020 and for the year ended December 31, 2020 included in other reserves is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Balances at the beginning of the year/period	31,385	29,659	29,659
Provision for credit losses	1,057	1,726	1,589
Balances at the end of the year/period (note 7e)	32,442	31,385	31,248

d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the six month periods ended June 30, 2021 and 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	31,385	-	-	31,385
Changes in exposures and re-measurement	1,057	-	-	1,057
Balances at the end of the period	32,442	-	-	32,442

	Jun. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	29,659	-	-	29,659
Changes in exposures, re-measurement	1,589	-	-	1,589
Balances at the end of the period	31,248	-	-	31,248

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the six month periods ended June 30, 2021 and 2020

7. Investments – continued

e) Other reserves classified in shareholders' equity as of June 30, 2021 and 2020 and as of December 31, 2020 are comprised of the following:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Unrealized gains on revaluation of debt securities at FVOCI before allowance for credit losses	725,062	714,398	155,973
Allowance for credit losses on debt securities at FVOCI (note 7c)	32,442	31,385	31,248
Unrealized gains on revaluation of debt securities at FVOCI after allowance for credit losses	757,504	745,783	187,221
Unrealized gains on revaluation of equities held at FVOCI	74,407	76,055	46,567
Actuarial losses on defined benefit plans	(27,083)	(27,083)	(20,348)
Share of other comprehensive loss of associates	(2,712)	(2,712)	(3,453)
Other reserves	802,116	792,043	209,987

8. Loans and advances, net

a) Loans and advances, net classified as held at amortized cost as of June 30, 2021 and 2020 and as of December 31, 2020 and are summarized as follows:

	Jun. 30, 2021 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	38,185,690	2,943,428	10,197,367	51,326,485
Stage 2	3,279,092	1,011,622	100,610	4,391,324
Stage 3	739,602	627,315	450	1,367,367
Total performing loans and advances	42,204,384	4,582,365	10,298,427	57,085,176
Non performing loans and advances	32,440	970,751	99,594	1,102,785
Total loans and advances	42,236,824	5,553,116	10,398,021	58,187,961
Allowance for credit losses	(843,944)	(861,328)	(186,763)	(1,892,035)
Loans and advances, net	41,392,880	4,691,788	10,211,258	56,295,926

	Dec. 31, 2020 (Audited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	36,798,982	2,326,428	11,067,275	50,192,685
Stage 2	3,573,207	455,642	149,756	4,178,605
Stage 3	801,157	497,313	449	1,298,919
Total performing loans and advances	41,173,346	3,279,383	11,217,480	55,670,209
Non performing loans and advances	36,867	985,294	136,948	1,159,109
Total loans and advances	41,210,213	4,264,677	11,354,428	56,829,318
Allowance for credit losses	(821,336)	(673,862)	(260,226)	(1,755,424)
Loans and advances, net	40,388,877	3,590,815	11,094,202	55,073,894

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the six month periods ended June 30, 2021 and 2020

8. Loans and advances, net – continued

	Jun. 30, 2020 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	38,043,208	2,135,217	12,157,713	52,336,138
Stage 2	4,510,232	612,803	183,974	5,307,009
Stage 3	788,520	454,947	2,973	1,246,440
Total performing loans and advances	43,341,960	3,202,967	12,344,660	58,889,587
Non performing loans and advances	288,280	1,805,288	266,314	2,359,882
Total loans and advances	43,630,240	5,008,255	12,610,974	61,249,469
Allowance for credit losses	(949,302)	(1,341,488)	(355,540)	(2,646,330)
Loans and advances, net	42,680,938	3,666,767	12,255,434	58,603,139

b) The movement of the allowance for credit losses for the six month periods ended June 30, 2021 and 2020 and for the year ended December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Balances at the beginning of the year / period	1,755,424	2,405,585	2,405,585
Provision for credit losses	175,005	453,527	311,954
Write-offs, net	(38,394)	(1,103,688)	(71,209)
Balances at the end of the year / period (i)	1,892,035	1,755,424	2,646,330

i. Owing to the prevailing economic conditions, the Group recognized an ECL provision of SAR 243.3 million as of June 30, 2021 (June 30, 2020: SAR 140.0 million) for its loans and advances portfolio as a result of post-model overlays. Refer to note 27 for details.

c) A reconciliation from the opening to the closing balance of the allowance for credit losses for the six month periods ended June 30, 2021 and 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	443,296	243,155	1,068,973	1,755,424
Transfers from Stage 1 to Stage 2	(10,859)	55,852	-	44,993
Transfers from Stage 1 to Stage 3	(1,237)	-	25,774	24,537
Transfers from Stage 2 to Stage 1	4,040	(11,678)	-	(7,638)
Transfers from Stage 2 to Stage 3	-	(9,637)	23,938	14,301
Transfers from Stage 3 to Stage 1	61	-	(2,228)	(2,167)
Transfers from Stage 3 to Stage 2	-	920	(2,115)	(1,195)
Post-model overlays	14,863	22,272	7,576	44,711
Changes in exposures and re-measurements	(5,131)	73,782	(11,188)	57,463
Net movement for the period	1,737	131,511	41,757	175,005
Write-offs, net	-	-	(38,394)	(38,394)
Balances at the end of the period	445,033	374,666	1,072,336	1,892,035

Amounts in SAR'000

8. Loans and advances, net – continued

	Jun. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	379,511	184,512	1,841,562	2,405,585
Transfers from Stage 1 to Stage 2	(8,990)	13,472	-	4,482
Transfers from Stage 1 to Stage 3	(1,459)	-	107,527	106,068
Transfers from Stage 2 to Stage 1	563	(2,343)	-	(1,780)
Transfers from Stage 2 to Stage 3	-	(25)	943	918
Post-model overlays	71,584	25,290	43,146	140,020
Changes in exposures and re-measurements	(23,732)	(5,253)	91,231	62,246
Net movement for the period	37,966	31,141	242,847	311,954
Write-offs, net	-	-	(71,209)	(71,209)
Balances at the end of the period	417,477	215,653	2,013,200	2,646,330

The transfer amounts in the above reconciliations represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the six month periods ended June 30, 2021 and 2020.

9. Investments in associates

a) Investments in associates include the Bank's ownership interest in American Express (Saudi Arabia) ("AMEX") of 50%, in YANAL Finance Company ("YANAL") (formerly Saudi ORIX Leasing Company) of 38%, and in Amlak International for Real Estate Finance Company ("AMLAK") of 22.4%. The movement of investments in associates for the six month periods ended June 30, 2021 and 2020, and for the year ended December 31, 2020, is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Balance at the beginning of the year / period	845,744	994,298	994,298
Share in earnings	9,661	45,928	23,544
Dividends	(18,013)	(79,397)	(62,700)
Share of other comprehensive loss	-	(2,452)	(3,193)
Disposals (i)	-	(112,633)	-
Balance at the end of the year / period	837,392	845,744	951,949

(i) During the year ended December 31, 2020, the Group sold 30% of its shares in AMLAK as part of AMLAK's Initial Public Offering. The carrying value of the investment sold amounted to SAR 112.6 million. Consideration received was SAR 133.1 million. The gain from the sale amounting to SAR 19.4 million, net of other comprehensive loss of SAR 1.03 million was recognized in the consolidated statement of income.

The retained interest in AMLAK continues to be classified as an associate as the Group continues to retain significant influence over financial and operating matters of the associated company. The fair value of the investment in AMLAK as of June 30, 2021 amounts to SAR 455.1 million (December 31, 2020: SAR 444.5 million).

Amounts in SAR'000

9. Investments in associates - continued

b) The following table summarizes the associates' assets, liabilities, and equity as of June 30, 2021 and 2020, and income and expense for the six month periods then ended:

	Jun. 30, 2021 (Unaudited)			Jun. 30, 2020 (Unaudited)		
	AMEX	YANAL	AMLAK	AMEX	YANAL	AMLAK
Total assets	663,228	1,526,533	3,653,520	625,417	1,247,309	3,608,654
Total liabilities	349,500	641,801	2,479,002	311,007	414,011	2,435,742
Equity	313,728	884,731	1,174,518	314,410	833,298	1,172,912
Total income	99,378	51,191	55,943	122,333	42,880	96,356
Total expenses	110,070	31,262	30,744	116,535	36,351	59,709

The head office of each associate company is located in Riyadh in KSA, with all operations conducted entirely in KSA.

10. Property and equipment, net and Information Technology intangible assets, net

a) Property and equipment, net as of June 30, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Land and buildings	1,102,093	1,089,201	1,087,721
Leasehold improvements	179,353	179,600	179,341
Furniture, equipment and vehicles	414,888	415,799	406,690
Right of Use leased assets	315,358	320,053	310,317
Total cost	2,011,692	2,004,653	1,984,069
Less accumulated depreciation	(987,615)	(940,201)	(893,349)
	1,024,077	1,064,452	1,090,720
Projects pending completion	818	208	164
Property and equipment, net	1,024,895	1,064,660	1,090,884

b) Information Technology intangible assets, net as of June 30, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Software	526,295	460,948	423,693
Less accumulated amortization	(255,299)	(230,664)	(208,303)
	270,996	230,284	215,390
Projects pending completion	61,266	51,496	54,818
Information Technology intangible assets, net	332,262	281,780	270,208

11. Other assets, net and other liabilities

a) Other assets, net as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Customer and other receivables	78,807	73,696	40,212
Prepaid expenses	34,695	35,017	41,988
Others	60,831	40,914	57,089
Total other assets	174,333	149,627	139,289
Less allowance for credit losses	(154)	(275)	(611)
Other assets, net	174,179	149,352	138,678

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11. Other assets, net and other liabilities - continued

b) The movement of the allowance for credit losses for the six month periods ended June 30, 2021 and 2020 and for the year ended December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Balances at the beginning of the year / period	275	386	386
Provision for credit losses	(121)	(111)	225
Balances at the end of the year / period	154	275	611

c) Other liabilities as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Zakat settlement liability, net (note 23e)	352,985	346,637	462,255
Lease liabilities	234,809	254,784	244,460
Allowance for credit losses for financial guarantee contracts	208,066	210,554	227,142
Employee end of service benefits	201,047	202,444	184,022
Accrued salaries and employee related benefits	160,460	166,728	93,627
Accrued expenses and other provisions	143,799	102,189	172,359
Accrued Zakat and Income tax	106,482	250,799	139,129
Deferred government grant income	101,677	214,352	124,790
Customer related liabilities	94,877	116,538	65,538
Allowance for legal proceedings	48,988	49,000	73,279
Deferred fees	10,044	8,485	7,556
Others	73,018	78,685	93,036
Total	1,736,252	2,001,195	1,887,193

12. Due to banks and other financial institutions, net

a) Due to banks and other financial institutions, net as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Current accounts	4,232	8,758	5,313
Repurchase agreements	12,907,121	12,502,627	13,156,595
Money market deposits	1,413,692	1,784,292	4,391,850
Commission free deposits from SAMA, net (note 12b)	6,721,326	5,777,407	4,331,875
Total	21,046,371	20,073,084	21,885,633

Amounts in SAR'000

12. Due to banks and other financial institutions, net - continued

b) The commission free deposits from SAMA, net are comprised of the following:

Maturity date	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
June 6, 2021	-	2,322,722	2,322,722
March 29, 2023	525,340	525,340	1,050,000
December 29, 2024	524,660	524,660	-
February 11, 2025	25,000	25,000	25,000
February 20, 2025	1,161,000	1,161,000	1,161,000
April 16, 2025	1,624,069	1,624,069	-
March 3, 2024	30,000	-	-
September 6, 2021	3,178,175	-	-
Undiscounted commission free deposits from SAMA	7,068,244	6,182,791	4,558,722
Less: Unamortized discount	(346,918)	(405,384)	(226,847)
Commission free deposits from SAMA, net	6,721,326	5,777,407	4,331,875

13. Customers' deposits

Customers' deposits as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Time deposits	24,023,626	24,548,254	31,989,245
Savings deposits	1,054,223	1,041,362	2,290,371
Total special commission bearing deposits	25,077,849	25,589,616	34,279,616
Demand deposits	32,792,875	32,485,210	28,341,763
Other deposits	1,941,551	2,068,763	1,621,252
Customers' deposits	59,812,275	60,143,589	64,242,631

14. Term loans

On June 19, 2016, the Bank entered into a five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized and repaid on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and was repaid on May 26, 2021.

The term loans were at market based variable commission rates. The Bank had an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above included covenants which required maintenance of certain financial ratios and other requirements, with which the Bank was in compliance. The Bank had no defaults of principal or commission on the term loans.

Amounts in SAR'000

15. Derivatives

a) The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts as of June 30, 2021 and 2020 and as of December 31, 2020. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period / year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the net positive fair value of the derivatives.

	Jun. 30, 2021 (Unaudited)			Dec. 31, 2020 (Audited)			Jun. 30, 2020 (Unaudited)		
	Fair value		Notional	Fair value		Notional	Fair value		Notional
	Positive	Negative	amount	Positive	Negative	amount	Positive	Negative	amount
Held for trading:									
Forward foreign exchange contracts	4,264	4,194	1,735,401	10,941	8,532	3,314,241	5,927	5,150	2,435,757
Commission rate swaps	135,027	134,151	8,573,243	141,671	145,704	7,590,244	121,247	120,894	6,792,219
Commission rate options	244,107	244,099	8,055,100	290,517	290,509	9,065,419	327,571	327,563	9,072,860
Held as fair value hedges:									
Commission rate swaps	-	949,059	12,580,109	-	1,301,327	12,724,672	-	1,510,485	12,823,937
CSA / EMIR cash margins	179,239	(1,034,211)	-	238,645	(1,416,610)	-	157,641	(1,609,394)	-
Subtotal	562,637	297,292	30,943,853	681,774	329,462	32,694,576	612,386	354,698	31,124,773
Associated company put option (note 15c)	255,575	-	-	336,575	-	-	406,243	-	-
Total	818,212	297,292	30,943,853	1,018,349	329,462	32,694,576	1,018,629	354,698	31,124,773

b) The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

As of June 30, 2021, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totaled SAR 1,213 million (December 31, 2020: SAR 1,655 million, and June 30, 2020: SAR 1,767 million). The EMIR net cash margins include initial margin payments made to counterparties.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted / offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously.

c) The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in note 15a. The terms of the agreement give the Bank a put option and give the counter party a call option that is exercisable for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercise, based on pre-determined formulas included in the agreement.

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16. Commitments, contingencies, and financial guarantee contracts

a) The Group's credit-related commitments and contingencies as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Letters of credit	2,349,732	2,429,629	2,543,042
Letters of guarantee	8,744,418	8,926,422	8,881,025
Acceptances	875,802	652,079	826,148
Total financial guarantee contracts	11,969,952	12,008,130	12,250,215
Irrevocable commitments to extend credit	474,507	415,678	878,796
Credit-related commitments and contingencies	12,444,459	12,423,808	13,129,011

b) The credit quality of financial guarantee contracts as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Stage 1	10,974,319	11,247,291	11,142,879
Stage 2	597,181	357,503	696,753
Stage 3	398,452	403,336	410,583
Total	11,969,952	12,008,130	12,250,215

c) The movement of the allowance for credit losses for financial guarantee contracts for the six month periods ended June 30, 2021 and 2020 and for the year ended December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Balances at the beginning of the year / period	210,554	217,397	217,397
Provision for credit losses	(2,488)	(6,843)	9,745
Balances at the end of the year / period	208,066	210,554	227,142

d) A reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the six month periods ended June 30, 2021 and 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	98,240	19,579	92,735	210,554
Transfers from Stage 1 to Stage 2	(3,515)	7,701	-	4,186
Transfers from Stage 2 to Stage 1	36	(147)	-	(111)
Changes in exposures and re-measurements	2,979	(6,906)	(2,636)	(6,563)
Net movement for the period	(500)	648	(2,636)	(2,488)
Balances at the end of the period	97,740	20,227	90,099	208,066

Amounts in SAR'000

16. Commitments, contingencies, and financial guarantee contracts - continued

	Jun. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	109,335	26,675	81,387	217,397
Transfers from Stage 1 to Stage 2	(102)	1,319	-	1,217
Transfers from Stage 1 to Stage 3	(467)	-	18,759	18,292
Transfers from Stage 2 to Stage 1	38	(66)	-	(28)
Transfers from Stage 2 to Stage 3	-	(167)	1,177	1,010
Changes in exposures and re-measurements	(6,401)	3,898	(8,243)	(10,746)
Net movement for the period	(6,932)	4,984	11,693	9,745
Balances at the end of the period	102,403	31,659	93,080	227,142

The transfer amounts in the above reconciliations represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the six month periods ended June 30, 2021 and 2020.

e) The Group is subject to legal proceedings in the ordinary course of business. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

17. Operating segments

a) Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in KSA.

There has been no change to the measurement basis for the segment profit or loss. The Group's reportable segments are as follows:

Retail banking. Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking. Loans, deposits and other credit products for corporate and institutional customers.

Treasury and Investments. Money market, investments and treasury services, and investments in associates and related activities.

Asset management and brokerage. Dealing, managing, advising and custody of securities services.

Other. Support functions, special credit, and other management and control units.

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17. Operating segments – continued

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

b) The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of June 30, 2021 and 2020, and its total operating income, expenses, and Income before provisions for Zakat for the six month periods then ended, are as follows:

	Jun. 30, 2021 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	18,195,306	37,576,605	39,357,884	607,327	2,672,253	98,409,375
Total liabilities	22,344,072	7,290,717	52,580,855	87,305	589,241	82,892,190
Net special commission income	341,710	588,196	200,325	11,793	(10,521)	1,131,503
FTP net transfers	19,847	(245,546)	228,997	-	(3,298)	-
Net FTP contribution	361,557	342,650	429,322	11,793	(13,819)	1,131,503
Fee income (expense) from banking services, net	14,266	56,386	16,335	104,209	(11,520)	179,676
Other operating income (loss)	27,308	25,526	23,761	6,327	(38,335)	44,587
Total operating income (loss)	403,131	424,562	469,418	122,329	(63,674)	1,355,766
Direct operating expenses	153,969	35,877	24,229	46,126	17	260,218
Indirect operating expenses	141,375	74,221	137,840	-	-	353,436
Provisions for credit and other losses	94,651	77,867	2,179	(121)	-	174,576
Total operating expenses	389,995	187,965	164,248	46,005	17	788,230
Operating income (loss)	13,136	236,597	305,170	76,324	(63,691)	567,536
Share in earnings of associates	-	-	9,661	-	-	9,661
Income (loss) before provisions for Zakat	13,136	236,597	314,831	76,324	(63,691)	577,197

	Jun. 30, 2020 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	20,866,489	37,590,860	43,067,109	433,587	2,657,925	104,615,970
Total liabilities	21,456,237	8,270,719	59,767,841	27,291	854,808	90,376,896
Net special commission income	498,836	815,342	(125,100)	13,233	(10,393)	1,191,918
FTP net transfers	(18,769)	(324,005)	349,207	-	(6,433)	-
Net FTP contribution	480,067	491,337	224,107	13,233	(16,826)	1,191,918
Fee income (expense) from banking services, net	2,241	71,194	25,521	50,053	(21,196)	127,813
Other operating income (loss)	36,746	22,913	126,673	(391)	(74,658)	111,283
Total operating income (loss)	519,054	585,444	376,301	62,895	(112,680)	1,431,014
Direct operating expenses	125,770	29,920	19,942	38,476	-	214,108
Indirect operating expenses	176,088	81,902	151,519	-	-	409,509
Provisions for credit and other losses	27,843	293,856	1,746	227	-	323,672
Total operating expenses	329,701	405,678	173,207	38,703	-	947,289
Operating income (loss)	189,353	179,766	203,094	24,192	(112,680)	483,725
Share in earnings of associates	-	-	23,544	-	-	23,544
Income (loss) before provisions for Zakat	189,353	179,766	226,638	24,192	(112,680)	507,269

18. Fair values of financial instruments

a) The Group measures certain financial instruments, such as derivatives, at fair value at each interim consolidated statement of financial position date.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim consolidated statement of financial position are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1. Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

Level 2. Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3. Valuation techniques for which any significant input is not based on observable market data.

For assets and liabilities that are recognized in the interim consolidated statement of financial position 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 financial reporting date.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External subject matter experts are involved from time to time for the valuation of certain assets. Involvement of external subject matter experts is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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18. Fair values of financial instruments – continued

b) The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy recorded at fair value as of June 30, 2021 and 2020 and as of December 31, 2020. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Jun. 30, 2021 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	562,637	255,575	818,212
Investments at FVOCI	25,417,074	4,250,934	13,272	29,681,280
Investments at FVTPL	134,967	-	44,358	179,325
Total	25,552,041	4,813,571	313,205	30,678,817
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	297,292	-	297,292
Total	-	297,292	-	297,292

	Dec. 31, 2020 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	681,774	336,575	1,018,349
Investments at FVOCI	26,173,775	4,146,678	13,275	30,333,728
investments at FVTPL	132,949	-	47,166	180,115
Total	26,306,724	4,828,452	397,016	31,532,192
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	329,462	-	329,462
Total	-	329,462	-	329,462

	Jun. 30, 2020 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	612,386	406,243	1,018,629
Investments at FVOCI	23,618,996	6,649,588	452,295	30,720,879
Investments at FVTPL	115,742	-	49,909	165,651
Total	23,734,738	7,261,974	908,447	31,905,159
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	354,698	-	354,698
Total	-	354,698	-	354,698

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value, can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the interim consolidated statement of comprehensive income without reversal of deferred day one profits and losses.

18. Fair values of financial instruments – continued

The total amount of the changes in fair value recognized in the June 30, 2021 interim consolidated statement of income, which was estimated using valuation models, is SAR 81 million loss (June 30, 2020: SAR 15 million loss).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, commission rate options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include hedge funds, private equity funds and certain unquoted strategic investments in equities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate. During the year ended December 31, 2020, certain Gulf Cooperation Council Government securities were transferred from Level 3 to Level 2.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 15c). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 32.4 million as of June 30, 2021 (June 30, 2020: SAR 84.5 million and December 31, 2020: SAR 60.2 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 13.7 million as of June 30, 2021 (June 30, 2020: SAR 39.7 million and December 31, 2020: SAR 26.1 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercize of the option, and could increase or decrease by approximately SAR 24.2 million as of June 30, 2021 (June 30, 2020: SAR 34.9 million and December 31, 2020: SAR 24.2 million) due to estimating the fair value of the underlying investment.

In all respects, the Group's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are prudent to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Group's estimates of fair value.

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18. Fair values of financial instruments – continued

c) The movement of the Level 3 fair values for the six month periods ended June 30, 2021 and 2020, and for the year ended December 31, 2020 is summarized as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Fair values at the beginning of the year / period	397,016	939,020	939,020
Net change in fair value	(83,812)	(88,098)	(30,573)
Transfers to Level 2	-	(453,906)	-
Investments sold	-	-	-
Fair values at the end of the year / period	313,204	397,016	908,447

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the six month periods ended June 30, 2021 and 2020.

d) The estimated fair values of financial assets and financial liabilities as of June 30, 2021, and 2020 and as of December 31, 2020 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each are summarized as follows:

	Jun. 30, 2021 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	2,040,774	2,040,774
Loans and advances, net	56,295,926	59,589,129
Total	58,336,700	61,629,903
Financial liabilities:		
Due to banks and other financial institutions, net	21,046,371	21,046,371
Customers' deposits	59,812,275	58,893,749
Total	80,858,646	79,940,120

	Dec. 31, 2020 (Audited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	2,166,742	2,166,742
Loans and advances, net	55,073,894	59,325,028
Total	57,240,636	61,491,770
Financial liabilities:		
Due to banks and other financial institutions, net	20,073,084	20,073,084
Customers' deposits	60,143,589	59,715,600
Term loans	2,006,169	2,006,169
Total	82,222,842	81,794,853

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18. Fair values of financial instruments – continued

	Jun. 30, 2020 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	2,038,835	2,038,835
Loans and advances, net	58,603,139	62,385,846
Total	60,641,974	64,424,681
Financial liabilities:		
Due to banks and other financial institutions, net	21,885,633	21,885,633
Customers' deposits	64,242,631	63,993,474
Term loans	2,006,741	2,006,741
Total	88,135,005	87,885,848

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the interim condensed consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, due from banks and other financial institutions and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the special commission rates at initial recognition, and because of the short duration of due from banks and other financial institutions.

19. Basic and diluted earnings per share

a) Basic and diluted earnings per share is calculated by dividing net income adjusted for Tier I Sukuk costs by weighted average number of the issued and outstanding shares after giving effect to the purchase of 56.2 million and 18.7 million Treasury shares on September 27, 2018 and May 28, 2019 respectively.

b) Details of basic and diluted earnings per share for the three month and six month periods ended June 30, 2021 and 2020 are as follows:

	Three month period ended		Six month period ended	
	Jun. 30, 2021	Jun. 30, 2020	Jun. 30, 2021	Jun. 30, 2020
Net income	287,770	262,264	501,265	412,978
Tier I Sukuk costs	(40,184)	(45,755)	(55,184)	(60,921)
Net income adjusted for Tier I Sukuk costs	247,586	216,509	446,081	352,057
Weighted average number of outstanding shares (in '000)	675,004	675,004	675,004	675,004
Basic and diluted earnings per share (SAR)	0.37	0.32	0.66	0.52

Amounts in SAR'000

20. Capital adequacy

a) 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.

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 consolidated statement of financial position assets, commitments, and notional amounts of derivatives, at a weighted amount to reflect their relative risk.

The following table summarizes the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital adequacy ratio percentages as of June 30, 2021 and 2020 and as of December 31, 2020.

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Credit Risk RWA	74,451,084	72,782,528	74,959,718
Operational Risk RWA	5,112,624	5,112,624	5,061,360
Market Risk RWA	246,289	1,642,306	844,578
Total Pillar- I RWA	79,809,997	79,537,458	80,865,656
Tier I Capital	16,321,446	16,135,294	15,043,335
Tier II Capital	751,908	730,973	726,126
Total Tier I plus Tier II Capital	17,073,354	16,866,267	15,769,461
Capital Adequacy Ratios:			
Tier I Ratio	20.45%	20.29%	18.60%
Tier I plus Tier II Ratio	21.39%	21.21%	19.50%

The Tier I and Tier II capital as of June 30, 2021 and 2020 and as of December 31, 2020 is comprised of the following:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Total Equity	15,517,185	15,331,033	14,239,074
IFRS 9 transitional adjustment	822,556	822,556	822,556
Goodwill adjustment	(18,295)	(18,295)	(18,295)
Tier I Capital	16,321,446	16,135,294	15,043,335
Qualifying general provisions, net	751,908	730,973	726,126
Tier II Capital	751,908	730,973	726,126
Tier I plus Tier II Capital	17,073,354	16,866,267	15,769,461

Capital adequacy and the use of Regulatory capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total Regulatory capital to Risk Weighted Assets (RWA) at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

As of June 30, 2021 and 2020, and as of December 31, 2020, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

20. Capital adequacy – continued

SAMA under its circular no. 391000029731 dated 15 Rabi Al Awwal 1439H (corresponding to December 3, 2017) on the ECL accounting transitional arrangement for regulatory capital, allowed banks to transition the Day 1 impact of IFRS 9 on regulatory capital over five years by using a dynamic approach to reflect the impact of the transition.

In April 2020, SAMA issued a guidance document entitled "Guidance on Accounting and Regulatory Treatment of COVID-19 - Extraordinary Support Measures". Under the guidance, banks have been allowed to add-back up to 100% of the Day 1 impact of IFRS 9 as a transitional adjustment amount to Common Equity Tier 1 (CET1) for the two year periods comprising 2020 and 2021. The add-back amount is then required to be phased-out on a straight-line basis over the subsequent 3 years. In this respect, the Group has opted to apply the transitional adjustment, and has included the Day 1 impact of IFRS 9 in its Tier I regulatory capital. As a result, the IFRS 9 transitional adjustment add back has increased to SAR 822.5 million as of June 30, 2021 and 2020 and as of December 31, 2020.

b) The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually);
- Capital Structure (Quarterly);
- Liquidity Coverage Ratio (Quarterly);
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

21. Related party disclosures

a) In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia and during 2019, SAMA issued rules on Banks exposures to Related Parties. In February 2020, SAMA revised the Related Parties Rules for Banks. These rules specify the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's related party identification and disclosure of transactions policy complies with the rules and guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and its management;
- Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Amounts in SAR'000

21. Related party disclosures - continued

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, CEO, GMs, their deputies, CFO, Managers of key departments, officers of risk management, Internal audit, and Compliance functions, and similar positions in the Financial Institution, in addition to incumbents of any other positions determined by SAMA.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

Relatives include spouses, children, parents, grandparents, siblings, grandchildren, and offspring to whom a member of management of either the Bank, principal shareholder, or affiliate, might control or influence or by whom they might be controlled or influenced, because of the family relationship.

b) The balances as of June 30, 2021 and 2020 and as of December 31, 2020, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:			
Loans and advances	699,897	804,421	290,092
Customers' deposits	945,950	469,228	81,627
Tier I Sukuk	7,000	7,000	7,000
Commitments and contingencies	331,936	306,912	2,054
Investments	414,723	429,675	-
Principal shareholders of the Bank and its management:			
Customers' deposits	23,278	760,091	822,805
Tier I Sukuk	30,000	30,000	30,000
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:			
Loans and advances	965,289	732,527	790,031
Customers' deposits	577,142	381,956	441,323
Tier I Sukuk	5,000	5,000	5,000
Commitments, contingencies and derivatives	100,050	102,050	112,764
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:			
Customers' deposits and other liabilities	291,941	264,141	184,022

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21. Related party disclosures - continued

c) Income and expense for the six month periods ended June 30, 2021 and 2020, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Jun. 30, 2021 (Unaudited)	Jun. 30, 2020 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:		
Special commission income	9,228	3,096
Special commission expense	3,231	28
Fee income from banking services	105	11
Principal shareholders of the Bank and its management:		
Special commission expense	-	292
Rent and premises-related expenses (Building rental)	3,824	3,824
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:		
Special commission income	14,412	13,394
Special commission expense	222	3,382
Fee income from banking services	1,425	1,477
Board of Directors and other Board Committee member remuneration	3,880	4,105

22. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the Program on the dates indicated as of June 30, 2021 and 2020 and as of December 31, 2020:

	Jun. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Jun. 30, 2020 (Unaudited)
November 16, 2016	500,000	500,000	500,000
June 6, 2017	285,000	285,000	285,000
March 21, 2018	1,000,000	1,000,000	1,000,000
April 15, 2019	215,000	215,000	215,000
Total	2,000,000	2,000,000	2,000,000

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

22. Tier I Sukuk – continued

The applicable profit rate on the Tier I Sukuk is payable 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 a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be accumulated or compounded with any future distributions.

23. Zakat and Income tax

a) The Bank's share capital and percentages of ownership as of June 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows in SAR millions. The Bank's Zakat and Income tax calculations and corresponding accruals and payments of Zakat and Income tax are based on the below ownership percentages:

	Jun. 30, 2021 (Unaudited)		Dec. 31, 2020 (Audited)		Jun. 30, 2020 (Unaudited)	
	Amount	%	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0	6,750.0	90.0
Treasury shares (note 25)	750.0	10.0	750.0	10.0	750.0	10.0
Total	7,500.0	100.0	7,500.0	100.0	7,500.0	100.0

b) The Bank has filed the required Zakat declarations with the Zakat, Tax and Customs Authority ("ZATCA") which are due on April 30 each year, through the year ended December 31, 2020. The Bank's Zakat and Income tax calculations and corresponding accruals and payments for Zakat and Income tax are based on the ownership percentages disclosed in note 23a.

On March 14, 2019, the ZATCA published rules (the "Rules") for the computation of Zakat for companies engaged in financing activities and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods beginning January 1, 2019. In addition to providing a new basis for calculation of the Zakat base, the Rules have also introduced a minimum floor and maximum cap at 4 times and 8 times respectively of net income. The Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.

c) Provisions for Zakat and Income tax for the three month and six month periods ended June 30, 2021 and 2020 is summarized as follows:

	Three month period ended		Six month period ended	
	Jun. 30, 2021	Jun. 30, 2020	Jun. 30, 2021	Jun. 30, 2020
Provisions for Zakat – current charge	59,635	71,875	109,714	94,291
Reversal for Zakat – prior period (note 23d)	(33,782)	-	(33,782)	-
Provisions for Zakat	25,853	71,875	75,932	94,291

d) Under the SAMA support programs and initiatives, the Bank received long-term commission free deposits from SAMA. These deposits are intended to compensate for the related costs that the Bank is expected to incur under the SAMA and other public authorities program. As per Zakat regulations in KSA, all long-term liabilities are included as a Zakatable source of funds for the calculation of Zakat charge. Accordingly, zakat was calculated and paid on these long-term commission free deposits to ZATCA for the year ended December 31, 2020. During the six month period ended June 30, 2021, the Bank received a confirmation from the concerned authorities to not include these long-term deposits from the Zakatable source of funds considering the purpose of these deposits. The confirmation is treated as a change in estimate and accordingly, the Bank has reversed the additional Zakat paid on long-term deposits in the consolidated statement of income for the six month period ended June 30, 2021.

Amounts in SAR'000

23. Zakat and Income tax - continued

e) During 2018, the Bank agreed to settle prior year Zakat assessments with the ZATCA for the years 2006 to 2017. The settlement totaled SAR 775 million. The outstanding balance of approximately SAR 372 million is payable in equal annual instalments on December 1, 2021 and on December 1 of each year thereafter through the year 2023.

24. Dividends

During 2021, the Board of Directors proposed a cash dividend of SAR 270.0 million equal to SAR 0.4 per share. The proposed cash dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on April 21, 2021. The dividends were paid to the Bank's shareholders starting from May 2, 2021.

25. Treasury shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (JP Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million, exclusive of transaction costs and estimated Income tax. The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury shares purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase another 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income Tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab, 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totaling SAR 1,041.1 million presented as a reduction of shareholders' equity.

Subsequent to June 30, 2021, the Bank has invited its shareholders to attend the Extraordinary General Assembly meeting to be held on August 4, 2021 to vote on the sale of treasury shares in accordance with *the Circular for the Sale of the Treasury Shares* (the "Circular") issued by the Bank on July 14, 2021 and to authorize the Board to carry out all actions and procedures necessary for the sale of Treasury shares.

26. Operating expenses

Provisions for credit and other losses for the three month and six month periods ended June 30, 2021 and 2020 is summarized as follows:

	Three month period ended		Six month period ended	
	Jun. 30, 2021	Jun. 30, 2020	Jun. 30, 2021	Jun. 30, 2020
Due from banks and other financial institutions (note 6b)	1,219	433	1,123	159
Investments (note 7c)	3,935	565	1,057	1,589
Loans and advances (note 8b)	105,578	85,656	175,005	311,954
Financial guarantee contracts (note 16c)	(819)	11,923	(2,488)	9,745
Other assets (note 11b)	(181)	118	(121)	225
Provisions for credit and other losses	109,732	98,695	174,576	323,672

27. Impact of COVID-19 on ECL and SAMA Programs

The Coronavirus ("COVID-19") pandemic ("the pandemic") continues to disrupt global markets as many geographies are experiencing multiple waves of infection despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns, and strict social distancing rules. The Government of KSA ("the Government"), however, has managed to successfully control the outbreak, owing primarily to the effective measures taken by the Government. The Government has approved number of vaccines for mass immunizations. The vaccination drive is in full swing and it is expected that majority of the population will be vaccinated in the near future.

During 2020, the management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio. The Bank continues to assess and reflect appropriately:

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

The Bank also continues to evaluate the current situation through conducting stress-tests on expected movements of oil prices and other macroeconomic variables and their impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact of COVID-19 outbreak on its normal operations and financial performance. The steps taken by management includes ongoing review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the Government and SAMA support programs.

The prevailing economic conditions which are severely affected by the ongoing pandemic, require the Bank to revise certain inputs and assumptions used for the determination of Expected Credit Losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Group in the estimation of expected credit losses or revisions to the scenario probabilities currently being used by the Bank in ECL estimation. During 2020, the Group made certain adjustments to the macroeconomic factors and scenario weightings.

The Bank's ECL model continues to be sensitive to the above assumptions and is continually reassessed as part of its normal model refinement exercise. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, Management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. Accordingly, management's ECL assessment includes a sector-based assessment and staging analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognized post-model overlays of SAR 159.5 million, SAR 66.2 million and SAR 17.6 million as of June 30, 2021 for its corporate, MSME and retail loans and advances portfolio respectively. The Bank will continue to reassess the need for additional overlays as more reliable data becomes available and accordingly determine if any adjustment to the ECL allowance is required in subsequent reporting periods.

27. Impact of COVID-19 on ECL and SAMA Programs - continued

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to the pandemic, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H (corresponding to March 15, 2017). The PSFSP mainly encompasses the following programs:

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

Deferred payment program

As part of the deferred payments program and with the extensions to the program subsequently announced, the Bank is required to defer payments on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to June 30, 2021, and increasing the facility tenors accordingly at no additional costs to the customer.

Further to the above, SAMA on June 22, 2021 announced the extension of the DPP for three additional months from July 1, 2021 to September 30, 2021, for MSMEs that are still impacted by the COVID-19 measures. SAMA clarified that for this extension, MSMEs will be subject to the assessment by the banks to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines issued by SAMA. Based on the guidelines received from SAMA, the Bank has assessed its MSME portfolio and has accordingly deferred the installments falling due from July 1, 2021 to September 30, 2021 amounting to SAR 920.8 million and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SAR 16.6 million.

The accounting impact of these changes has been assessed and treated as per the requirements of IFRS 9 as a modification in terms of arrangement. This resulted in the Bank recognizing total modification losses amounting to SAR 102.6 million during the six month period ended June 30, 2021 which was included in special commission income. During the six month period ended June 30, 2021, SAR 48.1 million has been credited to the interim condensed consolidated statement of income relating to unwinding of modification losses.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank received commission free deposits from SAMA amounting to SAR 7.0 billion with varying maturities, which qualify as government grant. Management has determined based on the communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. The management has exercised certain judgements in the recognition and measurement of this grant income. Total income on these commission free deposits amounted to SAR 455.2 million out of which SAR 300.6 million was recognized in special commission income. During the six month period ended June 30, 2021, SAR 66.7 million has been recognized to the interim condensed consolidated statement of income relating to unwinding of day 1 gain. Grant income amounting to SAR 6.7 million arose on commission free deposit amounting to SAR 3.1 billion received during the six-month period ended June 30, 2021.

27. Impact of COVID-19 on ECL and SAMA Programs - continued

The Bank continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Bank has performed an assessment with respect to SICR and recognized an overlay of SAR 66.2 million on its MSME portfolio as of June 30, 2021 as a result of the potential impact of credit risk rating downgrades.

If the balance of COVID-19 support packages in Stage 1 move to Stage 2, additional ECL provisions will be provided during 2021 based on the facility level assessment and the ability of MSME customers to repay amounts due after the deferral period ends.

Funding for lending and Facility guarantee program

As of June 30, 2021, the Bank has participated in SAMA's facility guarantee program. The Bank has received SAR 30 million from SAMA for providing concessional financing to eligible MSMEs under facility guarantee program. The accounting impact for facility guarantee program is immaterial to the interim condensed consolidated financial statements for six month period ended June 30, 2021.

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

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

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

In this regard, during Q2 2020, the Bank received a SAR 2.32 billion commission free deposit with a one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 38.4 million, of which SAR 34.7 million was recognized in the consolidated statement of income for the year ended December 31, 2020 and with the remaining amount deferred. This deposit has been repaid during the quarter ended June 30, 2021.

Bank's initiative - Health care sector support

In recognition of the significant efforts that the healthcare workers are putting in to safeguard the health of our citizens and residents in response to the pandemic, the Bank voluntarily postponed loan payments for three months for all public and private health care workers who had credit facilities with the Bank. This resulted in the Bank recognizing a day 1 modification loss of SAR 8.9 million for the six month period ended June 30, 2020 which was charged to special commission income.

28. IBOR ("Interbank Offer Rate") Transition - Interest Rate Benchmark Reforms

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") followed a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

- Phase 1 – The first phase of amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments were effective from January 1, 2020 and are mandatory for all hedge relationships directly affected by the IBOR reform. The Group has adopted these amendments along with the hedging relief for pre-replacement hedges.

- Phase 2 – The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result, IBOR continues to be used as a reference rate in financial markets and therefore is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

28. IBOR ("Interbank Offer Rate") Transition - Interest Rate Benchmark Reforms - continued

The LIBOR administrator, ICE Benchmark Administration, is consulting on ceasing publication of all sterling LIBOR settings at the end of 2021, leaving just one year for firms to remove their remaining reliance on these benchmarks. On March 5, 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all currencies will either cease or no longer be representative immediately after the following dates:

- December 31, 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- June 30, 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

These reforms are expected to cause some interest rate benchmarks to either perform differently to the way that they do currently or to disappear. As the Group believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate as of June 30, 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies.

The Group currently has a contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the ISDA protocols.

The Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference LIBOR to transition them to alternate benchmarks, as applicable, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As of June 30, 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed.

The Group has identified that the areas of most significant risk arising from the replacement of LIBOR are:

- updating systems and processes which capture LIBOR referenced contracts;
- amendments to those contracts, or existing fallback / transition clauses not operating as anticipated;
- mismatches in timing of derivatives and loans transitioning from LIBOR and the resulting impact on economic risk management; and
- updating hedge designations. The Group continues to engage with industry participant, to ensure an orderly transition to alternate benchmarks and to minimise the risks arising from transition, and it will continue to identify and assess risks associated with LIBOR replacement.

The Group is undergoing overall transition activities and is engaging various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.
