



**THE SAUDI NATIONAL BANK
(FORMERLY KNOWN AS
THE NATIONAL COMMERCIAL BANK)**
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED**

30 SEPTEMBER 2021

**Ernst and Young & Co Public Accountant
(Professional LLC).**

KPMG Professional Services

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Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of The Saudi National Bank (Formerly known as The National Commercial Bank)
(A Saudi Arabian Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The Saudi National Bank (Formerly known as The National Commercial Bank) [the "Bank"] and its subsidiaries (collectively referred to as the "Group") as at 30 September 2021 and the related interim condensed consolidated statements of income and comprehensive income for the three months and nine months periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the nine months period then ended and the notes which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

As required by Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note 17 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 17 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

for Ernst and Young & Co Public Accountant
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(A Saudi Joint Stock Company)



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER

		30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
	Notes			
ASSETS				
Cash and balances with SAMA		51,720,789	56,823,677	43,292,292
Due from banks and other financial institutions, net		29,903,167	13,636,822	13,142,149
Investments, net	4	235,782,597	144,852,695	144,199,681
Financing and advances, net	5	503,695,963	346,708,138	336,408,626
Positive fair value of derivatives, net	6	10,254,216	7,898,096	8,829,372
Investments in associates, net		437,549	441,614	441,614
Property, equipment and software, net		9,306,122	5,842,454	5,621,407
Goodwill	20	28,523,639	-	-
Intangible assets	20	11,120,994	-	-
Right of use assets, net		1,771,546	1,525,286	1,544,074
Other assets		20,203,278	21,717,216	23,152,988
Total assets		902,719,860	599,445,998	576,632,203
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		104,104,533	75,028,157	62,975,487
Customers' deposits	7	589,190,227	416,418,721	408,473,717
Debt securities issued	8	7,092,927	1,772,690	1,177,318
Negative fair value of derivatives, net	6	10,530,486	9,744,443	11,184,489
Other liabilities		31,279,597	16,267,006	16,611,381
Total liabilities		742,197,770	519,231,017	500,422,392
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital	10, 20	44,780,000	30,000,000	30,000,000
Share premium	20	63,701,800	-	-
Treasury shares		(2,140,558)	(371,071)	(371,028)
Statutory reserve		28,369,948	28,369,948	25,650,012
Other reserves (cumulative changes in fair values)		1,079,384	1,676,493	1,067,031
Employees' share based payments reserve		318,246	242,713	212,558
Retained earnings		16,863,318	14,401,446	13,882,309
Foreign currency translation reserve		(5,453,821)	(5,109,433)	(5,178,729)
Equity attributable to shareholders of the Bank		147,518,317	69,210,096	65,262,153
Tier 1 Sukuk	13	12,187,500	10,200,000	10,200,000
Equity attributable to equity holders of the Bank		159,705,817	79,410,096	75,462,153
Non-controlling Interests		816,273	804,885	747,658
Total equity		160,522,090	80,214,981	76,209,811
Total liabilities and equity		902,719,860	599,445,998	576,632,203

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Ahmed A. Aldhabi
Group Chief Financial Officer

Saeed M. Al-Ghamdi
Managing Director/Group CEO

Ammar A. Al-Khudari
Chairman

(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER**

	Notes	For the three months ended		For the nine months ended	
		30 September	30 September	30 September	30 September
		2021 SAR '000	2020 SAR '000	2021 SAR '000	2020 SAR '000
Special commission income		6,886,946	4,887,702	18,486,163	14,632,997
Special commission expense		(804,727)	(689,945)	(2,442,254)	(2,320,493)
Net special commission income		6,082,219	4,197,757	16,043,909	12,312,504
Fee income from banking services, net		801,043	505,945	2,241,003	1,537,904
Exchange income, net		363,094	289,944	1,045,073	920,305
Gain from fair value through income statement (FVIS) financial instruments, net		634,285	627,904	1,443,017	567,351
Gains/income on non-FVIS financial instruments, net		118,932	157,305	887,357	727,298
Other operating expenses, net		(199,802)	(141,244)	(586,675)	(356,748)
Total operating income		7,799,771	5,637,611	21,073,684	15,708,614
Salaries and employee-related expenses		1,196,493	887,620	3,201,833	2,654,610
Rent and premises related expenses		137,360	87,710	373,090	245,121
Depreciation/amortisation of property, equipment, software, right of use assets		302,829	221,175	836,239	659,562
Amortization of intangible assets		293,003	-	586,006	-
Other general and administrative expenses		821,553	443,508	2,054,974	1,302,043
Total operating expenses before expected credit losses		2,751,238	1,640,013	7,052,142	4,861,336
Net impairment charge for expected credit losses		724,839	378,847	3,412,240	1,602,883
Total operating expenses		3,476,077	2,018,860	10,464,382	6,464,219
Income from operations, net		4,323,694	3,618,751	10,609,302	9,244,395
Other non-operating income/(expenses), net		(13,873)	(49,514)	(68,341)	(76,350)
Net income for the period before zakat and income tax		4,309,821	3,569,237	10,540,961	9,168,045
Zakat and income tax expense	12	(486,716)	(378,985)	(1,152,926)	(978,716)
Net income for the period		3,823,105	3,190,252	9,388,035	8,189,329
Net income for the period attributable to:					
Equity holders of the Bank		3,785,403	3,158,401	9,310,953	8,080,326
Non-controlling interests		37,702	31,851	77,082	109,003
Net income for the period		3,823,105	3,190,252	9,388,035	8,189,329
Basic earnings per share (expressed in SAR per share)	14	0.84	1.01	2.25	2.59
Diluted earnings per share (expressed in SAR per share)	14	0.84	1.01	2.25	2.59

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Ahmed A. Aldhabi
Group Chief Financial Officer

Saeed M. Al-Ghamdi
Managing Director/Group CEO

Ammar A. Al-Khudairy
Chairman

(A Saudi Joint Stock Company)



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER**

	For the three months ended		For the nine months ended	
	30 September 2021	30 September 2020	30 September 2021	30 September 2020
	<u>SAR '000</u>	<u>SAR '000</u>	<u>SAR '000</u>	<u>SAR '000</u>
Net income for the period	3,823,105	3,190,252	9,388,035	8,189,329
Other comprehensive income/(loss)				
<i>Items that cannot be reclassified to the consolidated statement of income in subsequent periods:</i>				
- Net movement in fair value through other comprehensive income in equity instruments	79,407	180,284	986,017	2,005
<i>Items that are or may be reclassified to the consolidated statement of income in subsequent periods:</i>				
- Foreign currency translation reserve (loss)	(99,915)	(327,921)	(498,568)	(733,489)
FVOCI debt instruments:				
- Net change in fair values	(485,338)	(153,525)	(818,216)	476,086
- Transfers to the consolidated statement of income	(38,813)	(69,983)	(576,271)	(278,911)
Cash flow hedges:				
- Effective portion of changes in fair values	(11,050)	9,119	(162,836)	13,157
- Transfers to the consolidated statement of income	(10,648)	(6,933)	(28,160)	(22,750)
Total other comprehensive loss	(566,357)	(368,959)	(1,098,034)	(543,902)
Total comprehensive income for the period	3,256,748	2,821,293	8,290,001	7,645,427
Attributable to:				
Equity holders of the Bank	3,245,871	2,921,337	8,369,456	7,797,064
Non-controlling interests	10,877	(100,044)	(79,455)	(151,637)
Total comprehensive income for the period	3,256,748	2,821,293	8,290,001	7,645,427

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

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(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER**

	30 September	30 September
	2021	2020
	SAR '000	SAR '000
OPERATING ACTIVITIES		
Net income for the period before zakat and income tax	10,540,961	9,168,045
Adjustments to reconcile net income to net cash from operating activities:		
Amortisation of net (premium)/discount on non-trading financial instruments, net	235,174	120,217
(Gains) on non-FVIS financial instruments, net	(683,915)	(647,791)
(Gains)/ losses on disposal of property and equipment and other repossessed assets, net	15,153	52,256
Depreciation/amortisation of property, equipment, software, right of use assets	836,239	659,562
Amortisation of other intangible assets	586,006	-
Impairment charge for expected credit losses, net	3,412,240	1,602,883
Share based payments plan expenses	123,667	94,249
	15,065,525	11,049,421
Net (increase)/decrease in operating assets:		
Statutory deposits with SAMA	22,889	(3,076,830)
Due from banks and other financial institutions with original maturity of more than three months, net	(1,590,317)	1,919,934
Held at fair value through income statement (FVIS) investments	(4,191,899)	(1,323,204)
Financing and advances, net	(11,751,522)	(62,017,707)
Positive fair value of derivatives, net	3,120,302	(3,542,414)
Other assets	4,822,465	(8,206,618)
Net increase/(decrease) in operating liabilities		
Due to banks and other financial institutions	6,182,744	1,631,107
Customers' deposits	(16,148,630)	61,043,973
Negative fair value of derivatives, net	(2,731,944)	5,122,767
Other liabilities	2,921,987	832,852
Net cash (used in)/from operating activities	(4,278,400)	3,433,281
INVESTING ACTIVITIES		
Proceeds from sale and maturities of non-FVIS investments	47,633,461	27,200,826
Purchase of non-FVIS investments	(62,781,721)	(34,383,415)
Purchase of property, equipment and software	(867,614)	(741,186)
Cash and cash equivalents acquired through business combination	24,639,421	-
Proceeds from disposal of property, equipment and software	107,112	2,478
Net cash from/(used in) investing activities:	8,730,659	(7,921,297)
FINANCING ACTIVITIES		
Proceeds from issuance of debt securities	8 5,451,157	2,487,450
Repayments issuance of debt securities	8 (5,691,826)	(2,082,970)
Net movement in non-controlling interests	-	(591)
Tier 1 Sukuk Issuance	4,687,500	4,200,000
Tier 1 Sukuk called	(2,700,000)	(1,000,000)
Tier 1 Sukuk related costs	(398,539)	(316,808)
Purchase of treasury shares	-	(146,000)
Final dividend paid for 2020	11 (3,582,400)	(3,600,000)
Interim dividend paid for first half of 2021	11 (2,910,700)	-
Net cash used in financing activities	(5,144,808)	(458,919)
Net decrease in cash and cash equivalents	(692,549)	(4,946,935)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period	(312,725)	(739,074)
Cash and cash equivalents at the beginning of the period	41,891,824	32,674,743
Cash and cash equivalents at the end of the period	40,886,550	26,988,734
Special commission income received during the period	17,404,489	14,023,321
Special commission expense paid during the period	2,255,857	2,650,341
Supplemental non-cash information		
Movement in other reserve and transfers to the interim condensed consolidated statement of income	(1,585,483)	187,582

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Ahmed A. Aldhabi
Group Chief Financial Officer

Saeed M. Al-Ghamdi
Managing Director/Group CEO

Ammar A. Al-Khudairy
Chairman

The Saudi National Bank (formerly known as The National Commercial Bank)

(A Saudi Joint Stock Company)

Notes To The Interim Condensed Consolidated Financial Statements

AS AT 30 SEPTEMBER 2021 (UNAUDITED)

1. GENERAL

(1.1) Introduction

The financial statements comprise of the interim condensed consolidated financial statements of The Saudi National Bank (formerly known as The National Commercial Bank) (the Bank) and its subsidiaries (the Group).

The Bank is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qa'da 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qa'da 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration number 4030001588 dated on 19 Safar 1418H (26 June 1997). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company. The Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

On 11 October 2020, the Bank announced that it has entered into a legally binding merger agreement pursuant to which the Bank and Samba Financial Group "Samba" have agreed to take necessary steps to implement merger between the two Banks in accordance with the applicable regulations.

The Bank and Samba have satisfied the required regulatory approvals and the Merger conditions agreed between the two banks in the Merger agreement as set out in the Shareholder Circular and the Offer Document issued by the Bank with respect to the Merger.

On 1 March 2021, pursuant to receipt of the required regulatory approvals, the shareholders of the Bank and Samba approved the proposed merger of the two banks pursuant to Articles 191-193 of the Companies Law and the terms and conditions of the Merger Agreement entered into between the two banks on 24/2/1442H (corresponding to 11/10/2020).

The effective date of above merger was 1 April 2021, pursuant to which Samba ceased to exist and all of its assets and liabilities were transferred to the Bank. As a result of merger, total new ordinary shares of 1,478,000,000 with a nominal value of SAR 10 per share were issued by the Bank in favour of Samba Shareholders by way of increasing the paid-up capital of the Bank from SAR 30,000,000,000 to SAR 44,780,000,000 (see note 10) which represents an increase in the number of shares of the Bank from 3,000,000,000 shares to 4,478,000,000 fully paid shares. Additionally, the Bank announced that as a result of the merger, the Bank's name has changed from (The National Commercial Bank) to (The Saudi National Bank) from the date of the Merger taking effect pursuant to the Bank's extraordinary general meeting approval on 17/7/1442H (corresponding to 1/3/2021). The legal procedures to register the new name of the Bank were completed during the period ended 30 June 2021. Please refer to note 20 for further details.

The Bank's Head Office is located at the following address:

The Saudi National Bank Tower
King Abdullah Financial District
King Fahd Road,
3208 Al Aqeeq District,
Riyadh 13519 - 6676,
Kingdom of Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking and investment management services. The Group also provides non-special commission based banking products in compliance with Shariah rules, which are approved and supervised by an independent Shariah Board.

The Saudi National Bank (formerly known as The National Commercial Bank)
(A Saudi Joint Stock Company)

Notes To The Interim Condensed Consolidated Financial Statements (continued)
AS AT 30 SEPTEMBER 2021 (UNAUDITED)

1. GENERAL (continued)

(1.2) A) Group's subsidiaries

The details of the Group's significant subsidiaries are as follows:

Name of subsidiary	30 September 2021	Ownership %		Description
		31 December 2020	30 September 2020	
SNB Capital Company (SNBC) (formerly known as NCB Capital)	100%	100%	100%	A Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities. See Note 1.2 (B).
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	100%	100%	100%	An exempt company with limited liability incorporated in the Cayman Islands to source, structure and invest in private equity and real estate development opportunities across emerging markets.
NCB Capital Real Estate Investment Company (REIC)	100%	100%	100%	The Company is a special purpose entity registered in the Kingdom of Saudi Arabia. The primary objective of REIC is to hold and register the real estate assets on behalf of real estate funds managed by SNB Capital Company.
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	67.03%	67.03%	67.03%	A participation bank registered in Turkey that collects funds through current accounts, profit sharing accounts and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.

As at the period end, TFKB fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlık Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFKB.

The Saudi National Bank (formerly known as The National Commercial Bank)
(A Saudi Joint Stock Company)

Notes To The Interim Condensed Consolidated Financial Statements (continued)
AS AT 30 SEPTEMBER 2021 (UNAUDITED)

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

Name of subsidiary	Ownership %			<u>Description</u>
	30 September <u>2021</u>	31 December <u>2020</u>	30 September <u>2020</u>	
Real Estate Development Company (REDCO)	100%	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia. REDCO is engaged in keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.
Alahli Insurance Service Marketing Company	-	100%	100%	A Limited Liability Company, engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia. The Board of Directors in their meeting held on 28 January 2021 resolved to liquidate Alahli Insurance Service Marketing Company. The required regulatory approvals and the legal formalities in respect of liquidation of the Company are in progress.
Saudi NCB Markets Limited	100%	100%	100%	A Limited Liability Company registered in the Cayman Islands, engaged in trading in derivatives and Repos/ Reverse Repos on behalf of the Bank.
Eastgate MENA Direct Equity L.P.	100%	100%	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital Dubai. The Fund's investment objective is to generate returns via investments in Sharia compliant direct private equity opportunities in high growth businesses in countries within the Middle East and North Africa (MENA).

The Saudi National Bank (formerly known as The National Commercial Bank)
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Notes To The Interim Condensed Consolidated Financial Statements (continued)
AS AT 30 SEPTEMBER 2021 (UNAUDITED)

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

Name of subsidiary	Ownership %			<u>Description</u>
	30 September <u>2021</u>	31 December <u>2020</u>	30 September <u>2020</u>	
AlAhli Outsourcing Company	100%	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia, engaged in recruitment services within the Kingdom of Saudi Arabia.
Samba Bank Limited, Pakistan (SBL) (note 1.2 C)	84.51%	N/A	N/A	A subsidiary incorporated as a banking company in Pakistan and is engaged in commercial banking and related services, and is listed on the Pakistan Stock Exchange. During the period ended 30 September 2021, the Board of Directors resolved, via resolution dated 29 September 2021, to undertake a strategic review of its options related to SBL. In addition, an advisor is to be appointed to assist in this process.
Co-Invest Offshore Capital Limited (COCL) (note 1.2 C)	100%	N/A	N/A	A Limited Liability Company registered in Cayman Islands, engaged in managing certain overseas investments through a fully owned entity, Investment Capital (Cayman) Limited (ICCL).
Samba Real Estate Company (note 1.2 C)	100%	N/A	N/A	A Limited Liability Company registered in Kingdom of Saudi Arabia, engaged in managing real estate projects on behalf of the Bank

The Saudi National Bank (formerly known as The National Commercial Bank)
(A Saudi Joint Stock Company)

Notes To The Interim Condensed Consolidated Financial Statements (continued)
AS AT 30 SEPTEMBER 2021 (UNAUDITED)

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

Name of subsidiary	Ownership %			<u>Description</u>
	30 September <u>2021</u>	31 December <u>2020</u>	30 September <u>2020</u>	
Samba Global Markets Limited (note 1.2 C)	100%	N/A	N/A	A Limited Liability Company registered in Cayman Islands, engaged in managing certain treasury related transactions.
Samba Funding Limited (note 1.2 C)	100%	N/A	N/A	A wholly owned subsidiary incorporated as a limited liability company under the laws of Cayman Islands on June 19, 2019, with the main objective of generating liquidity for the Bank through issuance of bonds.

B) Merger of NCB Capital and Samba Capital

On 24 December 2020, the Bank announced that the committee responsible for preparing the integration plan has approved the merger of NCB Capital and Samba Capital and Investment Management Company (Samba Capital), a subsidiary that the Bank obtained control over as a result of the merger with Samba. Subsequently, during the current period, the Bank announced receipt of the relevant regulatory approvals in relation to the merger between NCB Capital and Samba Capital. On 11 July 2021, the Bank announced that the merger of Samba Capital into NCB Capital is effective from 8 July 2021, pursuant to which Samba Capital has ceased to exist and all of the assets and liabilities of Samba Capital transferred to NCB Capital, and therefore the completion of the Merger. Subsequent to the merger the name of NCB Capital has changed to SNB Capital. Pursuant to above mentioned merger with Samba Capital, SNB Capital also acquired two special purpose entities namely Samba US Logistics Fund L.P., an exempted limited partnership, registered on 9 September 2020, and Samba US Logistics Fund G.P. an exempted company, incorporated on 7 July 2020. These entities are governed under the laws of Cayman Island and are formed for the purpose of holding and managing principal investments.

C) Subsidiaries acquired through business combination

As a result of the merger with Samba as disclosed in note 1 and 20, the Bank obtained control over these subsidiaries.

The Saudi National Bank (formerly known as The National Commercial Bank)

(A Saudi Joint Stock Company)

Notes To The Interim Condensed Consolidated Financial Statements (continued)

AS AT 30 SEPTEMBER 2021 (UNAUDITED)

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The interim condensed consolidated financial statements of the Group have been prepared:

- In accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (SOCPA); and
- In compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

(2.2) Basis of measurement

The consolidated financial statements are prepared and presented under the historical cost convention except for the measurement at fair value of financial assets held at fair value [derivatives, financial assets held at fair value through income statement (FVIS), Fair value through other comprehensive income (FVOCI) - debt instruments and equity instruments] and defined benefit obligation. In addition, financial assets or liabilities that are carried at amortized cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged. The consolidated statement of financial position is broadly in order of liquidity.

(2.3) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR) which is the Bank's functional currency and have been rounded off to the nearest thousand Saudi Arabian Riyals, except as otherwise indicated.

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The Saudi National Bank (formerly known as The National Commercial Bank)" and its subsidiaries (see note 1.2). The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies period Adjustments have been made to the interim financial statements of the subsidiaries, where necessary, to align with the Bank's interim condensed consolidated financial statements.

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three of the following criteria must be met:

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

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

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2. BASIS OF PREPARATION (continued)

(2.4) Basis of consolidation (continued)

(b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognised impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in associate and the fair value of the consideration received is recognised in the consolidated statement of income.

(d) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(2.5) Significant accounting policies, estimates and assumptions

(a) Significant accounting estimates and assumptions

The accounting estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020. For details regarding measurement method and significant assumption used in determining the fair value of the identified intangible assets recognised as part of business combination, please refer to Note 20.

(b) Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021 and policy for intangible assets that the Bank has adopted effective 1 January 2021, which is explained below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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2. BASIS OF PREPARATION (continued)

(2.5) Significant accounting policies, estimates and assumptions (continued)

(c) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of the intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. All the intangible assets have a finite useful life, maximum of 11 years.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income.

(2.6) Amendments to existing standards

Several amendments and interpretations apply for the first time from 1 January 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

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

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

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

These amendments had no impact on the interim condensed consolidated financial statements of the Group.

The Group intends to use the practical expedients in future periods if they become applicable (please refer note 21).

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3. CASH AND CASH EQUIVALENTS

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

	30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
Cash and balances with Saudi Central Bank - (SAMA) excluding statutory deposit	17,195,020	33,778,319	20,486,509
Due from banks and other financial institutions with original maturity of three months or less	23,691,530	8,113,505	6,502,225
Total	40,886,550	41,891,824	26,988,734

4. INVESTMENTS, NET

	30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
Held at FVIS	20,773,872	8,956,590	9,617,332
Held at FVOCI	82,993,542	61,340,312	69,918,647
Investments held at amortised cost, net	132,015,183	74,555,793	64,663,702
Total	235,782,597	144,852,695	144,199,681

- a) Investments held at amortised cost, net includes investments amounting to SAR 4,201 million (31 December 2020: SAR 4,145 million and 30 September 2020: SAR 4,721 million) which are held under a fair value hedge relationship. As at 30 September 2021, the fair value of these investments amount to SAR 5,118 million (31 December 2020: SAR 4,976 million and 30 September 2020: SAR 5,752 million).
- b) Investments, net includes debt securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 139,359 million (31 December 2020: SAR 75,471 million and 30 September 2020: SAR 72,044 million), and also include investment in Sukuks amounting to SAR 34,196 million, (31 December 2020: SAR 21,299 million and 30 September 2020: SAR 27,178 million).
- c) Dividend income recognized during the nine-month period ended 30 September 2021 for FVOCI investments amounts to SAR 250 million (30 September 2020: SAR 78 million).

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5. FINANCING AND ADVANCES, NET

30 September 2021 (Unaudited)					
SAR '000					
	<u>Retail</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
Performing financing and advances	245,679,116	222,813,487	20,659,634	14,486,779	503,639,016
Non-performing financing and advances	809,707	6,136,245	1,137,762	-	8,083,714
Total financing and advances	246,488,823	228,949,732	21,797,396	14,486,779	511,722,730
Allowance for financing losses (ECL allowances)	(1,769,717)	(7,955,314)	(1,104,463)	(41,287)	(10,870,781)
Purchased or originated credit impaired	10,195	2,833,819	-	-	2,844,014
Financing and advances, net	244,729,301	223,828,237	20,692,933	14,445,492	503,695,963
31 December 2020 (Audited)					
SAR '000					
	<u>Retail</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
Performing financing and advances	174,645,382	134,586,755	22,204,583	17,934,360	349,371,080
Non-performing financing and advances	585,384	4,205,720	1,337,331	-	6,128,435
Total financing and advances	175,230,766	138,792,475	23,541,914	17,934,360	355,499,515
Allowance for financing losses (ECL allowances)	(1,428,589)	(6,098,780)	(1,209,709)	(54,299)	(8,791,377)
Financing and advances, net	173,802,177	132,693,695	22,332,205	17,880,061	346,708,138
30 September 2020 (Unaudited)					
SAR '000					
	<u>Retail</u>	<u>Corporate</u>	<u>International</u>	<u>Others</u>	<u>Total</u>
Performing financing and advances	159,607,272	141,256,930	23,176,676	14,934,792	338,975,670
Non-performing financing and advances	562,263	4,068,748	1,321,406	-	5,952,417
Total financing and advances	160,169,535	145,325,678	24,498,082	14,934,792	344,928,087
Allowance for financing losses (ECL allowances)	(1,574,573)	(5,785,615)	(1,105,056)	(54,217)	(8,519,461)
Financing and advances, net	158,594,962	139,540,063	23,393,026	14,880,575	336,408,626

Others include financing and advances related to financial institutions.

- a) Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SAR 422,978 million (31 December 2020: SAR 303,331 million and 30 September 2020: SAR 290,507 million).

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5. FINANCING AND ADVANCES, NET (continued)

b) Movement in loss allowance for financing and advances at amortised cost for the period is as follows:

	30 September 2021 (Unaudited)			
	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month	Lifetime ECL	Lifetime	
	ECL	not credit	ECL credit	Total
	impaired	impaired	impaired	
Balance as at 1 January 2021	1,807,770	2,447,924	4,535,683	8,791,377
Net impairment charge	643,067	1,442,258	1,718,417	3,803,742
Transfer to stage 1	100,320	(86,383)	(13,937)	-
Transfer to stage 2	(78,901)	87,108	(8,207)	-
Transfer to stage 3	(9,470)	(722,234)	731,704	-
Bad debts written off	-	-	(1,634,777)	(1,634,777)
Foreign currency translation adjustment	(11,549)	(18,204)	(127,458)	(157,211)
Other adjustment	1,684	4,986	60,980	67,650
Balance as at 30 September 2021	2,452,921	3,155,455	5,262,405	10,870,781

	31 December 2020 (Audited)			
	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month	Lifetime ECL	Lifetime ECL	
	ECL	not credit	credit	Total
	impaired	impaired	impaired	
Balance as at 1 January 2020	1,715,623	1,581,526	4,064,803	7,361,952
Net impairment charge	375,134	875,565	1,504,696	2,755,395
Transfer to stage 1	53,850	(33,103)	(20,747)	-
Transfer to stage 2	(295,007)	318,300	(23,293)	-
Transfer to stage 3	(29,498)	(270,507)	300,005	-
Bad debts written off	-	-	(1,088,674)	(1,088,674)
Foreign currency translation adjustment	(12,332)	(23,857)	(201,107)	(237,296)
Balance as at 31 December 2020	1,807,770	2,447,924	4,535,683	8,791,377

	30 September 2020 (Unaudited)			
	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month	Lifetime ECL	Lifetime ECL	
	ECL	not credit	credit	Total
	impaired	impaired	impaired	
Balance as at 1 January 2020	1,715,623	1,581,526	4,064,803	7,361,952
Net impairment charge	271,372	669,366	1,325,020	2,265,758
Transfer to stage 1	84,236	(59,313)	(24,923)	-
Transfer to stage 2	(66,366)	78,226	(11,860)	-
Transfer to stage 3	(12,067)	(141,469)	153,536	-
Bad debts written off	-	-	(810,286)	(810,286)
Foreign currency translation adjustment	(15,339)	(34,861)	(247,763)	(297,963)
Balance as at 30 September 2020	1,977,459	2,093,475	4,448,527	8,519,461

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6. DERIVATIVES

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special commission payments are exchanged in different currencies.

(b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

(c) Forward rate agreements

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

(d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(6.1) Derivatives held for trading purposes

Most of the Group's derivative trading activities are related to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

(6.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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6. DERIVATIVES (continued)

(6.2) Derivatives held for hedging purposes (continued)

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	<u>30 September 2021 (Unaudited)</u>			<u>31 December 2020 (Audited)</u>			<u>30 September 2020 (Unaudited)</u>		
	<u>SAR'000</u>			<u>SAR'000</u>			<u>SAR'000</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
Held for trading:									
Special commission rate instruments	9,231,057	(8,549,913)	447,243,395	6,991,247	(6,786,101)	256,078,981	7,938,616	(7,659,686)	270,443,135
Forward/Future foreign exchange contracts	626,875	(160,172)	167,049,800	570,598	(304,118)	134,838,083	629,795	(239,739)	116,858,074
Options	173,551	(166,138)	8,756,682	86,211	(11,948)	2,136,745	16,260	(13,111)	1,442,334
Held as fair value hedges:									
Special commission rate instruments	119,382	(1,523,104)	11,224,585	72,541	(2,544,851)	11,178,835	91,904	(3,162,615)	12,197,335
Held as cash flow hedges:									
Special commission rate instruments	103,351	(131,159)	14,057,692	177,499	(97,425)	10,406,260	152,797	(109,338)	10,419,561
Total	<u>10,254,216</u>	<u>(10,530,486)</u>	<u>648,332,154</u>	<u>7,898,096</u>	<u>(9,744,443)</u>	<u>414,638,904</u>	<u>8,829,372</u>	<u>(11,184,489)</u>	<u>411,360,439</u>

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7. CUSTOMERS' DEPOSITS

	30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
Current accounts	440,166,566	319,375,606	298,527,734
Time	120,959,174	82,930,812	96,195,014
Others	28,064,487	14,112,303	13,750,969
Total	<u>589,190,227</u>	<u>416,418,721</u>	<u>408,473,717</u>

International segment customers deposits included in customers' deposits comprise of:

	30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
Current accounts	11,810,312	14,527,235	13,227,204
Time	15,823,201	14,396,398	15,722,688
Others	1,560,675	878,556	719,889
Total	<u>29,194,188</u>	<u>29,802,189</u>	<u>29,669,781</u>

8. DEBT SECURITIES ISSUED

As at the reporting date, debt securities issued comprise of non-convertible sukuks issued by the Group, carrying profit at fixed rates, with maturities up to 2026. Below is a reconciliation of liabilities arising from financing activities:

	30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
Debt securities issued:			
Balance at beginning of the period	1,772,690	1,016,101	1,016,101
Debt securities acquired through business combination (note 20)	5,601,935	-	-
Debt securities issued	5,451,157	4,758,601	2,487,450
Debt securities payment	(5,691,826)	(3,816,939)	(2,082,970)
Fair value adjustment as a result of business combination, net	196,853	-	-
Foreign currency translation adjustment	(237,882)	(185,073)	(243,263)
Balance at end of the period	<u>7,092,927</u>	<u>1,772,690</u>	<u>1,177,318</u>

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9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	30 September 2021	31 December 2020	30 September 2020
	(Unaudited)	(Audited)	(Unaudited)
	<u>SAR '000</u>	<u>SAR '000</u>	<u>SAR '000</u>
Letters of credit	15,495,972	9,428,790	8,648,469
Guarantees	60,405,557	30,662,100	31,313,199
Acceptances	2,924,131	1,923,536	2,017,838
Irrevocable commitments to extend credit	13,939,049	10,375,065	10,554,428
Total	92,764,709	52,389,491	52,533,934

10. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 4,478,000,000 shares of SAR 10 each (30 September 2020: 3,000,000,000 shares of SAR 10 each). The capital of the Bank excluding treasury shares consists of 4,435,763,977 shares of SAR 10 each (30 September 2020: 2,990,418,212 shares of SAR 10 each) (refer to note 1.1).

As stated in Note 1 and 20, the Bank issued 1,478,000,000 new ordinary shares pursuant to the merger. As a result, share capital and share premium increased by SAR 14,780 million and SAR 63,702 million, respectively with a purchase consideration of SAR 78,482 millions.

11. DIVIDEND

During August 2021, the Board of Directors recommended the distribution of an interim dividend for the first half of 2021 amounting to SAR 2,911 million (SAR 0.65 per share) which was paid during August 2021.

On 1 April 2021, the Board of Directors recommended the distribution of final dividend of SAR 3,582 million (SAR 0.80 per share) and accordingly, the final dividend was paid during April 2021.

On 25 December 2019, the Board of Directors recommended the distribution of final dividend of SAR 3,600 million (SAR 1.20 per share) and accordingly, was paid in full during April 2020.

12. ZAKAT

The Bank is computing Zakat accruals for the period ended 30 September 2021 based on the applicable Zakat rules for financing institutions and the Zakat expense is charged to the consolidated statement of income.

The Bank has submitted its Zakat return for the year ended 31 December 2020 and obtained the unrestricted Zakat certificate. The financial years 2019 and 2020 are under study by the Zakat, Tax and Customs Authority ("ZATCA"). The assessments in respect to the Bank's Zakat returns for the financial years up to 2018 have been finalized with ZATCA.

Moreover, pursuant to the merger with Samba (note 1 and 20) the Bank has assumed all Samba's payables owed to ZATCA, under a settlement agreement signed by Samba with ZATCA in respect to prior years (from 2006 to 2018), to be paid through 2023 in equal installments. Also, in respect to the old assessments related to Samba, the Bank is in the process of finalizing all the pending obligations with ZATCA.

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13. TIER 1 SUKUK

During 2021, the Bank through a Shariah compliant arrangement ("the arrangement") issued additional cross border Tier 1 Sukuk (the "Sukuk"), amounting to SAR 4.7 billion (denominated in US Dollars). During the same period, the Bank exercised the call option on its existing Tier 1 sukuk amounting to SAR 2.7 billion. These arrangements were approved by the regulatory authorities and the Board of Directors of the Bank.

During 2020, the Bank through a Shariah compliant arrangement ("the arrangement") issued additional Tier 1 Sukuk (the "Sukuk"), amounting to SAR 4.2 billion. During the same period, the Bank exercised the call option on its existing Tier 1 sukuk amounting to SAR 1 billion. These arrangements were approved by the regulatory authorities and the Board of Directors of the Bank.

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

The applicable profit rate on the Sukuks is payable on each periodic distribution date, except upon the occurrence of a non payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

14. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 30 September 2021 and 30 September 2020 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the periods ended 30 September 2021 and 30 September 2020 is calculated by dividing the fully diluted net income attributable to equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of outstanding shares. The diluted earnings per share are adjusted with the impact of the employees' share based payment plan.

15. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's management.

The Group has the reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail	Provides banking services, including lending and current accounts in addition to products in compliance with <i>Shariah</i> rules which are supervised by the independent Shariah Board, to individuals and private banking customers.
Wholesale	Provides banking services including all conventional credit-related products and financing products in compliance with <i>Shariah</i> rules to small sized businesses, medium and large establishments and companies as well as full range of treasury and correspondent banking products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).
Capital Market	Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).
International	Comprises banking services provided outside Saudi Arabia including TFKB and Samba Pakistan.
Others	Comprises of unallocated goodwill and intangible assets resultant from the merger.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

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15. OPERATING SEGMENTS (continued)

The Group's total assets and liabilities at period end, its operating income and expenses (total and main items) and net income for the period, by operating segments, are as follows:

30 September 2021 (Unaudited)						
SAR'000						
	<u>Retail</u>	<u>Wholesale</u>	<u>Capital Market</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Total assets	298,117,263	519,615,810	5,649,393	39,692,761	39,644,633	902,719,860
Total liabilities	386,882,545	319,009,073	550,996	35,755,156	-	742,197,770
- Customers' deposits	369,985,629	190,004,951	5,459	29,194,188	-	589,190,227
Total operating income from external customers	8,906,043	10,048,303	1,164,825	954,513	-	21,073,684
Intersegment operating income (expense)	427,127	(374,241)	(4,922)	(47,964)	-	-
Total operating income	9,333,170	9,674,062	1,159,903	906,549	-	21,073,684
of which:						
- Net special commission income	9,112,580	6,280,724	28,863	621,742	-	16,043,909
- Fee income from banking services, net	452,913	593,570	1,069,768	124,752	-	2,241,003
Total operating expenses	4,873,496	4,007,957	370,919	626,004	586,006	10,464,382
of which:						
- Depreciation/amortisation of property, equipment ,software and right of use assets	601,189	141,585	16,849	76,616	-	836,239
- Amortization of intangible assets	-	-	-	-	586,006	586,006
- Net impairment charge for expected credit losses	590,873	2,738,836	-	82,531	-	3,412,240
Other non-operating income (expenses), net	(28,735)	(102,837)	(33)	63,264	-	(68,341)
Net income for the period before zakat and income tax	4,430,939	5,563,268	788,951	343,809	(586,006)	10,540,961

30 September 2020 (Unaudited)						
SAR'000						
	<u>Retail</u>	<u>Wholesale</u>	<u>Capital Market</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Total assets	195,420,259	339,805,520	2,766,729	38,639,696	-	576,632,204
Total liabilities	238,019,240	226,899,694	361,367	35,142,092	-	500,422,393
- Customers' deposits	227,906,594	150,893,289	4,053	29,669,781	-	408,473,717
Total operating income from external customers	6,407,079	7,190,107	757,512	1,353,916	-	15,708,614
Intersegment operating income (expense)	952,161	(894,985)	(2,804)	(54,372)	-	-
Total operating income	7,359,240	6,295,122	754,708	1,299,544	-	15,708,614
of which:						
- Net special commission income	6,981,291	4,349,610	14,046	967,557	-	12,312,504
- Fee income from banking services, net	344,339	358,220	725,387	109,958	-	1,537,904
Total operating expenses	3,218,452	2,072,641	232,686	940,440	-	6,464,219
of which:						
- Depreciation/amortisation of property, equipment ,software and right of use assets	452,742	115,893	14,780	76,147	-	659,562
- Amortization of intangible assets	-	-	-	-	-	-
- Net impairment charge for expected credit losses	204,918	1,010,880	-	387,085	-	1,602,883
Other non-operating income (expenses), net	(31,599)	(62,482)	-	17,731	-	(76,350)
Net income for the period before zakat and income tax	4,109,189	4,159,999	522,022	376,835	-	9,168,045

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16. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

Fair value information of the Group's financial instruments is analysed below:

a. Fair value information for financial instruments at fair value

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

Level 1: quoted prices in active markets for the same instrument;

Level 2: quoted prices in active markets for similar assets and liabilities or 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

30 September 2021 (Unaudited)				
SAR'000				
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivative financial instruments	-	10,254,216	-	10,254,216
Financial assets held at FVIS	4,514,181	10,166,919	6,092,772	20,773,872
Financial assets held at FVOCI	46,593,480	36,265,179	134,883	82,993,542
Investments held at amortised cost, net				
- Fair value hedged	-	5,117,699	-	5,117,699
Total	51,107,661	61,804,013	6,227,655	119,139,329
<u>Financial liabilities</u>				
Derivative financial instruments	-	10,530,486	-	10,530,486
Total	-	10,530,486	-	10,530,486
31 December 2020 (Audited)				
SAR'000				
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivative financial instruments	-	7,898,096	-	7,898,096
Financial assets held at FVIS	1,804,947	4,983,767	2,167,876	8,956,590
Financial assets held at FVOCI	41,161,033	20,028,175	151,104	61,340,312
Investments held at amortised cost, net				
- Fair value hedged	-	4,975,557	-	4,975,557
Total	42,965,980	37,885,595	2,318,980	83,170,555
<u>Financial liabilities</u>				
Derivative financial instruments	-	9,744,443	-	9,744,443
Total	-	9,744,443	-	9,744,443

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16. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

a. Fair value information for financial instruments at fair value (continued)

	30 September 2020 (Unaudited)			
	SAR'000			Total
	Level 1	Level 2	Level 3	
Financial assets				
Derivative financial instruments	-	8,829,372	-	8,829,372
Financial assets held at FVIS	1,709,494	5,860,383	2,047,455	9,617,332
Financial assets held at FVOCI	43,082,583	26,686,720	149,344	69,918,647
Investments held at amortised cost, net				
- Fair value hedged	-	5,752,334	-	5,752,334
Total	44,792,077	47,128,809	2,196,799	94,117,685
Financial liabilities				
Derivative financial instruments	-	11,184,489	-	11,184,489
Total	-	11,184,489	-	11,184,489

b. Fair value information for financial instruments not measured at fair value

The fair value of Group's financing and advances as at 30 September 2021 on a business as usual basis applying the guidance of IFRS 13 was 6% higher than the corresponding book value.

The fair values of due from banks and other financial institutions, due to banks and other financial institutions, customers' deposits and debt securities issued at 30 September 2021, 31 December 2020 and 30 September 2020 are not materially different from their respective carrying values included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks and other financial institutions. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

c. Valuation technique and significant unobservable inputs for financial instruments at fair value

The Group uses various valuation techniques for determination of fair values for financial instruments classified under levels 2 and 3 of the fair value hierarchy. These techniques and the significant unobservable inputs used therein are analysed below:

The Group utilises fund manager reports (and appropriate discounts or haircuts where required) for the determination of fair values of private equity funds and hedge funds. The fund manager deploys various techniques (such as discounted cash flow models and multiples method) for the valuation of underlying financial instruments classified under level 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk adjusted discount rates, marketability and liquidity discounts and control premiums.

For the valuation of unquoted debt securities and derivative financial instruments, the Group obtains fair value estimates from reputable third party valuers, who use techniques such as discounted cash flows, option pricing models and other sophisticated models.

d. Transfer between Level 1 and Level 2 of the fair value hierarchy

There were no transfers between level 1 and level 2 during the period ending 30 September 2021 (31 December 2020: Nil and 30 September 2020: Nil).

e. Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
Movement of level 3 is as follows:			
Balance at beginning of the period	2,318,980	1,911,461	1,911,461
Total gains/(losses) (realized and unrealized) in consolidated statement of income	502,146	52,337	(125,158)
Purchases	2,017,911	1,004,951	630,024
Acquired through business combination	2,068,482	-	-
(Sales)	(715,786)	(649,769)	(219,528)
Others	35,922	-	-
Balance at end of the period / year	6,227,655	2,318,980	2,196,799

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17. CAPITAL ADEQUACY

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires Banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios:

	Risk Weighted Assets		
	30 September 2021 (Unaudited) SAR '000	31 December 2020 (Audited) SAR '000	30 September 2020 (Unaudited) SAR '000
Credit risk	592,986,084	377,284,842	385,194,219
Operational risk	55,417,740	37,739,086	37,092,158
Market risk	23,531,143	10,415,366	8,331,410
Total Pillar-1 - Risk Weighted Assets	671,934,967	425,439,294	430,617,787
Core capital (Tier 1)	122,424,811	81,916,210	77,970,211
Supplementary capital (Tier 2)	5,904,055	4,548,388	4,265,705
Core and supplementary capital (Tier 1 and Tier 2)	128,328,866	86,464,598	82,235,916
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1)	18.2%	19.3%	18.1%
Core and supplementary capital (Tier 1 and Tier 2)	19.1%	20.3%	19.1%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, proposed dividend, retained earnings, tier 1 eligible debt securities, foreign currency translation reserve and non-controlling interests less treasury shares, goodwill, intangible assets and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and prescribed amounts of eligible portfolio (collective) provisions less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the Risk-Weighted Assets and required regulatory capital for Pillar -1 (including Credit Risk, Market Risk and Operational Risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

18. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current period presentation, which are not material in nature to the financial statements.

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

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are experiencing a multiple waves of infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of Kingdom of Saudi Arabia, however has managed to successfully control the outbreak to date.

During 2020, management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio. The Group continues to made within its ECL model to refine the application of the staging criteria due to Significant Increase in Credit Risk “SICR” on affected customers to be able to differentiate and reflect appropriately in its models:

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

The Group also continues to evaluate the current macroeconomic situation and conducts review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the government and SAMA support relief programs.

The prevailing economic conditions which are severely affected by the ongoing pandemic, required the Group to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). In 2020, the Group made certain adjustments to the macroeconomic factors and scenario weightings.

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. As a result an additional ECL (overlay) of SAR 195 million was recorded in 2020.

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

SAMA support programs and initiatives

Private Sector Financing Support Program (“PSFSP”)

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

- Deferred Payments Program (“DPP”);
- Funding for lending program;
- Facility guarantee program; and
- Point Of Sale (“POS”) and e-commerce service fee support program.

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

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

SAMA support programs and initiatives (continued)

Further to the above, SAMA on 22 June 2021 announced the extension of the DPP for three additional months from 1 July 2021 to 30 September 2021, only for those MSMEs that were still affected by the COVID-19 precautionary measures. In line with guidance issued by SAMA in this regard. On 29 September 2021, for these effected MSME customers, a further extension of three additional months was announced by SAMA i.e., for the installment falling due from 1 October 2021 to 31 December 2021. The Group performed an assessment to determine the pool of customers eligible for continued deferment and accordingly deferred the installment falling due from 1 July 2021 to 31 December 2021 and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SAR 37 million and SAR 42 million during the quarters ended 30 June 2021 and 30 September 2021 respectively.

The accounting impact of above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 757 million out of which SAR 296 million has been recorded during the nine-month period ended 30 September 2021 (30 September 2020: SAR 330 million).

During the nine months period ended 30 September 2021, SAR 460 million (30 September 2020: SAR 125 million) has been recognized in the statement of income relating to unwinding of modification losses.

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio.

In order to compensate the related cost that the Group has incurred under the SAMA and other public authorities program, during the year 2020, the Group received profit free deposits from SAMA with varying maturities, and subsequently in 2021 acquired profit free deposit as part of business combination. The total of these deposits amounted to SAR 12 billion as at the period ended 30 September 2021, which qualified as government grant. Management 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 subsidised funding rate was 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. By the end of the year 2020, total income of SAR 780 million had been recognised in the statement of income. During the nine months period ended 30 September 2021, a total income of SAR 79 million (30 September 2020: SAR 495 million) has been recognised in the statement of income with respect to related deposits.

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

Furthermore, during the year ended 31 December 2020, the Group has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SAR 269 million.

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 2020, the Group received profit free deposit with one-year maturity from SAMA and subsequently in 2021 acquired profit free deposit as part of business combination. The deposits received qualified as government grant which have also matured by the period ended 30 September 2021. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in the Group recognising a total income of SAR 98 million, all of which was recognised in the statement of income during the year ended 31 December 2020. During the nine months period ended 30 September 2021, SAR 47 million relating to unwinding has been charged to the statement of income. These deposits have been repaid during the quarter ended 30 September 2021.

Health care and Private sector support:

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for six months. This resulted in the Bank recognising a day 1 modification loss of SAR 166 million in March 2020, which was presented as part of net special commission income. SAR 38 million has been recognized in the statement of income on unwinding the discount on financing during the nine months period ended 30 September 2021.

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As disclosed in note 1, on 1 April 2021, the Bank completed a statutory merger with Samba, a Saudi multinational banking company based in Saudi Arabia. Following the merger, Samba legal entity ceased to exist and assets, liabilities and all the business activities of Samba were transferred in exchange for newly issued shares of the Bank. Shares of Samba were cancelled and the new shares of the Bank were issued to the shareholders of Samba, after obtaining necessary regulatory approvals, at a predetermined exchange ratio of 0.739 new share for each Samba share. The issue of new shares resulted in increase in the Bank's paid-up capital by 14,780,000,000 from SAR 30,000,000,000 to SAR 44,780,000,000 and the number of its issued shares increased by 1,478,000,000 from 3,000,000,000 to 4,478,000,000. The Bank and Samba's original shareholders owned 67% and 33%, respectively, of the combined bank on a fully diluted basis on the merger date.

The fair value of the 1,478,000,000 shares issued as the consideration paid for Samba merger was determined on the basis of closing market price of the Bank's ordinary share on the Saudi stock exchange, on the last trading date prior to the date of acquisition date of 1 April 2021 of SAR 53.1 per share. The purchase consideration consists of the issue of 1,442,390,843 new shares to the shareholders of Samba net of treasury shares. Issue costs which were directly attributable to the issue of the shares were not material. As a result of issuance of shares, there was an increase in share capital and share premium of the Bank by SAR 14,780,000 thousands and SAR 63,701,800 thousands, respectively.

The merger has been accounted for using the acquisition method under IFRS 3 – Business Combinations (the “Standard”) with the Bank being the acquirer and Samba being the acquiree. As required by the Standard, the Bank is in the process of allocating the purchase consideration to the identifiable assets and liabilities till the date of consolidated financial statements were authorised for issue. Accordingly, the Bank has accounted for the acquisition based on the provisional fair values of the acquired assets and liabilities as at the acquisition date as the independent valuations have not been finalised. Adjustment to those provisional values will be finalised within twelve months of the date of acquisition as allowed by the Standard.

The merger will create a pre-eminent financial institution with significant value creation potential for shareholders, customers and employees, structured to finance economic development, support Vision 2030 and facilitate trade and capital flows with the region and the rest of the world. The Bank will benefit from a strengthened competitive position as a superior retail banking franchise and the largest wholesale lender in the Kingdom. With a robust capital base and balance sheet, a balanced universal banking model, and improved liquidity, the Bank will be optimally positioned to compete regionally and locally.

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

Assets	SAR '000
Cash and balances with SAMA	30,803,241
Due from banks and other financial institutions, net	5,339,480
Positive fair value derivatives, net	5,658,658
Investments, net	73,545,391
Financing and advances, net	152,397,032
Property and equipment, net	3,142,593
Intangible assets arising from merger	11,707,000
Other assets	3,416,124
Total assets	286,009,519

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Liabilities	SAR '000
Due to banks and other financial institutions	21,392,655
Customers' deposits	193,832,000
Term loan	2,283,643
Debt securities in issue	5,824,935
Negative fair value derivatives, net	3,545,553
Other liabilities	10,881,106
Total liabilities	237,759,892
	SAR '000
Net Assets of Samba	48,249,627
Minority interest	(90,843)
Employees' share based payments plan	(90,594)
Retirement of Samba treasury shares	1,889,971
Goodwill	28,523,639
Total purchase consideration	78,481,800

The Bank is in the process of undertaking a comprehensive purchase price allocation which is expected to be completed within twelve months from the acquisition date and will focus on, but is not limited to, finalising valuation adjustments to the following:

- Recognition of intangible assets including core deposits and other customer relationships;
- Financing and advances;
- Properties and equipment;
- Other recognized financial and non-financial assets and liabilities.

A provisional purchase price allocation has been included in the interim condensed consolidated financial statements. Subsequent adjustments during the measurement period will occur as the Bank completes its estimation of fair values of assets acquired and liabilities assumed. The accounting for the fair value of the acquired Samba financial assets and liabilities is provisional due to the inherent complexity and judgement associated with identifying intangible assets, and determining the fair value of identified intangible assets and on-balance sheet items.

The goodwill is primarily attributable to the expected future earnings of the acquired business and cost synergies created.

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

(i) Measurement of fair values of intangible assets**Customer relationship - Purchase Credit Card Receivable**

The Bank has estimated the value of Purchase Credit Card Receivable ("PCCR") using an income approach, specifically the Multi-period Excess Earnings Method ("MEEM"), which is a commonly accepted method for valuing customer relationships.

The Bank has valued customer relationships for the Asset Management, Brokerage and Corporate Advisory business as a separate intangible asset due to the difference in nature between customer relationships formed through each of these segments.

20. Business combination (continued)

Core deposit intangible

The Bank has adopted the discounted cost savings method, a form of the income approach, in valuation of the core deposit intangible on the difference between the cost of the Bank's core deposits (both special commission and servicing costs net of fee and commission income) and the cost of the Bank's alternative source of funds. The value of the core deposit intangible is the difference between the present value of the current source of funds and the alternate funding source. The analysis has considered demand, savings and time deposits. The assumed attrition and special commission rates and assumptions for fees and commissions are based on a historical analysis of deposit balances from existing customers.

Brand/trademark

The Bank has followed Relief-from-Royalty approach, a form of income approach, to value Samba's brand.

(ii) Acquired receivables

The fair value of each class of acquired trade receivables, the gross contractual amount and the best estimate of the contractual cash flows not expected to be collected are as follows:

	Fair value of the acquired receivables <u>SAR'000</u>	Gross contractual amount of receivables <u>SAR'000</u>	The contractual cash flows not expected to be collected <u>SAR'000</u>
Due from banks and other financial institutions	5,339,480	5,339,480	-
Investments	70,444,863	70,784,554	(339,691)
Financing and advances	152,397,032	157,518,164	(5,121,132)
Total	<u>228,181,375</u>	<u>233,642,198</u>	<u>(5,460,823)</u>

In addition, non-receivable assets and liabilities were subject to fair value adjustments, such as property and equipment.

(iii) Revenue and profit contribution

From the date of acquisition until 30 September 2021, Samba contributed operating income of SAR 3,249 million and a net income before zakat and income tax of SAR 526 million to the Bank's results. If the acquisition had occurred on 1 January 2021, management estimates that combined operating income and net income before zakat and income tax for the period would be SAR 23,517 million and SAR 10,215 million, respectively. In determining these amounts, the Bank has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

(iv) Merger-related costs

Merger related costs for the period ended 30 September 2021 was SAR 73 million (period ended 30 September 2020: SAR Nil). These were not directly attributable to the issue of shares and are included in "Other general and administrative expenses" in the consolidated statement of income and in operating cash flows in the consolidated statement of cash flows.

Notes To The Interim Condensed Consolidated Financial Statements (continued)
AS AT 30 SEPTEMBER 2021 (UNAUDITED)
21. IBOR Transition (Interest Rate Benchmark Reforms)

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk Free Rate ("RFR"). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective interest rate, resulting in no immediate profit or loss impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship

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

The Group has exposure to IBOR rates that are subject to reform through its issuance of sukuk, the structural profit rate position, holdings of investment securities, and products denominated in foreign currencies and, where applicable, associated hedging.

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes. A part of this transition is the decision to continue to publish certain USD LIBOR terms until June 2023 as well as publication of synthetic IBOR denominated in some other than USD currencies.

The Group currently has a number of contracts which reference USD and JPY LIBOR. The following table contains the details of all of the financial instruments that the Group holds at period end and extend beyond 2021, which have not yet transitioned to an alternative interest rate benchmark:

	September 2021		
	SAR '000		
	Non-Derivative Financial Assets	Non-Derivative Financial Liabilities	Derivatives Nominal amount
LIBOR USD	32,787,616	8,253,750	328,607,531
LIBOR JPY	-	900,000	900,000
Total	<u>32,787,616</u>	<u>9,153,750</u>	<u>329,507,531</u>

22. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 21 October 2021 (corresponding to 15 Rabi' Al-Awwal 1443H).



Ahmed A. Aldhabi
Group Chief Financial Officer



Saeed M. Al-Ghamdi
Managing Director/Group CEO



Ammar A. Al-Khudairy
Chairman