THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three month period ended March 31, 2021

(Unaudited)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR'000

	Notes	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
ASSETS				
Cash and balances with SAMA	5a	5,265,684	8,323,490	5,126,026
Due from banks and other financial institutions, net	6a,18	1,288,478	2,166,742	4,407,502
Investments	7a,18	30,464,162	30,513,843	27,379,544
Positive fair values of derivatives, net	15a,18	872,949	1,018,349	1,064,991
Loans and advances, net	8a,18	55,423,508	55,073,894	59,877,200
Investments in associates	9a	846,453	845,744	1,010,490
Other real estate		446,678	446,678	446,678
Property and equipment, net	10a	1,040,021	1,064,660	1,110,965
Information Technology intangible assets, net	10b	311,914	281,780	259,266
Other assets, net	11a	310,628	149,352	122,218
Total assets		96,270,475	99,884,532	100,804,880
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions, net	12a, 18	20,545,125	20,073,084	16,696,202
Customers' deposits	13,18	56,122,764	60,143,589	67,641,798
Negative fair values of derivatives, net	15a,18	318,122	329,462	285,051
Term loans	14,18	2,006,066	2,006,169	2,011,256
Other liabilities	11c	1,889,127	2,001,195	1,678,699
Total liabilities		80,881,204	84,553,499	88,313,006
Equity				
Share capital	23a	7,500,000	7,500,000	7,500,000
Statutory reserve		5,233,000	5,233,000	4,988,000
Treasury shares	25	(1,041,067)	(1,041,067)	(1,041,067)
Other reserves	7e	651,786	792,043	(1,320,704)
Proposed dividend	24	270,002	-	-
Retained earnings		775,550	847,057	365,645
Shareholders' equity		13,389,271	13,331,033	10,491,874
Tier I Sukuk	22	2,000,000	2,000,000	2,000,000
Total equity		15,389,271	15,331,033	12,491,874
Total liabilities and equity		96,270,475	99,884,532	100,804,880

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)
Amounts in SAR'000

	Notes	Three month period ended Mar. 31, 2021	Mar. 31, 2020
Special commission income		664,391	914,164
Special commission expense		121,433	331,459
Net special commission income		542,958	582,705
Fee income from banking services, net		90,487	68,447
Exchange income, net		38,493	39,783
Dividend income		-	14
Unrealized fair value through profit and loss		(37,421)	(7,961)
Realized fair value through profit and loss		527	4,163
Gains on disposals of FVOCI debt securities, net		28	30,568
Other income		12	3
Total operating income		635,084	717,722
Salaries and employee-related expenses		165,791	176,743
Rent and premises related expenses		33,417	34,615
Depreciation and amortization		36,283	36,994
Other general and administrative expenses		71,884	88,331
Operating expenses before provisions for credit and other losses		307,375	336,683
Provisions for credit and other losses	26	64,844	224,977
Total operating expenses		372,219	561,660
Operating income		262,865	156,062
Share in earnings of associates	9a	709	17,068
Income before provisions for Zakat		263,574	173,130
Provisions for Zakat		50,079	22,416
Net income		213,495	150,714
Basic and diluted earnings per share (expressed in SAR per share)	19b	0.29	0.20

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
Amounts in SAR'000

	Notes	Three month period ended Mar. 31, 2021	Mar. 31, 2020
Net income		213,495	150,714
Other comprehensive loss			
Items that cannot be reclassified to the interim consolidated statement of income in subsequent periods:			
Net change in fair value of equity investments held at fair value through other comprehensive income		(9,267)	(12,496)
Items that can be reclassified to the interim consolidated statement of income in subsequent periods:			
Net change in fair value of debt securities held at fair value through other comprehensive income		(130,962)	(1,606,741)
Fair value gains transferred to interim consolidated statement of income on disposals of FVOCI debt securities, net		(28)	(30,568)
Share in other comprehensive loss of associates	9a	-	(876)
Total other comprehensive loss		(140,257)	(1,650,681)
Total comprehensive income (loss)		73,238	(1,499,967)

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

		Three month period ended March 31, 2021 (SAR'000)								
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Proposed dividend	Retained earnings	Shareholders' Equity	Tier I Sukuk	Total equity
Balances at the beginning of the period (Audited)		7,500,000	5,233,000	(1,041,067)	792,043	-	847,057	13,331,033	2,000,000	15,331,033
Net income		-	-	-	-	-	213,495	213,495	-	213,495
Total other comprehensive loss		-	-	-	(140,257)	-	-	(140,257)	-	(140,257)
Total comprehensive income		-	-	-	(140,257)	-	213,495	73,238	-	73,238
Proposed dividend	24	-	-	-	-	270,002	(270,002)	-	-	-
Tier I Sukuk costs		-	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Balances at the end of the period		7,500,000	5,233,000	(1,041,067)	651,786	270,002	775,550	13,389,271	2,000,000	15,389,271

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Continued (Unaudited)

	Three month period ended March 31, 2020 (SAR'000)							
	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the period (Audited)	7,500,000	4,988,000	(1,041,067)	329,977	230,097	12,007,007	2,000,000	14,007,007
Net income	-	-	-	-	150,714	150,714	-	150,714
Total other comprehensive loss	-	-	-	(1,650,681)	-	(1,650,681)	-	(1,650,681)
Total comprehensive loss	-	-	-	(1,650,681)	150,714	(1,499,967)	-	(1,499,967)
Tier I Sukuk costs	-	-	-	-	(15,166)	(15,166)	-	(15,166)
Balances at the end of the period	7,500,000	4,988,000	(1,041,067)	(1,320,704)	365,645	10,491,874	2,000,000	12,491,874

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
Amounts in SAR'000

	Notes	Three month period ended Mar. 31, 2021	Mar. 31, 2020
OPERATING ACTIVITIES			
Net income		213,495	150,714
Adjustments to reconcile net income to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		2,668	6,571
Net change in accrued special commission income		157,418	89,522
Net change in accrued special commission expense		(64,550)	(147,835)
Net change in deferred loan fees		267	(2,160)
Gains on disposals of FVOCI debt securities, net		(28)	(30,568)
Unrealized fair value through profit and loss		37,421	7,961
Realized fair value through profit and loss		(527)	(4,163)
Depreciation and amortization		36,283	36,994
Gain on sale of other real estate		-	(3)
Provisions for credit and other losses	26	64,844	224,977
Share in earnings of associates	9a	(709)	(17,068)
		446,582	314,942
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		100,780	47,886
Due from banks and other financial institutions maturing after three months from acquisition date		101	94,790
Loans and advances		(605,543)	(3,098,611)
Positive fair values of derivatives		135,500	236,507
Other real estate		-	11,004
Other assets		(151,021)	17,285
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions, net		483,836	2,974,259
Customers' deposits		(3,970,718)	(1,303,773)
Negative fair values of derivatives		(7,271)	(37,073)
Other liabilities		(121,003)	22,023
		(3,688,757)	(720,761)
Zakat and Income tax payments, net		-	-
Net cash used in operating activities		(3,688,757)	(720,761)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		2,715,005	940,113
Purchases of investments		(2,794,440)	(3,749,606)
Acquisitions of property, equipment, and intangibles		(52,093)	(25,017)
Net cash used in investing activities		(131,528)	(2,834,510)

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS - Continued (Unaudited)
Amounts in SAR'000

	Notes	Three month period ended Mar. 31, 2021	Mar. 31, 2020
FINANCING ACTIVITY			
Tier I Sukuk costs		(15,000)	(15,166)
Net cash used in financing activity		(15,000)	(15,166)
Net decrease in cash and cash equivalents		(3,835,285)	(3,570,437)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	5b	7,266,784	9,613,154
Net decrease in cash and cash equivalents		(3,835,285)	(3,570,437)
Cash and cash equivalents at the end of the period	5b	3,431,499	6,042,717
Supplemental special commission information			
Special commission received		826,764	927,036
Special commission paid		186,316	402,977
Supplemental non-cash information			
Total other comprehensive loss		(140,257)	(1,650,681)

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the three month periods ended March 31, 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 1397H, corresponding to March 16, 1977 through its 52 branches (December 31, 2020: 52 branches; and March 31, 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 three month period ended March 31, 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 Ramadan 23, 1442H, corresponding to May 5, 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 March 31, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Cash on hand	761,113	704,645	820,599
Reverse repurchase agreement	1,385,000	4,610,000	783,000
Other balances, net	(6,198)	(217,704)	131,087
Cash and balances before statutory deposit (note 5b)	2,139,915	5,096,941	1,734,686
Statutory deposit	3,125,769	3,226,549	3,391,340
Cash and balances with SAMA	5,265,684	8,323,490	5,126,026

In accordance with the Banking Control Law and regulations issued by the Saudi Central Bank ("SAMA"), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its average 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 three month periods ended March 31, 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 March 31, 2021 and 2020 and as of December 31, 2020 are comprised of the following:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Cash and balances with SAMA excluding statutory deposit (note 5a)	2,139,915	5,096,941	1,734,686
Due from banks and other financial institutions maturing within three months from the date of acquisition	1,291,584	2,169,843	4,308,031
Cash and cash equivalents	3,431,499	7,266,784	6,042,717

6. Due from banks and other financial institutions, net

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Current accounts	1,291,584	1,669,843	390,867
Money market placements	-	500,101	4,018,449
Total due from banks and other financial institutions	1,291,584	2,169,944	4,409,316
Allowance for credit losses	(3,106)	(3,202)	(1,814)
Due from banks and other financial institutions, net	1,288,478	2,166,742	4,407,502

b) The credit quality of due from banks and other financial institutions as of March 31, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Investment grade	1,237,479	2,104,763	4,407,231
Non-investment grade	54,105	63,148	2,085
Unrated	-	2,033	-
Total due from banks and other financial institutions	1,291,584	2,169,944	4,409,316

c) The movement of the allowance for credit losses for the three month periods ended March 31, 2021 and 2020 and the year ended December 31, 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Balances at the beginning of the year/period	3,202	2,088	2,088
Provision for credit losses	(96)	1,114	(274)
Balances at the end of the year/period	3,106	3,202	1,814

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the three month periods ended March 31, 2021 and 2020

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

d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the three month periods ended March 31, 2021 and 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	3,092	110	-	3,202
Changes in exposures, re-measurement, and transfers	(79)	(17)	-	(96)
Balances at the end of the period	3,013	93	-	3,106

	Mar. 31, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	1,730	358	-	2,088
Changes in exposures, re-measurement, and transfers	(164)	(110)	-	(274)
Balances at the end of the period	1,566	248	-	1,814

7. Investments

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Fixed rate debt securities	28,107,852	27,616,293	24,138,504
Floating rate debt securities	1,816,575	2,343,616	2,822,261
Total debt securities	29,924,427	29,959,909	26,960,765
Equities	364,087	373,819	254,271
Mutual funds	142,207	144,212	125,955
Other securities	33,441	35,903	38,553
Investments	30,464,162	30,513,843	27,379,544

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 March 31, 2021 (December 31, 2020: SAR 8.6 million, and March 31, 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 355.4 million as of March 31, 2021 (December 31, 2020: SAR 365.1 million, and March 31, 2020: SAR 239.9 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 March 31, 2021, investments include SAR 13.5 billion (December 31, 2020: SAR 13.5 billion, and March 31, 2020: SAR 11.5 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 March 31, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Grades 1- 6 and unrated	29,924,427	29,959,909	26,960,765
Grades 7- 9	-	-	-
Total debt securities	29,924,427	29,959,909	26,960,765

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Balances at the beginning of the year/period	31,385	29,659	29,659
Provision for credit losses	(2,878)	1,726	1,024
Balances at the end of the year/period (note 7e)	28,507	31,385	30,683

d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the three month periods ended March 31, 2021 and 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	31,385	-	-	31,385
Changes in exposures, re-measurement, and transfers	(2,878)	-	-	(2,878)
Balances at the end of the period	28,507	-	-	28,507

	Mar. 31, 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, and transfers	1,024	-	-	1,024
Balances at the end of the period	30,683	-	-	30,683

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Unrealized gains (losses) on revaluation of debt securities at FVOCI before allowance for credit losses	586,286	714,398	(1,279,410)
Allowance for credit losses on debt securities at FVOCI (note 7c)	28,507	31,385	30,683
Unrealized gains (losses) on revaluation of debt securities at FVOCI after allowance for credit losses	614,793	745,783	(1,248,727)
Unrealized gains (losses) on revaluation of equities held at FVOCI	66,788	76,055	(50,152)
Actuarial losses on defined benefit plans	(27,083)	(27,083)	(20,689)
Share of other comprehensive loss of associates	(2,712)	(2,712)	(1,136)
Other reserves	651,786	792,043	(1,320,704)

Amounts in SAR'000

8. Loans and advances, net

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

	Mar. 31, 2021 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	37,237,847	2,577,663	10,412,702	50,228,212
Stage 2	3,937,127	481,042	118,520	4,536,689
Stage 3	254,261	1,082,508	448	1,337,217
Total performing loans and advances	41,429,235	4,141,213	10,531,670	56,102,118
Non performing loans and advances	33,940	981,633	118,119	1,133,692
Total loans and advances	41,463,175	5,122,846	10,649,789	57,235,810
Allowance for credit losses	(786,635)	(807,195)	(218,472)	(1,812,302)
Loans and advances, net	40,676,540	4,315,651	10,431,317	55,423,508

	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

	Mar. 31, 2020 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	38,258,219	2,318,194	13,063,543	53,639,956
Stage 2	4,269,220	958,760	188,111	5,416,091
Stage 3	100,380	965,656	2,241	1,068,277
Total performing loans and advances	42,627,819	4,242,610	13,253,895	60,124,324
Non performing loans and advances	947,868	1,183,206	228,687	2,359,761
Total loans and advances	43,575,687	5,425,816	13,482,582	62,484,085
Allowance for credit losses	(1,058,544)	(1,198,869)	(349,472)	(2,606,885)
Loans and advances, net	42,517,143	4,226,947	13,133,110	59,877,200

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Balances at the beginning of the year/period	1,755,424	2,405,585	2,405,585
Provision for credit losses	69,427	453,527	226,298
Write-offs, net	(12,549)	(1,103,688)	(24,998)
Balances at the end of the year/period	1,812,302	1,755,424	2,606,885

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8. Loans and advances, net - continued

c) A reconciliation from the opening to the closing balance of the allowance for credit losses for the three month periods ended March 31, 2021 and 2020 is summarized as follows:

	Mar. 31, 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
Changes in exposures, re-measurement, and transfers (i)	130	57,451	11,846	69,427
Write-offs, net	-	-	(12,549)	(12,549)
Balances at the end of the period	443,426	300,606	1,068,270	1,812,302

	Mar. 31, 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
Changes in exposures, re-measurement, and transfers	99,149	22,454	104,695	226,298
Write-offs, net	-	-	(24,998)	(24,998)
Balances at the end of the period	478,660	206,966	1,921,259	2,606,885

i. Owing to the prevailing economic conditions, the Group recognized an ECL provision of SAR 185.7 million as of March 31, 2021 for its loans and advances portfolio as a result of post-model overlays. Refer to note 27 for details.

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 three month periods ended March 31, 2021 and 2020, and for the year ended December 31, 2020, is summarized as follows:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Balance at the beginning of the year / period	845,744	994,298	994,298
Share in earnings	709	45,928	17,068
Dividends	-	(79,397)	-
Share of other comprehensive loss	-	(2,452)	(876)
Disposals (i)	-	(112,633)	-
Balance at the end of the year / period	846,453	845,744	1,010,490

(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 amounted to SAR 19.4 million, net of other comprehensive loss transferred to the consolidated statement of income on disposal of SAR 1.03 million.

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 March 31, 2021 amounts to SAR 450.2 million (December 31, 2020: SAR 444.5 million).

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9. Investments in associates - continued

b) The following table summarizes the associates' assets, liabilities, and equity as of March 31, 2021 and 2020, and income and expense for the three month periods then ended:

	Mar. 31, 2021 (Unaudited)			Mar. 31, 2020 (Unaudited)		
	AMEX	YANAL	AMLAK	AMEX	YANAL	AMLAK
Total assets	606,146	1,513,791	3,524,195	755,508	1,103,863	3,502,160
Total liabilities	285,173	637,686	2,351,045	316,657	223,298	2,351,045
Equity	320,973	876,105	1,173,150	438,851	880,565	1,151,115
Total income	58,200	30,529	54,721	88,211	29,166	54,721
Total expenses	63,648	19,227	33,568	68,531	22,730	33,568

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 March 31, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Land and buildings	1,097,543	1,089,201	1,080,974
Leasehold improvements	178,989	179,600	178,149
Furniture, equipment and vehicles	411,955	415,799	404,967
Right of Use leased assets	314,757	320,053	308,307
Total cost	2,003,244	2,004,653	1,972,397
Less accumulated depreciation	(964,631)	(940,201)	(865,533)
Subtotal	1,038,613	1,064,452	1,106,864
Projects pending completion	1,408	208	4,101
Property and equipment, net	1,040,021	1,064,660	1,110,965

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Software	498,630	460,948	411,667
Less accumulated amortization	(242,517)	(230,664)	(197,669)
Subtotal	256,113	230,284	213,998
Projects pending completion	55,801	51,496	45,268
Information Technology intangible assets, net	311,914	281,780	259,266

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11. Other assets, net and other liabilities

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Customer and other receivables	223,735	73,696	40,035
Prepaid expenses	44,774	35,017	32,655
Others	42,454	40,914	50,021
Total other assets	310,963	149,627	122,711
Less allowance for credit losses	(335)	(275)	(493)
Other assets, net	310,628	149,352	122,218

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Balances at the beginning of the year / period	275	386	386
Provision for credit losses	60	(111)	107
Balances at the end of the year/period	335	275	493

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Zakat settlement liability, net	349,811	346,637	458,028
Accrued Zakat and Income tax	300,878	250,799	110,915
Lease liabilities	234,830	254,784	244,429
Allowance for credit losses for financial guarantee contracts	208,885	210,554	215,219
Employee end of service benefits	206,030	202,444	179,743
Accrued salaries and employee related benefits	131,558	166,728	59,037
Accrued expenses and other provisions	118,430	102,189	147,460
Deferred government grant income	115,387	214,352	11,335
Customer related liabilities	90,512	116,538	56,561
Allowance for legal proceedings	48,996	49,000	73,279
Deferred fees	10,888	8,485	24,661
Others	72,922	78,685	98,032
Total	1,889,127	2,001,195	1,678,699

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12. Due to banks and other financial institutions, net

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 30, 2020 (Unaudited)
Current accounts	6,272	8,758	55,492
Repurchase agreements	12,943,251	12,502,627	11,435,989
Money market deposits	1,756,186	1,784,292	4,256,035
Commission free deposits from SAMA, net (note 12b)	5,839,416	5,777,407	948,686
Total	20,545,125	20,073,084	16,696,202

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

Maturity date	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 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	-
February 20, 2025	1,161,000	1,161,000	-
April 16, 2025	1,624,069	1,624,069	-
March 3, 2024	30,000	-	-
Undiscounted commission free deposits from SAMA	6,212,791	6,182,791	1,050,000
Less: Unamortized discount	(373,375)	(405,384)	(101,314)
Commission free deposits from SAMA, net	5,839,416	5,777,407	948,686

13. Customers' deposits

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Time deposits	23,045,826	24,548,254	37,388,934
Savings deposits	1,258,271	1,041,362	1,771,858
Total special commission bearing deposits	24,304,097	25,589,616	39,160,792
Demand deposits	29,881,826	32,485,210	27,043,641
Other deposits	1,936,841	2,068,763	1,437,365
Customers' deposits	56,122,764	60,143,589	67,641,798

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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 has been fully utilized and is repayable 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 originally repayable on September 26, 2022 (later amended to be May 26, 2021).

The term loans bear commission at market based variable rates. The Bank has 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 include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

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 March 31, 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.

	Mar. 31, 2021 (Unaudited)			Dec. 31, 2020 (Audited)			Mar. 31, 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	11,276	7,472	2,518,789	10,941	8,532	3,314,241	19,160	11,239	2,595,435
Commission rate swaps	117,521	116,631	7,549,387	141,671	145,704	7,590,244	143,635	143,093	8,536,056
Commission rate options	262,504	262,492	8,854,980	290,517	290,509	9,065,419	291,321	291,314	9,078,614
Held as fair value hedges:									
Commission rate swaps	-	916,384	12,672,860	-	1,301,327	12,724,672	-	1,425,710	12,873,169
CSA / EMIR cash margins	185,573	(984,857)	-	238,645	(1,416,610)	-	197,132	(1,586,305)	-
Subtotal	576,874	318,122	31,596,016	681,774	329,462	32,694,576	651,248	285,051	33,083,274
Associated company put option (note 15c)	296,075	-	-	336,575	-	-	413,743	-	-
Total	872,949	318,122	31,596,016	1,018,349	329,462	32,694,576	1,064,991	285,051	33,083,274

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.

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15. Derivatives - continued

As of March 31, 2021, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totaled SAR 1,170 million (December 31, 2020: SAR 1,655 million, and March 31, 2020: SAR 1,783 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.

16. Commitments, contingencies, and financial guarantee contracts

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Letters of credit	2,364,673	2,429,629	2,790,787
Letters of guarantee	8,949,156	8,926,422	8,877,804
Acceptances	737,677	652,079	936,422
Total financial guarantee contracts	12,051,506	12,008,130	12,605,013
Irrevocable commitments to extend credit	424,062	415,678	944,727
Credit-related commitments and contingencies	12,475,568	12,423,808	13,549,740

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Stage 1	11,083,967	11,247,291	11,570,848
Stage 2	554,100	357,503	664,872
Stage 3	413,439	403,336	369,293
Total	12,051,506	12,008,130	12,605,013

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Balances at the beginning of the year/period	210,554	217,397	217,397
Provision for credit losses	(1,669)	(6,843)	(2,178)
Balances at the end of the year/period	208,885	210,554	215,219

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

d) A reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the three month periods ended March 31, 2021 and 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	98,240	19,579	92,735	210,554
Changes in exposures, re-measurement, and transfers	(7,524)	1,489	4,366	(1,669)
Balances at the end of the period	90,716	21,068	97,101	208,885

	Mar. 31, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	109,335	26,675	81,387	217,397
Changes in exposures, re-measurement, and transfers	2,794	2,535	(7,507)	(2,178)
Balances at the end of the period	112,129	29,210	73,880	215,219

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 the Kingdom of Saudi Arabia.

There has been no change to the measurement basis for the segment profit or loss.

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17. Operating segments - continued

The Group's reportable segments are as follows:

Retail banking. Loans, deposits, and other credit products for high-net worth individuals and consumers.

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

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 March 31, 2021 and 2020, and its total operating income, expenses, and Income before provisions for Zakat for the three month periods then ended, are as follows:

	Mar. 31, 2021 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	18,162,723	36,808,666	37,944,409	504,704	2,849,973	96,270,475
Total liabilities	21,410,590	7,032,026	51,579,970	13,583	845,035	80,881,204
Net special commission income	172,124	278,008	92,889	5,652	(5,715)	542,958
FTP net transfers	1,261	(113,243)	113,470	-	(1,488)	-
Net FTP contribution	173,385	164,765	206,359	5,652	(7,203)	542,958
Fee income from banking services, net	11,459	20,815	1,717	56,088	408	90,487
Other operating income (loss)	12,489	11,794	39,302	2,825	(64,771)	1,639
Total operating income (loss)	197,333	197,374	247,378	64,565	(71,566)	635,084
Direct operating expenses	76,073	18,279	12,530	22,180	-	129,062
Indirect operating expenses	71,325	37,446	69,542	-	-	178,313
Provisions for credit and other losses	34,545	33,213	(2,974)	60	-	64,844
Total operating expenses	181,943	88,938	79,098	22,240	-	372,219
Operating income (loss)	15,390	108,436	168,280	42,325	(71,566)	262,865
Share in earnings of associates	-	-	709	-	-	709
Income (loss) before provisions for Zakat	15,390	108,436	168,989	42,325	(71,566)	263,574

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17. Operating segments - continued

	Mar. 31, 2020 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	21,246,208	38,432,843	38,226,601	432,385	2,466,843	100,804,880
Total liabilities	20,312,612	9,532,491	57,782,730	36,591	648,582	88,313,006
Net special commission income	201,582	428,832	(49,036)	6,828	(5,501)	582,705
FTP net transfers	(8,146)	(161,971)	172,777	-	(2,660)	-
Net FTP contribution	193,436	266,861	123,741	6,828	(8,161)	582,705
Fee income (expense) from banking services, net	(5,000)	47,256	23,987	23,514	(21,310)	68,447
Other operating income (loss)	19,933	11,078	75,383	(1,313)	(38,511)	66,570
Total operating income (loss)	208,369	325,195	223,111	29,029	(67,982)	717,722
Direct operating expenses	65,334	15,627	10,017	19,295	-	110,273
Indirect operating expenses	97,356	45,282	83,772	-	-	226,410
Provisions for credit and other losses	19,845	204,275	747	110	-	224,977
Total operating expenses	182,535	265,184	94,536	19,405	-	561,660
Operating income (loss)	25,834	60,011	128,575	9,624	(67,982)	156,062
Share in earnings of associates	-	-	17,068	-	-	17,068
Income (loss) before provisions for Zakat	25,834	60,011	145,643	9,624	(67,982)	173,130

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 or 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.

Amounts in SAR'000

18. Fair values of financial instruments - continued

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.

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 March 31, 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.

	Mar. 31, 2021 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	576,874	296,075	872,949
Investments at FVOCI	26,201,088	4,074,151	13,275	30,288,514
Investments at FVTPL	132,944	-	42,704	175,648
Total	26,334,032	4,651,025	352,054	31,337,111
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	318,122	-	318,122
Total	-	318,122	-	318,122

	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

Amounts in SAR'000

18. Fair values of financial instruments - continued

	Mar. 31, 2020 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	651,248	413,743	1,064,991
Investments at FVOCI	20,171,428	6,575,096	468,512	27,215,036
Investments at FVTPL	114,451	-	50,057	164,508
Total	20,285,879	7,226,344	932,312	28,444,535
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	285,051	-	285,051
Total	-	285,051	-	285,051

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.

The total amount of the changes in fair value recognized in the March 31, 2021 interim consolidated statement of income, which was estimated using valuation models, is SAR 40.5 million loss (March 31, 2020: SAR 7.5 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.

Amounts in SAR'000

18. Fair values of financial instruments - continued

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 March 31, 2021 (March 31, 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 March 31, 2021 (March 31, 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 March 31, 2021 (March 31, 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.

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Fair values at the beginning of the year/period	397,016	939,020	939,020
Net change in fair value	(44,962)	(88,098)	(6,708)
Transfers to Level 2	-	(453,906)	-
Investments sold	-	-	-
Fair values at the end of the year/period	352,054	397,016	932,312

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the three months period ended March 31, 2021.

Amounts in SAR'000

18. Fair values of financial instruments - continued

d) The estimated fair values of financial assets and financial liabilities as of March 31, 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:

	Mar. 31, 2021 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,288,478	1,288,478
Loans and advances, net	55,423,508	58,128,102
Total	56,711,986	59,416,580
Financial liabilities:		
Due to banks and other financial institutions, net	20,545,125	20,545,125
Customers' deposits	56,122,764	55,189,510
Term loans	2,006,066	2,006,066
Total	78,673,955	77,740,701

	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

	Mar. 31, 2020 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	4,407,502	4,407,502
Loans and advances, net	59,877,200	65,687,598
Total	64,284,702	70,095,100
Financial liabilities:		
Due to banks and other financial institutions, net	16,696,202	16,696,202
Customers' deposits	67,641,798	68,846,030
Term loans	2,011,256	2,011,256
Total	86,349,256	87,553,488

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the three month periods ended March 31, 2021 and 2020

18. Fair values of financial instruments - continued

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 periods ended March 31, 2021 and 2020 are as follows:

	Mar. 31, 2021 (Unaudited)	Mar. 31, 2020 (Unaudited)
Net income	213,495	150,714
Tier I Sukuk costs	(15,000)	(15,166)
Net income adjusted for Tier I Sukuk costs	198,495	135,548
Weighted average number of outstanding shares (in '000)	675,004	675,004
Basic and diluted earnings per share (SAR)	0.29	0.20

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.

Amounts in SAR'000

20. Capital adequacy - continued

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 March 31, 2021 and 2020 and as of December 31, 2020.

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Credit Risk RWA	73,458,379	72,782,528	78,602,245
Operational Risk RWA	5,112,624	5,112,624	5,061,360
Market Risk RWA	1,048,885	1,642,306	2,296,497
Total Pillar- I RWA	79,619,888	79,537,458	85,960,102
Tier I Capital	16,193,532	16,135,294	13,289,903
Tier II Capital	713,711	730,973	805,362
Total Tier I plus Tier II Capital	16,907,243	16,866,267	14,095,265
Capital Adequacy Ratios:			
Tier I Ratio	20.34%	20.29%	15.46%
Tier I plus Tier II Ratio	21.23%	21.21%	16.40%

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

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Total Equity	15,389,271	15,331,033	12,491,874
IFRS 9 transitional adjustment	822,556	822,556	822,556
Goodwill adjustment	(18,295)	(18,295)	(18,295)
Tier I Sukuk – restricted to 15% of Tier I Capital	-	-	(6,232)
Tier I Capital	16,193,532	16,135,294	13,289,903
Qualifying general provisions, net	713,711	730,973	805,362
Tier II Capital	713,711	730,973	805,362
Tier I plus Tier II Capital	16,907,243	16,866,267	14,095,265

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 March 31, 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.

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.

20. Capital adequacy - continued

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 March 31, 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 March 31, 2021 and 2020 and as of December 31, 2020, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 2020 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:			
Loans and advances	767,845	804,421	294,712
Customers' deposits	1,593,602	469,228	88,014
Tier I Sukuk	7,000	7,000	7,000
Commitments and contingencies	333,177	306,912	6,831
Investments	409,008	429,675	-
Principal shareholders of the Bank and its management:			
Customers' deposits	8,895	760,091	811,646
Tier I Sukuk	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	857,060	732,527	992,924
Customers' deposits	442,533	381,956	254,861
Tier I Sukuk	5,000	5,000	2,000
Commitments, contingencies and derivatives	102,050	102,050	112,761
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	267,486	264,141	197,971

Amounts in SAR'000

21. Related party disclosures – continued

c) Income and expense for the three month periods ended March 31, 2021 and 2020, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2021 (Unaudited)	Mar. 31, 2020 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:		
Special commission income	4,244	351
Special commission expense	1,767	15
Fee income from banking services	89	10
Principal shareholders of the Bank and its management:		
Special commission expense	-	293
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	8,003	7,689
Special commission expense	108	23
Fee income from banking services	1,270	795
Board of Directors and other Board Committee member remuneration	1,528	1,528

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 March 31, 2021 and 2020 and as of December 31, 2020:

	Mar. 31, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Mar. 31, 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.

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 cumulative or compound with any future distributions.

23. Zakat and Income tax

a) The Bank's share capital and percentages of ownership as of March 31, 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:

	Mar. 31, 2021 (Unaudited)		Dec. 31, 2020 (Audited)		Mar. 31, 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 GAZT 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 GAZT 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) During 2018, the Bank agreed to settle prior year Zakat assessments with the GAZT 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. Proposed dividend

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 will be paid to the Bank's shareholders starting from May 2, 2021.

Amounts in SAR'000

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.

26. Operating expenses

Provisions for credit and other losses for the three month periods ended March 31, 2021 and 2020 is summarized as follows:

	Mar. 31, 2021 (Unaudited)	Mar. 31, 2020 (Unaudited)
Provisions for credit losses:		
Due from banks and other financial institutions (note 6c)	(96)	(274)
Investments (note 7c)	(2,878)	1,024
Loans and advances (note 8b)	69,427	226,298
Financial guarantee contracts (note 16c)	(1,669)	(2,178)
Other assets (note 11b)	60	107
Provisions for credit and other losses	64,844	224,977

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 beginning to experience a third wave 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.

The Bank continues to evaluate the current situation through conducting stress-testing 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 COVID-19 outbreak has had 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 and 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 business as usual 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 166.0 million and SAR 19.7 million as of March 31, 2021 for its corporate and retail loan and advances portfolio respectively. The Group 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.

The Group continues to monitor the Micro Small and Medium Enterprises ("MSME") portfolio closely and reassess the provisioning levels as the situation around COVID-19 evolves. However, management has recognized an overlay of SAR 33.8 million to reflect potential further credit deterioration in the underlying portfolio.

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.

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

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.

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 284.6 million of which SAR 86.0 million has been recognized during the three month period ended March 31, 2021 which was included in special commission income. During the three month period ended March 31, 2021, SAR 29.6 million has been charged 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, during 2020 the Bank received commission free deposits from SAMA amounting to SAR 3.8 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 448.3 million out of which SAR 198.6 million was recognized in special commission income in prior periods. During the three month period ended March 31, 2021, SAR 33.5 million has been recognized to the interim condensed consolidated statement of income relating to unwinding of day 1 gain.

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk. 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 March 31, 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 three month period ended March 31, 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.

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

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 three month period ended March 31, 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") is engaged in 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.

The Bank of England ("BoE") and the Financial Conduct Authority ("FCA") have set out clear expectations for regulated firms to remove their reliance on LIBOR in all new business and in legacy contracts, where feasible. The primary way for market participants to have certainty over the economic terms of their contracts is to actively transition them away from LIBOR.

On March 5, 2021, the FCA announced that all LIBOR settings for 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.

In addition, the above announcement, as confirmed by ISDA, constitutes an index cessation event under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings. As a result, the fallback spread adjustment (i.e. to the adjusted risk-free rate plus spread) published by Bloomberg is fixed as of the date of this announcement (i.e. March 5, 2021) for all Euro, Sterling, Swiss franc, US dollar and Yen LIBOR settings. The fallbacks will automatically occur for outstanding derivatives contracts that incorporate the IBOR Fallbacks Supplement or are subject to adherence of the ISDA 2020 IBOR Fallbacks Protocol on the following dates:

- After December 31, 2021: For outstanding derivatives referenced to all euro, sterling, Swiss franc and yen LIBOR settings; and

- After June 30, 2023: For outstanding derivatives referenced to all US dollar LIBOR settings.

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

Regulatory authorities and public and private sector working groups in several jurisdictions, including the ISDA, the Sterling Risk-Free Rates Working Group, the Working Group on Euro Risk-Free Rates, and the Alternative Reference Rates Committee ("ARRC"), have been discussing alternative benchmark rates to replace the IBORs. These working groups are also considering how to support a transition to alternative rates and the development of new products referencing them.

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.
