VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

INTEGRATED REPORT 2020

البنك السعودي للاستثمار
The Saudi Investment Bank

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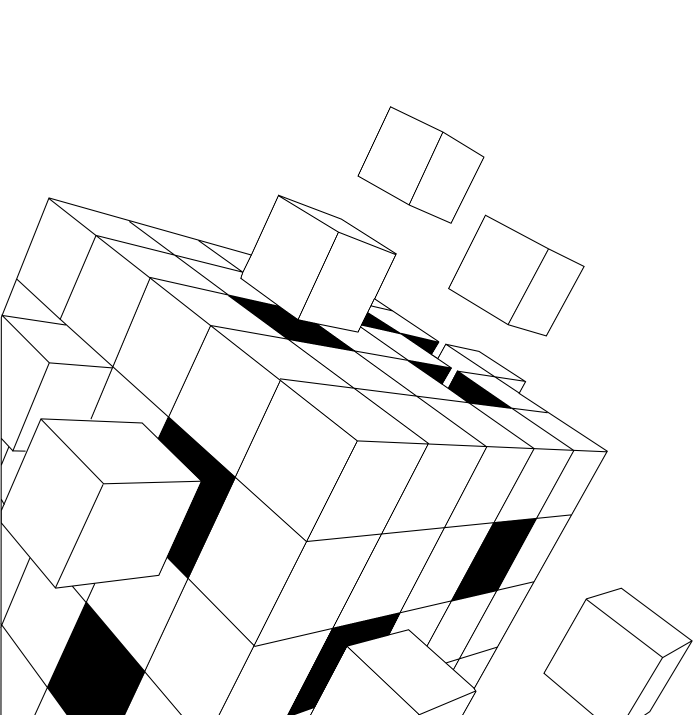
البنك السعودي للاستثمار
The Saudi Investment Bank

Integrated Report 2020



Prince Mohammad bin Salman bin Abdulaziz Al-Saud
Crown Prince

King Salman bin Abdulaziz Al-Saud
Custodian of The Two Holy Mosques

About this Report

GRI 102-46, 102-48, 102-49, 102-50, 102-51, 102-52, 102-53, 102-54

This is SAIB's fourth consecutive Integrated Report. The Bank uses the Report to convey to its stakeholders its strategy, governance, performance, and prospects within the context of the operating environment and how it creates value in the short, medium, and long term.

Integrated reports balance the need to communicate effectively through concise, relevant information while providing comprehensive compliance-related disclosures. The Report is available in print and PDF format as well as in interactive online HTML format with features that make it easier to find, extract, and share information.

Report boundary

The Report largely covers the operations of The Saudi Investment Bank (referred to as "SAIB") only, unless otherwise stated. The boundary for financial reporting includes SAIB and its subsidiaries and associate companies (referred to as "the Group").

Reporting period

This report covers the period from January 1, to December 31, 2020 and is consistent with our usual annual reporting cycle for financial and sustainability reporting. There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

The most recent previous integrated report covered the 12-month period ended December 31, 2019.

This Integrated Report has been issued in both English and Arabic, and in the event of any discrepancy, the Arabic version shall prevail.

Compliance

The information contained herein, as in the past, is in compliance with all applicable laws, regulations, and standards. In preparing this Integrated Report, we have drawn on concepts, principles, and guidelines given in The International <IR> Framework and The Smart Integrated Reporting Methodology™.

As provided in the paragraphs 2.10 and 2.17 – 2.19 of The International <IR> Framework, organisations preparing an integrated report are not required to adopt The <IR> Framework categorisation of capitals. Accordingly, we have categorised the capitals differently in our business model diagram to best describe our value creation process. Our value creation story is a discussion based on our strategic imperatives and their implementation.

The Consolidated Financial Statements as of and for the year ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed the Kingdom of Saudi Arabia (KSA) and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (SOCPA); and are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the KSA, and the Bank's Articles of Association.

This report has been prepared in accordance with the GRI Standards: Core option.

Queries

The Bank's Marketing Department is the custodian of this Report. For comments or queries, please contact the Chief Marketing Officer, The Saudi Investment Bank.

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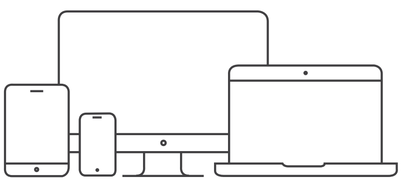

The SAIB Integrated Report online

The interactive HTML version is published online on the same date as the date of issue of this Integrated Report at www.saib.com.sa/integratedreport2020.

The Saudi Investment Bank

GRI 102-1, 102-2, 102-6, 102-7

52
Branches

49
Shariah-compliant banking services

The Saudi Investment Bank

9,895
Point of Sales (POS) terminals

12
Cash Deposit Machines (CDMs)

368
Automated Teller Machines (ATMs)

4
Interactive Teller Machines (ITMs)

Our Vision

To offer the simplest and most accessible products and services to each of our customers.

Our Mission

Towards our customers

- We make banking simple and accessible for each of our customers.
- We are flexible, adaptive, and responsive to deliver what suits our customers.
- We listen to our customers and understand their needs and preferences in order to evolve and improve.

Towards our employees

- We value ideas, inputs, and initiatives.
- We empower our staff to bring out their best and go the extra mile.
- We recognise individual contribution and we support individual development.
- We enhance team spirit, which allows us to collectively build the smartest solutions.

Our history and operations

The Bank commenced operations in 1977 pursuant to a Royal Decree dated June 22, 1976. In 1983, the Bank adopted the SAIB name and moved into commercial banking. The Al Asalah Islamic Banking brand, through which the Bank provides Shariah-compliant products and services, was launched in 2006. Islamic principles form the core of all the Bank's operations and our Shariah Committee ensures adherence to Shariah principles in our product development.

SAIB offers wholesale, retail, and commercial banking products in the Kingdom of Saudi Arabia, both Shariah-compliant and traditional. The Bank also provides its services to the government, quasi-government, corporate, and MSME sectors. Our finance operations offer a range of non-interest-bearing banking products including Murabaha, Istisna'a, and Ijarah. Our product portfolio also includes several treasury and investment banking products.

Our joint ventures and subsidiaries expand our range of products and services to include investment banking, share trading, asset management, leasing finance, mortgage finance, brokerage services, corporate finance services, and credit card services.

The Bank's network includes 52 branches, of which 49 operate as Shariah compliant branches within the Kingdom. As of December 31, 2020, the Bank operated a network of 368 ATMs and over 9,800 point of sale (POS) terminals.

The Saudi Investment Bank

GRI 102-7, 102-16

The Group

The Saudi Investment Bank

The Bank has three **subsidiary companies**, all of which are **100% owned** by the Bank

Alistithmar for Financial Securities and Brokerage Company (ICAP)
Brokerage, asset management, investment banking and other services within the Kingdom.

The Saudi Real Estate Company
Limited liability company of which the main activity is to hold real estate assets given to the Bank as collateral.

SAIB Markets Limited Company
Incorporated in Cayman Islands and trades in derivatives and Repo activities on behalf of the Bank.

In addition, the Bank has investments in the following three **associate companies**

American Express (Saudi Arabia)
Issuing and handling of credit cards and other American Express products in the Kingdom.
Ownership **50%**

Saudi Orix Leasing Company
Primarily deals in lease financing services.
Ownership **38%**

Amlak International for Finance and Real Estate Development Company
Offers real estate products and services.
Ownership **22.4%**

Our sustainability framework

SAIB's sustainability framework encompasses five Islamic principles which have been crafted to integrate our commercial responsibilities with our social and environmental responsibilities. They also reflect Islamic principles of good governance and management.

Hifth (Environmental protection)
SAIB will build a competitive advantage by embedding environmental management into the Bank's core activities and continuously de-materialising banking. SAIB will be a model of the competitive environmental practices the Saudi Arabian Government is seeking for the benefit of the Kingdom.

Awn (Helping others)
SAIB will measure not only the amount of money it invests but the extent and effectiveness of its impact.

SAIB will narrow and focus its investments in areas where it can contribute money, tools, and expertise.

Nummow (Growth)
We aim to deliver strong financial performance for our shareholders by executing our growth strategy while maintaining a disciplined approach to financial stability.

Re'aya (Workforce)
SAIB will be the most sought-after Bank to work for, owing first and foremost to its clear transparency and accountability to both its employees and society.

Takleef (Responsibility)
SAIB will be recognized by customers, investors, employees and the public as the most genuine, integrity based, value driven, and, accountable Bank in Saudi Arabia.

The Saudi Investment Bank

GRI 102-12

Vision 2030 is the overarching framework that drives the aspirations, policies, and plans of the Kingdom today. The Vision is founded upon three themes: a vibrant society, a thriving economy, and an ambitious nation. With many of the goals of Vision 2030 being either directly connected with finance or having a financial implication, SAIB plays a role in the Vision with its contributions.

A vibrant society

Vision goals	SAIB contribution
Living by Islamic values	The Islamic principles of Hifith, Awn, Nummow, Rea'ya and Takleef.
Focusing our efforts to serve Umrah visitors	Financing of general infrastructure.
Living healthy, being healthy	Promoting via the Bank's social media channels a healthy life with all Stakeholders,, with a focused emphasis in 2020 of keeping safe during COVID-19.
Developing our cities	Urban infrastructure project finance.
Achieving environmental sustainability	The Bank's Building Management System continues to show a reduction of water and electricity consumption across all of the Bank's premises.
Caring for our families	Emphasis on work life balance.
Caring for our health	Supported the Kingdom-wide cause for all citizens and residents to observe COVID-19 protocols.

The Saudi Investment Bank

GRI 102-12

A thriving economy

Vision goals	SAIB contribution
Learning for work	Launched the Learning Management System: SAIB Knowledge, for all staff to improve skills and capabilities across various fields.
Boosting our small businesses	Grew the funding of SMEs.
Attracting talent	Enhanced focus in 2020 to recruit talented young Saudi staff.
Supporting our national companies	Continue to procure services from local Saudi owned businesses. Usage of local suppliers.

An ambitious nation

Vision goals	SAIB contribution
Embracing transparency	SAIB Code of Conduct and Whistleblowing Policies.
Engaging everyone	Using all the Bank channels to communicate regularly with all stakeholders.
Being responsible for our lives	Keeping safe during the COVID-19 pandemic.
Being responsible in business	Bank policies for the protection of all stakeholders.
Being responsible to society	Customer Awareness activities.

SAIB at a glance

GRI 102-7

Financial Capital

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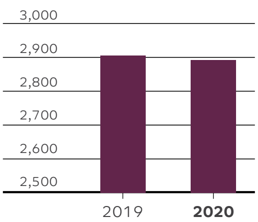
	2020 SAR million	2019 SAR million
Total income*	2,892	2,906
Total expenses**	1,214	1,234
Operating profit before provisions	1,678	1,672
Provisions for credit and other losses	449	1,343
Provisions for Zakat and Income Tax***	249	90
Net Income	980	239
Loans and advances, net	55,074	57,112
Investments	30,514	26,175
Investments in associates	846	994
Total assets	99,885	100,815
Term loans	2,006	2,012
Subordinated debt	–	–
Customer deposits	60,144	69,058
Shareholders' equity	13,331	12,007
Tier I Sukuk	2,000	2,000
Total equity	15,331	14,007
Return on average shareholders' equity (%)	7.73	2.03
Return on average assets (%)	0.98	0.24
Capital adequacy (%)	21.21	18.26
Equity to total assets (%)	15.35	13.89

** Total income includes total operating income plus share in earnings of associates.*
*** Total expense includes total operating expenses before impairment charges.*
**** The years prior to 2018 have not been adjusted for provisions for Zakat and Income Tax.*

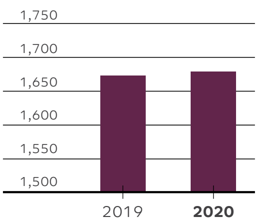
Total income

(SAR million)



Operating profit

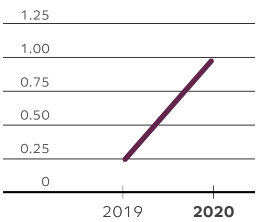
(SAR million)



Before provisions

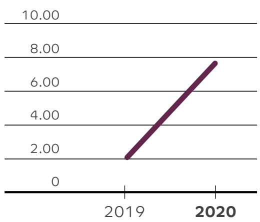
Return on average assets

(%)



Return on average shareholders' equity

(%)



Total operating income
SAR 2,846 million
0.99% increase

Total expenses
SAR 1,214 million
1.63% YoY decline

Investment portfolio
SAR 30.5 billion[1]
16.5% YoY growth

Equity to total assets
15.35%
1.46% YoY growth

[1]*as at December 31, 2020*

SAIB at a glance

GRI 102-7

Institutional Capital

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Awarded ISO 22301:2019 certificate for adhering to the updated standards of Business Continuity Management Systems

Enabled Apple Pay and mada Pay functionality with all SAIB credit cards

Microsoft Power BI integration will lead to improved efficiency

Customer Capital

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52 branches across the Kingdom

Special needs branches in Riyadh, Jeddah, and Dammam

599,242 Personal banking customer base

Employee Capital

Page – 81

90% Saudization

159 training programs

12,124 formal training hours

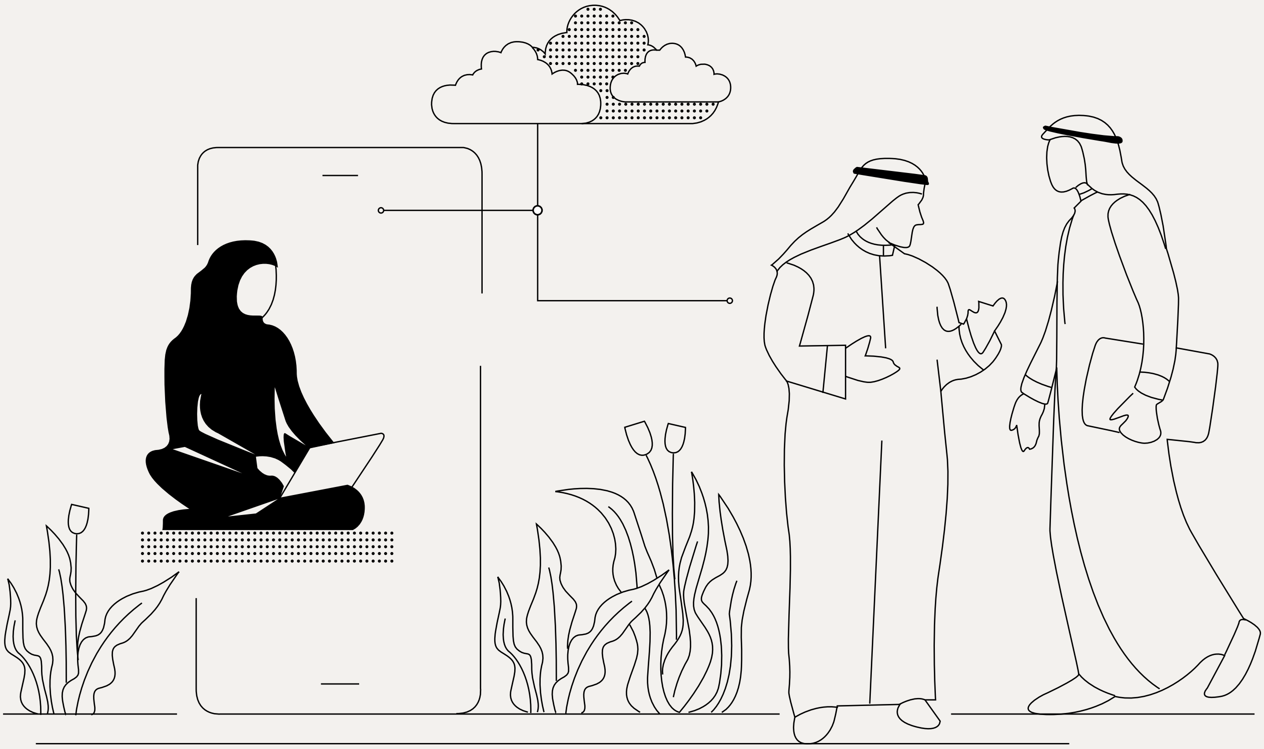
Social and Environmental Capital

Page – 83

4,760 kgs of paper recycled

2,680 kgs of plastic recycled

128 volunteers in 2020



Letter from the Chairman

GRI 102-14

2020 was an unprecedented year. With every corner of the world gripped by the COVID-19 pandemic, SAIB had to be cognisant of the micro and macroeconomic challenges that the pandemic brought on. The effects will surely resonate for quite a while across the industry, the Kingdom, and the world.

The Government took swift action and successfully managed the outbreak of the virus. SAMA supported Micro, Small, and Medium Enterprises (MSMEs) through the Private Sector Financing Support Programme (PSFSP), under which the Bank deferred the payments of eligible MSME borrowing customers. Furthermore, SAMA boosted the financial sector with SAR 50 billion to enhance liquidity in the banking sector, restructure current credit facilities, maintain employment levels in the private sector, and provide relief for the banking fees that have been waived for customers.

Despite the challenging environment in 2020, the Bank was able to record a notable growth in its results. The Bank achieved a total operating income of SAR 2,846 million in 2020, an increase of SAR 28 million from 2019. Net income increased 310% from 2019 to SAR 980 million. Operating expenses before provisions for credit and other losses totalled SAR 1,214 million, a decrease of SAR 20 milion from 2019.

We continued to work on the implementation of the Three-year Strategy (2020 – 2022). Our ongoing efforts in digitisation bore fruit this past year when lockdowns were imposed and our e-channels became the primary means through which our customers interacted with the Bank. With the other elements of our strategy focused on agility, innovation, speed, and focus, the past year has clearly indicated that we are on the right path.

We continue to be mindful of our environment and our communities. COVID-19 affected every person in the Kingdom and as a responsible corporate citizen, we tried to contribute to efforts to support our society. SAIB has contributed to the Ministry of Health’s Endowment Fund and the Community Fund initiative of the Ministry of Human Resources and Social Development and the General Authority for Endowments. These funds helped to mitigate the negative impacts on the economy and society. In addition, we have extended our support to our brave health sector participants who were in the frontlines battling the COVID-19 pandemic.

Despite the limitations that the pandemic imposed on us, we continued our corporate social responsibility efforts. 128 SAIB employees volunteered their time to support our communities and help the disadvantaged. We stepped up our efforts to support those with special needs by modifying three of our branches to serve them better. Our website has also been enhanced to be accessible by the visually impaired.

I wish to express my thanks to my colleagues on the Board of Directors, our Executive Management, and our employees for their commendable efforts during a tremendously challenging year. I also want to convey my gratitude to our Government, under the stewardship of His Majesty our King and His Majesty our Crown Prince, for their leadership and foresight in responding rapidly to the situation as it evolved and implemented bold initiatives that successfully warded off the threats to our sector and the nation’s economy, while guiding us forward. With our hopes that the worst is behind us, I look forward to a new dawn for all of us and hope for your continued support on our journey ahead.

Abdallah Saleh Jum’ah
Chairman

Despite the limitations that the pandemic imposed on us, we continued to work on the implementation of the Three-year Strategy.

Message from the Chief Executive Officer

I am proud to present the 2020 Integrated Report which documents our continuous efforts to transform into an agile, digitally enabled bank. In a year full of challenges, SAIB's journey of transformation was more important than ever to see us through these challenging times.

Our Three-Year Strategy

In 2020, we embarked on a three-year strategy (2020 – 2022). With this new strategy, we aim to boost our performance and grow our long-term shareholder return on equity. The strategy is designed around five dimensions: digitisation to support our business needs, develop our analytics capabilities, and streamline internal and customer processes; agility to promote close collaboration between business and support functions that will allow us to have short product launch cycles; innovation to promote innovative ideas and launch innovative products; speed to utilise automation to increase efficiency and improve the customer experience; and focus to create an exceptional customer experience for our targeted segments.

Our strategy relies on five key enablers: transforming our human capital, building an efficient organisation, strengthening our IT capabilities, strengthening our affiliates, and growing our innovation capabilities. Moreover, our strategy is aligned with the Kingdom's Financial Sector Development programme in Vision 2030. The strategy is supported by our Transformation Group and Information Technology transformation strategy. Through the application of Agile and Six Sigma practices and enabling flexible infrastructure, the Bank took on several initiatives during 2020 to enable the successful implementation of the strategy including implementing several digitisation and automation methods and strengthening our IT capabilities and critical systems. The Bank will continue to undertake various improvement initiatives in the years to come to ensure that our business remains sustainable.

Our people

Our employees are our lifeblood and we have always invested in them and their engagement as a key strategic driver. Our Saudization ratio increased to 89% and our female staff represents 20% of our workforce. We also revised our learning policy to be more in line with our strategic objectives and develop the digital capability of our employees.

Managing COVID-19

Thanks to the agility and responsiveness of our employees and the effectiveness of our Business Continuity Plan (BCP) and infrastructure, SAIB successfully managed the impact of the COVID-19 pandemic.
A committee dedicated to responding to the coronavirus was established to manage our transition to working from home and implement the necessary precautionary procedures to control the spread of the virus. We continued to develop our BCP and test our capabilities to ensure that we can tackle any unexpected scenarios swiftly and without affecting our operations. These efforts will continue well into 2021 and beyond.

We maintain a positive outlook for the year ahead. With the rollout of the vaccine, we expect to see a gradual return to normalcy albeit in a transformed environment. We are well placed with our strategy and our people to adapt swiftly to expected changes that may occur within our operating environment.

I would like to thank our stakeholders for their continued support, particularly our employees who have worked diligently through this pandemic. I extend my deepest gratitude to our Chairman and the Board of Directors for their guidance and trust in us during these extraordinary times.

Faisal Abdullah Al-Omran
Chief Executive Officer

Thanks to the agility and responsiveness of our employees and the effectiveness of our Business Continuity Plan (BCP) and infrastructure, SAIB successfully managed the impact of the COVID-19 pandemic.


ATM HELPDESK

STEWARDSHIP

2020 was an unprecedented year. Our ongoing efforts in digitisation bore fruit when our e-channels became the primary means through which our customers interacted with us. The past year has clearly indicated we are on the right path.

Board of Directors

Mr. Abdallah Saleh Jum'ah
Chairman of the Board

Mr. Abdulaziz Al-Khamis
Vice-Chairman of the Board

Mr. Abdul Rahman Al-Rawaf
Board Member

Mr. Yasser Aljarallah
Board Member

Mr. Saleh Al-Athel
Board Member

Dr. Fouad Al-Saleh
Board Member

Mr. Mohammad Al-Ali
Board Member

Mr. Mohammed Algrenees
Board Member

Mr. Mohammed Bamaga
Board Member

Board of Directors

Mr. Abdallah Saleh Jum'ah,
Chairman of the Board

Former President and CEO of Saudi Aramco. Has been a Board Member of many companies including Halliburton. Bachelors Degree in Political Science from the American University of Beirut.

Mr. Abdulaziz Al-Khamis,
Vice-Chairman of the Board

Director General Financial Investments, Public Pension Agency. Held numerous positions with the Saudi Arabian Monetary Agency prior to assuming his current position in July 2006. Currently a Board member of several companies. Bachelor in Economics Degree from Northeastern University, Boston, Massachusetts.

Mr. Abdul Rahman Al-Rawaf
Board Member

Manager of the Investment Portfolios Department at the General Organization for Social Insurance. Has been a board member of many banks and other companies. Bachelors Degree in Business Administration from Arkansas State University and MPA from the University of Southern California.

Mr. Yasser Aljarallah
Board Member

Mr. Yasser is currently the Chief Executive Officer of Tharwaa Investment Company. He is considered a prominent investment and asset management professional with vast accomplishments in managing his family's investment portfolio. He is currently a Board member in VC Bank – Bahrain, and Alinma Medical Services Co. He holds a Bachelor's and Master's Degrees in economics from the University of Southern California.

Mr. Saleh Al-Athel
Board Member

Progressed through various executive positions within the Saudi Industrial Development Fund until he reached the position of the Assistant Director General. He is a Board member of several companies. He holds a BA in Philosophy and Sociology from Damascus University, and a Higher Diploma in Management from Hartford University.

Dr. Fouad Al-Saleh
Board Member

Occupied numerous positions in the government until his retirement as a Colonel in the Ministry of Defense. He is currently a partner in numerous construction related companies. He holds a BS in Mechanical Engineering from St. Martin College, and an MS and a PhD in Construction Engineering from the University of Washington.

Mr. Mohammad Al-Ali
Board Member

Former Senior Vice President of Finance at Saudi Aramco. He also served on several of the company's executive committees. MBA from the University of Denver and BS Degree in Accounting from the University of Texas-Arlington.

Mr. Mohammed Algrenees
Board Member

Mr. Mohammed is currently the head of local equity and fixed income at Alraidah Investment Co. He is also a Board member of various listed and non-listed companies. Prior to assuming his current posting, he progressed through various investment management positions at HSBC, NCB Capital, and Jadwa Investments. He holds a bachelor's degree in chemical engineering from Kuwait University.

Mr. Mohammed Bamaga
Board Member

Mr. Mohammed is currently the Chief Executive Officer– Information Technology at Saudi Arabian Airlines. He is currently a Board member at Dammam Airport and Chief of Audit and Risk. He is also a member of the Board of Directors of the Saudi Federation for Cybersecurity, Programming and Drones. He has indepth technology and management expertise where it was deployed in many positions at various international and local companies before joining Saudi Arabian Airlines. He was a CEO in Accenture Middle East and worked as GM of Information Technology in SABIC.

He holds a Bachelor's Degree in Management Information Systems from King Fahad University for Petroleum and Minerals.

Management Team

Mr. Faisal Abdullah Al-Omran
Chief Executive Officer

Mr. Salman Badar Al-Fughom
Deputy Chief Executive Officer

Mr. David Johnson
Chief Financial Officer

Mr. Ramzi Abdullah Al-Nassar
General Manager – Personal Banking

Mr. Majed Abdulghani Fakeeh
General Manager – Corporate Banking

Mr. Naif Al-Hammad
Treasurer and Chief Investment Officer

Mr. Mohammed Abdulaziz Al Fraih
Chief Operating Officer

Mr. Mansour Mohammed Al Obaikan
Chief Risk Officer

Ms. Monirah Saleh AlSwaydani
General Manager – Corporate Governance and Board Secretary

Ms. Nasreen Saad Aldossary
Chief Human Resources Officer and Chief Happiness Officer

Mr. Badr Ahmed Allaf
Chief Compliance Officer

Mr. Waleed Almaqawshi
Acting Chief Internal Auditor

Mr. Tareq Mahmoud Khan
Chief Marketing Officer

Mr. Sultan Sulaiman AlTukhaim
Chief Information Security Officer

Corporate Governance

GRI 102-18, 102-19

SAIB's Corporate Governance consists of two components that define how the Bank is directed and controlled: a tangible and an intangible component.

Tangible	Intangible
The rules, policies, roles and responsibilities, practices, and processes of the Bank that are laid out in a formal documented structure	The ethics, values, culture, integrity, and reputation of the Bank

Corporate Governance is established to ensure the fair treatment and balancing of interests of the various stakeholders in the Bank, such as shareholders, employees, customers, suppliers, financiers, the government, regulatory entities, and the community.

Sound Corporate Governance Practices can benefit the Bank in several ways:

1. Improved performance and profitability
   Strong governance practices enable more effective decision-making by the Board and the Executive Management, which can lead to improved performance that drives increases in revenue and reductions in costs.
2. Mitigation in risk of failure
   Effective and diligent governance can prevent corporate scandals, fraud, or any civil and criminal liability for the Bank, while enhancing its reputation as a self-policing, responsible bank worthy of continued investment.
3. Protection of minority shareholders
   Good Governance Practices ensure the rights of minority shareholders are protected regarding the right to seek information, voice an opinion, and vote in General Assembly Meetings.

Governance structure

SAIB's governance structure is established upon three pillars: establishing strategic direction; executing strategy and managing risks; and stewardship through conformance with policy and established procedures, rules, and practices.

The Bank's governance structure, underpinned by policies, procedures, and practices, helps to ensure good governance. The values, ethics, and integrity of the Bank help to ensure the implementation of the governance rules and procedures.

The Bank's governance framework is defined in the Corporate Governance Manual, along with the Board and Executive Management structures, key policies, guidelines and control functions, and the duties of Board members and the restrictions placed on them. The Manual is available to the general public via the Bank's website.

Policies relating to corporate governance

SAIB complies with the Principles of Corporate Governance for Banks Operating in Saudi Arabia as issued by the Saudi Central Bank (SAMA) in March 2014, as well as the Corporate Governance Guidelines included in the Rules Governing the Companies in the Kingdom of Saudi Arabia issued by the Capital Market Authority on May 20, 2019 and the Basel Corporate Governance Principles for Banks.

The Corporate Governance Manual of the Bank has the purpose of institutionalising clear, robust, and effective Corporate Governance as the foundations for the Bank's future market leadership, continued profitability, and long-term stability. The General Manager of Corporate Governance, overseen by the Board Corporate Governance Committee, is responsible for reviewing the contents of the Manual on an ongoing basis and ensuring it is up to date.

A full review of the Manual is conducted every two years by the General Manager of Corporate Governance under the supervision of the Board Corporate Governance Committee. The General Manager of Corporate Governance is accountable for ensuring that the Manual conforms to SAMA and CMA Guidelines for corporate governance and complies with the Principles for Enhancing Corporate Governance as published in the latest guidelines by the Basel Committee on Banking Supervision.

Corporate Governance

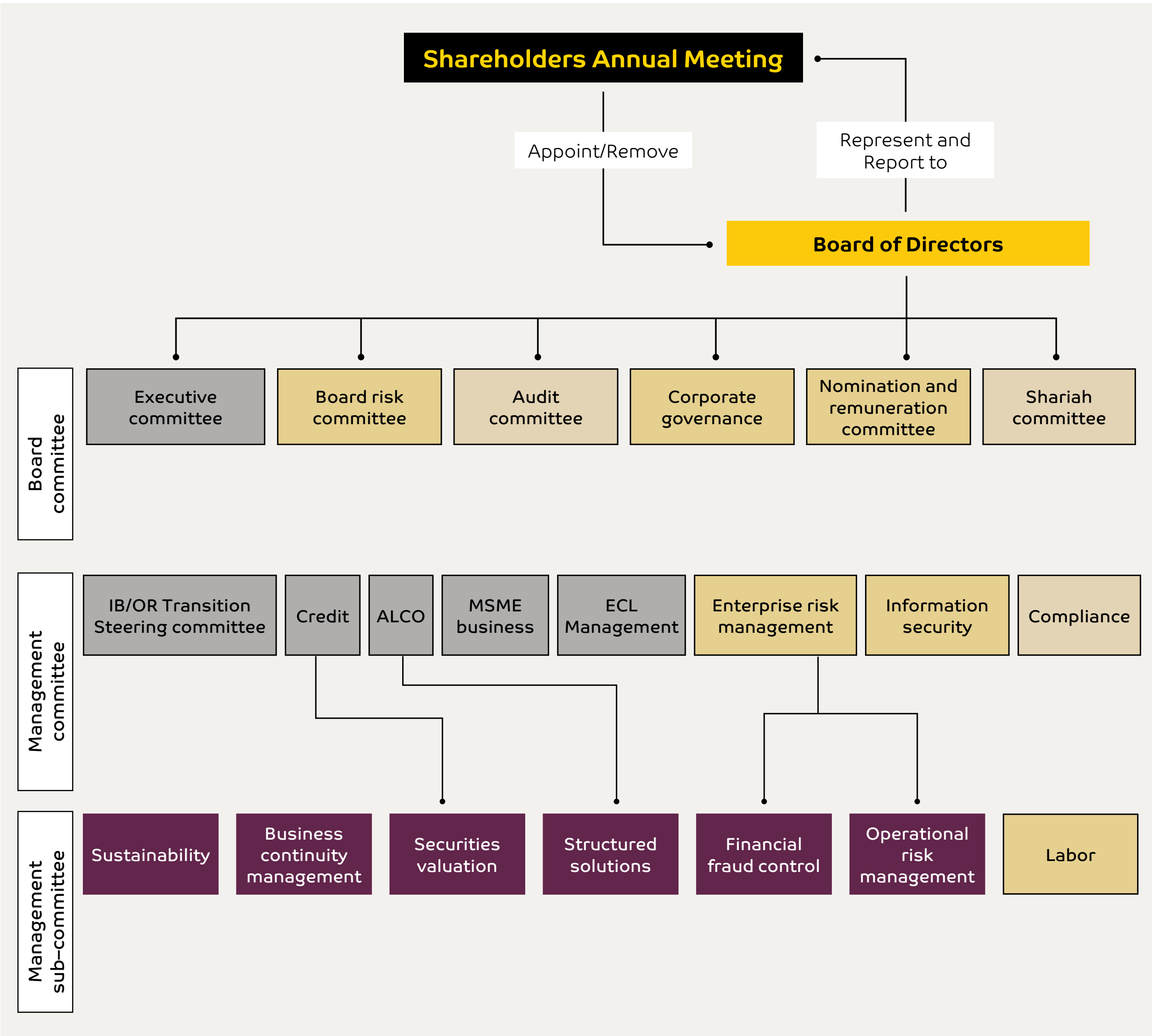
New Board members receive the appropriate induction and training upon appointment. All Board members receive a copy of the Bank's Corporate Governance Manual, its appendices, and major policies including the Code of Conduct, Conflict of Interest policy, disclosure and transparency principles, and governance charter issued by CMA and SAMA's Key Principles of Banks' Governance.

SAIB's Corporate Governance Framework is based on six Board committees, several Management committees, and Subcommittees. This governance structure is underpinned by a series of governance enablers which constitute the core to ensuring the required clarity and discipline of Good Corporate Governance: corporate values, organization structure design, policies and procedures, the Bank's authorities' matrix, and effective internal and external communication.

The Delegation of Authorities (DOA) matrix is regularly updated to accurately reflect internal approval controls.

The Board ensures the timely release of information as highlighted in the requirements of the SAMA and the CMA.

The Saudi Investment Bank committees' structure and reporting lines



Corporate Governance

Board of Directors

The Board of Directors shall have the ultimate responsibility for the success, soundness, and solvency of the Bank, and is accountable for protecting depositors' and shareholders' funds. The members of the Board are responsible for the overall promotion and safeguarding of SAIB's interests and upholding the highest standards of Corporate Governance across the Bank, its departments, and subsidiaries. The Board is responsible for setting the cultural and ethical tone of the Bank and developing its strategy, approving and overseeing implementation of the overall risk strategy, monitoring and overseeing Bank Managers' performance, and organizational responsibilities such as the appointment and removal of the CEO and the Deputy CEO. They are accountable to the Organization's shareholders.

Board composition

The Board of Directors comprises an appropriate number of Directors who have the relevant and diverse range of skills, expertise, experience, and background and can effectively understand the issues arising in the Bank's business. The Chairman of the Board should be a non-executive member.

The Board Members are appointed by the General Assembly for a term of three years and should ideally serve for no more than 12 consecutive years as per SAMA's Key Principles of Banks' Governance. At least two of the Board members are independent and no more than two members can be executives of the Bank, in line with SAMA and CMA principles. Through a simple vote, the Board chooses a Non-Executive Director for the positions of Chairman of the Board and Vice-Chairman. Board members must inform the Chairman of the Board and the Corporate Governance Committee about their participation in other boards outside of the Bank and the executive positions they hold in other corporations; no Board member can serve on the board of another Saudi bank licensed and incorporated in the Kingdom of Saudi Arabia to avoid conflict of interest, or on the boards of more than four other listed companies which must be disclosed to the Chairman of the Board and the Corporate Governance Committee.

The members of the Board must collectively possess the appropriate skills, expertise, and experience to ensure the proper oversight and Management of the Bank. The Corporate Governance Manual defines the following Guidelines for the collective skill set of the Board:

	Banking	Commercial	Regulatory	Audit/Governance
Minimum number of members with appropriate skills and experience	3-4	3-4	1-2	1-2
Required experience	• Over 15 years of domestic or international banking experience • Previous experience as a bank board member or bank CEO or bank senior level executive (direct CEO report)	Extensive commercial experience and network within the Saudi market	10-15 years of banking regulatory experience or previous experience as Central Bank regulatory senior or senior banking executive with deep regulatory focus	• Over 15 years of audit, compliance, or governance-related experience • Previously a Partner at a Big four accounting firms, or an executive with senior audit, compliance, or governance role
Additional requirements	• At least one member with strong risk management expertise in banking • At least one member with strong IT expertise in banking	Collective experience should cover key Saudi economic sectors such as oil and gas, construction, real estate, wholesale trade, and retail trade		
Other relevant skills	Possess relevant skills related to (but not limited to): • Capital markets • Financial stability issues • Strategic planning • Compensation • Corporate governance			

Corporate Governance

All Board members must maintain a high standard of honesty, integrity, competence, capability, financial soundness, and autonomy. They must always be diligent in conducting their directorship role and maintain loyalty to SAIB by prioritising the Bank's interests and reputation. Each Board member has a responsibility to uphold the confidentiality of all information obtained over the course of their duties or seek the written permission of the Chairman of the Board to divulge confidential information during or after their tenure. Board members are prohibited from using any information for personal gain or for the benefit of any parties internal or external to the Bank.

The following table provides details about the members of the Board:

Name	Status	Class	Date of appointment	Board meetings attended	Other Board memberships
Mr. Abdallah Saleh Jum'ah	Chairman	Non-Executive	February 14, 2010	5	1. Board Member – Hasana Investment Company 2. Vice-Chairman – Zamil Industrial 3. Board Member – Ma'aden
Mr. Abdulaziz Al-Khamis	Vice-Chairman	Non-Executive	February 14, 2007	5	1. Vice-Chairman – Tawuniya Insurance Company 2. Board Member – The United Insurance Company, Bahrain 3. Board Member – Tabuk Cement Co. 4. Board Member – The United Insurance Company, Bahrain
Mr. Abdul Rahman Al-Rawaf	Board Member	Non-Executive	February 14, 2010	5	
Dr. Fouad Al-Saleh	Board Member	Independent	February 14, 2013	5	
Mr. Saleh Al-Athel	Board Member	Independent	February 14, 2014	5	Board Member – Saudi Specialized Laboratories Company – Motabaqah
Mr. Mohammad Al-Ali	Board Member	Independent	July 1, 2014	5	1. Board Member – Saudi Energy Efficiency Services Company 2. Board Member – Saudi Energy Efficiency Centre
Mr. Mohammed Algrenees	Board Member	Non-Executive	February 14, 2019	5	Board Member – Taiba Investment Company
Mr. Mohammed Bamaga	Board Member	Independent	February 14, 2019	5	Board Member – The Saudi Federation for Cybersecurity, Programming and Drones
Mr. Yasser Aljarallah	Board Member	Independent	February 14, 2019	5	1. Board Member – Inma Medical Services LLC – KSA 2. Co-Founder & Board Member – Tharwa Escan Investments LCC UAE

Board process

The Board shall hold the minimum number of meetings in accordance with the laws and regulations of Saudi Arabia and the meetings should be scheduled at the beginning of the year. Additional or extraordinary meetings can be arranged upon the request of the Chairman or two or more Board members. The agenda and information packs for Board meetings must be sent to members at least seven days in advance, with the exception of extraordinary meetings, in which case the materials should be sent as soon as possible. Board meetings can take place either face-to-face, by teleconference, or by video conference. The conditions for a Board meeting quorum are met when all the following conditions are satisfied:

- The Chairman or the Vice-Chairman of the Board is present at the meeting.
- At least five Board members attend in person or through representation by a Board member by means of a written notice. A Board member may not represent more than one member.

Corporate Governance

Board decisions are made through a simple majority of the votes of attending and represented Board members, with the deciding vote lying with the Chairman of the Board (or in his absence, the Vice-Chairman) in the event of a tie.

In 2020, five Board of Directors' meetings were held as follows:

Board member	Board of Directors meetings attended				
	April 9, 2020	July 9, 2020	July 28, 2020	October 14, 2020	December 20, 2020
Mr. Abdallah Saleh Jum'ah	✓	✓	✓	✓	✓
Mr. Abdulaziz Al-Khamis	✓	✓	✓	✓	✓
Mr. Abdul Rahman Al-Rawaf	✓	✓	✓	✓	✓
Dr. Fouad Al-Saleh	✓	✓	✓	✓	✓
Mr. Saleh Al-Athel	✓	✓	✓	✓	✓
Mr. Mohammad Al-Ali	✓	✓	✓	✓	✓
Mr. Mohammed Algrenees	✓	✓	✓	✓	✓
Mr. Mohammed Bamaga	✓	✓	✓	✓	✓
Mr. Yasser Aljarallah	✓	✓	✓	✓	✓

Attendance of Board members in shareholders' meetings held during the year is as follows:

One Ordinary General Assembly meeting was held in 2020.

Date of meeting	Members attended
April 21, 2020	Mr. Abdallah Saleh Jum'ah
	Mr. Abdulaziz Al Khamis
	Mr. Abdul Rahman Al-Rawaf
	Dr. Fouad Al-Saleh
	Mr. Saleh Al-Athel
	Mr. Mohammad Al-Ali
	Mr. Yasser Aljarallah
	Mr. Mohammed Bamaga

Two Extraordinary General Assembly meetings were held in 2020.

Date of meeting	Members attended
March 23, 2020	Mr. Abdulaziz Al-Khamis
	Mr. Abdul Rahman Al-Rawaf
	Dr. Fouad Al-Saleh
	Mr. Saleh Al-Athel
	Mr. Mohammad Al-Ali
	Mr. Mohammed Algrenees
	Mr. Yasser Aljarallah
	Mr. Mohammed Bamaga
November 29, 2020	Mr. Abdulaziz Al-Khamis
	Mr. Abdul Rahman Al-Rawaf
	Dr. Fouad Al-Saleh
	Mr. Saleh Al-Athel
	Mr. Mohammad Al-Ali
	Mr. Mohammed Algrenees
	Mr. Yasser Aljarallah
	Mr. Mohammed Bamaga

Corporate Governance

Board Secretary

The Board Secretary, who is appointed by the Board, must support the Chairman in ensuring the smooth functioning of the Board, including assisting in the logistics of the Board and Board Committee meetings, ensuring the meeting agenda and information pack is sent to members at least seven working days in advance, maintain detailed meeting minutes and decision records of the Board, including discussions, votes, objections, and abstentions from voting. The Secretary must distribute the final meeting minutes of Board meetings to all concerned parties no later than 10 working days from the meeting date. The Secretary is the authorised channel of communication and coordination with related departments to notify the Executive Management of all Board decisions and should follow up on those decisions and ensure their implementation by the Executive Management. The Secretary is responsible for ensuring the regulatory compliance of Board affairs.

Board committees

In compliance with Saudi Regulators and Basel Guidelines, the Board operates through six committees:

Executive committee
Mr. Abdulaziz Al-Khamis – Chairman
Mr. Abdul Rahman Al-Rawaf
Dr. Fouad Al-Saleh
Mr. Saleh Al-Athel
Mr. Mohammed Algrenees

Responsibilities:

- Supervises the credit and financial policies of the Bank.
- Oversees the Bank's business strategy and its execution.
- Reviewing, monitoring, and approving key financial and non-financial business, and investment and operational decisions of the Bank within the authority defined by the Bank.

Audit Committee
Mr. Mohammad Al-Ali – Chairman
Mr. Mohammed Bamaga
Mr. Abdullah Al-Anizi – Non-Board
Mr. Monahy Al-Moreikhy – Non-Board
Mr. Fayez Belal – Non-Board

Responsibilities:

- Ensuring the quality and accuracy of financial accounting and Financial Statements including review of quarterly and annual Financial Statements and recommendation to the Board for approval.
- Supervising and reviewing the effectiveness and independence of Internal Auditors and External Auditors.
- Reviewing the Compliance and Anti-Money Laundering processes, including Code of Conduct and whistleblowing cases.
- Reviewing and evaluating the nature and effectiveness of the Bank's Internal Control System including IT systems controls, their security, and their vulnerabilities.
- Recommending the appointment of External Auditors.

Nomination and Remuneration Committee
Dr. Fouad Al-Saleh – Chairman
Mr. Abdulaziz Al-Khamis
Mr. Saleh Al-Athel
Mr. Abdul Rahman Al-Rawaf

Responsibilities:

- Recommending to the Board of Directors appointments to membership of the Board in accordance with approved policies and standards.
- Reviewing on annual basis the requirements for the suitable skills for membership of the Board of Directors.
- Reviewing the structure of the Board of Directors and recommending changes thereto.
- Recommending to the Board the approval of the Bank's compensation policy and amendments thereto, and other activities related to the Bank's compensation policies and guidelines.
- Approving the appointment and remuneration of Senior Executives of the Bank.
- Reviewing and supervising the implementation of succession planning and training of the Bank's Board members, the CEO, and the direct reports of the CEO.

Corporate Governance

Governance Committee
Mr. Yasser Aljarallah – Chairman
Mr. Mohammad Al-Ali
Mr. Saleh Al-Athel

Responsibilities:

- Promoting and implementing best practices of governance by acting on behalf of the Board to ensure the implementation of these practices in all activities of the Bank.
- Monitors the Bank's compliance with relevant local and international regulations.
- Monitors and guides the Governance function in the Bank, including its ownership of corporate governance policies, processes, and procedures.

Risk Committee
Mr. Mohammed Algrenees – Chairman
Mr. Mohammad Al-Ali
Mr. Yasser Aljarallah
Mr. Mohammed Bamaga

Responsibilities:

- Supervises the risk management activities of the Bank including market, credit, operational, and other risks.
- Setting the Bank's Risk Management Strategy.
- Setting the Bank's Risk Appetite framework and periodically reviewing the actual risk profile against the approved risk capacity and risk appetite.
- Reviewing the Internal Capital Adequacy Assessment Plan and the Internal Liquidity Adequacy Assessment Plan.
- Reviewing stress test results and review of the risks relating to the Bank's subsidiaries and their potential impact.

Shariah Committee
Dr. Mohamed Elgari – Chairman
Dr. Ibrahim Al-Lahim
Dr. Abdulaziz Almezeini

Responsibilities:

- Providing Shariah opinions on submitted applications and related contracts and forms.
- Ensuring the Bank's compliance with Shariah principles and decisions through the Shariah control function.
- Answers Shariah-related enquiries for the Bank and its customers.

The details of Board Committee meetings and attendance are provided in the following tables:

The Executive Committee held 13 meetings in 2020.

Committee members	Executive committee meetings attended												
	January 27, 2020	February 24, 2020	March 30, 2020	April 27, 2020	May 17, 2020	June 29, 2020	July 27, 2020	August 31, 2020	September 28, 2020	October 26, 2020	November 30, 2020	December 2, 2020	December 28, 2020
Mr. Abdulaziz Al-Khamis	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Abdul Rahman Al-Rawaf	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Fouad Al-Saleh	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓
Mr. Saleh Al-Athel	✓	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Mohammed Algrenees	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Corporate Governance

The Audit Committee held five meetings in 2020.

Committee members	Audit committee meetings attended				
	January 29, 2020	April 8, 2020	July 8, 2020	October 13, 2020	December 13, 2020
Mr. Mohammad Al-Ali	✓	✓	✓	✓	✓
Mr. Mohammed Bamaga	✓	✓	✓	✓	✓
Mr. Abdullah Al-Anizi	✓	✓	✓	✓	✓
Mr. Monahy Al-Moreikhy	✓	✓	✓	✓	✓
Mr. Fayez Belal	✓	✓	✓	✓	✓

The Nomination and Remuneration Committee held five meetings in 2020.

Committee members	Nominations and remuneration committee meetings attended				
	January 27, 2020	February 24, 2020	May 17, 2020	August 31, 2020	December 13, 2020
Dr. Fouad Al-Saleh	✓	✓	✓	✓	✓
Mr. Abdulaziz Al-Khamis	✓	✓	✓	✓	✓
Mr. Abdul Rahman Al-Rawaf	✓	✓	✓	✓	✓
Mr. Saleh Al-Athel	✓	×	✓	✓	✓

The Governance Committee held two meetings in 2020.

Committee members	Governance committee meetings attended	
	April 8, 2020	December 27, 2020
Mr. Yasser Aljarallah	✓	✓
Mr. Mohammad Al-Ali	✓	✓
Mr. Saleh Al-Athel	✓	✓

The Risk Committee held four meetings in 2020.

Committee members	Risk committee meetings attended			
	March 15, 2020	June 14, 2020	September 16, 2020	November 23, 2020
Mr. Mohammed Algrenees	✓	✓	✓	✓
Mr. Mohammad Al-Ali	✓	✓	✓	✓
Mr. Yasser Aljarallah	✓	✓	✓	✓
Mr. Mohammed Bamaga	✓	✓	✓	✓

The Shariah Committee held four meetings in 2020.

Committee members	Shariah committee meetings attended			
	February 27, 2020	July 14, 2020	September 3, 2020	December 16, 2020
Dr. Mohamed Elgari	✓	✓	✓	✓
Dr. Abdulaziz Almezeini	✓	✓	✓	✓
Dr. Ibrahim Al-Lahim	✓	✓	×	✓

Corporate Governance

Performance of the Board of Directors

Corporate Governance continues to be an important aspect of the business world, where the Board of Directors is entrusted, among other duties, in overseeing the Bank and implementation of its strategic objectives, approving risk strategy, approving Corporate Governance Rules and principles of professional conduct, and supervision of Senior Management.

With the objective of reviewing the Board's effectiveness including its own controls and work procedures, the Board of Directors carries out an annual internal assessment of the Board as a whole, its members, its committees, and Board Committees' members. An external specialised consultant carries out the assessment every three years.

Management

The Board and the Management complement the responsibilities of each other but remain separate to ensure sound governance practices are adhered to. The Board is responsible for setting the strategic direction of the Bank across all functions. The Management is responsible for developing policies, procedures, and frameworks that enable the execution of the strategy set by the Board and reporting on the Bank's performance across all functions to the Board, as well as highlighting key risks and making recommendations to address issues.

The Board has the organizational responsibility of appointing and removing the Chief Executive Officer (CEO) and the Deputy Chief Executive Officer (Deputy CEO). There is a clear division of responsibilities between the roles of the Chairman of the Board and the CEO, ensuring effective separation of the roles of the Board and the Management.

The Board of Directors is responsible for the oversight of SAIB and its activities.

The CEO and the Senior Management team who report to the CEO are responsible for the day-to-day management of the Bank and its activities.

The Chairman of the Board is responsible for leading the Board, overseeing the Bank's strategy and management, overseeing the implementation of Corporate Governance Standards, and overseeing that effective external relations are in place with stakeholders such as shareholders, creditors, etc.

The Chairman, together with the CEO, is co-responsible for the Bank to its local regulators, SAMA, CMA, and to the Government.

The CEO controls and supervises business affairs and the Management of the Bank as per the general authority delegated to him by the Board and the Executive Committee. The CEO and the Management are responsible to the Board for the implementation of the regulations, policies, and decisions of the Board and the Executive Committee. They must also work together with the Nomination and Remuneration Committee for succession planning.

Board members have no individual power over the Bank's staff, including the CEO. Their power is purely collective and direct communication between Board members and Management outside of the Board or committee meetings must be facilitated through the Corporate Secretary. In the case of a meeting with the Corporate Secretary, they must seek the consent of the CEO for the meeting and the CEO may opt to participate in the discussion.

Corporate Governance

Management committees

SAIB has established seven management subcommittees to make recommendations on specific topics to a particular Management or Board Committee.

Subcommittee	Responsibility
Sustainability Subcommittee	• Reports to Management Committee. • Establishes SAIB as a recognised leader in sustainability within Saudi Arabia and the global banking industry. • Uses the SAIB Sustainability Framework Policy and the agreed associated strategic sustainability priorities and targets to guide implementation of sustainability across the Organization. • Champions and embeds sustainability into SAIB's corporate strategy, policies, procedures, management systems, activities, and culture. • Identifies and implements high leverage sustainability initiatives to improve performance. • Measures and report performance internally and externally and maintain a dialogue with stakeholders. • Periodically reviews and adapt agreed strategic sustainability priorities and targets in the context of evolving sustainability trends, risks, and opportunities. • Reports progress on initiatives to Executive Management and Board on a quarterly and annual basis.
Business Continuity Subcommittee	• Reports to Management Committee. • Performs functions and responsibilities related to management of contingency situations/ disasters in accordance with the Business Continuity Management Policy Framework. • Oversees activities during an emergency situation and handles all regulatory and media communication.
Securities Valuation Subcommittee	• Reports to Management Credit Committee. • Assists Management Credit Committee in fulfilling its oversight responsibilities regarding risk management. • Recommends to Management Credit Committee the margin percentage and Loan-to-Value (LTV) ratio for stocks listed on the Saudi Stock Exchange ("Tadawul").
Structured Solutions Approval Subcommittee	• Reports to Management Asset Liability Committee (ALCO). • Supports the introduction, review, and recommendation of structured solutions products to the Bank's portfolio.
Financial Fraud Control Subcommittee	• Reports to Management Enterprise Risk Management Committee. • Ensures and oversee the development and adaptation of policies and preventive measures by the Bank to mitigate the impact and occurrence of fraud risks. • Preserves the reputation and integrity of the Bank.
Operational Risk Management Subcommittee	• Reports to Management Enterprise Risk Management Committee. • Oversees effective implementation of sound practices for the management and supervision of operational risk.
Labor Subcommittee	• Ensures the working environment of the Bank adheres to local regulatory requirements. • Submits meeting minutes to Board Nomination and Remuneration Committee.

Corporate Governance

GRI 102-16

Evaluation of the Board and committees

The effectiveness of the Board is monitored through an annual performance evaluation, which is conducted by the Board Nomination and Remuneration Committee. The Nomination and Remuneration Committee reports its findings to the Chairman of the Board and recommends a course of action to address areas identified for improvement. The Board will also ensure that each Board Committee conducts a regular self-evaluation of its performance and the performance of its members.

Financial disclosure and transparency

SAIB follows the International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax [relating to the application of International Accounting Standard (IAS) 12 – "Income Taxes" and IFRIC 21 – "Levies" insofar as these relate to accounting for Saudi Arabian Zakat and Income Tax] and complies with the provisions of the Banking Control Law, the regulations for companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

The Financial Statements for the year ended December 31, 2020 have been approved by the Directors to ensure that they present a true and fair view of the state of affairs of the Bank for the year under review.

IT governance

Information Technology is an integral part of the Management and operations of the Bank and contributes to its competitive edge. The Bank's IT development and operations are conducted in accordance with International Standards and Best Practices. The Bank's IT strategy is aligned with its business strategy.

The Information Security Management System (ISMS) is the system that safeguards the Bank's IT hardware and digital assets, and by extension, the interests of customers, investors, employees, and other stakeholders. The ISMS is built upon the framework defined by the Bank's IT Information Security Policy. The framework specifies for restricted access to digital assets and nominates an owner and rules for access, with access being issued on a "least privileged" and "need to know" basis. Physical locations that store critical sensitive facilities are protected with the appropriate security barriers and limitations to access. In the event of an information security threat, protocols are in place to be followed to ensure a fast and effective response to neutralise the threat.

Ethics and standards

The Bank's Code of Conduct, enforced by the Bank's Corporate Governance, stipulates the highest ethical and professional standards to be maintained across all commercial operations and practices. The Code, which applies to all Directors, employees, affiliates, and any representative of the Bank, inculcates a culture of professionalism wherein the highest standards of ethics, integrity, and respect for confidentiality are upheld.

The Bank has a Whistle-blowing Policy that facilitates the direct reporting to the CEO or the General Manager of Human Resources of breaches of the Code of Conduct, ethics, laws, regulations, or procedures by employees without the fear of reprisal. A portal on the Bank's website is also available to external parties who may wish to report any suspected irregularities.

Risk Management

GRI 102-11

As a financial services company operating in today's globalized economy, it is critical for SAIB to identify, measure, aggregate, and effectively manage risks, including efficiently allocating regulatory capital to support the Balance Sheet and derive an optimal risk and return ratio. SAIB strives to ensure that significant and measurable risks are identified, quantified, and managed proactively and to enhance risk-adjusted returns and provide financial comfort and stability to the Bank's many customers and other stakeholders.

Moreover, the Bank's stakeholders, including regulators and rating agencies, expect the Bank to have a clear and well-defined Risk Management Framework in place that adequately addresses the various dimensions of the Bank's business. To this end, SAIB has a comprehensive set of policies that deal with all aspects of risk management and complies with regulatory requirements.

The Board-approved Risk Management Policy Guide is the overarching policy document and conforms with SAMA Guidelines. The Policy covers in depth the risks the Bank is exposed to and describes the risk governance structures and risk management policies in place for the Management, monitoring, and control of the risks through the Board-approved Risk Appetite Framework, Credit Policy Guide, and Treasury Policy Guide.

The Board-approved Risk Appetite Framework (RAF) lays out how the Bank manages its risks in a structured, systematic, and transparent manner by incorporating comprehensive risk management into its organizational structure, risk measurement, and monitoring processes. The RAF is aligned with the Bank's strategy, business planning, capital planning, and policies and documents approved by the Board of Directors. The RAF complies with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by SAMA. The RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be considered (Other Risk Limits);
- The desired balance of risks versus returns by Business Line (Business Unit Risk Appetite measurements); and
- The desired risk culture, compensation programs, business continuity management, information technology and cybersecurity risk, and the overall compliance environment of the Bank for a successful implementation of the RAF (Qualitative Reporting).

The Board of Directors is responsible for establishing Corporate Governance processes, approving the Risk Appetite and related risk management frameworks, and for approving and implementing policies to ensure compliance with SAMA Guidelines, accounting and reporting standards, and best industry practices including Basel Guidelines.

The Board of Directors has approved the Group's Risk Management Guide Policy as an overarching Risk Policy Guide under which the Group has a suite of policies including:

- Risk Appetite Framework Policy,
- Credit Policy Guide,
- Treasury Policy Guide,
- Stress Test Policy,
- Internal Capital Adequacy Assessment Plan Policy,
- Operational Risk Management Framework and Policy,
- Fraud Risk Policies, Information Security Policies, among others.

The Board-approved IFRS 9 Governance Framework Policy addresses the Group's IFRS 9 Approach and Methodology Policy, which is supplemented with additional management level policies including an IFRS 9 Data Management and Control Framework Policy, and the IFRS 9 Governance Framework, as well as related accounting and operating procedures.

The Board of Directors is supported by the Board Risk Committee, a sub-committee of the Board, responsible for recommending policies and other documents for Board approval and for monitoring risks within the Bank.

At the Management level, the Bank operates various committees including an Enterprise Risk Management Committee, a Credit Committee, and an Asset Liability Committee, which are responsible for various areas of risk management.

A Management level Expected Credit Loss Committee linked to the Bank's IFRS 9 Governance and Framework Policy also operates, which is responsible for all aspects of IFRS 9 including expected credit losses.

Risk Management

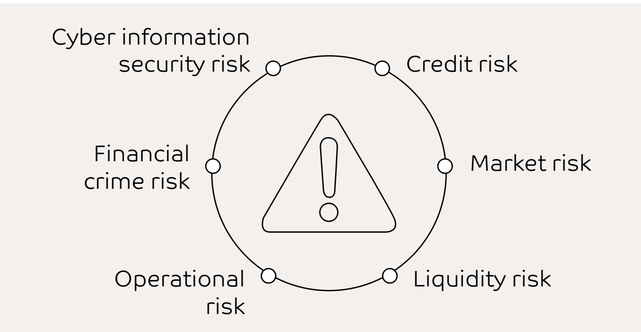
GRI 102-11

At the departmental level, SAIB has a Risk Management Group headed by the Chief Risk Officer, who is supported by Assistant General Managers in charge of Risk Management, Credit Risk Review, Credit Administration, and Collections.

The Bank's Internal Audit Function reports to the Audit Committee of the Board of Directors and provides an independent validation of business and support units' compliance with risk policies and procedures and the adequacy and effectiveness of the Risk Management Framework on a Bank-wide basis.

Types of risk faced by the Bank

The following provides a description of the Bank's significant risks including how the Bank manages these risks:



Credit risk

Credit risk arises from the potential a borrower or counterparty will fail to meet their financial obligations to the Bank. The exposure to credit risk stems primarily from loans and advances, investments, and due from banks and other financial institutions. Credit risk is also present in off-balance sheet financial instruments such as Letters of Credit, Acceptances, Guarantees, Derivatives, and Commitments to extend credit.

The Bank has a comprehensive framework for managing credit risk, including an independent credit risk review function and credit risk monitoring process. The Bank assesses the probability of default of counterparties using internal rating tools and supplements these with external ratings from major rating agencies, where available.

The Bank continues to improve the overall credit risk control function through further investment in a post-sanction review process to mitigate potential credit losses that may arise.

Market risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices.

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will impact either the fair values or the future cash flows of financial instruments. The Board of Directors has established commission rate gap limits for defined time periods. The Bank routinely monitors its positions and uses hedging strategies to ensure maintenance of positions within established gap limits.

Currency risk

Currency risk can arise from fluctuations in prevailing foreign currency exchange rates on the Bank's financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are independently monitored.

Equity price risk

Equity price risk is the risk of a decrease in fair values of equities in the Bank's investment portfolio as a result of possible changes in levels of equity indices and the value of individual shares. The Board of Directors sets limits on the level of exposure to each industry, and overall portfolio limit, which are independently monitored.

Liquidity risk

Liquidity risk is the risk of the Bank being unable to meet its net funding requirements when needed and at an acceptable cost. Liquidity risk can be caused by market disruptions or credit rating downgrades for the Bank, which may cause certain sources of funding to dry-up unexpectedly.

The Bank's Management carefully monitors the maturity profile of its assets and liabilities to ensure that adequate liquidity is maintained on a daily basis. The Daily Liquidity Coverage Ratio, Net Stable Funding Ratio, and the Loans to Deposit Ratio are also monitored regularly and independently to ensure compliance with SAMA Guidelines. The Bank also conducts regular liquidity stress testing under a variety of scenarios which cover both normal and more severely stressed market conditions. All liquidity policies and procedures are subject to review and approval by the Bank's Asset and Liability Committee.

Risk Management

GRI 102-11

Operational risk

Operational risk arises from inadequacies or failures in internal processes, people, systems, or from external events.

SAIB's Operational Risk Management Framework and Policy provides a bank-wide definition of operational risk and lays down tools and processes by which operational risks are identified, assessed, monitored, and controlled. The key components of the framework include the Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Scenario Analysis, and Incident Management, which are comprehensively documented in the Bank's operational risk procedures.

The continuous assessment of operational risks and their controls across all the Bank's business and support units are monitored through RCSA exercises, close monitoring of agreed action plans as a result of the RCSA exercises, and establishing an Operational Risk Appetite for the Bank as a whole. This includes monitoring the operational risk losses incurred on an ongoing basis and taking corrective actions to eliminate or minimize such losses in the future. Global major loss incidents across the banking industry are also duly analyzed to assess their impact if these are incurred in the Bank. The Bank's KRIs cover all the business and support units to facilitate proactive monitoring and management of operational risks.

Financial crime risk

Financial crimes are considered a significant risk for financial institutions and all stakeholders (including customers, staff, shareholders, counterparties etc.). Occurrence of such crimes can have a significant negative impact on the Bank and its reputation.

The Bank continues to enhance its Fraud Management Framework which the Fraud Prevention and Detection Department (FPDD) operates within. The Fraud Risk Management Framework defines the principles of identification, assessment, escalation, investigation, resolution, reporting, and corrective action on fraud-related issues. It lays down an approach for procedures related to tools and methods engaged by FPDD to protect the Bank from exposure to financial crime. FPDD presents their findings and recommended actions to the Financial Fraud Control Committee (FFCC) on a regular basis.

Cyber information security risk

The Cyber and Information Security Risk landscape continues to be dynamic and challenging. The Bank proactively addresses on-going cyber Security challenges and deploys dynamic defenses using multiple countermeasures for prevention, detection, and response. The Bank has also deployed various security measures using the defence in-depth and multilayer security principle to ensure the effectiveness of the overall security posture of the Bank.

The Bank has also strengthened its existing governance structure by implementing industrial security best practices that ensures confidentiality, integrity, privacy, and availability, which are treated as an integral part of all business and technical processes. The Bank also continually ensures the alignment of the information security and business objectives through the implementation of the Cyber and Information Security Strategy, which is supervised and monitored by the Information Security Steering Committee. Also, the Bank is continuously enhancing the security culture through various awareness and training programs targeting staff and customers.

The Bank also constantly performs security assurance assessments on the Bank's systems and applications to ensure that the Bank's business services are secure and reliable. Furthermore, the Bank conducts independent internal and external audits by reputable vendors to ensure the effectiveness of implemented security controls and compliance with regulatory and international standards such as the SAMA cyber security framework (CSF), National cybersecurity authority (NCA), SARIE, SWIFT and Payment Card Industry Data Security Standard (PCI DSS), The result of the audit exercises proves that the Bank complies with regulations and security standards and shows that the Bank's security posture is up to industrial standards and is satisfactory.

The Bank has a 24/7/365 Security Operation Centre (SOC) which continuously monitors and responds to cyber security threats and attacks in a timely manner. As a result of implemented security measures, the Bank has been resilient to numerous cyber-attacks targeting the Middle East and Saudi Arabia with no cyber and information security-related downtime or operational losses incurred during 2020.

Risk Management

GRI 102-11

Business Continuity Management (BCM)

The Bank recognizes the importance of planning for Business Continuity. An effective Business Continuity Plan ("BCP") facilitates in mitigating a serious disruptive incident in a controlled, timely, and structured manner.

Since February 2020, the Bank, like all other organizations around the world, faced the impact of the COVID-19 Pandemic, and this was managed successfully due to the Bank's strong business continuity infrastructure. Through the Corona Virus Response Committee, which acted as a command centre for the Pandemic impact, the Bank was able to comply with all government regulations on time, manage work from home procedures smoothly, and maintain all premises with required precautionary procedures.

During 2020, the Bank further strengthened the testing of its BCPs and procedures. Detailed tests were completed on different occasions. In September 2020, the Bank successfully conducted a continuous five day disaster recovery test of all critical IT systems by switching and operating them from the Bank's Disaster Recovery Centre (DRC) at once. No dependency on the Bank's Main Data Centre (MDC) was noted, knowing that the test considered a cyber-security scenario that required the Bank to simulate the need for all backup environments (IT Systems and buildings).

The Bank was able to accomplish ISO 22301 requirements and obtained a certificate from the International Organization for Standardization – 22301 (ISO 22301) which mainly related to Resilience and Business Continuity. ISO released the latest version of the standard in 2019. SAIB is one of the first Saudi banks certified with this new version. Being an ISO 22301 Certified Organization provides more assurance to our customers, shareholders, stakeholders, regulators, Management and staff, vendors, suppliers, and partners that the Bank is a resilient Organization with a strong business continuity program that provides a safe environment against disruptions, disasters, or crises.

Compliance

GRI 103-1, 103-2, 103-3, 205-1, 205-2

SAIB's Compliance function plays a critical role in upholding the Bank's reputation and integrity by ensuring adherence to all applicable laws, regulations, policies, and rules. SAIB's corporate culture has been established around compliance and employees at all levels understand its importance and how they play a role in upholding it. The Board of Directors and Executive Management assign the highest priority to the Compliance function.

The compliance program is based on the Compliance Manual for Banks operating in the Kingdom of Saudi Arabia issued by SAMA in December 2008. The Compliance Manual details compliance functions and all related policies, processes, and plans as approved by the Board of Directors. The General Manager of Compliance Group is responsible for administering the program, which is periodically revised to adapt to changes in laws and regulations, changes in functions and business processes, changes in Organization Structure, and changes in job roles.

Compliance Group

The Compliance Group is an independent group that ensures the Bank's compliance with applicable laws, regulations, and rules, and therefore plays an essential role to preserve the integrity and reputation of the Bank.

Responsibilities

1 Advisory

Compliance identifies regulatory risks that the Bank faces and provides advice to help mitigate such risks. It also resolves compliance related issues as they arise and advises business units to overcome these issues.

2 Assessment

The Compliance function designs and helps in implementing controls to protect the Bank from regulatory risks that might expose the Bank to administrative and legal penalties, financial losses, or damage to the Bank's reputation. Compliance is one of the Bank's key success factors due to the significant role it plays in protecting the Bank's reputation and credibility as well as safeguarding shareholders' and depositors' interests by:

- Managing regulatory risks and avoiding financial penalties due to violations and/or unmanaged changes to rules and regulations;
- Reviewing the standard operating and accounting procedures, products, services, forms, contracts and agreements to ensure they are in line with latest laws and regulations governing related business segments;
- Assessing new laws and regulations and providing guidance on their implementation and advising lines of business on regulatory matters;
- Ensuring effective controls are in place to protect the Bank from violating applicable rules and regulations; and
- Adding Compliance Committee Meetings as planned to assess all challenges and issues encountered in order to rectify these shortcomings and be in line with regulatory mandates.

3 Monitoring

Compliance conducts periodical reviews of business areas to ensure that the effectiveness of controls is adequate. The Compliance monitoring function also generates necessary reporting that highlights all identified gaps and assesses the level of Compliance across the Bank.

4 Correspondence

The Compliance function handles incoming and outgoing communications with regulatory bodies, ensures the Bank is presented in the best manner, and assists in obtaining regulatory approvals for products, services, campaigns, and all other requests that are subject to regulatory no-objections.

Compliance

GRI 103-1, 103-2, 103-3, 205-1, 205-2

Compliance initiatives of SAIB

Anti-Money Laundering and Counter Terrorist Financing Department

The Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) Department is an independent department that reduces the risk of money laundering and terrorist financing by setting the Bank's AML programs, and policies and procedures to comply with local and international standards.

Responsibilities of the AML and CTF Department include:

- Monitoring and identifying suspicious transactions, performing investigations, classifying suspicious activities, and reporting them to the General Administration of Financial Investigation.
- Reviewing products and services from a regulatory viewpoint and on a risk approached basis.
- Ensuring that enhanced due diligence is applied in all cases warranted to mitigate AML exposure.
- Monitoring and managing high risk accounts and related activities.
- Maintaining a sanction system and related controls.
- Identifying hits which require additional research.
- Ensuring hits/alerts are handled in line with established procedures and meet the standards for both quality and timeliness.
- Monitoring and assisting in the resolution of complex issues.
- Implementing SAMA directives related to deduction and blocking and unblocking of bank accounts.
- Preparing necessary technical reports in a timely manner and providing all required documents to SAMA.

Anti-Fraud, Anti-Bribery, and Corruption Department

Financial crimes are considered a significant risk for financial institutions and related stakeholders and the occurrence of such crimes can have significant negative financial and reputational impacts.

Measures against financial crimes (including frauds, bribery and corruption) are managed by the Anti-Fraud, Anti-Bribery and Corruption Department that operates within the Compliance Group. The Anti-Fraud, Anti-Bribery and Corruption Department continuously enhances the Bank's fraud risk policies and procedures in response to emerging trends and regulations for financial crimes against financial services businesses. Relevant and contemporary measures have been put in place to ensure detection, prevention, monitoring and reporting of financial crimes against the Bank and its stakeholders.

The Anti-Fraud, Anti-Bribery and Corruption Department presents its findings and recommended action to Audit Committee quarterly.

Human resources policy

The integrity of the Bank's employees is critical to ensuring compliance. The Bank screens all prospective employees for past professional conduct during the recruitment process. All supervisors observe compliance issues when monitoring their direct reports. The adherence of employees to the Bank's compliance policies is considered in staff appraisals at all levels. Employees who develop and maintain systems and procedures are kept updated along with other employees on the latest developments in compliance requirements. The General Manager of the Compliance Group is responsible for implementing any new laws and regulations. The Compliance function remains vigilant over conflicts of interest among Compliance staff and other departments.

BUSINESS MODEL

In a year full of challenges, SAIB's journey of transformation was more important than ever. With our new strategy, we aim to boost our performance and grow our long-term shareholder returns, profitability, and return on equity.

How we create value

GRI 103-1, 103-2, 103-3

Vision and Mission
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Operating Environment
Page – 42 to 43

Stakeholders and Materiality
Page – 46 to 50

Stewardship
Page – 17 to 37

Strategy
Page – 44 to 45

Monitoring and Evaluation

Inputs

Financial assets
Cash, loans, advances and other receivables

Systems and procedures
Governance procedures, business processes and cutting-edge technology, policies, values and ethics

Investor relationships
A loyal pool of investors who takes a long-term view on the Bank

Proximity to the customer
Being close to the customer, we understand their needs and innovate appropriate products and services

Leveraging business partnerships
Through links with business partners, we expand our reach and obtain the best possible options for sourcing our needs

Our people strengths
Our highly motivated staff whose skills we keep upgrading

Commitment to society and environment
Our social and environmental programmes give value to society and promote our long-term sustainability

Activities

- Strengthen digital infrastructure and information security
- Digitize customer on-boarding experience and processes
- Expand accessibility for special needs customers
- Implement collaboration tools to support remote working
- Expand data analytics capability
- Expand automation for increased efficiency gains for internal and customer-facing processes
- Develop innovative and relevant products via the Innovation Lab
- Institutionalize fast and effective decision making
- Implement effective recruitment and headcount management
- Align training and development with SAIB's strategic objectives and SAMA requirements
- Engage employees and compensate them in line with industry standards
- Promote diversity and Saudization in the Bank's workforce
- Fulfil social responsibility through various initiatives around enhancing communities, health, and children's education
- Minimize direct and indirect impact on the environment
- Support the Financial Sector Development Programme in Vision 2030

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Outputs

Retail banking
Deposit accounts with focus on growing demand deposits, home loans, vehicle loans, and cards

Corporate banking
Range of corporate banking services covering the large corporate, mid corporate and MSME sectors including financing, investment services, cards, and real estate financing

Treasury
Management of foreign exchange transactions, liquidity, and Sukuk issues

Reach
Increased reach and accessibility through traditional and non-traditional channels

New products
New and innovative digital applications increasing customer convenience

Security
Increased security of operations especially from cyber threats and other IT-related risks

Staff
More motivated staff able to provide higher level of customer service

Diversity
Higher percentage of women and youth in workforce

Brand
Greater brand recognition

Environmental impact through value chain
Targeting a percentage of lending for environment friendly activities

GRI 103-1, 103-2, 103-3

Value delivered

- Improved performance in the Bank's primary function which is that of financial intermediation
- Professional development, confidence in career growth and a motivating work culture
- Highly competitive and easily usable products and services
- Smoother systems that facilitate better customer service and reduce manual intervention

Outcomes

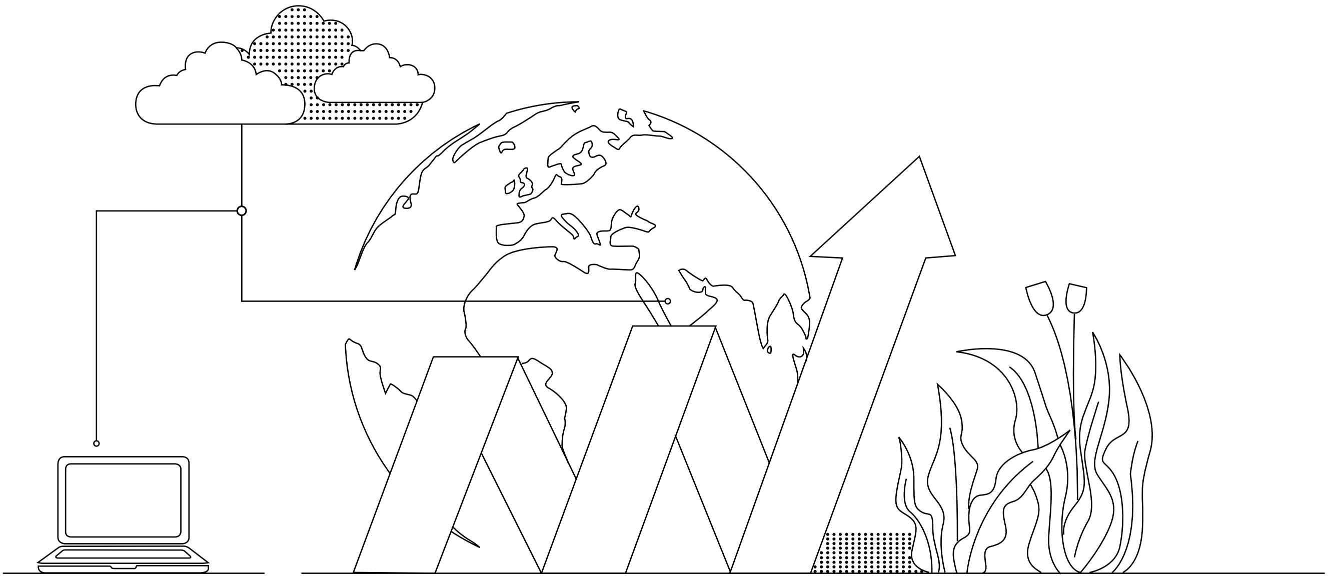
Value derived

- Profitability, shareholder loyalty, and business portfolio growth
- A dedicated and empowered workforce with high rates of staff retention
- Strong brand recognition, customer patronage, and growth in market share
- Brand value and market leadership

Impact

- Move the Bank towards becoming one of the leading digital banks in the Kingdom
- Be a key player in the development of a thriving financial sector and promoter of the economic and social development of the Kingdom as well as being key enabler of the Kingdom's Vision 2030 by offering services to support private sector growth

Operating environment



The COVID-19 pandemic had a devastating effect on the world economy. Certain industries, especially those reliant on travel and physical contact, were ravaged. Supply chains were disrupted and led to a dampening of production and international trade. In addition, the pandemic had a toll of over two million lives and put tremendous stress on health services. Certain groups, including women, youth, the poor, and workers employed on contract basis were the worst affected economically. While governments mounted relief measures, the economic and social impact was still tremendous. Debt levels reached unprecedented levels globally, making the global economy susceptible to financial market stress. While there was a recovery in many countries in the middle of the year after easing of the lockdowns imposed during April-May, restrictive measures had to be re-imposed due to the resurgence of the virus.

Operating environment

The global economy

The global economy is estimated to have contracted by 3.5% in 2020, which is an improvement on some previous estimates, reflecting the recovery in the second half of 2020. The recovery will however vary widely across countries depending on medical facilities, policy support, exposure to cross-country impacts, and structural characteristics. Estimated contractions in advanced economies, emerging/developing economies, and the Middle East and Central Asia are 4.9%, 2.4%, and 3.2% respectively. China was the only major economy to grow in 2020, although its growth rate of 2.2% was its lowest in four decades. Governments have been faced with the daunting task of financing relief measures in the face of declining tax revenues, which will inevitably result in growing deficits and rising debt.

The projected global growth rates for 2021 and 2022 are 5.5% and 4.2% respectively. Expectations of recovery are based on the availability of COVID-19 vaccines and continued fiscal support, particularly in developed countries. Global trade volumes are expected to grow by 8% in 2020 and 6% in 2021.

The GCC economies

The GCC economies faced a challenging 2020. Apart from the pandemic, there was the impact of lower oil prices. GCC governments promulgated sizeable relief packages to alleviate the impact of the crisis. Lower oil prices also impacted Government revenues. A combination of business closures, travel restrictions, need for social distancing, and supply chain disruptions impacted the retail, transport, travel, and hospitality sectors.

Most central banks in the region have endeavoured to alleviate the situation by reducing interest rates, relaxing capital and liquidity requirements, and offering relief measures to banks' customers. They also curtailed restrictions on lending to support lending to the private sector. Relief measures were targeted at the SME sector, such as deferring loan payments, extending concessional loans, and reducing fees.

Looking ahead, while GCC governments will strive to provide continued fiscal support, while there will be a slight increase in oil production in 2021, price increases are unlikely until 2023. There is the possibility of a strong recovery in sectors such as airlines and hospitality with the availability of vaccines.

Saudi economy and banking sector

The Kingdom's robust fiscal and foreign currency reserves gave it resilience in the face of the pandemic.

The Government intends to follow an expansionary fiscal strategy in 2021, relying more on Government-controlled funds. With fiscal discipline, it is expected to limit expenditure to 7.3% below 2020 levels. The budget deficit is expected to narrow to 4.9% of GDP in 2021 from 12% in 2020. Fiscal deficits are expected to continue into the medium term, leading to a rising public debt. However, further borrowing will be made possible by the Kingdom's low debt/GDP ratio. With the boost given by less stringent restrictions and improvement in trade balances, real GDP growth is forecasted to reach 2.8% in 2021.

The Saudi banking sector was also severely challenged by the pandemic. The sector received funding support from SAMA in the form of interest-free deposits to the tune of SAR 50 billion. There has been strong growth in mortgage financing despite the COVID-19 pandemic, driven by the strong demand for housing in the Kingdom and the support given by the Government. It has also been assisted by a step-down of the tax rate from 15% to 5% for retail property buyers. Home ownership levels in the Kingdom have now surpassed 50%; this marks the achievement of a goal by 2020, which was an intermediate milestone of Vision 2030. The overall loan growth resulted in a total asset increase of 9.8% since December 2019 reaching USD 716.17 billion. The customer deposit base achieved a 5.7% growth over the same period reaching USD 509.80 billion.

Looking forward, credit growth is expected to remain resilient in 2021 – 2022 in nominal terms, but growth percentage should reduce due to the impact of a higher base. Corporate growth may pick up as the Public Investment Fund launches infrastructure programs. Retail credit growth will remain strong due to mortgages but will slow as saturation approaches. ESG considerations are gaining momentum across many sectors, and will also be given increasing importance by investors, corporates, and customers. We can therefore expect more focus to be given to such considerations by the banking sector in the years to come.

Strategic Framework

In 2019, a three-year strategy was finalised and implemented in 2020. The new strategy has been developed around the positive impact of agility, enabling and promoting close collaboration to drive efficiency and productivity, thereby reducing product launch cycle times. The strategy ultimately aims to drive continuous growth in key areas for the Bank, including long-term shareholder returns and profitability, return on equity, and outperform the Bank's competitors in relevant performance indicators.

Key elements of the Three-year Strategy

Three-year Strategy

Digitisation

The conversion of data into a digital format will aid the Bank's internal capabilities. SAIB has invested heavily in digitisation to support business needs to build advanced data analytics and streamline internal and customer-facing processes.

Innovation

SAIB promotes an innovative culture through the Innovation Lab, which governs and promotes innovative ideas and launches innovative products. The first of its kind in the market, the Innovation Lab monitors customer needs and gathers innovative ideas from across the organisation, and brings these ideas to fruition.

Focus

SAIB strives to be customer centric and create an exceptional customer experience with a focus on value for money, ensuring that the business in efficient, effective, and economical.

Agility

An agile framework enables and promotes close collaboration between the business and support functions. Agility will help SAIB achieve shorter product launch cycle times, help attract and retain talent, and boost efficiency and productivity.

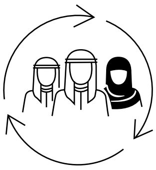
Speed

SAIB utilises automation to drive efficiency gains and enhance the customer experience through significant reductions in turnaround times for facility issuances, on-boarding, maintenance, and transactions.

Strategic Framework

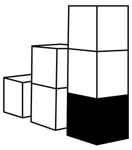
Key enablers to support the strategy

SAIB has identified five key enablers that will support achieving its strategic direction.



Transform human capital

Through effective recruitment and headcount management, the Bank can manage staffing costs while efficient performance management will allow for clear accountability. The Bank will promote a supportive and open culture that enables employees to develop and grow. Training programs that focus on products and operations, required skills, and innovation will further support and enhance the culture that the Bank aims to cultivate.

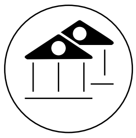


Build an efficient organisation

SAIB aims to institutionalise fast and effective decision making with a focus on supporting the Bank's clients. Creating clear accountability, supporting the Bank's digital transformation, and effective governance and compliance with rules and regulations will help to inculcate a culture of efficiency within the Bank.

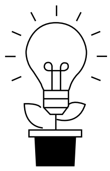
Strengthen IT capabilities

SAIB will strengthen its IT capabilities by institutionalising Agile methodology, improving internal capabilities, and reinforcing information security. Ultimately, the Bank aims to leverage its IT capabilities to support its business needs.



Strengthen the Bank's affiliates

SAIB aims to strengthen cooperation through cross selling, referrals, and incentives to drive business growth.



Grow innovation capabilities

SAIB's initiatives around innovation include building the Innovation Lab and a dedicated team focused on realising innovative ideas. The Innovation Lab and team will gather ideas from across the Bank to support the development of value propositions to target customers and enhance product development.

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

Vision 2030

SAIB has designed its strategy to support the Financial Sector Development Programme in the Kingdom's Vision 2030. The Bank is focused on improving banking services and digital transformation to drive greater efficiencies and realise enhanced customer experiences. To achieve this, the strategy promotes cashless transactions, a savings culture, financial literacy, and supports the housing market through customised mortgage finance products.

Stakeholders

GRI 102-40, 102-42, 102-43, 102-44, 103-1, 103-2, 103-3

SAIB's many stakeholders include its investors, customers, business partners, employees, regulators, the community, and the environment. The Bank's stakeholders can also include "temporary stakeholders" that work on special projects or issues with the Bank and parties that have an indirect relationship to the Bank (such as environmental groups). SAIB has an obligation and is bound by the laws and regulations of the Kingdom of Saudi Arabia to protect the interests of its stakeholders. The provisions of the Saudi Companies Act, the supervisory guidelines issued by SAMA, and the Corporate Governance Rules issued by the CMA cover the rights of stakeholders and are applicable to the Bank. The CMA rules provide mechanisms for the settlement of disputes and compensation for the violation of stakeholder rights.

Investors

Investors are stakeholders who have taken an ownership stake in the Bank with the expectation of a return. The rights of investors, voting rights, rights to dividends, and right to information are defined in the Companies Act and SAIB's Articles of Association and Corporate Governance Manual. Additionally, there are secondary groups associated with investors such as analysts and fund managers. The Bank adopts a policy of transparency and ethical behaviour in its relationship with investors and provides them with as much information about all aspects of the Bank's performance. Investors are kept informed via the Annual General Assembly, Board of Directors meetings, and annual, semi-annual, and quarterly reports.

Customers

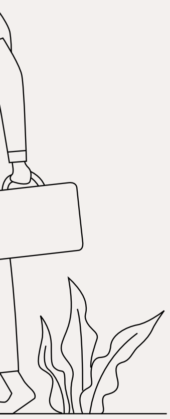
Customers are an important stakeholder for the Bank and maintaining a strong relationship with them is critical to the Bank's reputation and continued growth. Customers demand convenient, useful, and accessible products and services that offer financial returns that are favourably comparable with the market. The Bank takes into consideration the requirements, perceptions, tastes, and preferences of customers when developing new products and conducts surveys like "Voice of the Customer" to better understand them and gauge their satisfaction. The Bank seeks to strengthen its relationships with its customers through customer insight activities and provides a consistent service to all customers without discrimination.

Business partners

SAIB seeks to develop lasting relationships with its vendors and service providers through mutual trust and beneficial outcomes for both parties. To achieve this, the Bank has designed its procurement policies so that the vendor and service provider take responsibility for the quality of products and services, and equal treatment for all business partners is a part of the Bank's policies and practices. The Bank maintains regular communications with business partners, including updates about future requirements, expansion plans, and changes in systems and procedures. The Bank also maintains a seamless tendering and bidding system. Correspondent banks are also key business partners for SAIB, through which the Bank conducts overseas transactions such as opening letters of credit.

Stakeholders

GRI 102-40, 102-43, 102-44



Community

SAIB assists disadvantaged groups in the societies it operates in and continued to carry out its social programs during the year under review. Social programs in 2020 focused on health and children's education. The Bank encourages its group of staff volunteers to contribute to its social programs and had received positive responses for its volunteering work.

Employees

SAIB understands that it cannot have satisfied customers without having satisfied employees. The Bank's employees are kept motivated, compensated in line with industry standards, and receive training to serve the Bank's customers effectively and stay up to date with the evolving banking environment, as well as changes to the Bank's systems and procedures, customer contracts, and relationship policies. HR policies are aligned with the Bank's broad corporate strategy, values, and objectives and are governed by the sustainability pillar of Re'aya. Clear lines and channels of communication exist between the Bank and its employees.

Employees are bound by a rigid code of conduct, which is in accordance with our pillar of Takleef (responsibility), and are expected to conduct themselves ethically and safeguard the Bank and its customers from illegal acts, fraud, forgery, and unauthorised disclosure of information.

SAIB maintains staff morale through various mechanisms including the Employee Net Promoter Score Survey, in-house communications, a fair appraisal system, HR helpdesk, employee suggestion program, and a recognition and rewards program.

Environment

SAIB is conscious of its environmental responsibilities and strives to reduce its environmental footprint. The Bank minimizes its usage of paper, plastics, electricity, and water for internal activities to the best of its abilities and practices green principles as per the Environmental Policy.

Regulators

With ethical conduct being a cornerstone of SAIB's corporate policy, the Bank maintains the highest level of compliance with the laws, regulations, and guidelines of its regulators. The Bank is stringent in complying with the requirements of its primary regulator, SAMA, such as maintaining the required level of capital, having Anti-Money Laundering (AML) procedures and Know Your Customer (KYC) programs, and Combatting Terrorist Financing policies in place.

The Capital Markets Authority of Saudi Arabia (CMA) governs the capital market of Saudi and the investment environment. SAIB and its subsidiaries deal with financial securities, asset management, and real estate management and is required to comply with CMA rules and regulations to safeguard the interests of its shareholders and customers.

Conformance with regulatory requirements requires regular, timely, and accurate reporting with a required level of detail. The Bank cooperates with regulators in attending meetings, arranging for on-site visits, and maintains communication via letters and emails as and when required.

Materiality

GRI 102-47

SAIB's purpose is to create value in the short, medium, and long term for itself and its stakeholders. Value creation is a two-way process in which the Bank delivers value to its stakeholders and derives value from them. Value creation should be viewed within the context of the Bank's operating environment and the needs and priorities of its stakeholders.

The Bank has identified the topics that have the most impact on its value creation process through a multi-step process. The first step of the process was a PESTEL analyzis of potential material issues categorised under the stakeholder group on which they have the most impact, and is shown in the following table:

Stakeholders	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Investors/ Shareholders		Economic slowdown	Growing influence of social media	Unorthodox competition		IFRS 9	1
		Depreciating currencies against USD				Basel III	2
		Expected growth in the Saudi economy				Higher regulatory capital	3
		Financial system stability				Governance and accountability	4
Customers		Propensity to invest in Saudi Arabia	Increasing customer expectations (especially in the younger generation)	Cloud computing		Adherence to Islamic banking principles	5
		Corporates are de-leveraging	Customer trust and protection	e-onboarding			6
		Increase in non-performing loans	Quality of service and customer satisfaction	Digitization and automation			7
		New parallel stock market being set up for MSMEs	Engaging with customers	Innovation and product development			8
		Higher oil prices		AI, robotics			9
		Higher percentage of short-term loans		Blockchain			10
				Cybersecurity threats			11
				Infrastructure and accessibility			12
				Data security			13
				Accessibility for special needs customers			14

Materiality

GRI 102-47

Stakeholders	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Employees			Employee productivity	Technology driving change in job skills		Human and labour rights	15
			Staff retention	Operational efficiency			16
			Saudization	Remote working			17
			Employee satisfaction and engagement				18
			Staff training				19
			Soft skills development				20
			Equal opportunity and anti-discrimination				21
			COVID-19 precautions				22
Community and the environment	Geopolitical conflicts		Need to commit to Sustainable Development Goals		Reduction of environmental impact of operations	ESG risk in lending and investment	23
			Higher spending power in local population		Increasing demand for green banking and green lending	Compliance with regulations	24
			Community investment and engagement				25
Business partners/ suppliers			Sustainable procurement				26
			Strengthening relationship				27
Government/ Policymakers	Slow growth in economic integration in the GCC	Expected increase in non-oil revenue					28
	Growth of MSME sector being part of the Vision 2030 goals	Recovery from the COVID-19 pandemic					29
	Diversification of the economy being one of the Vision 2030 goals						30
Regulators						Business ethics and prevention of financial crime	31

Materiality

The next step of the process is to map the topics that have the most impact on stakeholders and/or SAIB. The topics have been categorized as risks or opportunities or both.

The degree of materiality of importance of a topic is assessed according to its relevance to SAIB or the stakeholder and its significance, as determined by the probability of its occurrence and the magnitude of its impact. Material risks and opportunities are further analyzed to determine their importance to the Bank and its stakeholders.

The outcomes of the materiality analyzis contributed to the formulation of the Bank's strategies and strategic imperatives.

Management approach

Material topics are managed in accordance with the Bank's strategic plan and responsibilities are assigned to the respective functional unit heads as per the Organization's structure. The degree of materiality of a risk or opportunity will be a guideline for resource allocation. The Bank has designed and implemented many policies relevant to the material topics to guide its employees in conducting their duties.

Opportunities to be seized

Importance to stakeholder / Importance to SAIB	Moderate	High	Very High
Very High		A29, B9, D1, D14	A30, B4, B8, B28, B29, C5, C6, C7, C8, C17, C18, C19, C20, C21, C23, C24, C25, D5, D6, D7, D8, D9, D10, D12, D16, D17, E24, F4, F5, F15, F31
High		B2, C1, E23, F1, F2, F3	B3, B10, C15, C16, C26, C27
Moderate		F24	

Risks to be mitigated

Importance to stakeholder / Importance to SAIB	Moderate	High	Very High
Very High			B1, B4, B8, C5, C22, D11, D13, F4, F15
High	D15	A28, B2, B6, B7, C23, F1, F2, F3	B5, C15, C16, D16, F23, F24
Moderate	D10	C1	D1, F31

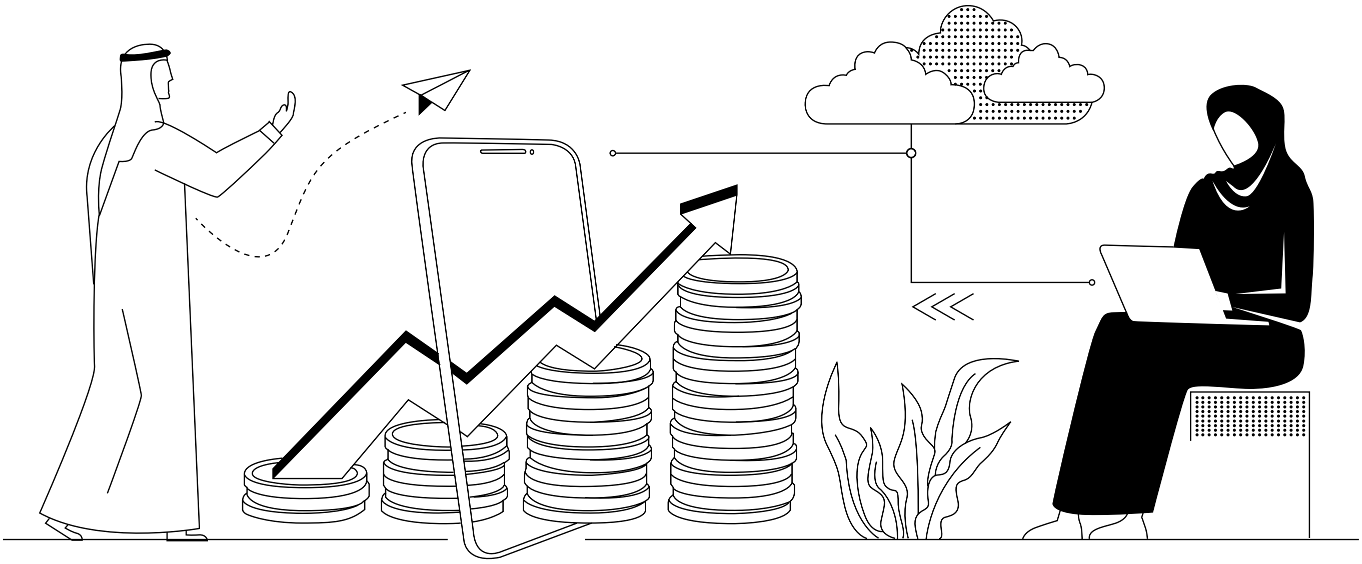
MANAGEMENT DISCUSSION AND ANALYSIS

SAIB's stewardship ensures sustainable value creation in the short, medium, and long term while considering the interests of the Bank's diverse stakeholders. The Bank's stewardship has the responsibility of carefully managing the various risks that the Bank is exposed to and ensuring that the Bank complies with all applicable legal and regulatory guidelines of the relevant authorities.


Welcome
البنك السعودي للاستثمار
The Saudi Investment Bank
مرحباً
سحب نقدي
Withdrawal
إيداع نقدي
Deposit

Financial Capital

SAIB's financial capital is comprised of the monetary assets that include customer deposits, funds from investment activities, and shareholders' funds. The Bank utilises these assets to conduct its operations and offer its products and services.



Financial performance

SAIB's three-year strategy (2019 – 2022) was announced during 2019 with a focus of driving transformation to strengthen the Bank's foundation, unlock potential opportunities, and capitalize on our strength.

The new strategy stresses on the positive impact of agility. It enables and promotes close collaboration between business and development, Increased efficiency/productivity, and reduced product launch cycles.

Another key dimension to SAIB's new strategy is digitization through strengthening IT existing capabilities. This transformation aims to support business needs, build advanced data analytics, and enable a paperless back-office in addition to digital workflows across all the Bank's functions.

Innovation is a key element of SAIB's strategy. The Bank promotes the cultivation of an innovative culture across the Organization by establishing the Innovation Lab to govern and promote innovative ideas. The lab is one of the first in the market and will focus on gathering innovative ideas from across the Organization with a direction of monitoring customer needs/trends.

Strategic partnerships are a main focus to foster value proposition. Fintech partnerships is an integral enabler to innovation and digitization. These partnerships were formalized to improve customer journeys, the services provided to our customers, and to penetrate the market with easy and unique products.

SAIB's strategy is designed to support the Financial Sector Development Programme in Vision 2030, with a focus to improve banking services and customer experience. Our new strategy promotes cashless transactions, a savings culture and financial literacy, and supports the housing market by offering customized products.

Financial Capital

Financial position

Total assets

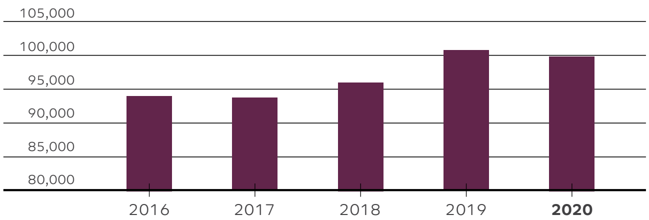
Total assets were SAR 99.9 billion as of December 31, 2020 which were lower by SAR 0.9 billion or 0.89% compared to the December 31, 2019 amount of SAR 100.8 billion.

The five-year trend of SAIB's share of the total assets among Saudi Banks is given below:

	2020	2019	2018	2017	2016
SAIB's Market share (%)	3.6	4.12	4.24	4.22	4.26

Growth in total assets

(SAR million)



Details relating to movements in major items of assets are given below:

Cash and balances with SAMA

The Bank's cash and balances with SAMA amounted to SAR 8.3 billion as of December 31, 2020 compared to SAR 10.2 billion as of December 31, 2019.

Investments

The Bank's investment portfolio increased to SAR 30.5 billion as of December 31, 2020 compared to SAR 26.2 billion as of December 31, 2019, representing an increase of SAR 4.3 billion or 16.41%. Investments classified as investment grade represented 88.26% of the Bank's investment portfolio as of December 31, 2020, compared to 86.25% as of December 31, 2019.

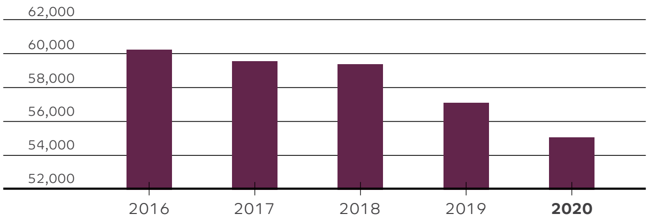
Loans and advances, net

Loans and advances, net as of December 31, 2020 totaled SAR 55.1 billion compared to SAR 57.1 billion as of December 31, 2019, representing a decrease of SAR 2.0 billion or 3.50%. Total performing loans decreased to SAR 55.7 billion as of December 31, 2020 compared to SAR 57.1 billion as of December 31, 2019, which was primarily due to lower consumer loans.

Over 90% of the loans and advances portfolio, net is in Stage 1 performing loans.

Loans and advances, net

(SAR million)



Non-performing loans decreased to SAR 1.2 billion as of December 31, 2020 compared to SAR 2.4 billion as of December 31, 2019. Consequently, non-performing loans as a percentage of total loans and advances improved to 2.04% as of December 31, 2020, from 3.99% as of December 31, 2019.

The allowance for credit losses totalled SAR 1.8 billion as of December 31, 2020 which was 3.09% of total loans, and 151.45% of non-performing loans. This is in comparison to SAR 2.4 billion cumulative allowance as of December 31, 2019 which was 4.04% of total loans, and 101.32% of non-performing loans.

Loans and advances as of December 31, 2020 include non-interest-based banking products including Murabaha agreements, Tawarruq, Istisna'a, and Ijarah totalling SAR 41.2 billion, compared to SAR 39.0 billion as of December 31, 2019.

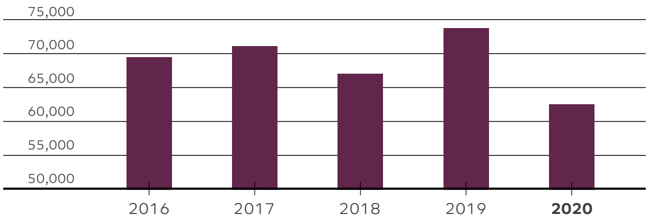
The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other assets. The estimated fair value of collateral held by the Bank as security for total loans and advances is approximately SAR 50.5 billion as of December 31, 2020, compared to SAR 47.3 billion as of December 31, 2019.

Customer deposits

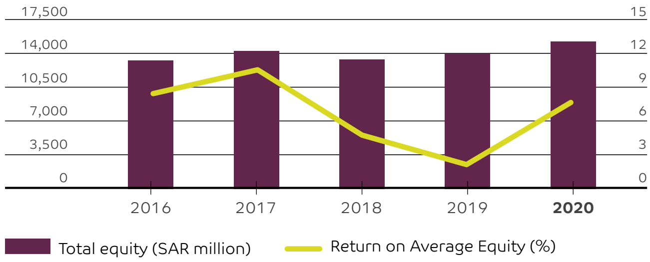
Customer deposits totalled SAR 60.1 billion as of December 31, 2020 compared to SAR 69.1 billion as of December 31, 2019, representing a decrease of SAR 9.0 billion or 13.02%. Demand and other deposits totaled SAR 34.6 billion as of December 31, 2020 compared to SAR 27.4 billion as of December 31, 2019, representing an increase of SAR 7.2 billion, or 26.28%. Demand and other deposits represent 57.45% of total deposits in 2020 compared to 39.66% of total deposits in 2019. Special commission bearing deposits decreased by SAR 16.1 billion during the year ended December 31, 2020, or 38.59%.

Financial Capital

Customer deposits



Total equity vs Return on Average Equity



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 payments on the term loans.

Total equity

During the year ended December 31, 2020, the Bank's total equity increased to SAR 15.3 billion compared to SAR 14.0 billion as of December 31, 2019.

The percentage of total equity to total assets as of December 31, 2020 was 15.35%, compared to 13.89% as of December 31, 2019. Consequently, the Bank's shareholders' equity leverage ratio was 7.49 on December 31, 2020 compared to 8.40 as of December 31, 2019.

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 totalling SAR 1,041.1 million presented as a reduction of shareholders' equity.

The total number of shares outstanding as of December 31, 2020 was approximately 675 million shares after reflecting the Treasury shares held by the Bank.

Financial Capital

Tier I Sukuk Programme

The Bank completed the establishment of a Shariah Compliant Tier I Sukuk Programme (the Programme) in 2016. The Programme was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the Programme on the dates indicated as of December 31, 2020 and 2019:

	2020 SAR '000	2019 SAR '000
November 16, 2016	500,000	500,000
June 6, 2017	285,000	285,000
March 21, 2018	1,000,000	1,000,000
April 15, 2019	215,000	215,000
Total	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 Programme.

Capital Adequacy

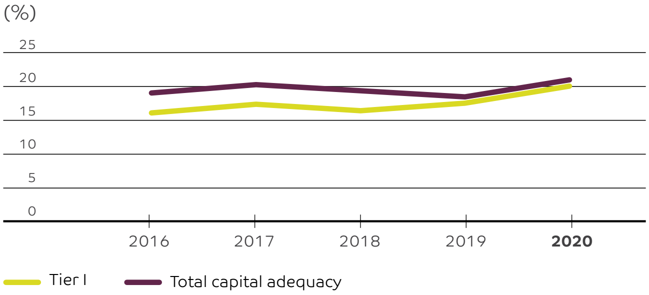
Capital management objectives of the Bank are to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern, and to maintain a strong capital base.

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.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its Consolidated Statement of Financial Position assets, commitments, and notional amounts of derivatives, at a weighted amount to reflect their relative risk.

As of December 31, 2020, the Bank's Tier I plus Tier II capital adequacy ratio stood at 21.21% compared to 18.26% as of December 31, 2019.

Capital adequacy ratios



Summary results of operations

A summary of the Bank's results of operations for the year ended December 31, 2020 compared to 2019 is given below.

Operating Income

Total operating income reached SAR 2,846 million in 2020, compared to SAR 2,818 million in 2019, a marginal increase of SAR 28 million, or 0.99%. A summary of the operating income for 2020 compared to 2019 is given below:

- Net special commission income, which includes special commission income from placements, investments, and loans, less special commission expense on deposits and other borrowings, increased to SAR 2,322 million in 2020 compared to SAR 2,278 million in 2019, an increase of SAR 44 million or 1.93%.
- Fees from banking services reached SAR 303 million in 2020, compared to SAR 299 million in 2019, an increase of SAR 4 million, or 1.34%. The increase was due to higher fees from the brokerage business and corporate and retail finance.
- Exchange income increased to SAR 177 million in 2020, compared to SAR 156 million in 2019, an increase of SAR 21 million, or 13.46%. The increase was due to increased volumes in customer FX transactions reflecting the Bank's efficient cross-sell coordination between Treasury, and its Retail and Corporate clients.
- The Bank received a dividend income of SAR 0.014 million in 2020, compared to nil in 2019.
- Other investment related gains earned from income recognized through profit and loss and sales of debt securities totalled SAR 108 million in 2020 compared to SAR 47 million in 2019.
- Unrealized fair value through profit and loss statement was a net loss of SAR 82 million in 2020 compared to a gain of SAR 7 million in 2019.
- All other operating income totalled SAR 18 million in 2020, compared to SAR 31 million in 2019.

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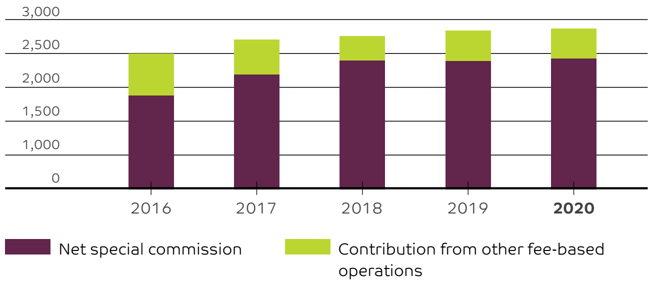
Operating income

(SAR million)



Geographical distribution of operating Income

The Bank's total operating income is entirely generated from its operations in the Kingdom of Saudi Arabia and a region-wise contribution is given below in SAR million.

	Central region	Western region	Eastern region	Total
2020	2,365	281	200	2,846
2019	2,235	394	189	2,818

Operating expenses before provisions for credit and other losses

Operating expenses before provisions for credit and other losses totalled SAR 1,214 million in 2020 compared to SAR 1,234 million in 2019, a decrease of SAR 20 million or 1.63%, details of which are given below:

- Salaries and employee-related expenses for the year amounted SAR 672 million compared to SAR 626 million in 2019. The headcount as of December 31, 2020 was 1,429 compared to 1,437 as of December 31, 2019.
- Rent and premises related expenses in 2020 decreased to SAR 128 million compared to SAR 144 million in 2019.
- Depreciation and amortization in 2020 totalled SAR 145 million compared to 144 million in 2019.
- Other general and administrative expenses totalled SAR 269 million in 2020 from SAR 320 million in 2019, a decrease of SAR 51 million or 16.03%.

The level of operating expenses in 2020 resulted in a net efficiency ratio of 43.04% compared to 41.60% in 2019.

Provisions for credit and other losses

The provisions for credit and other losses incurred in 2020 compared to 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Provisions for credit losses:		
Due from banks and other financial institutions	1,114	(615)
Investments	1,726	(45,821)
Loans and advances	453,527	1,270,770
Financial guarantee contracts	(6,843)	52,077
Other assets	(111)	(180)
Provisions for credit losses	449,413	1,276,231
Provisions for real estate losses	–	66,406
Provisions for credit and other losses	449,413	1,342,637

The provisions for credit losses include SAR 246.3 million provided due to the expected impact of the COVID-19 pandemic and the details are given below:

The Bank revised certain inputs and assumptions used for the determination of the Expected Credit Loss (ECL) allowance. The revisions mainly revolved around:

- adjusting macroeconomic factors used by the Bank in its ECL model including observed default rates;
- revising the scenario probabilities; and
- refining staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The adjustments to macroeconomic factors and scenario weightages resulted in an additional ECL provision of SAR 47.8 million for the year ended December 31, 2020. 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.

As the situation continues to be fluid, Management considers certain effects cannot be fully incorporated into the ECL calculations at this point in time. Accordingly, Management's ECL assessment includes a sector-based assessment and staging analysis depending on the impacted portfolios and

Financial Capital

macroeconomic analysis. The Bank has therefore recognized post-model overlays of SAR 177.7 million and SAR 20.8 million for the year ended December 31, 2020 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.

Share in earnings of associates

The Bank's share in earnings of associates decreased to SAR 46 million in 2020, compared to SAR 88 million in 2019, a decrease of SAR 42 million.

Provisions for Zakat and income tax

The provisions for Zakat and Income Tax for 2020 of SAR 249 million was higher than the SAR 90 million provided for in 2019 primarily due to the higher net income in 2020 compared to 2019. A summary of the provisions for Zakat and Income in 2020 compared to 2019 is given below:

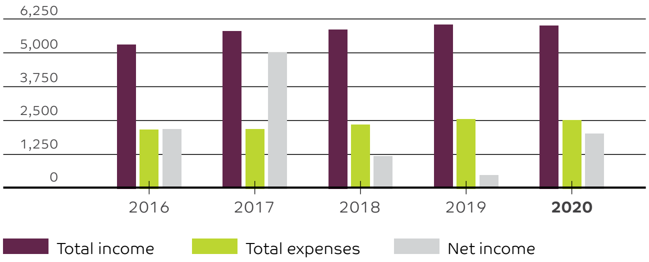
	2020 SAR '000	2019 SAR '000
Provisions for Zakat		
For current period	246,201	76,809
For subsidiaries, prior periods	2,745	3,300
Provisions for income tax		
For current period	–	1,800
For prior periods	–	8,131
Provisions for Zakat and income tax	248,946	90,040

Net income

The Bank reported a net income of SAR 980 million for the year ended December 31, 2020, an increase of SAR 741 million, or 310%, compared to the 2019 net income of SAR 239 million. The return on average assets was 0.98% in 2020 compared to 0.24% in 2019, and the return on average shareholders' equity was 7.73% in 2020 compared to 2.03% in 2019.

Total income, total expenses and net income

(SAR million)



Profit distribution

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 245 million has been transferred from the net income for 2020. The statutory reserve is not currently available for distribution.

The Board of Directors proposed a cash dividend for the year 2020 of SAR 270 million equal to SAR 0.40 per share, net of Zakat. The proposed cash dividend will be presented for approval in an extraordinary general assembly meeting expected to convene in 2021.

Net income by operating segment

The income of the Bank's reportable operating segments for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Retail Banking	313,227	(622,959)
Corporate Banking	462,389	601,148
Treasury and Investments	651,011	559,557
Asset Management and Brokerage	80,571	33,832
Others*	(278,691)	(242,077)
Income before provisions for Zakat and income tax	1,228,507	329,501
Provisions for Zakat and income tax	(248,946)	(90,040)
Net income	979,561	239,461

**Others includes the net results related to Information Technology, Operations, Risk, and other support units.*

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Five-year financial highlights

A summary of the Bank's operations, financial position, and key ratios are as follows:

	SAR in millions				
	2020	2019	2018	2017	2016
Operations					
Total income [1]	**2,892**	2,906	2,824	2,792	2,557
Total expense [2]	**1,214**	1,234	1,133	1,059	1,051
Operating profit before provisions	**1,678**	1,672	1,691	1,733	1,506
Provisions for credit and other losses	**449**	1,343	247	322	453
Provisions for Zakat and income tax [3]	**249**	90	868	–	–
Net income	**980**	239	576	1,411	1,053
Financial position					
Total assets	**99,885**	100,815	96,070	93,796	93,047
Loans and advances, net	**55,074**	57,112	59,413	59,588	60,249
Investments	**30,514**	26,175	24,638	21,714	21,448
Investments in associates	**846**	994	1,012	1,020	1,000
Term loans	**2,006**	2,012	2,030	2,015	2,032
Subordinated debt	**–**	–	2,006	2,003	2,002
Customer deposits	**60,144**	69,058	63,690	66,943	65,640
Shareholders' equity	**13,331**	12,007	11,621	13,494	12,834
Tier I Sukuk	**2,000**	2,000	1,785	785	500
Total equity	**15,331**	14,007	13,406	14,279	13,334
Key ratios					
Return on average shareholders' equity (%)	**7.73**	2.03	4.73	10.72	8.54
Return on average assets (%)	**0.98**	0.24	0.61	1.51	1.13
Capital adequacy (%)	**21.21**	18.26	19.31	20.38	18.93
Equity to total assets (%)	**15.35**	13.89	13.95	15.22	14.33

[1] *Total income includes total operating income plus share in earnings of associates.*

[2] *Total expense includes total operating expenses before impairment charges.*

[3] *The years prior to 2018 have not been adjusted for provisions for Zakat and Income Tax.*

Financial Capital

GRI 103-1, 103-2, 103-3, 419-1

Regulatory payments

The Bank in the ordinary course of its business, makes regulatory payments including Zakat, Income Tax, Withholding Tax, Value Added Tax, and other regulatory payments.

A summary of the payments made during 2020 is given below, which also includes regulatory fines incurred during the year.

Zakat settlement

In December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The discounted Zakat liability of SAR 711.8 million was fully provided for through a charge to the Consolidated Statement of Income with the corresponding liability included in other liabilities as of December 31, 2018. The Bank has paid SAR 155 million, SAR 124 million, and SAR 124 million on January 1, 2019, December 1, 2019, and December 1, 2020 respectively, as per the settlement agreement. The undiscounted Zakat settlement liability remaining to be paid and the net discounted Zakat liability is as follows:

	SAR '000
December 1, 2021	124,072
December 1, 2022	124,072
December 1, 2023	124,072
Undiscounted Zakat settlement liability	372,216
Less: Discount	(25,579)
Net discounted Zakat liability	346,637

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as was agreed in the settlement for the prior years. The 2018 Zakat was calculated based on this method and was also charged to the Consolidated Statement of Income in 2018 and was settled by April 30, 2019.

The Zakat settlement also did not include the year 2005. However, the Bank provided for an additional Zakat liability for 2005 amounting to SAR 38.6 million which was charged to the Consolidated Statement of Income in 2018 and was settled in 2019.

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 should not fall below the minimum floor nor should exceed the maximum cap as prescribed by the Rules.

The Bank has provided for Zakat for the year ended December 31, 2020 and 2019 on the basis of the Bank's understanding of these rules.

Withholding tax

The Bank paid SAR 53.7 million to the GAZT as withholding tax for the year ended December 31, 2020.

Value Added Tax (VAT)

The Bank paid SAR 48.2 million to the GAZT as VAT for the year ended December 31, 2020.

Other regulatory payments

The Bank paid SAR 50.4 million to the General Organization for Social Insurance for its employees, including the employee share of SAR 22.6 million during the year ended December 31, 2020. The Bank also paid SAR 1.5 million for visa and other related governmental fees during the year ended December 31, 2020.

Regulatory penalties and fines

During 2020, the Bank paid SAR 1,920,000 to SAMA as a result of five regulatory fines and penalties.

Below is a breakdown of the regulatory fines borne by the Bank during 2020:

Fines amount in SAR	Description of the fine	No. of fines
205,000	Violating SAMA's instructions	3
1,680,000	Violating SAMA's Instructions for Consumer Protection	1
35,000	Violating SAMA's instructions of Self-Supervisory Guidelines	1

Financial Capital

Cash flows

Cash and cash equivalents decreased by SAR 2,346 million during the year from SAR 5,110 million as at December 31, 2019 to SAR 7,267 million as at December 31, 2020.

Net cash flows	2020 SAR '000	**2019 SAR '000**
Provided from operating activities	**1,557**	8,239
Used in investing activities	**(3,786)**	(968)
Used in financing activities	**(118)**	(2,161)
Net increase (decrease) in cash and cash equivalents	**(2,346)**	5,110

Unit performance

Retail banking

SAIB's Retail Banking offers conventional and Shariah-compliant retail services for individuals, including current accounts, savings, and time deposit accounts. Shariah-compliant products are offered through the Bank's Shariah-compliant branches.

As of 31 December 2020, the Bank operated 52 branches across the Kingdom. Customers are also able to access their accounts and funds through a network of 368 ATMs, four Interactive Teller Machines (ITMs), and 12 Cash Deposit Machines throughout Saudi Arabia.

Under Retail Banking, the Bank has three key business segments:

- **Customer programs and services**
  The Bank offers its customers the Silver, Gold, and Platinum programs which are designed to meet their banking needs through products and services that suit their different lifestyles. The Gold and Platinum programs provide customers with a premium banking relationship and exclusive bespoke services.
- **Private banking services**
  Private Banking offers customers a unique combination of exclusive services and elite benefits and advantages tailored to them. They are serviced by a highly skilled and experienced team of relationship managers who provide valuable advice.
- **Alasalah Islamic banking services**
  As the importance of Islamic banking increases, the Bank's strategic direction continues to focus on the Alasalah programme, which includes many Shariah-compliant banking services and products approved by the Bank's Shariah Board. These services are offered via 49 branches in most major cities in the Kingdom.

Performance in 2020

Customer deposits totalled SAR 60.1 billion as of December 31, 2020 compared to SAR 69.1 billion as of December 31, 2019, a decrease of SAR 9.0 billion or 13.02%. Demand and other deposits during the year totalled SAR 34.6 billion compared to SAR 27.4 billion in the previous year, an increase of SAR 7.2 billion or 26.28%%. Demand and other deposits represented 57.45% of total deposits by end 2020 compared to 39.66% of total deposits in 2019. Special commission bearing deposits decreased by 38.59% to SAR 16.1 billion during the year.

The net consumer loans and advances portfolio stood at SAR 11.09 billion as at December 31, 2020. Customers' total Demand Deposits (DDA) reached SAR 32.5 billion during the year.

The merchant acquisition business expanded its reach to over 9,895 Point of Sale (POS) terminals, a growth of 5%. SAIB's POS terminals market share was 1.44% in 2020, compared to 2.18% in 2019. Flexx Pay, the Bank's payment gateway service, expanded to 27 merchants in 2020. 4.1 million transactions worth SAR 609 million were processed during the year, up from 0.82 million transactions worth SAR 187 million in 2019.

Transaction type	Number of transactions		
	2020	2019	2018
ATM transactions	**24,553,171**	39,701,368	42,157,043
Branch transactions	**7,541,942**	9,221,275	7,743,812
Online transactions	**25,840,157**	26,178,906	19,126,325
Point of sale transactions*	**113,483,943**	75,095,420	47,209,476
TOTAL	**170,042,690**	150,196,969	116,236,656
IVR transactions	**260,559**	316,956	363,151
TOTAL including IVR	**170,303,249**	150,513,925	116,599,807

**includes exception item processing.*

During 2020, the Bank focused on enhancing its digital capabilities and automation and launched new digital sales channels to widen its reach and footprint. The Bank also looked towards the Financial Technology (Fintech) space to find ways to disrupt its own business model and envision new and sustainable opportunities for growth.

Financial Capital

The Flexx Touch service was expanded to allow for the application of personal finance, mortgages, and credit cards through a digital and frictionless application process. A step up-step down mortgage finance service was introduced, offering customers customised repayment solutions to simplify and help reduce the burden of the Equated Monthly Instalments (EMI) that they may have accumulated. A 2-1 loan was also introduced that offers customers a type of financing that lowers the interest rate on a loan for the first five years before settling on a permanent rate.

Credit card services were enhanced considering the new normal. Customers can now issue, activate, and stop credit cards through the Flexx Touch online service, as well as activate, stop, and view their credit card pin codes. A campaign was also launched around our Travel Cards to promote free card issuance and zero currency exchange rate fees.

The Bank also introduced the highest Visa product type, “Infinite Privilege”, offering a wide range of luxurious and high lifestyle features and benefits to SAIB affluent customers that suits their wants and needs.

Opening individual accounts online was re-engineered to be made easier for customers through the removal of extraneous steps, while ensuring that the whole process was fast, easy, and secure. Account activation can be done via interactive voice response (IVR) and customer information can be submitted online to fulfil Know Your Customer (KYC) requirements and update expired information. An online service was also offered for companies to open accounts.

Corporate banking

SAIB’s Corporate Banking Group offers financial products and services that meet the requirements of businesses of all sizes, from micro, small, and medium enterprises (MSMEs) to large corporate entities. The Group operates from three regional headquarters based in Riyadh, Jeddah, and Al-Khobar along with separate business segments that cover syndications, project, and structured financing to provide tailor-made financial solutions and customised structures to an array of economic sectors.

The Corporate Banking Group offers a range of products that spans both conventional and Shariah-compliant products and services related to working capital, contract, project, real estate, and capital expenditure financing, while supporting businesses with trade finance, cash management, and treasury services requirements. The Group continually strives to expand the range and quality of the Bank’s products and service offerings to meet customers’ evolving needs and expectations. Additionally, the Group provides ancillary business products and solutions to its customers.

The Group has undertaken certain strategic initiatives to align the business model with the Saudi Government’s Vision 2030 goals as it looks to continuing business growth and maximizing opportunities in the post-pandemic era.

Performance in 2020

Net income for the years ended December 31, 2020 and 2019 is summarised as follows:

	2020 SAR ’000	2019 SAR ’000
Corporate banking	462,389	601,148

Income (loss) before provisions for Zakat and income tax

Micro, Small, and Medium Enterprises (MSMEs) performance

	2020 (SAR ’000)			
	Micro	Small	Medium	Total
Loans to MSMEs-on Balance Sheet (B/S)	55,695	716,976	4,842,193	5,614,864
Loans to MSMEs-off Balance Sheet (Notional amount)	56,343	232,954	1,065,203	1,354,500
On B/S MSMEs Loans as a percent of total on B/S loans (%)	0.10	1.26	8.52	9.88
Off B/S MSMEs position as a percent of total off B/S position (%)	0.47	1.94	8.87	11.28
Number of loans (on and off B/S)	33	207	723	963
Number of customers for loans (with Credit Facility Limits)	18	82	222	322
Number of loans guaranteed by Kafalah programme (on and off B/S)	5	58	78	141
Amount of loans guaranteed by Kafalah programme (on and off B/S)	12,342	82,814	227,868	323,024

Note: The growth in MSME portfolio’s financial figures was mainly recorded after the completion of the corporate customers’ classification project that was completed in 2020.

Financial Capital

Treasury and investments

The Treasury and Investment Group (TIG) is responsible for the Bank's Asset-Liability Management, including interest rate risk, market risk, and funding and liquidity management. The Group also handles foreign exchange trading, structured products, and manages the Bank's investment portfolio and derivative products, as well as the Bank's Business Partner Companies, Financial Institutions, Public Institutions, and the Asset Liability Management Unit.

Performance in 2020

TIG contributed significantly to the Bank's financial performance in 2020. As at December 31, 2020, the Group achieved a net adjusted income of SAR 651 million, a growth of 16.3%.

During the year, SAIB became the first bank in the Kingdom of Saudi Arabia to execute an Environmental, Social, and Governance (ESG) Linked Repo transaction with HSBC. As the importance of ESG in the Kingdom grows, this landmark transaction highlights the key role that the financial services sector plays in transitioning the economy towards a sustainable future and address the challenges of climate change.

TIG continues to emphasize on its current initiatives. Enhancing and fine tuning those initiatives is an ongoing process. Some of those initiatives included:

- Cost reduction through an all e-document based desk significantly reducing the use of paper.
- The automation of many internal system procedures decreasing the likelihood of any operational risk.
- The automation of daily weekly and monthly reports reducing operational time and increasing team efficiency.
- The creation of an E-Library that gathers all courses attended for the purpose of knowledge transfer to all treasury members.
- The establishment of a Bank-wide LIBOR Transition Programme.

The Bank's investment portfolio totalled SAR 30.5 billion as at December 31, 2020, compared to SAR 26.2 billion as at December 31, 2019, an increase of SAR 4.3 billion or 16.6%.

Investments classified by major rating agencies as investment grades represented 88.26% of the Bank's investment portfolio as at December 31, 2020, compared to 86.25% as at December 31, 2019.

Net income for the years ended December 31, 2020 and 2019 are summarised as follows:

	2020 SAR '000	2019 SAR '000
Treasury and investments	651,011	559,557

Income (loss) before provisions for Zakat and income tax

Impact of COVID-19

Expected credit loss

The COVID-19 pandemic disrupted global markets in 2020. The Government of KSA managed to successfully control the outbreak in the country due to effective precautionary measures put in place. The Bank was and continues to be cognisant of the micro and macroeconomic challenges posed by the pandemic and reviewed specific economic sectors, regions, counterparties, and collateral protection, and took the appropriate customer credit rating actions and initiated the restructuring of loans where appropriate. The Bank also revised certain inputs and assumptions used for the determination of the Expected Credit Loss (ECL) allowance, which included:

- Adjusting macroeconomic factors used by the Bank in its ECL model, including observed default rates.
- Revising the scenario probabilities.
- Refining staging criteria in the light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The adjustments to macroeconomic factors and scenario weightages resulted in an additional ECL provision of SAR 47.8 million for the year ended December 31, 2020. The Banks' ECL model continues to be sensitive to the aforementioned 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.

Financial Capital

As the situation continues to be fluid, Management considers certain effects cannot be fully incorporated into the ECL calculations at this point in time. 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 177.7 million and SAR 20.8 million for the year ended December 31, 2020 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.

SAMA support programs and initiatives

To support the MSME sector during the COVID-19 pandemic, SAMA launched the Private Sector Financing Support Programme (PSFSP) in March 2020 via Circular No. 381000064902 dated 16 Jumada II 1438H (corresponding to March 15, 2017). The PSFSP encompasses the following programs:

- Deferred payments programme
- Funding for lending programme
- Facility guarantee programme
- Point of sale and e-commerce service fee support programme

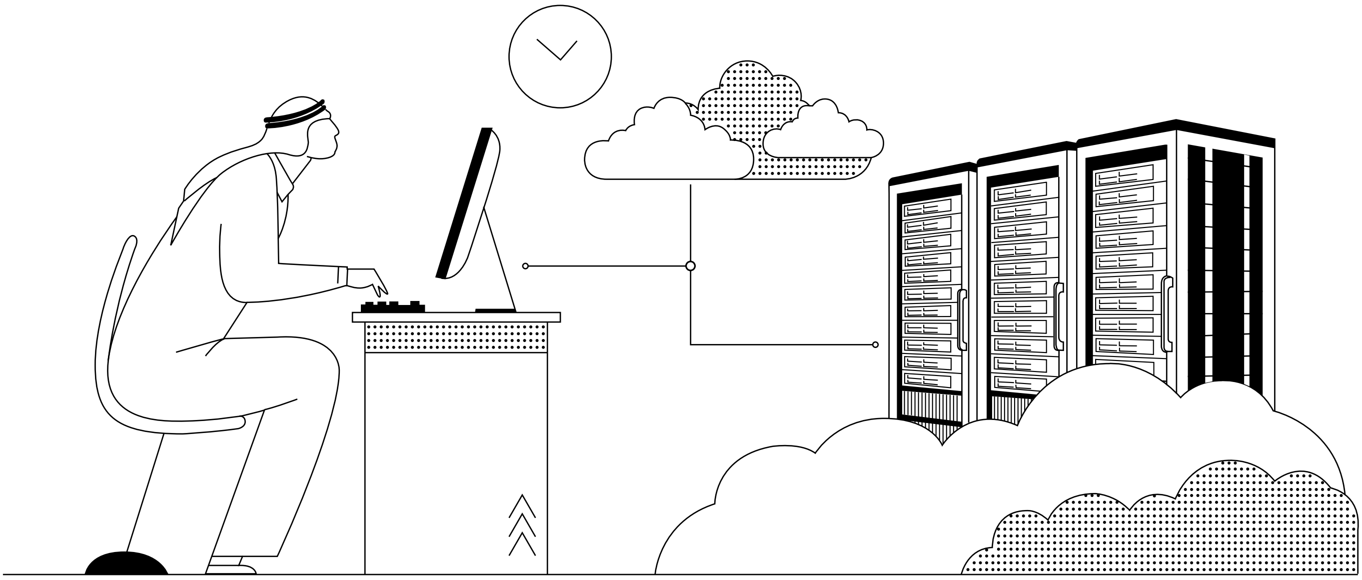
Under the deferred payments program, the Bank was required to defer payments for six months on lending facilities to MSMEs and financing companies regulated by SAMA as a short-term liquidity support to address any potential cash flow issues for borrowers. The Bank applied the relief to instalments falling due between 14 March 2020 to 31 March 2021 for a period of 12 months (having extended the program twice from the original period of six months) without increasing the facility tenure. The accounting impact of these changes was assessed and treated as per the requirements of IFRS 9 as a modification in the terms of the arrangement. In the absence of other factors, the Group believes that participation in the deferment program on its own is not considered a significant increase in credit risk.

Healthcare sector support

SAIB voluntarily postponed loan payments for three months for all public and private healthcare workers who have credit facilities with the Group, in recognition of their significant efforts to safeguard the health of the Kingdom's citizens and residents due to the pandemic.

Institutional Capital

SAIB's institutional capital is made up of the intangible, non-financial assets that create value and contribute to the performance of the Bank. These assets can be the Bank's legacy and corporate culture, its brand and values, and the vast expertise, experience, knowledge, and systems and processes it has amassed over the span of four decades.



Systems and processes

The Bank's strategy drives the development of its systems and processes. The strategy is founded upon the Bank's values, ethics, policies, and the sustainability pillar of Takleef (responsibility), which are also integral to the Bank's activities. The Bank's current three-year strategy was announced in 2019 and focuses on driving transformation to strengthen its foundation, unlock potential opportunities, and capitalize on its strengths. Digitization will play a key role in this transformation through the strengthening of the Bank's IT capabilities, alongside agility, innovation, and strategic partnerships. The strategy also supports the financial sector development program of Vision 2030.

The Bank's policies, systems, and procedures are subject to regular review to determine their adequacy and effectiveness within the context of the current operating environment and relevance to the Bank's business needs.

Transformation Group

SAIB's Transformation Group operates with the objective of shifting the function, structure, and operational model of the Bank's departments and align them with its strategy and goals. In 2020, the Group implemented several initiatives to enable the successful implementation of the Bank's strategy and directives.

Numerous transformation projects aimed at departments, processes, and product enhancement were undertaken by embracing the latest digitization and automation methods, in line with the Bank's strategy. Processes were optimised through the application of Agile and Six Sigma practices and capacity planning was used to define the ideal manpower requirements.

The Group established value added partnerships with key market players and fintech partners to enrich the Bank's overall offerings to its most sought-after segments.

Institutional Capital

The Group also supported various functions through artificial intelligence and data science initiatives. These initiatives aimed to improve business intelligence and leverage improvements in big data to achieve operational targets and strategic goals.

IT transformation strategy

With the push towards digital and online services in a year where the pandemic severely limited the ability of people to move about and interact face to face, transforming the Bank's services while ensuring the security of its systems and information was more critical than ever.

The Information Technology Group (ITG) carried out projects and initiatives aligned to the Bank's three-year strategy and transformation programs. ITG focused primarily on enabling flexible infrastructure and innovative business solutions to meet growing business demands, rising cost of capital, compliance with increasingly stringent local and international regulatory requirements, and the Board of Directors' mandate to support long-term sustainability and effective governance. ITG also initiated the execution of the three-year IT strategy that will see it define the digital and strategic direction for better enablement and alignment with the Bank's business strategy.

In response to the pandemic, ITG provided more collaboration tools to enable remote working for the Bank's employees and provided the necessary technical support to facilitate the allocation of employees to different business continuity centres by upgrading the Bank's network and providing extra bandwidth. ITG continued to complete other major enhancements to existing systems as part of the Bank's continuous improvement initiatives.

During 2020, ITG completed several initiatives including:

- New API management solutions to serve agent banking and all other fintech initiatives.
- Strengthening IT capabilities in digital experience and acquisition through digital wallets, artificial intelligence (AI), and data analytics.
- Launching as the first bank in the Kingdom to have full integration with the Saudi Ministry of Justice for electronic promissory notes (e-SANAD).
- Enabling all SAIB credit cards (Visa/MasterCard) to work with Apple Pay and mada Pay.
- Implementation of major collaboration tools to support remote working environment and communication with external parties in response to COVID-19.
- SAMA-mandated disaster recovery testing with an excellent record for recovery time.
- SAMA-mandated critical projects for 2020 including but not limited to COVID-19 requirements, Tanfeeth phase 2, SADAD ESAL, cards schemas, SATR reporting.
- Enhanced integration capabilities to allow smooth integration with all e-government services including REDF, Bayan, GOSI, Tabadul, MOJ, and other third-party service providers.
- Major enhancements for the Trade Finance System.
- Private banking 360 Module for private customers.
- Travel card services improvement via the internet banking channel to enable customers to add up to 100 currencies and manage their wallets online.
- Enhance the WOOW loyalty program by integrating several e-voucher providers to facilitate the smooth and easy redemption of rewards.
- Introduce the electronic customer update (e-KYC) for individual customers on the digital channels (mobile and internet).
- Adopt for the first time the Virtual Desktop Infrastructure (VDI) which will accelerate the deployment of services.
- Enhance the monitoring capabilities for cards and payment-related systems.
- Launch the new home equity loan.
- Introduce new SMS gateway with maximum availability to support all digital services with no interruption.
- Improve critical systems performance processing time.
- Implementation of several new business solutions for Treasury, Personal Banking, Corporate Banking, Finance, HR, Risk, Information Security, Business Continuity, and Marketing.

Institutional Capital

All IT procedures and projects are carried out in compliance with the Bank's IT policies and follow internationally accepted best practices including ISO 20000, project management frameworks, and IT architecture and cybersecurity standards.

The Bank was awarded the ISO 22301:2019 certificate by the International Organization for Standardization (ISO) for adhering to the updated standards of Business Continuity Management System (BCMS).

Microsoft Power BI platform

As part of its digital journey and in alignment with Vision 2030, SAIB added Microsoft's Power BI to its ecosystem of Microsoft products. The platform will aid SAIB's digitalisation initiative that aims to enrich the customer experience and enhance transparency within the Organization by helping it to rationalise its operations, accelerate its digital journey, improve the handling of data, enhance the understanding of customer needs, and make better informed decisions in finance and operations.

With the integration of Microsoft Power BI and segmentation of data, SAIB can obtain an enhanced perspective of customer behaviour, which leads to improved efficiency. Through the enhanced analysis of transactions and customers' activities and interactions with the Bank, SAIB can react promptly and provide its customers with relevant products and services at the right time. This focuses on the customer experience has benefitted customer acquisition and the upselling of products and services to the customer base, as well as provide actionable insights on consumer behaviour.

Sustainability Management Dashboard System

SAIB invests in technology to enable the delivery of timely and relevant insights that facilitates the Bank's Management in their activities and critical decision-making. The innovative Sustainability Management Dashboard System (SMDS) collects, stores, analyses, and delivers information on a monthly or quarterly basis and processes it for key decision-makers to supplement the decision-making process. The information reported against is closely aligned to the Global Reporting Initiative (GRI) standards. Through the SMDS, the key decision-makers can regularly track and report performance against the Bank's sustainability goals.

Awards and recognition

During 2020, the Bank received a number of awards, including:

Best Digital Transformation Bank – 2020 Saudi Arabia awarded by Global Business Outlook

Best International Travel Card – 2020 Saudi Arabia awarded by Global Business Outlook


0.68 Kcal
0.51 Kcal
0.34 Kcal
0.17 Kcal

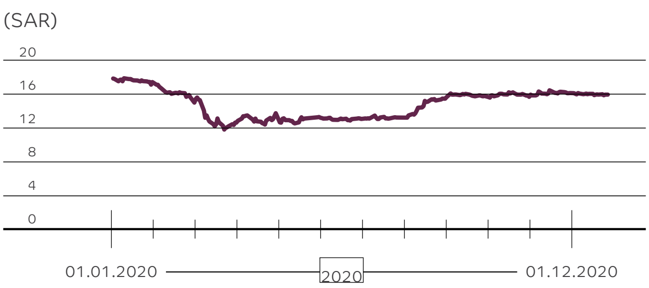
Investor Capital

Investors are stakeholders who provide the Bank with the capital it requires to operate and are critical to its value creation process. In return, the Bank seeks to maximize investor wealth by acting in a way that allows for sustainable, long-term returns. The Bank has a responsibility to be transparent with its investors about all aspects of its performance, policies, forecasts for future performance, plans, strategies, and risks. SAIB complies with all regulatory requirements and its own policies by regularly engaging with its investors and disclosing information to the general public through the media, its website, and on the Tadawul.

The Bank's Articles of Association and corporate governance rules express the rights of shareholders, the guidelines for relationships with them, and the mechanisms for exercising their rights. These are also governed by the Saudi Company Law which lay out the rules and procedures for shareholders to exercise their rights, including rights to relating to dividends, convening meetings, attendance and participating at meetings, voting rights, and rights to information. A provision for shareholders to make complaints also assures that they will be attended to and are entitled to a reply detailing any action taken in response to their complaint.

Share information

Movement of the SAIB share



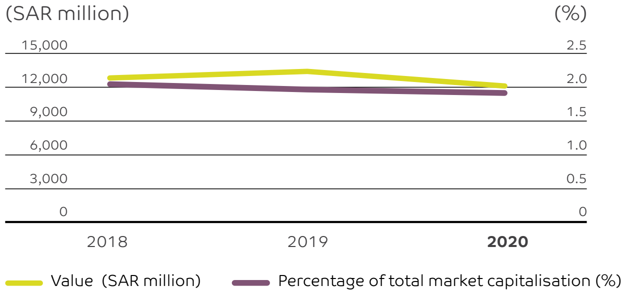
Investor Capital

As of December 31, 2020, the market value of the Bank's ordinary share was SAR 16.00 as against SAR 18.04 on December 31, 2019. During the year, the highest share price recorded was SAR 18.06 on January 9 and the lowest share price recorded was SAR 11.62 on March 23.

The breakup of the shareholdings as at December 31, 2020 is as follows:

SAR million	2020		2019	
	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0
Treasury shares	750.0	10.0	750.0	10.0
	7,500.0	100.0	7,500.0	100.0

Market capitalization



Shareholders' equity

Key performance indicator	2020	2019	2018 Restated	2017	2016
Share capital (SAR million)	7,500	7,500	7,500	7,500	7,000
Total shareholders' equity (SAR million)	13,331	12,007	11,621	13,494	12,833
Basic and diluted earnings/share (SAR)	1.28	0.17	0.65	1.83	1.40

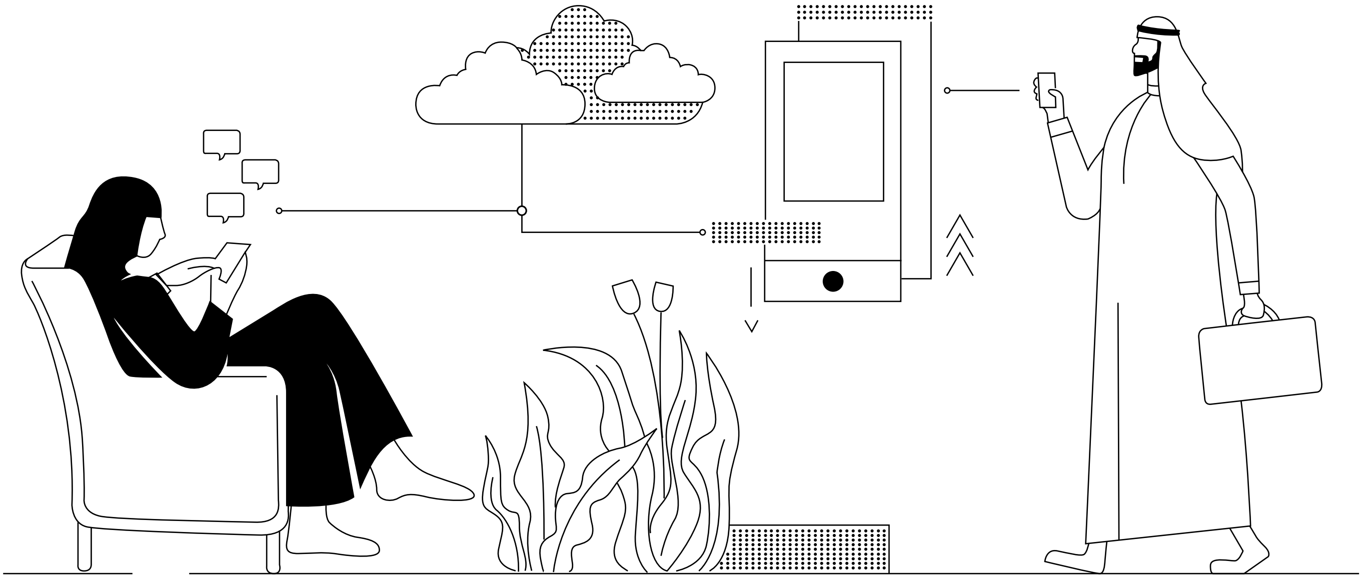
The Bank's substantial shareholders include:

	%
General Organization for Social Insurance	16.56
Public Pension Agency	13.99
The Saudi Investment Bank	9.99

Customer Capital

GRI 102-2, 103-1

SAIB strives to develop strong relationships with its customers. Customers are one of the most important assets to the Bank and building strong relationships with them ensures the long-term growth and sustainability of the business. Accordingly, the Bank develops products and services in response to the needs of its customers within the context of the operating environment.



Product portfolio

Product portfolio

Personal Banking
- Accounts
- Customer programs
- Finance
- SAIB cards
- E-Banking

Corporate Banking and SME
- Small and Medium Enterprises
- Corporate
- Cash Management
- Trade Finance Solutions

Treasury and Investment Group
- Liquidity Management
- Foreign Exchange
- Structured Products

Customer Capital

GRI 102-2

Personal Banking

Accounts

Alasalah Current Account
Islamic Shariah-compliant current account for transactionalpurposes.

Salary Account
Islamic Shariah-compliant current account designed for individuals transferring their salary to SAIB

Murabaha Deposit
Islamic short-term investment product based on theconcept of Murabaha with tenors ranging between 1 month to 12 months and available in various currencies.

Time Deposits
Conventional banking product offered only at RegionalHead Office branches in Khobar, Jeddah, Jubail, andRiyadh. Tenors range between 1 and 12 months.

Customer programs

SAIB offers customers a high-class banking relationship and exclusive services tailored to meet their financial requirements in total privacy and luxuriouscomfort.

Silver Program

Gold Program

Platinum Program

Finance

Alasalah Personal Finance

- Arzaq Murabaha Finance
  An Islamic financing product that allows customers to buy goods owned by the Bank, such as rice and flour, at an agreed upon profit and repayment plan, to then sell or retain as they wish.
- Shares Murabaha Finance
  An Islamic financing product that allows customers to buy local shares owned by the Bank at an agreed upon profit and repayment plan to then sell or retain as they wish.
- Car Murabaha Finance
  An Islamic financing product that allows customers to buy a vehicle owned by the Bank at an agreed upon profit and repayment plan.
- Retirees Personal Finance
  A Shariah-compliant financing product aimed at retirees looking for personal financing.
- Expatriates Personal Finance
  A Shariah-compliant financing product aimed at expatriates looking for personal financing.
- Refinance
  An Islamic financing product for customers with an existing Murabaha finance at SAIB to repay their outstanding finances, and avail more financing as needed.
- Loan Buy-out (Balance Transfer)
  An Islamic financing product to finance salaried customers who have existing liabilities with other banks.

Alasalah Home Finance

- Home Finance programs in cooperation with REDF
  - Madoom and Moyassar home finance Subsidised house finance product in cooperation with the Real Estate Development Fund (REDF) for eligible Saudi nationals.
  - Self-construction finance Financing product in collaboration with REDF to allow customers to get financing against their owned residential land to fund the construction of their home.
  - Unit under construction (off plan)A Murabaha-based home finance product offered in collaboration with REDF and the Ministry of Housing (MOH) to allow customers to buy property from the MOH's approved development projects.
  - MOH ready house Financing product in collaboration with REDF to allow customers to purchase ready-built houses in projects developed by MOH under Murabaha principle.
- Alasalah Murabaha Home Finance
  Islamic home financing product in which the Bank purchases a property based on a customer's request and then sells it to the customer, against a monthly payment plan and fixed profit rate

Customer Capital

GRI 102-2

SAIB cards

Low Limit Cards

- **Travel Card**
  A multi-currency travel card that enables customers to pay in different currencies including SAR at the best exchange rates with zero exchange rate conversion.
  - 100 currencies including SAR
  - Apple & mada pay services
  - Ability to apply the card through Online channels and Kiosks
- **"EasyShopping" Card**
  A SAR-only card that serves the budgetary requirements of customers to help them control their expenses.

mada Debit Cards

mada-enabled debit cards give customers greater access to their funds via the mada network (Saudi Payment Network) and Apple Pay, and greater security through the latest Chip-and-PIN technology.

Pre-paid Cards

- **"EasyPay" Payroll Card**
  "EasyPay" Payroll Card helps organizations to reduce their payroll administrative efforts and expenses while addressing the financial requirements of blue-collar workers.
- **"EasyPay" Household Card**
  "EasyPay" Household Card allows sponsors to process the payment of salaries and incentives to their household workers electronically.

Credit Cards

Shariah-compliant credit cards designed to meet the needs and lifestyles of SAIB's customers.

E-Banking

- **Flexx Click Internet Banking**
  Internet banking service that allows for self-service.
- **Flexx Call Phone Banking**
  Phone banking service that allows for automated self-service and agent-assisted services.
- **Flexx Transfer**
  Instant money transfer to many countries via e-banking channels (online banking, SAIB ATMs, and phone banking).
- **SAIB Mobile apps**
  - **Flexx Touch Mobile App**
    SAIB's free official banking application for smart devices that allows for self-service.
  - **Flexx Safe**
    App that issues authorization codes quickly and safely without the need for an Internet connection to facilitate customers accessing their account online and perform transactions.
  - **Al-Huda App**
    An app that includes the Holy Qur'an and other Islamic apps.
  - **EasyPay**
    App that allows customers to access their SAIB EasyPay account via their smart device.
- **Payments and Transfers**
  - **SADAD Service**
    Enables customers to pay bills electronically to service providers enrolled in the SADAD service.
  - **SARIE Service**
    Enables customers to transfer funds in SAR between accounts opened in local banks securely.
  - **SWIFT Service**
    Enables customers to transfer funds in foreign currencies to international bank accounts securely.

Customer Capital

GRI 102-2

Corporate Banking and SME

Small and Medium Enterprises

Business Finance
SAIB offers comprehensive financing solutions for SMEs, including:

- Working capital (short term)
- Financing projects and contracts (medium to long term)
- Financing the expansion of activity (long term)

Kafalah Program
Launched by the Saudi Industrial Development Fund (SIDF) and Saudi banks, the Kafalah Program aims to promote financing to SMEs in the Kingdom.

Secured Financing Program with ADF
Launched in cooperation with the Agricultural Development Fund (ADF), the program aims to provide various financing products and credit services from the ADF to achieve food security and sustainability of natural resources.

SAIB American Express Corporate Card
An American Express card designed to provide companies a range of solutions to streamline expense reconciliation, consolidate business expenses into a single payment platform, and increase visibility through MIS reporting.

Corporate

Working Capital Financing
SAIB offers customers the working capital financing required for investment in their current assets, including overdrafts, short-term loans, and letters of credit including re-financing by way of short-term loans.

Employee Loans and Accounts
For Saudi corporates enrolled in SAIB's Corporate Internet Banking platform, the Bank offers the Employee Loan Programme to Saudi corporates without any guarantee or recourse from the Saudi Company, and Employee Accounts to efficiently handle payroll credits to staff.

Shariah-Compliant Financing Products
Comprehensive Shariah-compliant Corporate Banking solutions for medium and large enterprises in the Kingdom, including:

- Commodity Murabaha
- Letters of Credit Murabaha
- Murabaha Finance (Goods and Real Estate)

Contract Financing
Financing services offered for the duration of a contract, including bonding facilities, mobilization loans, discounting of invoices, direct payments to suppliers, Documentary Credits to finance import requirements, and more.

Syndicated Loans
SAIB extends short, medium and long term financing to large corporates and projects jointly with other banks, export credit agencies and other financial institutions

Project Financing
Services for Saudi corporates ranging from term loans to bridge financing (against loans approved by SIDF), short-term financing of working capital, and hedging tools for interest rate and currency exposures.

Real Estate Development Financing
SAIB is a leading provider of financing to real estate sector in Saudi Arabia. It provides medium to long term financing to residential, commercial, hospitality, mixed use real estate development projects.

Investment Services
SAIB provides a comprehensive range of investment products and services in brokerage, investment banking, and custody through Alistithmar Capital.

Secured Financing Programme with ADF

SAIB American Express Corporate Card

Customer Capital

GRI 102-2

Cash Management

Flexx Business Corporate Banking
SAIB Flexx Business allows corporate customers to access their accounts and execute banking transactions online.

Payroll
SAIB's electronic payroll service saves Corporate customers the hassle of opening accounts for employees and processing salary transfers by managing their payroll for them securely and accurately.

Cash Pick Up
A collection service that provides our corporate clients the highest level of security measures over clients cash-in-transit. It enables our clients to quickly deposit their cash into their current accounts to speed up trade turnover.

B2B
SAIB's B2B integration solution facilitates corporate clients in conducting their banking transactions by connecting their accounting systems/Enterprise Resource Planning systems to SAIB's backend system.

Escrow Accounts
A special account for the collection and disbursement of money where the customers can place restrictions on the release of funds unless specific conditions (in accordance with rules established by SAMA) are met.

Mobile Point of Sales
A Mobile Point of Sales (mPOS) device allows merchants to accept mada, Visa, MasterCard, and American Express bank cards for payment and is linked to their account with SAIB to settle the processed transactions quickly and safely.

Point of Sales
Point of Sales (POS) terminals allow merchants to accept approved electronic cards for payment and is linked to their retailer account with SAIB to settle the processed transactions quickly and safely.

Flexx Cash In Cash Deposit Card
A deposit-only card linked to a customer's business account with SAIB that can be used to deposit cash conveniently and quickly via ATMs.

Flexx Pay
A host of services provided to businesses to provide their customers with a gateway of local and international options to pay with when shopping at their websites.

SAIB Business
A mobile application allowing corporate users to view and approve/execute their company transactions.

Corporate Multi-Currency card
A prepaid multi-currency card for the business sector to help manage their expenses and perform transactions in different currencies at best exchange rates with zero exchange rate conversion.

Payroll Prepaid Card – EasyPay
The solution covers payroll requirements of companies across all industries and helps organizations reduce their payroll administrative efforts and expenses while addressing the financial requirements of blue-collar workers.

Trade Finance Solutions

Trade Finance Services
Provides a wider range of traditional trade finance offerings to Saudi trading and contracting companies and provides means to accommodate their growing business of exports, imports and contracting activities.

International Trade Solutions
Allows corporate clients to have access to tailor-made and structured trade finance and supply chain solutions that provide additional value and enhanced efficiency in managing payables and receivables from global trading partners.

Marine Cargo Insurance
Wider coverage of marine cargo insurance policies in association with the leading insuring company to provide our clients with extra protection against shipping risks associated with importing and exporting goods.

Customer Capital

GRI 102-2

Treasury and Investment Group

Liquidity Management

- Solutions for customers to best optimise their liquidity based on their internal structures and business volumes.

Foreign Exchange

- Tailor-made solutions to help clients manage their foreign exchange exposure.

Structured Products

- Tailor-made hedging solutions that fit the client's needs.

Branch network and access points

SAIB operates 52 branches across the Kingdom. As part of the Bank's digital banking strategy that focus on maximizing convenience to its customers, the Bank is increasingly focused on expanding access to its products and services through digital channels such as internet and mobile banking, as well as self-service kiosks, ATMs, cash deposit machines (CDMs), and interactive teller machines (ITMs), thus reducing the reliance on manual transactions and branch visits.

Access points	2020	2019	2018
Branches	52	52	52
ATMs (multi-function)	52	52	51
ATMs (dispense)	312	341	361
Interactive Teller Machines	4	4	4
Cash Deposit Machines	12	12	63
POS terminals	9,895	9,375	9,307

Central Region

Qassim
- Buraidah Branch
- Onizah Branch

Hail
- Hail Branch

Hafar Al Batin
- Hafar Al Batin Branch

Riyadh
- Riyadh Branch
- Al-Woroud Branch
- Takhassussi Branch
- Malaz Branch
- Shifa Branch
- Al-Rawabi Branch
- Badi'ah Branch
- Al-Rawabi Branch
- Al-Nuzha Branch
- Al-Rayyan Riyadh Branch
- Ghurnata Branch
- Al-Suwaidi Branch
- Al-Ghadeer Branch ♿
- Al-Nassim Branch
- King Fahed District Branch
- Khurais Road Branch
- Al-Rahmania Branch
- AL-Wadi Branch
- Al-Aqeeq Branch
- Al-Kharj
- Zulfi Branch

Eastern Region

Al-Hasa
- Al-Hasa Branch

Khobar
- Khobar – Regional Office Branch
- Al-Cordoba Branch

Dammam
- Dammam Branch ♿
- Al-Rayyan Dammam Branch
- Ohud Branch

Jubail
- Jubail Branch

Al-Qatif
- Al-Qatif Branch

Al Halfoof
- Al-Hafoof Branch

Western Region

Yanbu
- Yanbu Branch

Madinah
- Al-Madinah Branch

Jeddah
- Prince Majed Street Branch
- Al-Safa Branch ♿
- Al-Bawadi Branch
- Prince Sultan St.
- Jeddah – Regional Office
- Al-Shati Branch
- Al-Jamaa Branch

Khamis Mushait
- Khamis Mushait Branch

Abha
- Abha Branch

Makkah
- Al-Aziziyah Branch
- Makkah Branch

Taif
- Taif Branch

Najran
- Njran Branch

Jezan
- Jezan Branch

Ahd Rafidah
- Ahd Rafidah

Tabouk
- Tabouk Branch

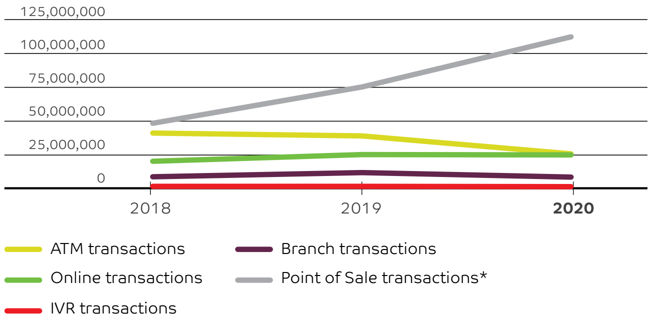
♿ Special needs Branch

Customer Capital

GRI 103-2, 103-3

Transactions

(Nos.)



**Includes exception item transactions*

Special needs branch

SAIB is committed to supporting the needs of special needs customers. The Bank modified three of its branches with the necessary equipment required to serve them along with various modifications to facilities. All necessary procedures to provide all banking services and products have been incorporated, including dedicated parking bays close to the entrance, and making branch maps, print forms, and contracts available in Braille. The branches also have skilled employees who are versed in sign language to support and guide customers. Furthermore, the Bank's website has been transformed to be accessible to the visually impaired and screen reader technology allows for colour contrast options and font magnification to be used.

Personal Banking

SAIB strives to build a relationship with its customers as their long-term financial partner by understanding them better so it can deliver a superior personal banking service. By tailoring its products with the customer in mind, the Bank makes banking simpler and more accessible to them and ensures their financial prosperity in the short and long term. The Bank assists them in their financial planning to build and protect their wealth, ensure that their expected future cash flow requirements can be met, and facilitate their financial and asset growth.

In 2020, SAIB continued its focus and efforts on digital banking and innovation. An independent department was formed under the shadow of the Personal Banking Group to achieve a qualitative leap in the digital field with the aim of making SAIB the leading bank in this area. Among the key priorities and objectives of this department is to focus on digital innovation, enriching the customer experience, raising digital sales and returns, and building young cadres and competencies with expertise and talent in digital banking.

To achieve these objectives, the Bank has developed a strategy for digital banking and defined the various stages for it, and an appropriate organizational structure has been put in place.

During the year, the department's activities were focused on building the infrastructure and improving the basic requirements of the digital banking strategy. Some of the most important achievements included:

- Developing the digital banking strategy, setting priorities, and developing an implementation plan
- Designing the organizational structure, designating, and bringing in competencies in the digital field and innovation
- Designing the innovation laboratory and enriching the customer experience
- Ensure the remainder of customers' banking transactions that take place through customer service officials are transferred to digital channels, including:
    - o Enabling customers to manage their credit card completely and easily through digital channels (suspending the card temporarily or permanently, activating the card, displaying the password, re-issuing the card, managing the credit limit of supplementary cards)
    - o Enabling customers to proactively increase the credit limit of the credit card
    - o Enabling customers to update their personal information without having to visit a branch
- Providing many new services that will increase sales and digital returns and improve the user experience, including:
    - o Improving and developing the online checking account opening service
    - o Launching the Apple Pay credit card service
    - o Enabling customers to apply for a credit card through digital channels

Furthermore, SAIB launched several innovative and value-added services for customers that will make the Bank one of the pioneers in the field of digital banking and innovation, including:

- Being the first Saudi bank to launch a portal specialising in real estate, guaranteeing a unique electronic experience.
- End to end digital application and processing of Personal Finance through mobile application, including digital signatures and electronic Promissory Notes.
- Linking with the systems of the Ministry of Justice (Nafeh) to enable customers to submit an "order bond" electronically and reliably.

Customer Capital

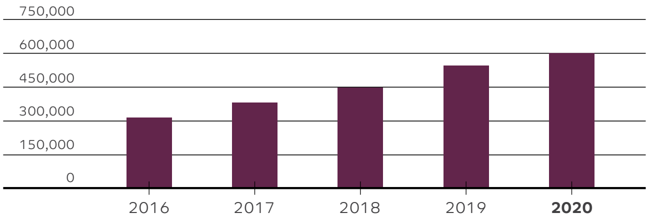
GRI 103-2, 103-3

Customer base

The Bank acquired 53,811 new customers during the year under review, growing the personal banking customer base grew to 599,242.

Customer base

(Nos.)



E-channel penetration

Channel	2020 %	2019 %	2018 %	2017 %	2016 %
SMS alerts	58.88	64.72	99.00	98.00	98.25
"Flexx Call" phone banking services	57.24	55.86	56.00	51.00	45.96
"Flexx Click" internet banking services	81.08	79.49	68.00	61.02	39.45

Customer engagement

The Bank reaches out to its customers through various channels, with an increasing emphasis towards electronic channels.

Customer service

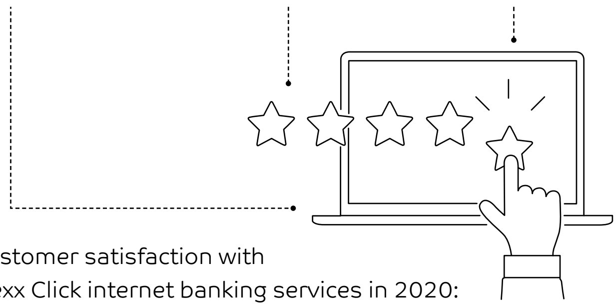
SAIB strives to deliver an outstanding experience to its customers. Through enhanced insights, the Bank can deliver enhanced customer service to achieve this objective. With an in-house specialised quality assurance and analytics team, the Bank extensively tests its quality assurance services and conducts customer surveys and analytics to better understand its customers and their satisfaction with the Bank's services and enhance their service experience. Efforts during the year under review were focused on ramping up the Bank's digitalization to ensure that customers could be served effectively during the COVID-19 pandemic and subsequent lockdowns.

Customer satisfaction

Account opening **+56.4**

Loan services **+34.2**

Contact Centre **53.42**



Customer satisfaction with Flexx Click internet banking services in 2020:

85.68%>

Initiative type	2020	2019	2018	2017	2016
Marketing campaigns	257	165	153	45	25
Events	31	45	62	85	30
Press releases	15	44	54	54	40
Website unique visitors per month	230,616	222,552	215,906	179,432	132,122
Page views per month	945,157	1,318,118	1,002,738	732,875	571,313
Twitter followers	1,023,000	974,786	928,000	845,347	754,058
Facebook fans	1,262,126	1,281,011	1,298,437	1,317,206	1,278,533
Instagram followers	52,600	47,973	36,200	27,497	19,200
Product and service social media videos	37	46	62	30	–

Customer Capital

GRI 103-2, 103-3

Criterion	2020 %	2019 %	2018 %	2017 %	2016 %
On Flexx Click/ Flexx Touch banking services	85.68	87.84	82.81	86.51	89.74

Customer complaints

	2020	2019	2018	2017	2016
Complaints registered	25,312	30,332	26,497	14,523	9,897
Complaints resolved within five days (%)	95.29	95.43	96.53	99.03	98.06

Corporate Banking

Based out of three regional headquarters based in Riyadh, Jeddah, and Al-Khobar, SAIB's Corporate Banking Group serves large corporates, mid-sized corporates, and the MSME sector. The Bank meets the needs of its clients through a wide range of technology-enabled products, as well as Islamic banking products. Furthermore, the Bank's subsidiaries and associate companies provide clients with the following products and services:

- Alistithmar Capital: Investment services
- American Express (Saudi Arabia): Corporate cards
- Amlak International: Real Estate financing
- Saudi Orix: Leasing
- Medgulf: Insurance

Customer base

Customer type	2020	2019	2018	2017	2016
Corporate banking	1,750	1,650	1,540	1,450	1,407
MSME	11,546	11,109	11,940*	15,936	13,704

**Reduction in MSME accounts from 2017 – 2018 due to accounts being abandoned.*

Loyalty programs

The Banks continued its efforts to grow its loyalty programs, Aseel and WooW. The Aseel program onboarded 12 new partners, bringing the total number of Aseel Partners to 352.

For the WooW loyalty programme, the Bank rewards loyalty members with points for their transactions. The points can then be redeemed for various gifts from the WooW e-catalogue. A key initiative was implemented in 2020 to enhance the efficiency and customer experience by enabling the redemption of e-gift vouchers. This boosted the quality of the digital experience, reduced the delivery time of vouchers compared to physical vouchers, reduced customer complaints regarding the delivery of vouchers, and improved the overall customer experience.

Marketing campaigns

Home finance

The Bank conducted a campaign to promote the launch of a first-of-its-kind service, a home finance application via SAIB's mobile app. The campaign was conducted through SAIB's digital channels and highlighted the uniqueness of the experience within the Saudi banking sector and the convenience of applying wherever you are, whenever you want. Actual customer experiences were video recorded and posted on the Bank's social media channels to validate the benefits of the service.

COVID-19 awareness

The Bank conducted a Coronavirus campaign focused on sharing tips related to financial, general health, and emotional awareness posted on a weekly basis. The hashtags (كن واعيا، وعيك يطمنك، وعيك يميزك) were used to tag posts, videos, and infographics published on the Bank's social media channels, as well as internally to employees via internal announcements, screensavers, and digital screens.

COVID-19 E-Banking

The Bank shared a series of educational videos on its social media channels under the hashtag (وأنت بمكانك), explaining how customers could use the Bank's services via the mobile app or website, thereby eliminating the need to visit their local branches.

COVID-19 business continuity

The Bank shared a video on its social media channels highlighting its digitalization initiatives during the pandemic, delivering the message of the Bank's continuity of work and the provision of products and services to customers.

Nafith

The Bank promoted its collaboration with the Ministry of Justice to enable the issuance of online finance requests via the Nafith platform.

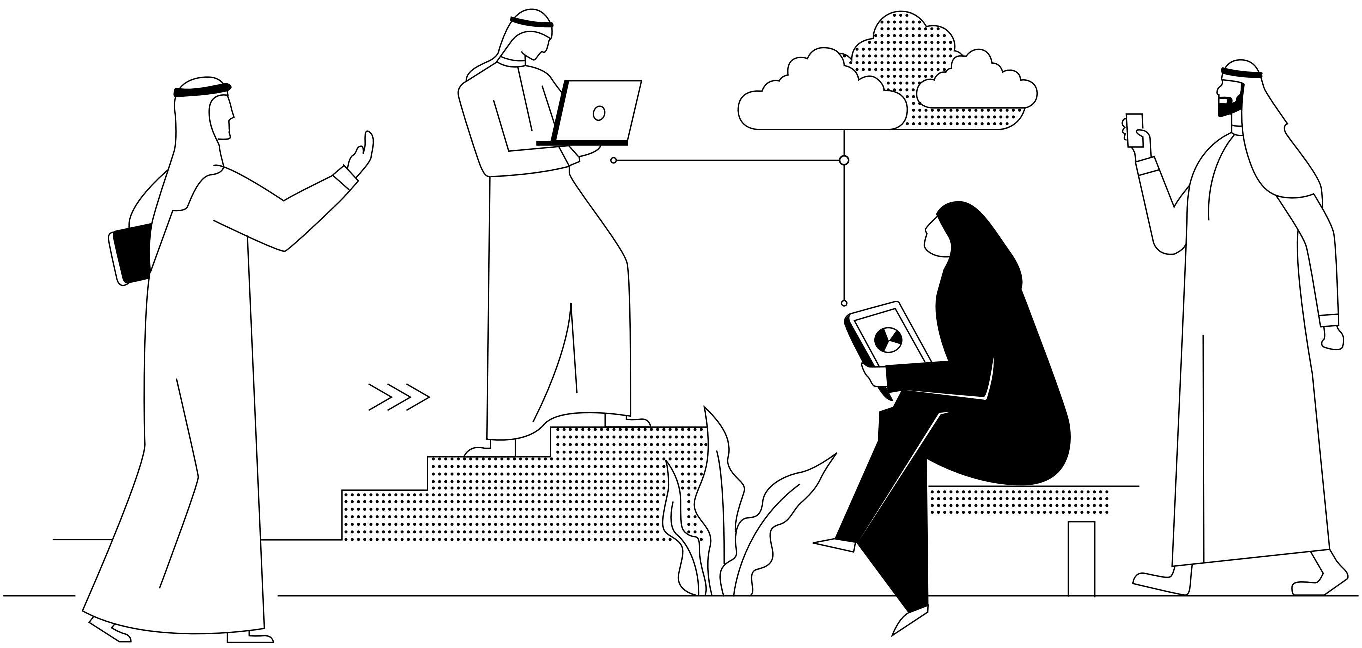
#خليها_علينا

The Bank ran an initiative to reward select customer segments by "paying" for their coffee and cinema tickets when they made a transaction using a SAIB card. The campaign was launched to raise brand awareness and engagement with customers.

Employee Capital

GRI 103-1, 103-2, 103-3, 202-2

SAIB employs a human resource planning strategy that is aligned with its overall business strategies, while cognizant of the operating environment and supply and demand. The demand is determined by the evaluation of business requirements in terms of numbers and roles at organization unit levels, and supply is evaluated by analyzing the availability of people by functions and levels and how gaps can be filled through staff development and training.



Performance in 2020 – SAIB ONLY

With the fundamental approach of driving the employee experience through in-person communication radically changing overnight due to the pandemic, the HR Unit quickly adapted to the changing workplace conditions by working closely with other SAIB stakeholders and ensuring business continuity.

The Unit achieved a 13.23% reduction in headcount (including regular staff and out/in-sourced) with no impact on overall productivity, in line with the Bank's objectives.

Saudization increased from 87.84% in 2019 to 90% in 2020 as a result of the talent acquisition team focusing on identifying talent within the Kingdom and limiting the hiring of expatriate staff. A new talent acquisition platform was also introduced to automate requisition approval and candidate selection and approval. The unit continued to focus on upskilling employees through several initiatives including providing multiple learning platforms, developing Saudi talent, building risk and digital capability, and targeted training for certain roles.

Employee Capital

GRI 102-8, 401-1

SAIB Only

% of Saudi employees
90.00
(2019 – 87.84)

Turnover ratio
1%
(2019 – 1.28%)

Hours spent on training
12,124
(2019 – 24,388)

Employee hours spent on CSR activities
19
(2019 – 525)

Total number of permanent employees (2020)
1,315
(2019 – 1,481)

% of female employees
20
(2019 – 21)

Gender analysis

	SAIB	Alistithmar Capital
Male	1,051	90
Female	264	24

New hires

	SAIB	Alistithmar Capital
Male	71	11
Female	45	4

Category

Permanent (SAIB)	1,315
Contract	
Outsourced	63
Alistithmar Capital	144

Age group (SAIB Only)

18-30 years	290	157
31-40 years	491	90
41-50 years	218	17
Over 51 years	52	

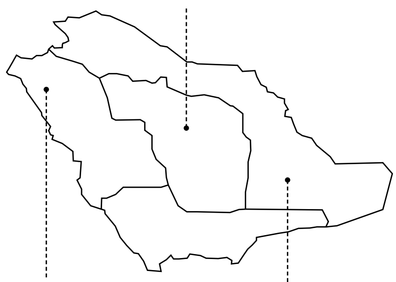
Total Male
1,051

Total Female
264

Grade

Senior management	131	9
Middle management	236	56
Non-management	684	199

Region No. of Employees (SAIB Only)



Employee Capital

GRI 102-8, 405-1, 405-2

Saudization	SAIB			Alistithmar Capital			Total		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Saudis (%)	**90**	87.84	88	**80**	81.90	79	**89**	87.44	87.7
Non-Saudis (%)	**10**	12.16	12	**20**	18.10	21	**11**	12.56	12.3

Automation was a major focus, with 37 processes being automated during the year. The core HR system (MenaME) was upgraded, and all workflows were revised to be streamlined with the new update, including all transactions for outsourced employees. The attendance and access control systems were revamped in accordance with the Security and Safety Department. Activities such as data clean-up and file archiving also led to cost savings for the Bank.

Male:Female salary ratio (SAIB only)	**2020**	2019	2018	2017	2016
Senior management	**1:0.69**	1:0.72	1:0.93	1:0.55	1:0.69
Middle management	**1:0.23**	1:0.89	1:0.83	1:0.76	1:0.86
Non-management	**1:0.35**	1:0.91	1:0.91	1:0.86	1:0.96

Initiatives in 2020

In what was an incredibly challenging year due to the pandemic, the Human Resources Unit at SAIB played a pivotal role in ensuring optimal workplace performance while also ensuring its performance on its strategic performance indicators was not impacted.

Several initiatives were undertaken by the HR Unit to enhance the employee experience and value to other stakeholders:

- Process automation was the primary focus during the year, covering all areas of HR with a particular focus on activities which have a direct impact on the employee experience.
- The core HR system was upgraded in line with the unit's focus on process automation.
- A full review of HR policies and procedure manuals in line with the Ministry of Labour's requirements, as well as enhancing the policy.
- Assess the competitiveness of employee packages in line with the market to ensure SAIB's ability to attract and retain best-in-class talent.
- Focus on employee development by providing multiple training opportunities.

The impact of these initiatives was analyzed, and the following was determined:

- The initiatives directly impacted employees' experience in dealing with HR and other HR stakeholders at large benefitted as well. Process automation has resulted in the efficient and seamless delivery of internal processes for employees and better governance of policies.
- The core HR system upgrade introduced best-in-class technology within SAIB for HR processes and contributed significantly to the HR automation journey.
- The review of HR policies ensured that SAIB HR practices are aligned with the Ministry of Labour's practices and that adequate governance has been ensured. Furthermore, the policies are aligned to the Bank's strategic initiatives.
- The Bank conducted a compensation benchmarking exercise to ensure that our employees are compensated in line with market best practices and new talent is attracted to fulfil our growth ambitions.
- The focus on employee development is an ongoing one, ensuring employee competitiveness even during challenging workplace events.

Future initiatives

The Bank plans to undertake several initiatives, in line with the strategic plan, related to efficiency, engagement, benefits, service standards, and internal processes. The HR Unit will continue to work on automation to accomplish the desired level of effectiveness and efficiency, in line with the Bank's strategic objectives. Further enhancements will see the complete HR system stack being integrated, further improving the employee experience. The Unit will continue to enhance service standards and internal processes to augment value for stakeholders and be a role model for HR in the Kingdom.

Driving employee engagement will be a strategic imperative as well, keeping the best interests of employees in mind. A salary benchmark activity was completed during the year under review and the Bank will continue to carry out a benchmark on a periodic basis to ensure that its employees are compensated in line with industry trends and the Bank can continue to attract the best talent. Understanding the situation with the COVID-19 global pandemic as it evolves and adapting accordingly will also be a priority for the Unit.

Employee Capital

GRI 102-8, 401-2, 401-3

Employee engagement

SAIB recognizes the importance of engaging with its employees and does so in a meaningful way to contribute to their motivation, satisfaction, and retention. Open dialogue between management and staff is maintained and a biennial employee satisfaction survey gives the Bank insight into how employees perceive their working environment and their satisfaction with performance appraisal, pay and benefits, work processes, communication, and customer focus.

With the COVID-19 pandemic and subsequent restrictions having an impact on how the Bank normally engages with its employees, a digital approach was taken in 2020 to engage with employees. Several events were successfully held virtually during the year and were well-received by the Bank's employees.

Event	Date/Frequency
Saudi National Day celebrations	September 23, 2020
Eid celebrations	July 28, 2020
Physical activity challenges during Work from Home period	May 10, 2020
Online gaming competition amongst employees and their families	September 20, 2020

Saudi National Day

Several staff activities took place to celebrate the 90th Saudi National Day. A video was created featuring employees answering questions about topics related to the Kingdom, which was aired at an internal event to celebrate the day. The celebratory video was shared to the Bank's social media channels. A competition was also held on LinkedIn for the Bank's employees.

FIFA 20 tournament

An internal FIFA 20 tournament was held with the support of the Marketing Team, who organized the event by gathering participants and driving engagement numbers during the tournament.

SAIB Winter

The SAIB Winter event was held at the start of the year with the support of the Marketing and HR teams, who arranged food trucks for the event and handled internal communication with the staff to attend the event.

Motivation and retention

The Bank spent a total of SAR 672 million. on salaries and benefits in 2020 (SAIB and Alistithmar Capital).

Salaries and benefits (SAR'000)	2020	2019	2018
Fixed Compensation	415,705	390,026	417,336
Variable compensation accrued	83,000	82,000	70,000
Other employee benefits and related expenses	173,331	154,301	138,655
Total salaries and employee-related expenses	672,036	626,327	625,991

In addition to providing employees remuneration competitive with the industry rates, the Bank provides a host of benefits including life insurance, medical insurance, fitness club membership, social security, loyalty programs, and allowances for housing and transportation.

During the year, the Bank introduced new housing loan products for employees to assist them with purchasing land and self-construction. Additionally, the employee rate for personal loans was reduced from 2.41% to 1%.

Assistance is provided wherever possible to female staff members to help them balance their work and family responsibilities. Paid maternity leave up to 10 weeks and up to 180 days of sick leave is available to pregnant women.

	Male	Female
Number of employees who took parental leave, by gender	67	13
Number of employees who returned to work after parental leave, by gender	67	12
Number of employees who returned to work after parental leave who were still employed 12 months after return, by gender	51	11
The return to work and retention rates of employees who returned to work after parental leave ended, by gender	2.1	1

SAIB ONLY

Employee Capital

GRI 102-8, 401-2, 404-1, 404-2, 404-3, 412-2

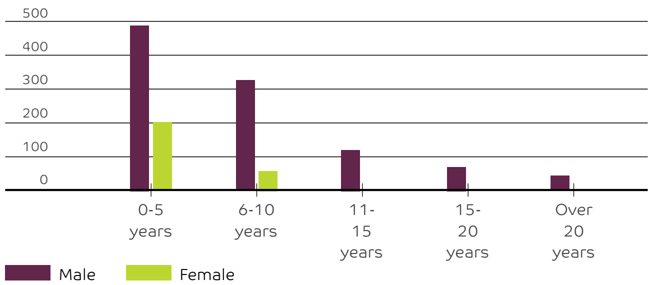
The Bank's employees are also entitled to long-term benefits. Benefits payable to employees at the end of their services are accrued in accordance with guidelines set by the Saudi Labour Regulations and as per the Bank's accounting policies. The amount of provision made during the year ended December 31, 2020 for employees' end of service benefits was SAR 38.7 million. The balance of the accrued benefits outstanding is approximately SAR 202.4 million. as of December 31, 2020.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan. The amount of provision made during the year ended December 31, 2020 for these plans was approximately SAR 48.7 million.

The Bank also recognizes that besides monetary compensation, job satisfaction is equally important to its employees. A job rotation policy gives employees the opportunity to change jobs and obtain new knowledge, skills, and a broader view of the Bank's operations, while helping to minimize discontentment as well as mitigate risk for the Bank by rotating staff in critical areas.

Service analysis of workforce (SAIB only)

(SAR million)



Learning and development

SAIB's learning policy was revised to align more closely to the Bank's strategic objectives. The Bank introduced a mandatory learning curriculum as per SAMA requirements. The curriculum was designed to develop the digital capability of the Bank's employees and covers a wide range of topics, including:

- Fraud prevention
- Payment Card Industry Data Security Standard (PCI DSS)
- Operational risk management
- Acceptable usage standard
- Business continuity management
- Anti-money laundering and compliance
- Code of Conduct

Modules focused on developing the digital capability were available to all the Bank's employees and covered the following topics:

- Introduction to Bots
- Introduction to Machine Learning
- Robotic Process Automation
- Introduction to Artificial Intelligence
- Micro Services
- Basics of Data Analytics
- Blockchain
- Basics of the Agile Process
- Internet of Things

As per SAMA's mandate, Shariah governance and anti-money laundering (AML) was introduced for Senior Management so that they can have a complete understanding of the Bank's Shariah governance and AML frameworks.

During 2020, six new e-learning platforms were introduced for all SAIB employees:

- LinkedIn
- Harvard
- Moody's
- Financial Academy
- Doroob
- Udemy

An assessment centre conducts a psychometric analyzis of the Bank's talent pool to identify employees with high potential using the HOGAN assessment tool to determine the strengths, motives, values, and areas for development in individuals. Furthermore, two graduate development programs were introduced.

	2020	2019	2018	2017	2016
Number of training programs	**159**	239	192	219	
Total number of participants	**1,302**	1,423	1,681	1,732	
Training days	**1,732**	4,543	3,775	4,491	
Hours spent on training (based on a 7-hour training day)	**12,124**	31,801	26,425		
Number of trained staff	**531**	598	1,107	794	707

SAIB ONLY

Employee Capital

GRI 102-8, 403-1, 403-2, 403-5, 403-7, 404-1, 404-2, 404-3

Grade	Number of employees			Number of person hours of training		
	Male	Female	Total	Male	Female	Total
Senior management	39	4	43	651	483	1,134
Middle management	92	14	106	2,338	245	2,583
Non-management	243	139	382	5,600	2,807	8,407

SAIB ONLY

Type	Number of employees			Number of person hours of training		
	Male	Female	Total	Male	Female	Total
Mandatory	1,014	286	1,300	7,098	2,002	9,100
Non-mandatory	937	365	1,302	8,589	3,535	12,124
E-learning	1,036	296	1,332	7,252	2,072	9,324

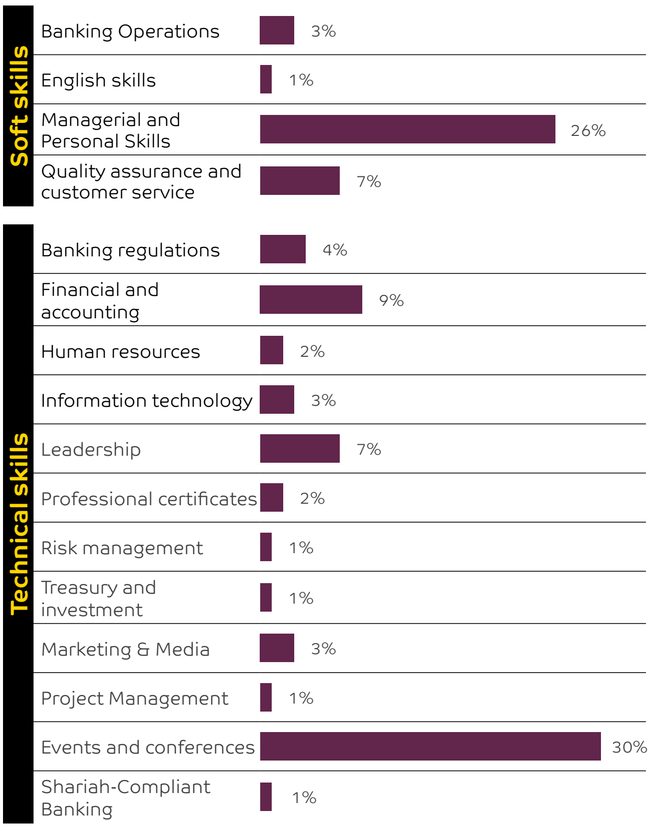
SAIB ONLY

Type	2020	2019	2018
Formal training hours	12,124	30,618	26,425
Percentage of female employees (%)	30	48	25.0
Percentage of hours – Soft skills (%)	36.49	60	74.4
Percentage of hours – Technical skills (%)	63.51	40	25.6
Percentage of hours completed by female employees (%)	29	28	32.8
Total number of participants	1,302	1,443	1,681
eLearning modules	1,332	1,261	208

SAIB ONLY

Training (Percentage of training hours per subject)

(SAR million)



Managing the COVID-19 pandemic risks

SAIB approached the COVID-19 pandemic by enacting its business continuity plans and establishing a Coronavirus Response Team Committee comprised all department managers. In early 2020, the Committee discussed the emerging situation and immediately took to the guidelines issued by the Saudi Government regarding precautionary and preventative actions to help ensure the health and well-being of all staff, clients, and stakeholders. With the primary goal of preventing the spread of the disease, the Committee looked at how curfew times would affect the business, established staff working plans with social distancing in mind, and reallocated staff to main or alternative sites or work from home. The Committee implemented over 50 actions as a response to the coronavirus, including:

- Restricting access entry for all non-staff to the head office and regional offices.
- Limiting delivery and receiving of documentation at the Bank's offices and creating specific delivery counters.
- Sterilizing and disinfecting SAIB branches and departments.
- Providing hand sterilizers, masks, and gloves to all SAIB staff at building entrances and within office areas.
- Positioning a medical station with medical staff at entrances to conduct health and temperature checks.

Employee Capital

GRI 403-2, 403-5, 403-7, 403-9

- Restricting access to all parking garages within the head office building and conducting temperate checks.
- Providing VPN access for staff designated to work from home.
- Devising staff plans to ensure only essential staff were required to work onsite.
- Limiting the number of open branches and reducing working hours.
- Creating educational videos advising staff on best practices for working from home.
- Revisiting all critical vendors to assure their business continuity readiness.
- Creating an internal procedural approach for employees to report any suspected cases of coronavirus within the staff.
- Assigning staff to work from business continuity sites.

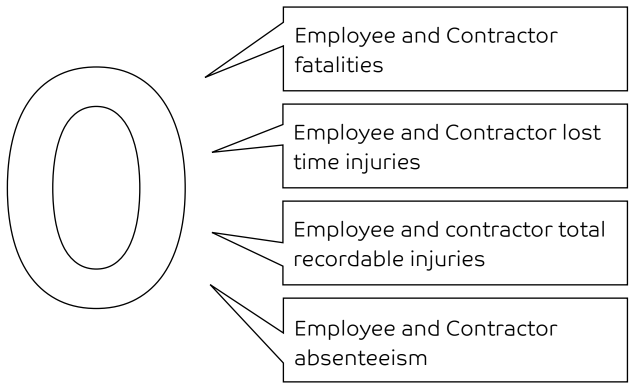
Staff who were able to work from home could do so. Thanks to the Bank's continued focus on technology enablement, approximately 39% of the Bank's staff were equipped to work remotely. Various critical functions that could not be performed remotely continued to operate from the Bank's premises. Teams were split between offices and relocated to designated business continuity plan (BCP) sites and different sections within the head office.

An internal communication plan was devised to communicate news, information, and updates on health and well-being to employees. All training and business travel was prohibited as the health and safety of staff was the top priority and an increased focus was placed on sanitation and health practices.

Occupational health and safety

SAIB takes every step to protect the health and safety of its employees. In addition to security and safety policies, the Bank conducts branch inspections, safety sessions, and awareness programs. No fatalities, injuries, or absenteeism due to work-related health issues occurred during the year under review.

SAIB Only 2020



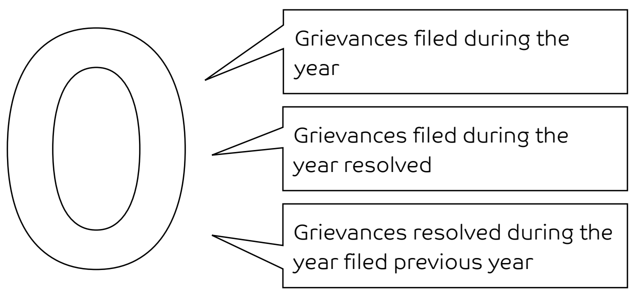
Grievance policy

The grievance procedure is a section within the Human Resources Policy and serves as tool through which employees who may have a grievance regarding any condition of their employment to be heard by the Bank's Management.

In the event of an employee wishing to raise a grievance, it is generally preferable for the matter to be satisfactorily resolved as close to the individual and their line manager as possible. In case this is not possible, a formal procedure is required to ensure the swift and fair resolution of the matter. A timescale to deal with the grievance swiftly is fixed but may be extended if it is agreed upon by both parties.

The grievance procedure is not intended to deal with dismissal or disciplinary matters, or disputes which are of a collective nature. If the grievance remains unresolved, the employee may choose, as a final level of appeal, to write to a dedicated email address which will be accessed by Senior Management, upon which they will receive a response within 20 working days.

SAIB Only 2020




الاستقبال
Reception

Business Partner Capital

GRI 102-9, 102-10, 103-1, 103-2, 103-3, 204-1, 308-1, 414-1

SAIB maintains strong relationships with its business partners, ensuring that its operations continue without interruption. The long-term relationships the Bank has established with its vendors and service providers are based on mutual trust and confidence, and it conducts itself in an ethical and transparent manner with them.

Suppliers

The Bank's procurement costs are primarily centred around stationery, equipment, and software. SAIB remains conscious of its impact on the local economy and local communities and strives to source from Saudi suppliers whenever possible. Suppliers are regularly evaluated for their performance to ensure the timely procurement and quality of supplies and to maintain good relations. The Bank does its part to ensure that it meets its payment obligations in a timely manner.

	2020		2019	2018	2017	2016
	Had business with	New vendor created				
International suppliers	97	22	137	39	79	24
Local suppliers	262	77	305	148	154	80
Spending (international procurement) – SAR	82,270,891*		68,244,427	60,777,564	36,644,044	25,000,000
Spending (local procurement) – SAR	359,999,608*		399,433,627	389,513,667	259,314,171	130,000,000

Items such as Rent, Petty cash, and Utilities have been excluded

Business Partner Capital

Correspondent banks

SAIB's network of correspondent banks serves the MENA, European, African, and North American regions and is crucial in supporting the Bank's overseas transactions.

Strategic partnerships

Wholly owned subsidiaries

Alistithmar for Financial Securities and Brokerage Company

Alistithmar for Financial Securities and Brokerage Company, which offers brokerage, asset management, investment banking and other services in the Kingdom of Saudi Arabia. The total capital of the Company is SAR 250 million. with 25 million. shares outstanding. The Company does not have any debt instruments issued. The Company was established in July 2007 as a limited liability company, and in 2015 the Company was converted into a closed joint stock company. The Company provides brokerage services, investment management services in the form of mutual funds and portfolios, custody services and investment banking advisory services. Assets under management totalled SAR 20,800 million. as of December 31, 2020, of which SAR 5,766 million. is considered Shariah approved.

The Saudi Investment Real Estate Company

The Saudi Investment Real Estate Company holds title deeds as collateral on behalf of the Bank for real estate-related lending transactions. The Company has a total capital of SAR 500,000 and does not have any debt instruments issued.

SAIB Markets Limited Company

SAIB Markets Limited Company, was registered as a limited liability company in the Cayman Islands in July 2017. The total capital of the Company is SAR 187.5 thousand, and this Cayman Islands limited liability company does not have any debt instruments issued. The objective of this company is trading in derivatives and Repo activities on behalf of the Bank.

Saudi Investment First Company Ltd., completed the formalities for deregistration with regulatory authorities and was liquidated during 2020.

Associate companies

American Express (Saudi Arabia)

American Express (Saudi Arabia) (AMEX) is a Saudi closed joint stock company whose principal activities are to issue credit cards and offer other American Express products and services in Saudi Arabia. The company has a total capital of SAR 100 million. with 10 million shares outstanding, with the Bank holding a 50% interest or 5 million shares.

Saudi Orix Leasing Company

Saudi Orix Leasing Company (Orix) is a Saudi closed joint stock company in Saudi Arabia whose primary activities include lease financing services. Orix has 55 million outstanding shares of which the Bank holds 20.9 million shares or 38% of the outstanding shares. Subsequent to December 31, 2020, the company was renamed to YANAL Finance.

Amlak International for Finance and Real Estate Development Co.

Amlak International for Finance and Real Estate Development Co. (Amlak) is a Saudi joint stock company that offers real estate finance products and services in Saudi Arabia. The company has a total capital of SAR 906 million. and 90.6 million. outstanding shares, of which the Bank holds 20.3 million shares or 22.41% of the outstanding shares. The Bank solid 30% of its shares in Amlak during 2020 as part of Amlak's Initial Public Offering.

Regulators

SAIB maintains healthy relations with its regulators and ensures it complies with all applicable rules and regulations.

Zakat settlement

In December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The discounted Zakat liability of SAR 711.8 million. was fully provided for through a charge to the Consolidated Statement of Income with the corresponding liability included in other liabilities as of December 31, 2018. The Bank has paid SAR 155 million, SAR 124 million. and SAR 124 million on January 1, 2019, December 1, 2019 and December 1, 2020 respectively, as per the settlement agreement.

Business Partner Capital

GRI 102-13

The undiscounted Zakat settlement liability remaining to be paid and the net discounted Zakat liability is as follows:

	SAR '000
December 1, 2021	124,072
December 1, 2022	124,072
December 1, 2023	124,072
Undiscounted Zakat settlement liability	372,216
Less: Discount	(27,579)
Net discounted Zakat liability	346,637

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as was agreed in the settlement for the prior years. The 2018 Zakat was calculated based on this method and was also charged to the Consolidated Statement of Income in 2018 and was settled by April 30, 2019.

Although the Zakat settlement did not include the year 2005, the Bank provided for an additional Zakat liability for 2005 amounting to SAR 38.6 million, which was charged to the Consolidated Statement of Income in 2018 and settled in 2019.

In 2019, GAZT published rules for the computation of Zakat for companies engaged in financing activities and licensed by SAMA. The Bank has provided for Zakat for the years ended December 31, 2020 and 2019 based on its understanding of these rules:

- **Withholding tax:** The Bank paid SAR 53.7 million to GAZT for the year ended December 31, 2020.
- **Value Added Tax (VAT):** The Bank paid SAR 48.2 million to GAZT for the year ended December 31, 2020.
- **Other regulatory payments:** The Bank paid SAR 50.4 million to the General Organization for Social Insurance for its employees, including the employee share of SAR 22.6 million during the year ended December 31, 2020.

  The Bank also paid SAR 1.5 million for visa and other related governmental fees during the year ended December 31, 2020.

Regulatory penalties and fines

The Bank paid SAR 1.92 million to SAMA during 2020 due to five regulatory fines and penalties.

Fines amount In SAR	Description of the fine	No. of fines
205,000	Violating SAMA's instructions	3
1,680,000	Violating SAMA's Instructions for Consumer Protection	1
35,000	Violating SAMA's instructions of Self-Supervisory Guidelines	1

Affiliations

GRI Community member

SAIB retained its GRI Community membership for the year under review. The GRI Community is an inclusive and collaborative network of companies and stakeholders committed to transparency and quality sustainability reporting.

Social and Environmental Capital

GRI 103-1, 103-2, 103-3, 203-1, 203-2

"Awn" (helping others) and "Hifth" (environmental protection) are two of the pillars of SAIB's sustainability framework that highlight the Bank's social and environmental responsibility. The Bank has a responsibility to support the communities it is a part of and to help the disadvantaged. The Bank also has a responsibility to minimize its environmental footprint and conserve natural resources to ensure continued long-term value creation.

Environmental policies and systems

As one of the Bank's five sustainability pillars, Hifth (environmental protection) signifies that the Bank is conscious of how it impacts the environment it operates in and strives to minimize this impact and protect the environment. The importance the Bank gives to the environment is further highlighted by its commitment to Vision 2030 and the United Nations Sustainable Development Goals.

Environmental management

The Bank directly impacts the environment through its operations and indirectly through its value chain. To measure the environmental impact and improve upon it, the Bank aligned to the ISO 14000 standard for the implementation of an Environmental Management System (EMS). The EMS covers a wide range of environmental issues, including protecting the environment by minimizing and mitigating adverse impact, mitigating the environment's impact on SAIB, fulfilling compliance obligations, realising financial and operational benefits from environmentally sound alternatives, and communicating environment-related information.

A Procedures Manual facilitates the EMS implementation by:

- Defining the needs and expectations of stakeholders concerned with the environment
- Identifying environmental conditions that affect the Bank
- Identifying the environmental impact of SAIB's activities

Social and Environmental Capital

GRI 103-1, 103-2, 103-3, 203-1, 203-2, 301-2, 302-1, 302-4, 305-1, 305-2, 306-2

- Defining the risks and opportunities that need to be considered for the management of environmental issues
- Designing a framework to implement SAIB's environmental policies and objectives
- Identifying key performance indicators (KPIs) for measuring SAIB's environmental performance.

Building management system

With the aim of developing a comprehensive understanding of the environmental impact of the energy usage and emissions of SAIB's operations. The Bank implemented a Building Management System (BMS) in all branches across the Kingdom which contributes greatly to creating a positive environmental impact. Since its implementation in 2015, the BMS has shown a significant reduction in energy consumption (MW/h) of over 23%, which has led to the system being selected by Inc. magazine to be a formal case study.

The efforts of our BMS Team dedicated to track the Bank's energy usage in detail has greatly helped in sustaining overall progress. As a result of these efforts, many timely initiatives were taken to identify lapses and management has taken prompt action to implement an eco-friendly branch (solar system) and electricity-saving equipment such as LED lighting, energy-efficient IT and air conditioning systems, and water conserving systems.

				GHG Emissions		Petrol/Diesel consumption	
	MWh	GJ	SAR	Direct Scope 1 (Fuel/Diesel usage)	Indirect Scope 2 (Electricity usage)	Litre	GJ
2016	33,541	120,748	9,877,600	264	21,936	110,005	8,813
2017	32,596	117,346	10,132,628	257	20,673	107,310	8,584
2018	28,258	101,729	9,249,624	255	18,481	106,110	8,162
2019	31,883	114,779	10,003,314	257	20,851	83,178	6,398
2020*	**29,807**	**107,305**	**9,561,695**	**254**	**19,494**	**79,193**	**6,092**

**Information based on projected data for January – December of FY 2020.*

Paper usage and recycling

25,802 Kg

Total paper consumption (Kgs) – 2020

2019	2018	2017	2016
46,325	68,770	73,995	64,187

4,760 Kg

Paper recycled (Kgs) – 2020

2019	2018	2017	2016
8,007	48,384	9,676	8,852

19.58 Kg

Paper consumption/employee (Kgs) – 2020

2019	2018	2017	2016
35	46	49	39

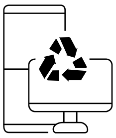
2,680 Kg

Plastics recycled (Kgs) – 2020

2019	2018	2017	2016
3,735	10,788	1,194	–

Social and Environmental Capital

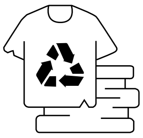
GRI 203-1, 203-2, 301-2, 303-5, 306-2, 413-1



Electronics recycled (Kgs) – 2020

2019	2018	2017	2016
5,560	14,620	2,010	–

No activity due to COVID-19 precautionary measures

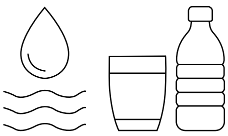


Clothing recycled (Kgs)

2019	2018	2017	2016
600	624	–	–

No activity due to COVID-19 precautionary measures

Water consumption and expenditure



78,154,000
Consumption (litres)

466
Expenditure (SAR '000)

The figure of 78,154,000 litres is derived from 78,154 (m³) annual water consumption of Kingdom-wide branches which has been calculated via formula based on the number of invoices paid and as per the tariff schedule of the National Water Company.

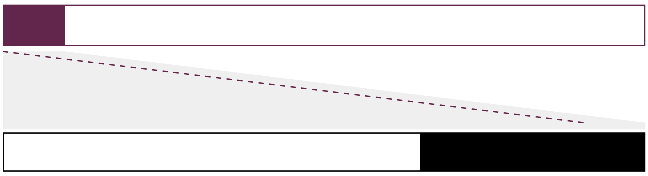
The reported water consumption comprises all the domestic usage of water where applicable and is recorded from the main incoming domestic water supply lines of the Branch.

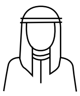
Social responsibility

Awn (helping others) is a part of SAIB's philosophy about our social responsibility to support the communities we are a part of and to help the disadvantaged. The Bank also encourages its stakeholders to adopt sustainable practices to benefit the economy, society, and the Kingdom.

Total volunteers
128

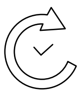
Volunteers as a percent of total staff
9.7%





Male volunteers
65%

Female volunteers
35%



Hours worked
19

Forejat

The Bank negotiated and signed an agreement with the General Directorate for Prisons to add Forejat to the WooW Al-Khair programme, thus enabling SAIB customers to donate their WooW loyalty points to the Forejat programme.

World Cancer Day

The Bank's CSR unit partnered with the King Abdulaziz Media City Hospital to arrange a visit by senior SAIB executives to visit over 50 National Guard cancer patients. Gifts were

Social and Environmental Capital

GRI 203-1, 203-2, 413-1

provided to each of the National Guard patients.

World Alzheimer's Day

SAIB ran a World Alzheimer's Day campaign with awareness messages distributed throughout the Head Office building and via the Bank's social media channels.

Saudi National Day

To celebrate the 90th Saudi National Day, the Bank crated an emotional video to represent what happened in 1337H when the plague spread and how the situation at the time was dealt with care, similar to the current COVID-19 pandemic. The video was promoted across the Bank's social media channels.

Women's Day

A video production of SAIB's female employees was created to convey the message that all Saudi women share the same achievements, determination, and persistence as HRH Princess Nora bint Abdurrahman. The video was shared across SAIB's social media channels on Women's Day.

Sign language videos for finance products

Three videos were created to promote SAIB's cards and home finance and personal finance products. The videos featured a sign language interpreter explaining the products and benefits and were shared on YouTube and played at branches.

Special needs branches video

A video was produced for the newly equipped branch with a sign language interpreter to serve those with special needs to demonstrate all the services available in the branch. The video was shared on the Bank's social media channels and website. A webpage was also created with full details about the services available at the branches and a map identifying the locations of the special needs branches.

Bin Khaldun School

The Operational Excellence Department hosted children from the Bin Khaldun School and provided them with educational awareness sessions about banking.

WooW Alkhair programme

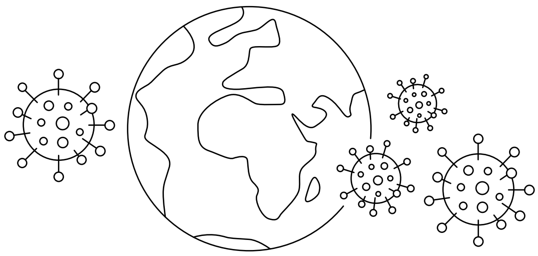
Total WooW points donated to charity
222,700,000

Value of WooW points donated
SAR 1,113,500

Numbers of participating organizations in WooW programme
48

SAIB's WooW loyalty programme gives the Bank's loyalty customers the option to donate the points they earn to charitable causes. In 2020, WooW loyalty customers donated a total of SAR 1,113,500 to 48 participating organizations through the WooW Alkhair programme.

COVID-19 initiatives



Recognising the severe toll that COVID-19 took on citizens, workers, customers, and businesses across the Kingdom, SAIB undertook several initiatives to contribute to the betterment of society during this extraordinary time.

The Bank contributed to support the Ministry of Health's Endowment Fund to confront the coronavirus pandemic with

Social and Environmental Capital

GRI 203-1, 203-2, 413-1

an amount of SAR 6.5 million. The fund helped to provide treatments and contribute to financing preventive programs and health research. Furthermore, the Bank postponed loan instalments for health sector employees who had credit facilities (real estate, consumer, lease financing) with the Bank for three months in appreciation of their efforts.

SAIB contributed SAR 4.072 million to support the Community Fund initiative of the Ministry of Human Resources and Social Development and the General Authority for Endowments to mitigate the economic and social impacts of the pandemic.

SAIB continued to support the Ministry of Health by publishing the Ministry's awareness content across the Bank's social media channels, while also commending the efforts of health sector heroes working diligently to fight the coronavirus. Additionally, the Bank supported the various campaigns of government agencies such as #CautiouslyWeReturn and #StayHome with awareness-raising content related to the services provided.

The Bank used its social media channels to highlight its digitalization and continuity of work, and encouraged customers to use digital channels for banking services by publishing educational clips and awareness messages and the #FromHome campaign to raise awareness of banking services via digital channels to reduce the need to visit branches. Further quality of life improvements were made by increasing the purchase limit through the Mada Atheer (contactless payment) service to SAR 300 and eliminating international transfer fees via electronic platforms. A dedicated toll-free service number (800 124 8002) was also established to handle questions and inquiries relating to SAMA's Private Sector Financing Support Programme.

FINANCIAL STATEMENTS

Within the context of its operating environment and strategies, SAIB engages in various processes to transform its tangible and intangible resources into outputs: products and services. From these outputs, the Bank creates value for itself and its stakeholders. Thus, through these processes, the Bank creates long-term value.

Auditors' Report

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2020, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes from 1 to 43.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in the Kingdom of Saudi Arabia").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, a description of how our audit addressed the matter is provided in that context:

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses over loans and advances As of December 31, 2020, the gross loans and advances of the Group were Saudi Riyals (SAR) 56,829 million against which an allowance for expected credit losses amounting to SAR 1,755 million was maintained. The determination of expected credit losses ("ECL") involves significant management judgment and this has a material impact on the consolidated financial statements of the Group. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular and hence has increased the level of judgment needed to determine the ECL. The key areas of judgment include: 1. Categorisation of loans and advances in Stage 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / default exposures. In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ("12 month ECL"), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the loans and advances ("Lifetime ECL"). The Group has applied additional judgments to identify and estimate the likelihood of borrowers that may have experienced SICR notwithstanding the various government support programs that resulted in deferral of instalments to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves.	We obtained and updated our understanding of management's process for the assessment of impairment of loans and advances as required by IFRS 9 "Financial Instruments", the Group's impairment allowance policy and the ECL modelling methodology including any key changes made in light of the COVID-19 pandemic. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We evaluated the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over: • the ECL modelling process, including governance over monitoring of the models and approval of key assumptions and post model adjustments; • the classification of borrowers into various stages, timely identification of SICR and determination of default or individually impaired exposures; • the IT systems and applications underpinning the ECL model; and • the integrity of data inputs into the ECL model. For a sample of customers, we assessed: • the internal ratings determined by the management based on the Group's internal rating model and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the impacts of the COVID-19 pandemic, and also assessed that these were consistent with the ratings used as inputs in the ECL model; • the staging as identified by management; and • management's computation of ECL.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to an assessment of the financial condition of the borrowers, expected future cash flows and developing and incorporating forward looking macroeconomic factors and the associated scenarios and expected probabilities weightages. 3. The application of overlays, where appropriate, to model-driven ECL to reflect all relevant risk factors that might not be captured by the ECL model. We considered this as a key audit matter as the application of these judgments, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as of December 31, 2020. *Refer to the summary of significant accounting policies note 3(c)(vi) relating to impairment of financial assets, note 2(d)(i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 and note 30 which contains the disclosure of impairment against loans and advances, details of credit quality analysis and key assumptions and factors considered in the determination of ECL and note 39 for the impact of COVID -19 on ECL.*	We assessed the Group's criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's loan portfolio, including for customers who were eligible for the deferral of instalments under government support programs with specific focus on customers operating in sectors most affected by the COVID-19 pandemic. We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. We tested the completeness and accuracy of data underlying the ECL calculation as of December 31, 2020. Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights, and of assumptions used in post model adjustments. We assessed the adequacy of related disclosures in the consolidated financial statements

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
SAMA support program and related government grants In response to the COVID-19 pandemic, the Saudi Central Bank ("SAMA") launched a number of initiatives including the liquidity support program for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to, Micro Small and Medium Enterprises ("MSME"), including financing companines. The PSFSP included the deferred payments program whereby the Bank deferred the instalments payable by MSMEs during the period from March 14, 2020 to March 31, 2021 In order to compensate the Bank with respect to the losses incurred in connection with the PSFSP and the liquidity support programme, the Bank has received profit-free deposits of varying maturities amounting in aggregate to SAR 6,183 million. The difference between the fair value of such deposits at initial recognition, determined using market rates of deposits of similar value and tenor, and their nominal value has been considered as a government grant and accounted for in accordance with the International Accounting Standard 20: *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20"). We considered the accounting treatment of the SAMA support programme and government grants as a key audit matter because: 1. These deposits represent significant events and material transactions that occurred during the year and thereby required significant auditors' attention; and 2. The recognition and measurement of government grants involved significant management judgments including but not limited to: • determining the appropriate discount rate to be used, and • identifying the objective of each individual deposit to determine the timing of recognition of the associated grant.	We obtained an understanding of the various programs and initiatives taken by SAMA during the year ended December 31, 2020 in response to COVID-19 pandemic, and assessed the objectives of the deposits received by the Bank in relation thereto to assess the appropriateness of the application of IAS 20 (and recognition of government grant) by the Bank. We obtained the details of the deposits received during the year by the Bank. We assessed the reasonableness of the relevant discount rates used for the computation of government grants. We tested the accuracy of the government grant computation and assessed the basis for the timing of recognition of the government grant being at a point in time or over a period, thereby matching the expense / related costs for which the government grant was intended to compensate. We assessed the adequacy of related disclosures in the consolidated financial statements.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
Refer to the summary of significant accounting policies note 3 (h) relating to government grant accounting policy, and note 39 which contains the disclosure of SAMA support program and details of the government grants received during the year from SAMA	
Valuation of investments held as fair value through other comprehensive income (FVOCI) which are not traded in an active market	
Investments held as FVOCI comprise a portfolio of corporate bonds, Sukuks and equity instruments. These instruments are measured at fair value with the corresponding unrealized fair value changes recognised in other comprehensive income While the majority of the fair values of the Group's investments were obtained directly from active markets as of December 31, 2020, the Group held an amount of SAR 4,160 million of unquoted investments. The fair value of these investments is determined through the application of valuation techniques, which often involve the exercise of judgment by management and the use of assumptions and estimates Estimation uncertainty exists for those investments not traded in an active market and where the internal modelling techniques use: • significant observable valuation inputs (i.e level 2 investments); and • significant unobservable valuation inputs (i.e. level 3 investments). Estimation uncertainty is particularly high for level 3 investments. In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments, and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data.	We evaluated the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuations of investments classified as FVOCI which are not traded in an active market We reviewed the methodology and assessed the appropriateness of valuation models and inputs used by management to value the investments held as FVOCI through involving our valuation experts. We tested the valuation of a sample of FVOCI investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation, such as comparable entity data and liquidity discounts, by benchmarking them with external data. We assessed the adequacy of related disclosures in the consolidated financial statements.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
The valuation of the Group's investments held as FVOCI in level 2 and level 3 categories is considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. *Refer to the summary of significant accounting policies note 3(e)(ii), note 2(d)(ii) which explains critical judgments and estimates for fair value measurement and note 31 which explains the investment valuation methodology used by the Group.*	
Valuation of derivative financial instruments The Group has entered into various commission rate swaps, commission rate options, foreign exchange forward contracts and foreign exchange options which are over the counter ("OTC") derivatives. The valuation of these contracts is subjective, and is determined through the application of valuation techniques that involves the exercise of judgment and the use of assumptions and estimates. These derivatives are held for trading purposes; however, certain commission rate swaps are categorized as fair value hedges in the consolidated financial statements. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in the case of hedge ineffectiveness, can also impact the hedge accounting. Due to the significance of the derivative financial instruments and related estimation and uncertainty, we have assessed the valuation of derivative financial instruments as a key audit matter. *Refer to the summary of significant accounting policies note 3(f) which explains derivative financial instruments and hedge accounting, note 2(d)(ii) which explains critical judgments and estimates for fair value measurement, note 11 which discloses the derivative positions and note 31 which explains the fair values of financial assets and liabilities*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives. We selected a sample of derivatives and performed the following: • tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • checked the accuracy and appropriateness of the key inputs to the valuation models; • involved our valuation experts to perform an independent valuation of the derivatives and compared the results with management's valuation; and • checked hedge effectiveness performed by the Group and the related hedge accounting. We assessed the adequacy of related disclosures in the consolidated financial statements.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of associated company put option	
The Group's derivatives as of December 31, 2020 includes a put option with a positive fair value of SAR 337 million.	We assessed the design and implementation, and tested the operating effectiveness of controls over the valuation of the associate company put option.
This put option is embedded within the agreement ("the Agreement") with the other shareholder in an associated company, and gives the Group an option to sell its share in the associated company to the other shareholder based on a strike price determined in accordance with the Agreement.	We inspected the Agreement to obtain an understanding of the principal terms of the put option.
In accordance with the Group's accounting policy, this put option is segregated from the Agreement and is measured at its fair value.	We considered the put option valuation performed by the management and assessed the methodology and key assumptions used by the management.
The Group uses an option pricing model to fair value the put option, which requires certain inputs which are not observable in the current market. These inputs include historical results of the associated company and other inputs which require management's judgment, 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.	We involved our valuation experts to assess the reasonableness of the valuation of the associated company put option determined by the management.
This is considered as a key audit matter as the valuation of this put option, as mentioned above, requires management to exercise significant judgment.	We assessed the adequacy of related disclosures in the consolidated financial statements.
Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(f) which explains the accounting policy for derivative financial instruments and hedge accounting, note 2(d)(ii) which explains critical judgments and estimates for fair value measurement, note 11 which explains the put option positions and note 31 which explains the fair values of financial assets and liabilities.	

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Other Information

Management is responsible for the other information in the Group's annual report. The other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance (i.e the Board of Directors of the Bank).

Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as endorsed in KSA, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditors' Report

KPMG Al Fozan & Partners
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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management .

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain jointly responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Auditors' Report

KPMG Al Fozan & Partners
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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of the most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended December 31, 2020.

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Certified Public Accountant
Registration No. 277

Rajab 4, 1442 H
February 16, 2021

Consolidated Statement of Financial Position

As of December 31, 2020 and 2019

	Notes	2020 SAR '000	2019 SAR '000
Assets			
Cash and balances with SAMA	4a	8,323,490	10,218,816
Due from banks and other financial institutions, net	5 (a), 31 (c)	2,166,742	3,028,515
Investments	6 (a), 31 (a)	30,513,843	26,175,480
Positive fair values of derivatives, net	11 (c), 31 (a)	1,018,349	1,305,076
Loans and advances, net	7 (a), 31 (c)	55,073,894	57,112,907
Investments in associates	8 (b)	845,744	994,298
Other real estate	30 (c)	446,678	457,679
Property and equipment, net	9 (a)	1,064,660	1,134,495
Information technology intangible assets, net	9 (b)	281,780	254,336
Other assets, net	10 (a)	149,352	132,994
Total assets		99,884,532	100,814,596
Liabilities and equity			
Liabilities			
Due to banks and other financial institutions, net	12 (a), 31 (c)	20,073,084	13,788,191
Customers' deposits	13 (a), 31 (c)	60,143,589	69,058,054
Negative fair values of derivatives, net	11 (c), 31 (a)	329,462	315,519
Term loans	14, 31 (c)	2,006,169	2,011,626
Other liabilities	15 (a)	2,001,195	1,634,199
Total liabilities		84,553,499	86,807,589
Equity			
Share capital	16	7,500,000	7,500,000
Statutory reserve	17	5,233,000	4,988,000
Treasury shares	37	(1,041,067)	(1,041,067)
Other reserves	6 (e)	792,043	329,977
Retained earnings		847,057	230,097
Shareholders' equity		13,331,033	12,007,007
Tier I Sukuk	36	2,000,000	2,000,000
Total equity		15,331,033	14,007,007
Total liabilities and equity		99,884,532	100,814,596

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Income

For the years ended December 31, 2020 and 2019

	Notes	2020 SAR '000	2019 SAR '000
Special commission income	19	3,261,976	3,902,488
Special commission expense	19	940,322	1,624,597
Net special commission income		2,321,654	2,277,891
Fee income from banking services, net	20	303,397	299,032
Exchange income, net		177,249	155,905
Dividend income	21	14	–
Unrealized fair value through profit and loss	31 (a)	(81,871)	7,350
Realized fair value through profit and loss		3,542	3,275
Gains on disposals of FVOCI debt securities, net	22	104,476	43,518
Other income	8 (b) (i)	17,672	31,257
Total operating income		2,846,133	2,818,228
Salaries and employee-related expenses	23 (a)	672,036	626,327
Rent and premises-related expenses		128,439	144,080
Depreciation and amortization	9	144,676	143,517
Other general and administrative expenses	38 (b)	268,990	320,322
Operating expenses before provisions for credit and other losses		1,214,141	1,234,246
Provisions for credit and other losses	38 (a)	449,413	1,342,637
Total operating expenses		1,663,554	2,576,883
Operating income		1,182,579	241,345
Share in earnings of associates	8 (b)	45,928	88,156
Income before provisions for Zakat and Income Tax		1,228,507	329,501
Provisions for Zakat and Income Tax	25 (a)	248,946	90,040
Net income		979,561	239,461
Basic and diluted earnings per share (expressed in SAR per share)	**24 (b)**	1.28	0.17

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2020 and 2019

	Notes	2020 SAR '000	2019 SAR '000
Net income		979,561	239,461
Other comprehensive income			
Items that cannot be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of equity investments held at fair value through other comprehensive income		113,711	1,536
Net change in present value of defined benefit obligations due to change in actuarial assumptions	35 (a)	(6,394)	(20,689)
Items that can be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of debt securities held at fair value through other comprehensive income		461,677	585,219
Fair value gains transferred to the consolidated statement of income on disposals of FVOCI debt securities, net	22	(104,476)	(43,518)
Share in other comprehensive loss of associates	8 (b)	(3,488)	(515)
Share in other comprehensive loss of associates transferred to the consolidated statement of income on the disposal of an associate	8 (b) (i)	1,036	–
Total other comprehensive income		462,066	522,033
Total comprehensive income		1,441,627	761,494

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2020 and 2019

	2020 (SAR '000)								
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year		7,500,000	4,988,000	(1,041,067)	329,977	230,097	12,007,007	2,000,000	14,007,007
Net income		–	–	–	–	979,561	979,561	–	979,561
Total other comprehensive income		–	–	–	462,066	–	462,066	–	462,066
Total comprehensive income		–	–	–	462,066	979,561	1,441,627	–	1,441,627
Tier I Sukuk costs		–	–	–	–	(117,601)	(117,601)	–	(117,601)
Transfer to statutory reserve	17	–	245,000	–	–	(245,000)	–	–	–
Balances at the end of the year		7,500,000	5,233,000	(1,041,067)	792,043	847,057	13,331,033	2,000,000	15,331,033

	2019 (SAR '000)								
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year as previously reported		7,500,000	4,928,000	(787,536)	(192,056)	205,268	11,653,676	1,785,000	13,438,676
Retroactive effect of other adjustments		–	–	–	–	(32,608)	(32,608)	–	(32,608)
Balances at the beginning of the year as restated		7,500,000	4,928,000	(787,536)	(192,056)	172,660	11,621,068	1,785,000	13,406,068
Net income		–	–	–	–	239,461	239,461	–	239,461
Total other comprehensive income		–	–	–	522,033	–	522,033	–	522,033
Total comprehensive income		–	–	–	522,033	239,461	761,494	–	761,494
Treasury shares purchased	37	–	–	(253,531)	–	–	(253,531)	–	(253,531)
Tier I Sukuk proceeds	36	–	–	–	–	–	–	215,000	215,000
Tier I Sukuk costs		–	–	–	–	(122,024)	(122,024)	–	(122,024)
Transfer to statutory reserve	17	–	60,000	–	–	(60,000)	–	–	–
Balances at the end of the year		7,500,000	4,988,000	(1,041,067)	329,977	230,097	12,007,007	2,000,000	14,007,007

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2020 and 2019

	Notes	2020 SAR '000	2019 SAR '000
Operating Activities			
Net income		979,561	239,461
Adjustments to reconcile net income to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		25,570	36,428
Net change in accrued special commission income		276,887	193,514
Net change in accrued special commission expense		(186,241)	(33,611)
Net change in deferred loan fees		(38,677)	27,031
Gains on disposals of FVOCI debt securities, net	22	(104,476)	(43,518)
Unrealized fair value through profit and loss		81,871	(7,350)
Realized fair value through profit and loss		(3,542)	(3,275)
Depreciation and amortization	9	144,676	143,517
Loss on sales of property, equipment, and intangibles		–	2,629
Gain on sale of other real estate		(7)	(33,886)
Gain on sale of an ownership interest in an associate	8 (b) i	(19,460)	–
Net effect of Commission free deposits from SAMA and SAMA Private Sector Financing Support Program		(112,930)	–
Provisions for credit and other losses	38 (a)	449,413	1,342,637
Share in earnings of associates	8 (b)	(45,928)	(88,156)
		1,446,717	1,775,421
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		212,677	(221,996)
Due from banks and other financial institutions maturing after three months from acquisition date		(1,027,968)	(128,566)
Loans and advances		2,339,336	800,384
Positive fair values of derivatives, net		301,549	(60,822)
Other real estate		11,008	228,525
Other assets		7,590	(258,546)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions, net		6,616,806	1,177,687
Customers' deposits		(8,780,757)	5,385,416
Negative fair values of derivatives, net		(30,868)	(203,539)
Other liabilities		692,615	221,110
		1,788,705	8,715,074
Zakat and Income Tax payments		(231,668)	(476,080)
Net cash provided from operating activities		1,557,037	8,238,994
Investing Activities			
Proceeds from sales and maturities of investments		4,932,104	1,939,699
Purchases of investments		(8,824,344)	(2,857,924)
Dividends received from associates	8 (b)	79,397	105,709
Proceeds from sale of an ownership interest in an associate	8 (b) (i)	133,129	–
Acquisitions of property, equipment, and intangibles	9	(106,092)	(163,646)
Proceeds from sales of property, equipment, and intangibles		–	7,705
Net cash used in investing activities		(3,785,806)	(968,457)

Consolidated Statement of Cash Flows

	Notes	2020 SAR '000	2019 SAR '000
Financing Activities			
Treasury shares purchased	37	–	(253,531)
Proceeds from Tier I Sukuk	36	–	215,000
Redemption of Subordinated debt		–	(2,000,000)
Tier I Sukuk costs		(117,601)	(122,024)
Net cash used in financing activities		(117,601)	(2,160,555)
Net increase (decrease) in cash and cash equivalents		(2,346,370)	5,109,982
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	4 (b)	9,613,154	4,503,172
Net increase remove/(decrease) in cash and cash equivalents		(2,346,370)	5,109,982
Cash and cash equivalents at the end of the year	4 (b)	7,266,784	9,613,154
Supplemental special commission information			
Special commission received		3,538,863	4,096,002
Special commission paid		1,128,563	1,661,263
Supplemental non-cash information			
Total other comprehensive income		462,066	522,033
Adoption of IFRS 16 on January 1, 2019		–	246,601
Other real estate		–	121,285

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

GRI 102-45, 201-3

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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 (2019: 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, Kingdom of Saudi Arabia

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.

These 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 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;

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

(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 Consolidated Financial Statements refer to disclosures that are relevant only to the Bank and not collectively to the Group.

2. Basis of preparation

(a) Statement of compliance

These Consolidated Financial Statements as of and for the year ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"); and are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's Articles of Association.

(b) Basis of measurement and presentation

These consolidated financial statements are prepared under the historical cost convention except for the following items in the Consolidated Statement of Financial Position:

- Derivatives are measured at fair value;
- Financial instruments designated as Fair Value through Profit or Loss ("FVTPL") are measured at fair value;
- Investments designated as Fair Value through Other Comprehensive Income ("FVOCI") are measured at fair value;
- Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged;
- Cash settled share-based payments are measured at fair value; and
- Defined benefit obligations are recognized at the present value of future obligations using the Projected Unit Credit Method.

The Statement of Financial Position is stated broadly in the order of liquidity.

(c) Functional and presentation currency

The Consolidated Financial Statements are presented in Saudi Arabian Riyals (SAR) which is the Group's functional currency. Except as otherwise indicated, financial information presented in SAR has been rounded off to the nearest thousand.

Notes to the Consolidated Financial Statements

2. Basis of preparation – continued

(d) Critical accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements in conformity with IFRS as endorsed in KSA requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a second wave of infections 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 to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, a number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it should be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity will last and whether the vaccine will prevent transmission or not. However, the testing results showed exceptionally high success rates. The Group, therefore, continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Group has made various accounting estimates in these Consolidated Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as of December 31, 2020 about future events that the Group believes are reasonable in the circumstances.

There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these Consolidated Financial Statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to impairment losses on financial assets, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these Consolidated Financial Statements.

Significant areas where management has used estimates, assumptions, or exercised judgements are as follows:

(i) Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 Financial Instruments across all categories of financial assets requires judgement, and in particular, the estimation of the amount and timing of future cash flows, collateral values when determining impairment losses, and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, and the changes to these factors can result in different levels of allowances.

The Group's Expected Credit Loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns Probability of Defaults ("PDs") to individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk ("SICR") where allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposures at default ("EADs") and Loss given defaults ("LGDs"); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Notes to the Consolidated Financial Statements

2. Basis of preparation – continued

(ii) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in Note 31.

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 market inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Consolidated Statement of Financial Position are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

For assets and liabilities that are recognized in the 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 period.

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.

(iii) Determination of control over investees

The control indicators set out in note 3b are subject to Management's judgement. The Group also 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 the Financial Statements of these funds.

Notes to the Consolidated Financial Statements

2. Basis of preparation – continued

(iv) Going concern

The Group's Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Consolidated Financial Statements are prepared on the going concern basis.

(v) Determination of lease terms

In determining the lease terms for the purposes of calculation of lease liabilities and Right of Use ("ROU") leased assets, Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease terms if the lease is reasonably certain to be extended or not terminated.

The Group also reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(vi) Depreciation and amortization

Management uses judgement when determining the periods used for purposes of calculating depreciation and amortization for property and equipment, including ROU leased assets and information technology intangible assets. The judgement includes estimates of any residual values, the estimated periods over which future economic benefits will flow to the Group, and the choice of depreciation and amortization methods.

(vii) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management makes judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

(viii) Employee benefit plans

The Group operates an end of service benefit plan for its employees based on prevailing Saudi Labour laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these Consolidated Financial Statements are set out below.

(a) Changes in accounting policies

The accounting policies used in the preparation of these Consolidated Financial Statements are consistent with those used in the preparation of annual Consolidated Financial Statements for the year ended December 31, 2019 except for the below standards, interpretations, and amendments that became applicable for annual reporting periods beginning on or after January 1, 2020:

- Amendments to IFRS 3 – Definition of a Business;
- Amendments to IAS 1 and IAS 8 - Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform.

The Group has assessed that these amendments have no significant impact on the Group's consolidated financial statements.

(b) Basis of consolidation

These Consolidated Financial Statements are comprised of the Financial Statements of the Bank and its subsidiaries as identified in note 1. 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 Consolidated Financial Statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

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 summarized above. 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 year are included in the Consolidated Statement of Comprehensive Income from the date the Group obtains control until the date the Group ceases to control the subsidiary.

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 the Consolidated Statement of Income; 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.

All Intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these Consolidated Financial Statements.

(c) Financial assets and financial liabilities

(i) Recognition and Initial measurement

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

Financial Assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets at FVOCI

Debt Instruments

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Special commission income and foreign exchange gains and losses are recognized in the Consolidated Statement of Income.

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

Equity Investments

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument (i.e. share-by-share) basis.

Financial Assets at FVTPL

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets, or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume, and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is also based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets in the future.

Financial assets that may be held for trading and for which performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held to both collect contractual cash flows and to sell the financial assets.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, “principal” is the fair value of the financial asset on initial recognition. “Special commission” is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

(iii) Classification of financial liabilities

The Group classifies its financial liabilities at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the expected special commission rate.

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

(iv) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in the Consolidated Statement of Income.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group may retain the obligation to service a transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. However, an asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group may securitize various loans and advances to customers or investment securities, which generally result in the sale of these assets to unconsolidated securitization vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The securitization vehicles in turn issue securities to investors. Interests in the securitized financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognized as investment securities and carried at FVOCI. Gains or losses on securitization are recorded in the Consolidated Statement of Income.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated at FVOCI is not recognized in the Consolidated Statement of Income on derecognition of such securities. Cumulative gains and losses recognized in OCI in respect of such equity investment securities are transferred to retained earnings on disposal. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

(v) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Consolidated Statement of Income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as an adjustment to special commission income.

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the Consolidated Statement of Income.

(vi) Impairment

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions;
- Financial assets that are debt securities;
- Loans and advances, including lease receivables;

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

- Loan commitments issued;
- Financial guarantee contracts issued; and
- Other financial assets.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured equal to a 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition. See Note 30h.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. ECL is measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made to determine whether the financial asset should be derecognized and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Bank would not consider otherwise ;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail consumer loan that is overdue for 90 days or more is considered impaired.

In making an assessment as to whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in bond yields;
- Rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of the allowance for ECL in The Consolidated Statement of Financial Position

Allowances for credit losses are presented in the Consolidated Statement of Financial Position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as an allowance in other liabilities;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as an allowance in other liabilities; and
- For debt securities measured at FVOCI, no loss allowance is recognized against financial assets because the carrying amount of these assets is considered fair value. However, the loss allowance is disclosed and is included in OCI.

(vii) Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated allowance for credit losses, the difference is first treated as an addition to the allowance and then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for credit losses.

(viii) Offsetting financial instruments

Financial assets and liabilities are offset and are reported net in the Consolidated Statement of Financial Position when there is a legally enforceable right to set off the recognized amounts, when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the Consolidated Statement of Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

(ix) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees, and acceptances.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Group recognizes loss allowances.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance.

(d) Investments in associates

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control) over financial and operating matters and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the Consolidated Statement of Financial Position at cost, plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Share in earnings of associates includes the changes in the Group's share of the net assets of the associates. The Group's share of its associates post-acquisition income or losses is recognized in the Consolidated Statement of Income and its share of post-acquisition movements in other comprehensive income is recognized in OCI included in shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses,

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

Unrealized gains and losses on transactions between the Bank and its associates are eliminated to the extent of the Group's interest in the associates.

The Consolidated Statement of Income reflects the Group's share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains on transactions are eliminated to the extent of the Group's interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group's share of earnings in an associate is shown on the face of the Consolidated Statement of Income, which represents the net earnings attributable to equity holders of an associate and therefore income after Zakat and Income tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on an investment in an associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the share in earnings of associates in the Consolidated Statement of Income.

When the ownership interest in an associate is reduced but significant influence is retained, the difference between the carrying amount of associate and the consideration received is recognized in the Consolidated Statement of Income. Proportionate share of the amounts previously recognized in other comprehensive income are reclassified to Consolidated Statement of Income, where appropriate upon reduction of ownership interest in an associate.

(e) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in the fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(f) Derivative financial instruments and hedge accounting

As permitted by IFRS 9 – Financial Instruments, the Group has elected to continue to apply the hedge accounting requirements of IAS 39 – Financial Instruments: Recognition and Measurement.

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with the transaction costs recognized in the consolidated statement of income. All derivatives are carried at their fair value as assets where the net fair value is positive and as liabilities where the net fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow methods, and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

(i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting.

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not an asset in the scope of IFRS 9;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separate embedded derivatives are measured at fair value, with all changes in fair value recognized in the Consolidated Statement of Income unless they form part of qualifying cash flow or net investment hedging relationship in which case all changes in fair value are recognized in the Consolidated Statement of Comprehensive Income.

(iii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rates, foreign currency, and credit risks, including exposures arising from highly probable forecasted transactions and firm commitments. In order to manage a particular risk, the Bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged risk, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge.

At each hedge effectiveness assessment/reporting date, each hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness if significant is recognized in the Consolidated Statement of Income. For situations where the hedged item is a forecasted transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Consolidated Statement of Income.

Fair value hedges

When a derivative is designated as a hedging instrument in the hedge of a change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income together with the change in the fair value of the attributable hedged risk in special commission income.

For hedged items measured at amortized cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the Consolidated Statement of Income.

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

Cash flow hedges

When a derivative is designated and qualified as a hedging instrument in the hedge of a variability of cash flows attributable to a particular risk associated with a recognized asset or a liability or a highly probable forecasted transaction that could affect the Consolidated Statement of Income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognized directly in OCI and the ineffective portion, if any, is recognized in the Consolidated Statement of Income. For cash flow hedges affecting future transactions, the gains or losses recognized in OCI, are transferred to the Consolidated Statement of Income in the same period in which the hedged transaction affects the Consolidated Statement of Income. However, if the Bank expects that all or a portion of a loss recognized in OCI will not be recovered in one or more future periods, it reclassifies into the Consolidated Statement of Income as a reclassification adjustment the amount that is not to be recognized.

Where the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognized, the associated gains or losses that had previously been recognized directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other comprehensive income from the period when the hedge was effective is transferred from shareholders' equity to the Consolidated Statement of Income when the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur and affects the Consolidated Statement of Income, the net cumulative gain or loss previously recognized in other comprehensive income is transferred immediately to the Consolidated Statement of Income.

(g) Foreign currencies

Transactions in foreign currencies are translated into SAR at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at the exchange rates prevailing at the consolidated statement of financial position date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest rates and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the Consolidated Statement of Income, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Statement of Income except for differences arising on the retranslation of equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(h) Government grants

Grants received from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with the conditions associated with the grant. The benefit of a SAMA deposit at a below-market commission rate is treated as a government grant related to income. Below-market rate deposits are recognized and measured in accordance with IFRS 9 – Financial Instruments and included in due to banks and other financial institutions.

The benefit of the below-market rate of commission is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received and is presented as a discount to the SAMA deposit.

The benefit is accounted for in accordance with the requirements of IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance. The grant income

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

is only recognized when the ultimate beneficiary is the Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts. Government grant income is recognized in special commission income on a systematic basis to the extent of related costs for which the grant is intended to compensate, with the remaining discount deferred and included in other liabilities.

(i) Revenue/expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Special commission income and expense

Special commission income and expense for all special commission earning/bearing financial instruments are recognized in the Consolidated Statement of Income on the effective special commission rate basis. The effective special commission rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized on the effective special commission rate basis, based on the asset's carrying value net of impairment provisions.

The calculation of the effective special commission rate considers all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Measurement of amortized cost and special commission income

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating special commission income and expense, the effective special commission rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

For financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the effective special commission rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired then the calculation of special commission income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, special commission income is calculated by applying the credit-adjusted effective special commission rate to the amortized cost of the asset. The calculation of special commission income does not revert to a gross basis, even if the credit risk of the asset improves.

Rendering of services

The Group provides various services to its customers. These services are either rendered separately or bundled together with the rendering of other services.

Revenue from rendering of services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services, are recognized at the point when services are rendered i.e. when performance obligation is satisfied. For free services related to credit cards, the Group recognizes revenue over a period of time.

(ii) Exchange income/loss

Exchange income/loss is recognized when earned/incurred and in accordance with the principles included in Note 3 (g).

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

(iii) Fee income from banking services

Fees that are considered an integral to the effective special commission rate are deferred and included in the measurement of the relevant assets.

Fees from banking services that are not an integral component of the effective special commission rate calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided.

Portfolio and other Management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

Performance linked fees or fee components are recognized when the performance criteria is fulfilled.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred, together with the investment costs, and recognized as an adjustment to the effective special commission rate on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received or the transaction is completed.

(iv) Dividend income

Dividend income is recognized when the right to receive payment is established.

(v) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the Consolidated Statement of Income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the Consolidated Statement of Income when the inputs become observable, or when the instrument is derecognized.

(vi) Customer loyalty programs

The Group offers customer loyalty programs referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of the transaction price to the reward points awarded to members, based on estimates of costs of future redemptions. The amount of expense allocated to reward points is charged to the consolidated statement of income with a corresponding liability recognized in other liabilities. The cumulative amount of the liability related to unredeemed reward points is adjusted over time based on actual redemption experience and current and expected trends with respect to future redemptions.

(j) Re-purchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to re-purchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments. The transactions are treated as a collateralized borrowing and the counter party liability for amounts received under these agreements is included in due to banks and other financial institutions, as appropriate. The difference between the sale and re-purchase price is treated as special commission expense and recognized over the life of the re-purchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse re-purchase agreements) are not recognized in the Consolidated Statement of Financial Position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as special commission income and recognized over the life of the reverse re-purchase agreement on an effective yield basis.

(k) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, or when periodic impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

(l) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realizable value of the loans and advances and the current fair value of the related properties, less any costs to sell, if material. No depreciation is charged on such real estate. Rental income from other real estate is recognized in the Consolidated Statement of Income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the Consolidated Statement of Income. Any subsequent gain in the fair value less costs to sell these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/loss on disposal in the Consolidated Statement of Income.

(m) Property, equipment, and Information technology intangible assets

Property, equipment, and Information technology intangible assets are stated at cost and presented net of accumulated depreciation and amortization. Land is not depreciated. The costs of other property, equipment, and Information technology intangible assets are depreciated or amortized using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years
Information technology intangible assets	8 years

The assets' residual values, useful lives, and depreciation or amortization methods are reviewed and adjusted, if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Consolidated Statement of Income.

Other expenditures are capitalized only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(n) Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Right-of-Use (ROU) leased assets

The Group recognizes an ROU leased asset and a lease liability at the lease commencement date. The ROU leased asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU leased asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of ROU leased asset or the end of the lease term. The estimated useful lives of ROU leased assets are determined on the same basis as those of property and equipment. In addition, the ROU leased asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the Consolidated Financial Statements

3. Summary of significant accounting policies – continued

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

A lease liability is measured at amortized cost using the effective special commission rate method increasing the carrying amount to reflect special commission on the lease liability and reducing the carrying amount to reflect the lease payments made including prepayments.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in Consolidated Statement of Income if the carrying amount of ROU asset has been reduced to zero.

The Group presents ROU leased assets in 'Property and equipment' and lease liabilities in 'Other liabilities' in the Consolidated Statement of Financial Position.

Leases of low-value assets

The Group has elected not to recognize ROU leased assets and lease liabilities for leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) Provisions

Provisions are recognized for on and off balance sheet items when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

(p) Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

(q) Zakat, Income tax, and Value Added tax

The Group is subject to Zakat and Income tax in accordance with the regulations of the General Authority of Zakat and Income tax ("GAZT"). Provisions for Zakat and Income tax are charged to the Consolidated Statement of Income.

Management periodically evaluates positions taken in Zakat and Income tax returns with respect to situations in which applicable Zakat and Income tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the GAZT. Adjustments arising from final assessments are recorded in the period in which such assessments are made.

Since Zakat is not accounted for similar to Income tax, no deferred Zakat is calculated.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

IFRIC Interpretation 23 addresses the accounting for Income tax when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether uncertain tax treatments are considered separately;
- The assumptions about the examination of tax treatments by taxation authorities;
- How taxable profit, tax bases, unused tax losses, unused tax credits and tax rates are determined; and
- How changes in facts and circumstances are considered.

Notes to the Consolidated Financial Statements

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is followed.

The Group applies judgement in identifying uncertainties over Income tax treatments. Upon adoption of the Interpretation, the Group has considered whether it has any uncertain tax positions including transfer pricing. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the GAZT. The Interpretation did not have an impact on the Consolidated Financial Statements of the Group.

Value Added tax ("VAT")

The Group collects VAT from its customers for qualifying services provided, and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

(r) Short-term employees' benefits and Employee end of service benefit plan

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group operates an end of service benefit plan for its employees based on prevailing Saudi Labour laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

(s) Asset management services

The Group offers asset management services to its customers, which include management of investment funds in consultation with professional investment advisors. The Group's share of these funds is included in investments and fees earned are included in fee income from banking services, net. The Group's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the Consolidated Financial Statements.

(t) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

i. Murabaha – an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

ii. Tawaruq – a form of Murabaha transaction where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

iii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

iv. Ijarah – an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest-based banking products are accounted for in conformity with the accounting policies described in these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

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

(a) Cash and balances with SAMA as of December 31, 2020 and 2019 are summarized as follows:

	2020 SAR '000	2019 SAR '000
Cash on hand	704,645	892,087
Reverse repurchase agreements	4,610,000	6,025,000
Other balances, net	(217,704)	(137,497)
Cash and balances before statutory deposit [Note 4 (b)]	5,096,941	6,779,590
Statutory deposit	3,226,549	3,439,226
Cash and balances with SAMA	8,323,490	10,218,816

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its 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 does not form a part of cash and cash equivalents.

(b) Cash and cash equivalents included in the Consolidated Statement of Cash Flows as of December 31, 2020 and 2019 comprised the following:

	2020 SAR '000	2019 SAR '000
Cash and balances with SAMA excluding statutory deposit [(Note 4 (a)]	5,096,941	6,779,590
Due from banks and other financial institutions maturing within three months from the date of acquisition	2,169,843	2,833,564
Cash and cash equivalents	7,266,784	9,613,154

5. Due from banks and other financial institutions, net

(a) Due from banks and other financial institutions, net as of December 31, 2020 and 2019 are summarized as follows:

	2020 SAR '000	2019 SAR '000
Current accounts	1,669,843	373,345
Money market placements	500,101	2,657,258
Total due from banks and other financial institutions	2,169,944	3,030,603
Allowance for credit losses	(3,202)	(2,088)
Due from banks and other financial institutions, net	2,166,742	3,028,515

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies. The average S&P rating for the portfolio is an investment grade of "BBB" for 2020 (2019: "BBB").

(b) The movement of the allowance for credit losses for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Balances at the beginning of the year	2,088	2,703
Provision for credit losses	1,114	(615)
Balances at the end of the year	3,202	2,088

Notes to the Consolidated Financial Statements

6. Investments

(a) Investments as of December 31, 2020 and 2019 are summarized as follows:

	2020 (SAR '000)			2019 (SAR '000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate debt securities	20,587,370	7,028,923	27,616,293	15,700,184	6,745,165	22,445,349
Bonds	11,844,108	5,783,560	17,627,668	8,581,823	5,489,847	14,071,670
Sukuk	8,743,262	1,245,363	9,988,625	7,118,361	1,255,318	8,373,679
Floating rate debt securities	852,878	1,490,738	2,343,616	1,014,617	2,287,455	3,302,072
Bonds	–	1,490,738	1,490,738	–	2,287,455	2,287,455
Sukuk	852,878	–	852,878	1,014,617	–	1,014,617
Total debt securities	21,440,248	8,519,661	29,959,909	16,714,801	9,032,620	25,747,421
Equities	365,187	8,632	373,819	254,168	8,631	262,799
Mutual funds	144,212	–	144,212	126,224	–	126,224
Other securities	–	35,903	35,903	–	39,036	39,036
Investments	21,949,647	8,564,196	30,513,843	17,095,193	9,080,287	26,175,480

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

The Group's investments in equities include SAR 8.6 million as of December 31, 2020 (2019: 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 totalling SAR 365.1 million as of December 31, 2020 (2019: SAR 247.5 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.

Fixed rate bonds include investments in SAMA treasury bills totaling SAR 1.6 billion as of December 31, 2020 (2019: NIL). These are valued through quoted prices in an active market.

(b) The composition of investments as of December 31, 2020 and 2019 is as follows:

	2020 (SAR '000)			2019 (SAR '000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate debt securities	24,769,806	2,846,487	27,616,293	16,213,536	6,231,813	22,445,349
Bonds	15,044,628	2,583,040	17,627,668	9,574,192	4,497,478	14,071,670
Sukuk	9,725,178	263,447	9,988,625	6,639,344	1,734,335	8,373,679
Floating rate debt securities	1,043,425	1,300,191	2,343,616	1,833,548	1,468,524	3,302,072
Bonds	1,043,425	447,313	1,490,738	1,833,548	453,907	2,287,455
Sukuk	–	852,878	852,878	–	1,014,617	1,014,617
Total debt securities	25,813,231	4,146,678	29,959,909	18,047,084	7,700,337	25,747,421
Equities	360,544	13,275	373,819	249,525	13,274	262,799
Mutual funds	132,949	11,263	144,212	114,664	11,560	126,224
Other securities	–	35,903	35,903	–	39,036	39,036
Investments	26,306,724	4,207,119	30,513,843	18,411,273	7,764,207	26,175,480

The unquoted debt securities above are principally comprised of Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under FVOCI investments include unquoted shares of SAR 13.3 million (2019: SAR 13.3 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above when the daily net asset values are published on the Saudi Stock Exchange (Tadawul).

Notes to the Consolidated Financial Statements

6. Investments – continued

The Group's investment in mutual funds represent investments in Shariah compliant open ended investment funds for investors seeking capital appreciation and high liquidity through exposure to Shariah compliant Saudi equities and financial products. The Group has also invested in private real estate funds with the investment objective of delivering medium-term capital appreciation through development of premium residential apartments.

Investments include SAR 13.5 billion (2019: SAR 10.8 billion) in debt securities, which have been pledged under repurchase agreements with other financial institutions. Pledged assets are those financial assets that may be repledged or resold by counterparties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as a participant. See Note 12 (b).

(c) Investments are classified by counterparty as of December 31, 2020 and 2019 as follows:

	2020 SAR '000	2019 SAR '000
Government and quasi-government	20,810,417	17,348,488
Corporate	5,373,207	4,851,768
Banks and other financial institutions	4,330,219	3,975,224
Total	30,513,843	26,175,480

(d) The movement of the allowance for credit losses included in other reserves for the years ended December 31, 2020 and 2019 is as follows:

	2020 SAR '000	2019 SAR '000
Balance at the beginning of the year	29,659	75,480
Provision for credit losses	1,726	(45,821)
Balance at the end of the year [Note 6 (e)]	31,385	29,659

(e) Other reserves classified in shareholders' equity as of December 31, 2020 and 2019 are comprised of the following:

	2020 SAR '000	2019 SAR '000
Unrealized gains on revaluation of debt securities at FVOCI before allowance for credit losses	714,398	358,923
Allowance for credit losses on debt securities at FVOCI [Note 6 (d)]	31,385	29,659
Unrealized gains on revaluation of debt securities at FVOCI after allowance for credit losses	745,783	388,582
Unrealized gains (losses) on revaluation of equities held at FVOCI	76,055	(37,656)
Actuarial losses on defined benefit plans	(27,083)	(20,689)
Share of other comprehensive income (loss) of associates	(2,712)	(260)
Other reserves	792,043	329,977

Notes to the Consolidated Financial Statements

7. Loans and advances, net

(a) Loans and advances, net classified as held at amortized cost as of December 31, 2020 and 2019 are comprised of the following:

	2020 (SAR '000)			
	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

	2019 (SAR '000)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	35,908,695	2,002,370	13,248,652	51,159,717
Stage 2	4,165,102	628,792	204,961	4,998,855
Stage 3	553,103	430,102	2,464	985,669
Total performing loans and advances	40,626,900	3,061,264	13,456,077	57,144,241
Non-performing loans and advances	947,868	1,164,385	261,998	2,374,251
Total loans and advances	41,574,768	4,225,649	13,718,075	59,518,492
Allowance for credit losses	(982,836)	(1,030,656)	(392,093)	(2,405,585)
Loans and advances, net	40,591,932	3,194,993	13,325,982	57,112,907

(b) Total loans and advances are comprised of the following:

	2020 SAR '000	2019 SAR '000
Conventional loans and advances	15,669,425	20,520,406
Non-interest based loans and advances:	41,159,893	38,998,086
Murabaha, including Tawarruq	41,036,926	38,853,618
Ijarah	122,967	144,468
Total loans and advances	56,829,318	59,518,492

(c) The movement of the allowance for credit losses for the years ended December 31, 2020 and 2019 is as follows:

	2020 SAR '000	2019 SAR '000
Balances at the beginning of the year	2,405,585	1,795,576
Provision for credit losses (i)	453,527	1,270,770
Write-offs, net	(1,103,688)	(660,761)
Balances at the end of the year	1,755,424	2,405,585

i. Owing to the prevailing economic conditions, the Group has recognized additional ECL provisions of SAR 246.3 million during the year ended December 31, 2020 for its loans and advances portfolio as a result of adjustments to macroeconomic factors, scenario weightages, and post-model overlays. Refer to Note 39 for details.

Notes to the Consolidated Financial Statements

7. Loans and advances, net – continued

(d) The credit quality of loans and advances as of December 31, 2020 and 2019 is summarized as follows:

(i) Neither past due nor credit-impaired loans and advances, are as follows:

	2020 SAR '000	2019 SAR '000
Grade 1 – Exceptional	1,086,222	1,030,843
Grade 2 – Excellent	4,188,163	4,661,323
Grade 3 – Strong	10,087,076	6,070,450
Grade 4 – Good	9,077,884	12,898,184
Grade 5 – Acceptable	13,425,649	13,472,788
Grade 6 – Marginal	1,169,456	1,803,303
Grade 7 – Special Mention	1,149,697	659,279
Unrated	10,686,729	12,604,404
Total	50,870,876	53,200,574

The above table includes neither past due nor credit-impaired loans and advances classified as Stage 2 amounting to SAR 3.1 billion (2019: SAR 4.7 billion). These loans are classified as Stage 2 as they exhibit significant increase in credit risk due to their categorization as restructured, relative downgrade in ratings and watchlist. It also includes Stage 2 exposures which are yet to complete curing periods to be eligible to be upgraded to Stage 1.

The ratings of the loans and advances included above are described as follows:
Exceptional – leader in highly stable industry. Superior financial fundamentals and substantial cash flows. Has ready access to financial markets.

Excellent – leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong – strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal market conditions.

Good – moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable – minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal – unfavourable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Special Mention – unfavourable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer and other retail loans with no past due balances.

Notes to the Consolidated Financial Statements

7. Loans and advances, net – continued

(ii) Past due but not credit-impaired loans and advances as of December 31, 2020 and 2019 are as follows:

	2020 (SAR '000)		
	Commercial, overdrafts and others	Consumer	Total
From 1 day to 30 days	2,351,578	380,546	2,732,124
From 31 days to 90 days	618,534	149,756	768,290
Total	2,970,112	530,302	3,500,414

	2019 (SAR '000)		
	Commercial, overdrafts and others	Consumer	Total
From 1 day to 30 days	1,860,390	644,248	2,504,638
From 31 days to 90 days	248,399	204,961	453,360
Total	2,108,789	849,209	2,957,998

(e) The economic sector risk concentrations as of December 31, 2020 and 2019 are as follows:

	2020 (SAR '000)					
	Performing					
	Stage 1	Stage 2	Stage 3	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	727,146	–	–	–	(8,598)	718,548
Banks and other financial services	8,431,796	105,754	31,120	4,790	(111,379)	8,462,081
Agriculture and fishing	179,387	4,586	–	–	(2,704)	181,269
Manufacturing	2,143,887	387,252	112,243	167,683	(250,417)	2,560,648
Building and construction	5,469,775	1,190,504	204,786	38,622	(216,537)	6,687,150
Commerce	9,222,922	1,053,052	135,914	770,991	(581,356)	10,601,523
Transportation and communication	1,080,499	-	10,029	3,899	(27,711)	1,066,716
Services	2,207,306	29,797	21,025	13,158	(53,149)	2,218,137
Consumer loans	11,067,275	149,756	449	136,948	(260,226)	11,094,202
Other	9,662,692	1,257,904	783,353	23,018	(243,347)	11,483,620
Total	50,192,685	4,178,605	1,298,919	1,159,109	(1,755,424)	55,073,894

Notes to the Consolidated Financial Statements

7. Loans and advances, net – continued

	2019 (SAR '000)					
	Performing					
	Stage 1	Stage 2	Stage 3	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	969,627	–	–	–	(10,285)	959,342
Banks and other financial services	8,179,335	110,290	42,633	–	(73,842)	8,258,416
Agriculture and fishing	80,938	–	–	–	(1,123)	79,815
Manufacturing	2,875,543	293,607	71,971	201,823	(212,895)	3,230,049
Building and construction	4,928,825	1,464,843	25,268	111,625	(121,771)	6,408,790
Commerce	8,891,055	973,746	94,981	834,023	(525,207)	10,268,598
Transportation and communication	1,598,585	615	8,616	47,682	(67,572)	1,587,926
Services	2,435,795	36,684	42,971	782	(33,821)	2,482,411
Consumer loans	13,248,652	204,961	2,464	261,998	(392,093)	13,325,982
Other	7,951,362	1,914,109	696,765	916,318	(966,976)	10,511,578
Total	51,159,717	4,998,855	985,669	2,374,251	(2,405,585)	57,112,907

8. Investments in associates

(a) Investments in associates as of December 31, 2020 and 2019 include the Bank's ownership interest in associated companies in KSA, as follows:

	2020	2019
American Express (Saudi Arabia) ("AMEX") (%)	50	50
Saudi ORIX Leasing Company ("ORIX") (%)	38	38
Amlak International for Real Estate Finance Company ("AMLAK") (%)	22.4	32.0

AMEX is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 100 million. The principal activities of AMEX are to issue credit cards and offer other American Express products in KSA.

ORIX is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 550 million. The primary business activities of ORIX include lease financing services in KSA. Subsequent to December 31, 2020, the Company was renamed to YANAL Finance ("YANAL").

AMLAK is a Saudi Arabian joint stock company in KSA with total capital of SAR 906 million. AMLAK offers real estate finance products and services in KSA.

All of the Group's associates are incorporated in and operate exclusively in KSA.

Notes to the Consolidated Financial Statements

8. Investments in associates – continued

(b) The movement of investments in associates for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Balance at beginning of the year	994,298	1,012,366
Share of earnings	45,928	88,156
Dividends	(79,397)	(105,709)
Share of other comprehensive loss	(2,452)	(515)
Disposals (i)	(112,633)	–
Balance at end of the year	845,744	994,298

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, which is included in other income.

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

ii. The Group owns a 50% equity interest in AMEX. The Management has assessed the investment in AMEX in accordance with the requirements of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IAS 28 "Investments in Associates and Joint Ventures" for control, joint control, and significant influence respectively. The Group has concluded it does not control or jointly control AMEX primarily due to a put option with the Bank and call option with the counterparty that is exercisable for the remaining term of the agreement.

   The Management has therefore concluded that the Group has significant influence over the financial and operating matters of the associated company and is therefore accounted for under the equity method of accounting.

(c) The following table summarizes the associates' assets, liabilities, and equity as of December 31, 2020 and 2019, and income and expense for the years then ended:

	2020 (SAR '000)			2019 (SAR '000)		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	683,888	1,452,697	3,761,010	943,217	1,142,551	3,405,214
Total liabilities	359,446	606,133	2,610,881	517,095	313,287	2,281,694
Total equity	324,442	846,564	1,150,129	426,122	829,264	1,123,520
Total income	259,804	99,113	173,316	405,324	113,182	200,002
Total expenses	242,948	75,309	95,126	279,346	71,654	129,107

(d) The following table reconciles the summarized financial information to the carrying amount of the Bank's investments in associates:

	2020 (SAR '000)				2019 (SAR '000)			
	AMEX	ORIX	AMLAK	Total	AMEX	ORIX	AMLAK	Total
Net assets	324,442	846,564	1,150,129	2,321,135	426,122	829,264	1,123,520	2,378,906
Group's share of net assets	162,221	321,694	257,744	741,659	213,061	315,120	362,032	890,213
Goodwill	94,210	9,875	–	104,085	94,210	9,875	–	104,085
Carrying amount of interest	256,431	331,569	257,744	845,744	307,271	324,995	362,032	994,298

Notes to the Consolidated Financial Statements

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

(a) Property and equipment, net as of December 31, 2020 and 2019 is summarized as follows:

	2020 (SAR '000)				
	Land and buildings	Leasehold improvements	Furniture, equipment, and vehicles	Projects pending completion	Total
Cost					
Balance at the beginning of the year	1,299,713	177,916	492,033	3,807	1,973,469
Additions	26,870	1,684	6,456	208	35,218
Disposals	–	–	(3,826)	–	(3,826)
Transfers	3,807	–	–	(3,807)	–
Balance at the end of the year	1,330,390	179,600	494,663	208	2,004,861
Accumulated depreciation and amortization					
Balance at the beginning of the year	379,224	135,973	323,777	–	838,974
Charge for the year	46,303	15,846	39,097	–	101,246
Disposals	–	–	(19)	–	(19)
Balance at the end of the year	425,527	151,819	362,855	–	940,201
Net book value	904,863	27,781	131,808	208	1,064,660

	2019 (SAR '000)				
	Land and buildings	Leasehold improvements	Furniture, equipment, and vehicles	Projects pending completion	Total
Cost					
Balance at the beginning of the year	1,072,952	159,745	489,581	5,211	1,727,489
Effect of the adoption of IFRS 16 on January 1, 2019	175,070	–	92,870	–	267,940
Additions	50,287	18,171	14,213	–	82,671
Disposals	–	–	(104,631)	–	(104,631)
Transfers	1,404	–	–	(1,404)	–
Balance at the end of the year	1,299,713	177,916	492,033	3,807	1,973,469
Accumulated depreciation and amortization					
Balance at the beginning of the year	329,118	118,503	376,979	–	824,600
Charge for the year	50,106	17,470	41,095	–	108,671
Disposals	–	–	(94,297)	–	(94,297)
Balance at the end of the year	379,224	135,973	323,777	–	838,974
Net book value	920,489	41,943	168,256	3,807	1,134,495

Notes to the Consolidated Financial Statements

9. Property and equipment, net and Information Technology intangible assets, net – continued

The above line items include ROU leased assets, net as follows:

	2020 (SAR '000)		
	Buildings	Equipment and vehicles	Total
Cost	241,189	78,864	320,053
Accumulated depreciation	(25,887)	(23,732)	(49,619)
Net book value	215,302	55,132	270,434

	2019 (SAR '000)		
	Buildings	Equipment and vehicles	Total
Cost	219,268	87,621	306,889
Accumulated depreciation	(13,484)	(16,236)	(29,720)
Net book value	205,784	71,385	277,169

The lease term of leases included in ROU assets range from 5 years to 35 years (2019: 2 years to 27 years). The payment for rentals is made on a monthly, quarterly, and annual basis and is paid in advance or arrears.

(b) Information Technology intangible assets, net as of December 31, 2020 and 2019 is summarized as follows:

	2020 (SAR '000)		
	Software	Projects pending completion	Total
Cost			
Balance at the beginning of the year	404,825	36,745	441,570
Additions	52,648	18,226	70,874
Transfers	3,475	(3,475)	–
Balance at the end of the year	460,948	51,496	512,444
Accumulated amortization			
Balance at the beginning of the year	187,234	–	187,234
Charge for the year	43,430	–	43,430
Balance at the end of the year	230,664	–	230,664
Net book value	230,284	51,496	281,780

Notes to the Consolidated Financial Statements

9. Property and equipment, net and Information Technology intangible assets, net – continued

	2019 (SAR '000)		
	Software	Projects pending completion	Total
Cost			
Balance at the beginning of the year	315,901	44,694	360,595
Additions	13,885	67,090	80,975
Transfers	75,039	(75,039)	–
Balance at the end of the year	404,825	36,745	441,570
Accumulated amortization			
Balance at the beginning of the year	152,388	–	152,388
Charge for the year	34,846	–	34,846
Balance at the end of the year	187,234	–	187,234
Net book value	217,591	36,745	254,336

10. Other assets, net

(a) Other assets, net as of December 31, 2020 and 2019 are summarized as follows:

	2020 SAR '000	2019 SAR '000
Customer and other receivables	**73,696**	31,736
Prepaid expenses	**35,017**	50,932
Others	**40,914**	50,712
Total other assets	**149,627**	133,380
Allowance for credit losses	**(275)**	(386)
Other assets, net	**149,352**	132,994

(b) The movement of the allowance for credit losses for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Balances at the beginning of the year	**386**	566
Provision for credit losses	**(111)**	(180)
Balances at the end of the year	**275**	386

Notes to the Consolidated Financial Statements

11. Derivatives

(a) In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading and hedging purposes:

(i) 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 commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

(ii) 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.

(iii) 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, on a notional principal, for an agreed period of time.

(iv) 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.

(b) The derivative financial instruments are either held for trading or held for hedging purposes as described below:

(i) Held for trading purposes

Most of the Bank's derivative trading activities relate 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 profit from favourable movements in prices, rates, or indices. Arbitrage involves identifying, with the expectation of profit from price differentials, between markets or products.

(ii) Held for hedging purposes

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

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are routinely monitored and hedging strategies are used to ensure 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 periodically used to manage special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

(c) The tables below summarise the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at each year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk which is generally limited to the net positive fair values of derivatives, nor market risk.

Notes to the Consolidated Financial Statements

11. Derivatives – continued

Derivative financial instruments as of December 31, 2020 and 2019 are summarized as follows:

				Notional amounts by term to maturity				
				2020 (SAR '000)				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	10,941	8,532	3,314,241	816,722	856,772	1,640,747	–	3,052,535
Commission rates swaps	141,671	145,704	7,590,244	100,000	1,224,000	1,856,930	4,409,314	13,213,691
Commission rate options	290,517	290,509	9,065,419	–	–	7,566,160	1,499,259	9,065,419
Held as fair value hedges:								
Commission rate swaps	–	1,301,327	12,724,672	37,519	562,785	5,406,488	6,717,880	7,115,065
CSA/EMIR cash margins	238,645	(1,416,610)	–	–	–	–	–	–
Subtotal	681,774	329,462	32,694,576	954,241	2,643,557	16,470,325	12,626,453	32,446,710
Associated company put option [Note 11 (e)]	336,575	–	–	–	–	–	–	–
Total [Note 30 (m)]	1,018,349	329,462	32,694,576	954,241	2,643,557	16,470,325	12,626,453	32,446,710

				Notional amounts by term to maturity				
				2019 (SAR '000)				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	4,193	2,684	2,368,748	683,015	–	1,685,733	–	4,064,698
Foreign exchange options	267	267	750,320	–	750,320	–	–	1,006,076
Commission rates swaps	124,364	123,861	7,260,075	100,000	1,680,820	3,505,956	1,973,299	7,856,102
Commission rate options	278,528	278,521	9,080,979	–	–	7,581,840	1,499,139	8,692,327
Held as fair value hedges:								
Commission rate swaps	–	591,114	12,835,216	–	93,790	5,045,902	7,695,524	13,780,733
CSA/EMIR cash margins	476,481	(680,928)	–	–	–	–	–	–
Subtotal	883,833	315,519	32,295,338	783,015	2,524,930	17,819,431	11,167,962	35,399,936
Associated company put option [Note 11 (e)]	421,243	–	–	–	–	–	–	–
Total [Note 30 (m)]	1,305,076	315,519	32,295,338	783,015	2,524,930	17,819,431	11,167,962	35,399,936

Notes to the Consolidated Financial Statements

11. Derivatives – continued

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

As of December 31, 2020, the CSA and EMIR net cash collateral amounts held by counterparties in favour of the Bank totalled SAR 1,655 million (2019: SAR 1,157 million). The EMIR net cash margins include initial margin payments made to the 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. See Note 30 (m).

(e) 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 11 (c). The terms of the agreement give the Bank a put option and give the counterparty 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 predetermined formulas included in the agreement.

(f) The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2020 and 2019, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

	December 31, 2020 (SAR '000)					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	14,021,756	12,858,102	Fair value risk	Commission rate swaps	–	1,301,327

	December 31, 2019 (SAR '000)					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	14,203,427	12,174,376	Fair value risk	Commission rate swaps	–	591,114

The net losses during the year on hedging instruments for fair value hedges were SAR 686.2 million (2019: losses of SAR 710.2 million). The net gains on hedged items attributable to hedged risk were SAR 686.2 million (2019: gains of SAR 710.2 million). The net positive fair value of all derivatives is approximately SAR 688.8 million (2019: SAR net positive 989.6 million). Approximately 68% (2019: 59%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and 27% (2019: 28%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

Notes to the Consolidated Financial Statements

12. Due to banks and other financial institutions, net

(a) Due to banks and other financial institutions as of December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Current accounts	8,758	8,918
Repurchase agreements [Note 12 (b)]	12,502,627	10,323,011
Money market deposits	1,784,292	3,456,262
Commission free deposits from SAMA, net [Note 12 (c)]	5,777,407	–
Total	20,073,084	13,788,191

(b) Debt securities pledged under repurchase agreements with other banks include corporate, bank, and non-government bonds. The fair values of assets pledged as collateral with other financial institutions as security and the related balances of the repurchase agreements as of December 31, 2020 and 2019 are as follows:

	2020 (SAR '000)		2019 (SAR '000)	
	Pledged assets	Repurchase agreements	Pledged assets	Repurchase agreements
Debt securities	13,521,333	12,502,627	10,762,422	10,323,011

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

Maturity date	2020 SAR '000
June 6, 2021	2,322,722
March 29, 2023	525,340
December 29, 2024	524,660
February 11, 2025	25,000
February 20, 2025	1,161,000
April 16, 2025	1,624,069
Undiscounted commission free deposits from SAMA	6,182,791
Less: Unamortized discount	(405,384)
Commission free deposits from SAMA, net	5,777,407

13. Customers' deposits

(a) Customers' deposits as of December 31, 2020 and 2019 are summarized as follows:

	2020 SAR '000	2019 SAR '000
Murabaha commodity deposits	21,986,528	35,620,301
Conventional time deposits	2,561,726	4,349,043
Time deposits	24,548,254	39,969,344
Savings deposits	1,041,362	1,698,795
Total special commission bearing deposits	25,589,616	41,668,139
Demand deposits	32,485,210	25,865,987
Other deposits	2,068,763	1,523,928
Customers' deposits	60,143,589	69,058,054

Other deposits include SAR 573.7 million (2019: SAR 606.4 million) of margin deposits held for irrevocable commitments.

Customers' deposits above include Shariah-Compliant and demand deposits totalling SAR 54.4 billion (2019: SAR 61.4 billion).

Notes to the Consolidated Financial Statements

13. Customers' deposits – continued

(b) The above amounts include foreign currency deposits (equivalent to Saudi Arabian Riyals) as of December 31, 2020 and 2019 as follows:

	2020 SAR '000	2019 SAR '000
Demand	2,617,132	1,509,633
Savings	846,120	780,715
Time	4,573,433	8,829,588
Other	70,371	69,795
Total	8,107,056	11,189,731

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. Other liabilities

(a) Other liabilities as of December 31, 2020 and 2019 are summarized as follows:

	Notes	2020 SAR '000	2019 SAR '000
Zakat settlement liability, net	25 (c)	346,637	453,801
Lease liabilities	15 (c)	254,784	253,715
Accrued Zakat and Income tax		250,799	88,486
Deferred government grant income		214,352	–
Allowance for credit losses for financial guarantee contracts	15 (b)	210,554	217,397
Employee end of service benefits	35 (a)	202,444	174,512
Accrued salaries and other employee related benefits		166,728	93,311
Customer related liabilities		116,538	80,632
Accrued expenses and other provisions		102,189	98,477
Allowance for legal proceedings	18 (a)	49,000	73,528
Deferred fees		8,485	12,095
Others		78,685	88,245
Total		2,001,195	1,634,199

Notes to the Consolidated Financial Statements

15. Other liabilities – continued

(b) The movement of the allowance for credit losses for financial guarantee contracts for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Balances at the beginning of the year	217,397	165,320
Provision for credit losses	(6,843)	52,077
Balances at the end of the year	210,554	217,397

(c) The maturity analysis of contractual undiscounted lease liabilities is summarized as follows:

	2020 SAR '000	2019 SAR '000
Less than one year	21,154	33,664
One to five years	90,129	92,411
More than five years	108,847	80,225
Total undiscounted lease liabilities	220,130	206,300
Add amounts for reasonably certain extension options	111,165	107,200
Undiscounted lease liabilities	331,295	313,500
Lease liabilities [Note 15 (a)]	254,784	253,715

16. Share capital

As of December 31, 2020, the authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2019: 750 million shares of SAR 10 each). The ownership of the Bank's share capital as of December 31, 2020 and 2019 is as follows in SAR millions:

	2020		2019	
	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0
Treasury shares (Note 37)	750.0	10.0	750.0	10.0
	7,500.0	100.0	7,500.0	100.0

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 245 million has been transferred from 2020 net income (2019: SAR 60 million from income). The statutory reserve is not currently available for distribution.

Notes to the Consolidated Financial Statements

18. Commitments, contingencies, and financial guarantee contracts

(a) Legal proceedings

As of December 31, 2020, there were 188 legal proceedings outstanding against the Group (2019: 163). 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.

The movement of the allowance for such legal cases, included in other liabilities, for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Balance at beginning of the year	73,528	55,240
Additions during the year	–	20,966
Utilized during the year	(24,528)	(2,678)
Balance at end of the year [Note 15 (a)]	49,000	73,528

(b) Capital commitments

As of December 31, 2020, the Group had capital commitments of SAR 203.6 million (2019: SAR 212.1 million) for property, equipment & Information Technology Intangible assets.

(c) Credit-related commitments and contingencies

The Group enters into certain credit-related facilities to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

For issued financial guarantee contracts and loan commitments, the maximum amount is allocated to the earliest period in which the guarantee could be called, as the Group has the right to recall financial guarantee contracts and loan commitments prior to their maturity.

Notes to the Consolidated Financial Statements

18. Commitments, contingencies, and financial guarantee contracts – continued

(i) The contractual maturity structure for the Group's credit-related commitments and contingencies as of December 31, 2020 and 2019 are as follows:

	2020 (SAR '000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,121,654	1,304,223	3,752	–	2,429,629
Letters of guarantee	2,105,596	4,617,501	2,151,579	51,746	8,926,422
Acceptances	458,536	193,543	–	–	652,079
Total financial guarantee contracts	3,685,786	6,115,267	2,155,331	51,746	12,008,130
Irrevocable commitments to extend credit	–	–	375,438	40,240	415,678
Credit-related commitments and contingencies	3,685,786	6,115,267	2,530,769	91,986	12,423,808

	2019 (SAR '000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,272,099	1,090,873	305,787	–	2,668,759
Letters of guarantee	2,215,603	4,211,313	2,426,542	63,218	8,916,676
Acceptances	438,520	393,205	–	–	831,725
Total financial guarantee contracts	3,926,222	5,695,391	2,732,329	63,218	12,417,160
Irrevocable commitments to extend credit	–	44,742	268,480	379,854	693,076
Credit-related commitments and contingencies	3,926,222	5,740,133	3,000,809	443,072	13,110,236

The movement of the allowance for credit losses for financial guarantee contracts is summarized in Note 15 (b).

The outstanding unused portion of commitments as of December 31, 2020 which can be revoked unilaterally at any time by the Group, amounts to SAR 23.7 billion (2019: SAR 22.0 billion).

(ii) The analysis of commitments and contingencies by counterparty as of December 31, 2020 and 2019 is as follows:

	2020 SAR '000	2019 SAR '000
Government and quasi-government	167,478	449,506
Corporate	11,493,607	11,555,884
Banks and other financial institutions	574,570	887,693
Other	188,153	217,153
Total	12,423,808	13,110,236

(e) Zakat and Income Tax

Note 25 provide information regarding the current status of the Group's Zakat and Income Tax positions.

Notes to the Consolidated Financial Statements

19. Special commission income and expense

Special commission income and expense for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Special commission income:		
– Loans and advances	**2,496,979**	2,903,791
– Investments	**721,076**	889,127
– Banks and other financial institutions	**43,921**	109,570
Total	**3,261,976**	3,902,488
Special commission expense:		
– Customer deposits	**544,755**	1,081,093
– Banks and other financial institutions	**314,094**	391,339
– Term loans	**47,329**	74,562
– Subordinated debt	**–**	39,612
– Lease liabilities	**17,236**	16,835
– Zakat settlement liability	**16,908**	21,156
Total	**940,322**	1,624,597

20. Fee income from banking services, net

Fee income from banking services, net for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Fee income:		
– Share trading and fund management	**210,490**	118,164
– Trade finance	**103,680**	104,097
– Corporate and retail finance	**27,963**	15,695
– Other banking services	**122,810**	183,100
Total fee income	**464,943**	421,056
Fee expense:		
– Custodial services	**73,410**	40,789
– Other banking services	**88,136**	81,235
Total fee expense	**161,546**	122,024
Fee income from banking services, net	**303,397**	299,032

21. Dividend income

Dividend income for the year ended December 31, 2020 is summarized as follows:

	2020 SAR '000
Dividend income from FVOCI equity investments	14

Notes to the Consolidated Financial Statements

22. Gains (losses) on FVOCI debt securities, net

Gains (losses) on the sale of FVOCI debt securities, net for the years ended December 31, 2020 and 2019 are summarized as follows:

	2020 SAR '000	2019 SAR '000
Losses on the sale of FVOCI debt securities	**(24)**	(246)
Gains on the sale of FVOCI debt securities	**104,500**	43,764
Total	**104,476**	43,518

23. Compensation and related governance and practices

(a) As required by SAMA, the following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2020 and 2019.

		2020 (SAR '000)			
			Variable compensation paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	20	34,724	15,736	–	15,736
Employees engaged in risk taking activities	217	89,627	18,635	–	18,635
Employees engaged in control functions	282	82,456	12,806	–	12,806
Other employees	910	194,477	19,354	–	19,354
Outsourced employees	63	14,421	1,543	–	1,543
Totals	1,492	415,705	68,074	–	68,074
Variable compensation accrued		83,000			
Other employee benefits and related expenses		173,331			
Total salaries and employee-related expenses		672,036			

		2019 (SAR '000)			
			Variable compensation paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	21	32,878	11,307	–	11,307
Employees engaged in risk taking activities	197	78,796	14,181	–	14,181
Employees engaged in control functions	266	75,337	9,405	–	9,405
Other employees	953	195,166	18,132	–	18,132
Outsourced employees	44	7,849	1,070	–	1,070
Totals	1,481	390,026	54,095	–	54,095
Variable compensation accrued		82,000			
Other employee benefits and related expenses		154,301			
Total salaries and employee-related expenses		626,327			

Notes to the Consolidated Financial Statements

23. Compensation and related governance and practices – continued

(b) The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of four Board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation of members of the Board of Directors', and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA Rules on Compensation Practices and the Financial Stability Board's (FSB) Principles for Sound Compensation Practices, to periodically review the Bank's compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Compensation Policy is designed to attract, retain and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, is strictly dependent on the achievement of set targets, both financial and non-financial, level of achievements and the Bank's overall performance, including key risk indicators. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used as a performance management tool and performance objectives are typically categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, quality assurance, employee development and engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance with the annual Risk Appetite Statement is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horizons. It is also based on individual, business segment and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus program is deferred in line with long term risk realization. The vesting is subject to clawback mechanisms.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2020 was SAR 50.5 million (2019: SAR 44.1 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2020 was SAR 6.5 million (2019: SAR 5.3 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2020 totalled SAR 17.2 million (2019: SAR 49.7 million). These payments were made to 111 beneficiaries (2019: 241). The highest payment to a single individual in 2020 was SAR 1.9 million (2019: SAR 17.8 million).

Notes to the Consolidated Financial Statements

24. 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 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 are as follows:

	2020 SAR '000	2019 SAR '000
Net income	979,561	239,461
Tier I Sukuk costs	(117,601)	(122,024)
Net income adjusted for Tier I Sukuk costs	861,960	117,437
Weighted average number of outstanding shares (in '000)	675,004	682,607
Basic and diluted earnings per share (SAR)	1.28	0.17

25. Zakat and income tax

(a) Provisions for Zakat and Income tax for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Provisions for Zakat		
– For current period	246,201	76,809
– For subsidiaries, prior periods	2,745	3,300
Provisions for Income tax		
– For current period	–	1,800
– For prior periods	–	8,131
Provisions for Zakat and Income tax	248,946	90,040

(b) The Bank has filed the required Zakat and Income Tax returns with the GAZT which are due on April 30 each year, through the year ended December 31, 2019. 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 16.

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 should not fall below the minimum floor nor should exceed the maximum cap as prescribed by the Rules.

The Bank has provided for Zakat for the year ended December 31, 2020 and 2019 on the basis of the Bank's understanding of these rules.

Beginning with the year ended December 31, 2020, the Group plans to file a consolidated Zakat return with the GAZT including the Bank and its wholly owned subsidiaries.

Notes to the Consolidated Financial Statements

25. Zakat and income tax – continued

(c) In December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The discounted Zakat liability of SAR 711.8 million was fully provided for through a charge to the consolidated statement of income with the corresponding liability included in other liabilities as of December 31, 2018. The Bank has paid SAR 155 million, SAR 124 million and SAR 124 million on January 1, 2019, December 1, 2019, and December 1, 2020 respectively, as per the settlement agreement. The undiscounted Zakat settlement liability remaining to be paid and the net discounted Zakat liability is as follows:

	2020 SAR '000	2019 SAR '000
December 1, 2020	–	124,072
December 1, 2021	124,072	124,072
December 1, 2022	124,072	124,072
December 1, 2023	124,072	124,072
Undiscounted Zakat settlement liability	372,216	496,288
Less: Discount	(25,579)	(42,487)
Net discounted Zakat liability	346,637	453,801

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as was agreed in the settlement for the prior years. The 2018 Zakat was calculated based on this method and was also charged to the consolidated statement of income in 2018 and was settled by April 30, 2019.

The Zakat settlement also did not include the year 2005. However, the Bank provided for an additional Zakat liability for 2005 amounting to SAR 38.6 million which was charged to the consolidated statement of income in 2018 and was settled in 2019.

26. 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 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 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 Consolidated Statement of Income. Segment assets and liabilities are comprised operating assets and liabilities. The Group's primary business is conducted in KSA.

There has been no change to the measurement basis or classification for the segment profit or loss during the year ended December 31, 2020.

(b) 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.

Notes to the Consolidated Financial Statements

26. Operating segments – continued

(c) 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 December 31, 2020 and 2019, and its total operating income, expenses, and Income before provisions for Zakat and Income Tax for the years then ended, are as follows:

	2020 (SAR '000)					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Total assets	19,296,534	35,423,920	42,129,502	492,926	2,541,650	99,884,532
Total liabilities	21,593,865	6,887,766	54,968,619	38,800	1,064,449	84,553,499
Net special commission income (loss)	869,778	1,476,153	58,620	24,504	(107,401)	2,321,654
FTP net transfers	(39,667)	(549,907)	601,864	–	(12,290)	–
Net FTP contribution	830,111	926,246	660,484	24,504	(119,691)	2,321,654
Fee income (loss) from Banking services, net	23,387	131,505	39,821	139,121	(30,437)	303,397
Other operating income (loss)	78,785	47,983	221,691	1,186	(128,563)	221,082
Total operating income (loss)	932,283	1,105,734	921,996	164,811	(278,691)	2,846,133
Direct operating expenses	290,535	66,486	44,680	84,351	–	486,052
Indirect operating expenses	313,077	145,619	269,393	–	–	728,089
Provisions for credit and other losses	15,444	431,240	2,840	(111)	–	449,413
Total operating expenses	619,056	643,345	316,913	84,240	–	1,663,554
Operating income (loss)	313,227	462,389	605,083	80,571	(278,691)	1,182,579
Share in earnings of associates	–	–	45,928	–	–	45,928
Income (loss) before provisions for Zakat and Income Tax	313,227	462,389	651,011	80,571	(278,691)	1,228,507

	2019 (SAR '000)					
	Retail banking	Corporate banking	Treasury and Investments	Asset management and brokerage	Other	Total
Total assets	20,790,582	36,304,956	40,884,425	405,546	2,429,087	100,814,596
Total liabilities	19,590,724	7,879,088	58,636,077	16,830	684,870	86,807,589
Net special commission income (loss)	745,454	1,856,746	(330,027)	22,543	(16,825)	2,277,891
FTP net transfers	(104,274)	(670,191)	782,632	–	(8,167)	–
Net FTP contribution	641,180	1,186,555	452,605	22,543	(24,992)	2,277,891
Fee income (loss) from Banking services, net	37,229	127,351	71,049	79,232	(15,829)	299,032
Other operating income (loss)	84,891	48,474	202,783	3,540	(98,383)	241,305
Total operating income (loss)	763,300	1,362,380	726,437	105,315	(139,204)	2,818,228
Direct operating expenses	309,866	66,586	39,449	71,661	36,467	524,029
Indirect operating expenses	305,394	142,044	262,779	–	–	710,217
Provisions for credit and other losses	770,999	552,602	(47,192)	(178)	66,406	1,342,637
Total operating expenses	1,386,259	761,232	255,036	71,483	102,873	2,576,883
Operating income (loss)	(622,959)	601,148	471,401	33,832	(242,077)	241,345
Share in earnings of associates	–	–	88,156	–	–	88,156
Income (loss) before provisions for Zakat and Income Tax	(622,959)	601,148	559,557	33,832	(242,077)	329,501

Notes to the Consolidated Financial Statements

26. Operating segments – continued

(d) The Group's credit exposure by business segment as of December 31, 2020 and 2019 is as follows:

	2020 (SAR '000)					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Consolidated statement of financial position assets	17,873,469	35,423,396	40,764,329	426,179	1,350,366	95,837,739
Commitments and contingencies	1,388,251	6,817,199	651,470	–	–	8,856,920
Derivatives	–	–	1,059,768	–	–	1,059,768
Totals	19,261,720	42,240,595	42,475,567	426,179	1,350,366	105,754,427

	2019 (SAR '000)					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Consolidated statement of financial position assets	19,222,854	36,303,903	39,486,757	335,618	1,171,516	96,520,648
Commitments and contingencies	1,416,768	7,216,363	645,647	–	–	9,278,778
Derivatives	–	–	1,674,044	–	–	1,674,044
Totals	20,639,622	43,520,266	41,806,448	335,618	1,171,516	107,473,470

Consolidated Statement of Financial Position credit exposure is comprised of the carrying value of consolidated statement of financial position assets excluding cash on hand, property, equipment, and Information Technology intangible assets, investments in associates, investments in equities, mutual funds, and other securities, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in the table above.

Notes to the Consolidated Financial Statements

27. Geographical concentration

The distribution by geographical region for assets, liabilities, and for commitments, contingencies, and derivatives as of December 31, 2020 and 2019 is as follows:

	2020 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA:							
Cash in hand	704,645	–	–	–	–	–	704,645
Balances with SAMA	7,618,845	–	–	–	–	–	7,618,845
Due from banks and other financial institutions, net:							
Current accounts	–	128,651	440,321	1,029,834	4,376	63,472	1,666,654
Money market placements	500,088	–	–	–	–	–	500,088
Investments:							
Held at FVTPL	144,212	14,030	–	21,873	–	–	180,115
Held at FVOCI	21,805,435	6,831,079	1,006,109	513,314	177,791	–	30,333,728
Positive fair values of derivatives, net:							
Held for trading	51,002	3,212	388,915	–	–	–	443,129
Associated company put option	–	336,575	–	–	–	–	336,575
CSA/EMIR cash margins	(48,517)	–	287,162	–	–	–	238,645
Loans and advances, net:							
Commercial and others	40,388,877	–	–	–	–	–	40,388,877
Overdrafts	3,590,815	–	–	–	–	–	3,590,815
Consumer	11,094,202	–	–	–	–	–	11,094,202
Investments in associates	845,744	–	–	–	–	–	845,744
Other real estate	446,678	–	–	–	–	–	446,678
Property and equipment, net	1,064,660	–	–	–	–	–	1,064,660
Information Technology intangible assets, net	281,780	–	–	–	–	–	281,780
Other assets, net	149,352	–	–	–	–	–	149,352
Total	88,637,818	7,313,547	2,122,507	1,565,021	182,167	63,472	99,884,532

Notes to the Consolidated Financial Statements

27. Geographical concentration – continued

	2020 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Liabilities							
Due to banks and other financial institutions, net:							
Current accounts	–	5,667	747	–	–	2,344	8,758
Repurchase agreements	–	6,264,802	6,237,825	–	–	–	12,502,627
Money market deposits	1,138,175	420,853	225,264	–	–	–	1,784,292
Commission free deposits from SAMA, net	5,777,407	–	–	–	–	–	5,777,407
Customer deposits:							
Time	24,548,254	–	–	–	–	–	24,548,254
Savings	1,041,362	–	–	–	–	–	1,041,362
Demand	32,485,210	–	–	–	–	–	32,485,210
Other	2,068,763	–	–	–	–	–	2,068,763
Negative fair values of derivatives, net:							
Held for trading	412,129	–	32,616	–	–	–	444,745
Held as fair value hedges	–	–	1,301,327	–	–	–	1,301,327
CSA/EMIR cash margins	–	–	(1,416,610)	–	–	–	(1,416,610)
Term loans	2,006,169	–	–	–	–	–	2,006,169
Other liabilities	2,001,195	–	–	–	–	–	2,001,195
Total	71,478,664	6,691,322	6,381,169	–	–	2,344	84,553,499
Commitments and contingencies							
Letters of credit	2,424,785	4,844	–	–	–	–	2,429,629
Letters of Guarantee	8,349,250	94,877	437,233	10,709	6,600	27,753	8,926,422
Acceptances	652,079	–	–	–	–	–	652,079
Irrevocable commitments to extend credit	415,678	–	–	–	–	–	415,678
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	2,326,443	4,647	–	–	–	–	2,331,090
Letters of guarantee	5,496,020	62,454	287,815	7,049	4,345	18,269	5,875,952
Acceptances	649,878	–	–	–	–	–	649,878
Derivatives							
Held for trading	62,339	39,394	58,956	–	–	–	160,689
Held as fair value hedges	215,459	70,071	276,974	–	–	–	562,504
Associated company put option	–	336,575	–	–	–	–	336,575

Notes to the Consolidated Financial Statements

27. Geographical concentration – continued

	2019 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA:							
Cash on hand	892,087	–	–	–	–	–	892,087
Balances with SAMA	9,326,729	–	–	–	–	–	9,326,729
Due from banks and other financial institutions, net:							
Current accounts	–	74,770	225,898	51,974	948	17,826	371,416
Money market placements	2,529,764	25,511	43,256	–	–	58,568	2,657,099
Investments:							
Held at FVTPL	126,224	16,498	–	22,283	255	–	165,260
Held at FVOCI	16,968,969	6,382,025	1,182,067	1,296,848	180,311	–	26,010,220
Positive fair values of derivatives, net:							
Held for trading	117,129	1,551	227,898	–	–	60,774	407,352
Associated company put option	–	421,243	–	–	–	–	421,243
CSA/EMIR cash margins	(19,300)	–	495,781	–	–	–	476,481
Loans and advances, net:							
Commercial and others	40,591,932	–	–	–	–	–	40,591,932
Overdrafts	3,194,993	–	–	–	–	–	3,194,993
Consumer	13,325,982	–	–	–	–	–	13,325,982
Investments in associates	994,298	–	–	–	–	–	994,298
Other real estate	457,679	–	–	–	–	–	457,679
Property and equipment, net	1,134,495	–	–	–	–	–	1,134,495
Information Technology intangible assets, net	254,336	–	–	–	–	–	254,336
Other assets, net	132,994	–	–	–	–	–	132,994
Total	90,028,311	6,921,598	2,174,900	1,371,105	181,514	137,168	100,814,596

Notes to the Consolidated Financial Statements

27. Geographical concentration – continued

	2019 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Liabilities							
Due to banks and other financial institutions, net:							
Current accounts	–	6,521	1,265	–	–	1,132	8,918
Repurchase agreements	–	5,317,027	5,005,984	–	–	–	10,323,011
Money market deposits	2,825,033	631,229	–	–	–	–	3,456,262
Customer deposits:							
Time	39,969,344	–	–	–	–	–	39,969,344
Savings	1,698,795	–	–	–	–	–	1,698,795
Demand	25,865,987	–	–	–	–	–	25,865,987
Other	1,523,928	–	–	–	–	–	1,523,928
Negative fair values of derivatives, net:							
Held for trading	237,400	345	76,619	–	–	90,969	405,333
Held as fair value hedges	10,959	123,584	456,571	–	–	–	591,114
CSA/EMIR cash margins	(4,349)	(124,077)	(552,502)	–	–	–	(680,928)
Term loans	2,011,626	–	–	–	–	–	2,011,626
Other liabilities	1,634,199	–	–	–	–	–	1,634,199
Total	75,772,922	5,954,629	4,987,937	–	–	92,101	86,807,589
Commitments and contingencies							
Letters of credit	2,593,800	72,573	2,386	–	–	–	2,668,759
Letters of Guarantee	8,184,619	195,070	478,683	23,742	6,600	27,962	8,916,676
Acceptances	830,882	843	–	–	–	–	831,725
Irrevocable commitments to extend credit	693,076	–	–	–	–	–	693,076
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	2,530,345	70,798	2,328	–	–	–	2,603,471
Letters of Guarantee	5,366,442	127,902	313,860	15,567	4,327	18,333	5,846,431
Acceptances	828,036	840	–	–	–	–	828,876
Derivatives							
Held for trading	278,357	116,168	376,129	–	–	–	770,654
Held as fair value hedges	173,144	62,108	246,895	–	–	–	482,147
Associated company put option	–	421,243	–	–	–	–	421,243

The credit equivalent of commitments and contingencies and derivatives is calculated according to methodology prescribed by SAMA.

Notes to the Consolidated Financial Statements

28. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either a trading or banking book.

(a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps. Market risk management uses the estimation of Value at Risk (VaR) tool for all transactions included in the trading portfolios. VaR is estimated for a specified period based on adverse market fluctuations.

(b) Market risk-banking book

Market risk in the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

(i) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of the financial instruments and obligations. The Board of Directors has established commission rate gap limits for stipulated periods. The Group monitors positions and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's Consolidated Statement of Income or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2016-2020) (2019: 2015-2019). A positive effect shows a potential net increase in the consolidated net income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated net income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate financial assets and financial liabilities held as of December 31, 2020 and 2019, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI debt securities, excluding the effect of any associated fair value hedges as of December 31, 2020 and 2019 for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

	2020 (SAR '000)		2020 Sensitivity of equity (SAR '000)				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SIBOR	+179/-37	-140,525/+47,980	-2,101/+437	–	-59,570/+12,393	-73,795/+15,353	-135,466/+28,183
LIBOR	+217/-44	-346,026/+71,109	-2,459/+503	-34,332/+7,024	-1,572,447/+321,719	-6,822,336/+1,395,842	-8,431,574/+1,725,088
Euribor	+30/-12	-8/+2	–	–	–	–	–

	2019 (SAR '000)		2019 Sensitivity of equity (SAR '000)				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SIBOR	+35/-187	-33,920/+183,106	–	-2,939/+15,863	-42,485/+229,349	-1,258/+6,791	-46,682/+252,003
LIBOR	+50/-208	-84,854/+354,381	-110/+460	-12,592/+52,587	-362,381/+1,513,435	-1,077,224/+4,498,874	-1,452,307/+6,065,356
Euribor	+43/-9	-7/+2	–	–	–	–	–

Notes to the Consolidated Financial Statements

28. Market risk – continued

The Group manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market special commission rates on its financial position and cash flows. The Board of Directors also sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored by the Treasury unit.

The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through special commission rate risk management strategies.

The tables below summarise the Group's exposure to special commission rate risks as of December 31, 2020 and 2019. Included in the tables are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2020 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	704,645	704,645
Balances with SAMA	4,610,000	–	–	–	3,008,845	7,618,845
Due from banks and other financial institutions, net						
Current accounts	–	–	–	–	1,666,654	1,666,654
Money market placements	500,088	–	–	–	–	500,088
Investments:						
Held at FVTPL	–	–	–	–	180,115	180,115
Held at FVOCI	3,918,908	920,015	11,766,118	13,354,868	373,819	30,333,728
Positive fair values of derivatives, net						
Held for trading	–	–	–	–	443,129	443,129
Associated company put option	–	–	–	–	336,575	336,575
CSA/EMIR cash margins	–	–	–	–	238,645	238,645
Loans and advances, net						
Commercial and others	25,819,236	11,580,223	2,367,844	621,574	–	40,388,877
Overdrafts	3,590,815	–	–	–	–	3,590,815
Consumer	2,391,663	1,624,351	5,050,992	2,027,196	–	11,094,202
Investments in associates	–	–	–	–	845,744	845,744
Other real estate	–	–	–	–	446,678	446,678
Property and equipment, net	–	–	–	–	1,064,660	1,064,660
Information Technology intangible assets, net	–	–	–	–	281,780	281,780
Other assets, net	–	–	–	–	149,352	149,352
Total	40,830,710	14,124,589	19,184,954	16,003,638	9,740,641	99,884,532

Notes to the Consolidated Financial Statements

28. Market risk – continued

	2020 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Liabilities and equity						
Due to banks and other financial institutions, net:						
Current accounts	–	–	–	–	8,758	8,758
Repurchase agreements	9,144,477	3,358,150	–	–	–	12,502,627
Money market deposits	1,294,763	489,529	–	–	–	1,784,292
Commission free deposits from SAMA, net	–	2,306,393	3,471,014	–	–	5,777,407
Customer deposits						
Time	21,233,502	3,300,914	13,838	–	–	24,548,254
Savings	1,041,362	–	–	–	–	1,041,362
Demand	–	–	–	–	32,485,210	32,485,210
Other	–	573,748	–	–	1,495,015	2,068,763
Negative fair values of derivatives, net:						
Held for trading	–	–	–	–	444,745	444,745
Held as fair value hedges	–	–	–	–	1,301,327	1,301,327
CSA/EMIR cash margins	–	–	–	–	(1,416,610)	(1,416,610)
Term loans	2,006,169	–	–	–	–	2,006,169
Other liabilities	–	–	–	–	2,001,195	2,001,195
Total equity	–	–	–	–	15,331,033	15,331,033
Total	34,720,273	10,028,734	3,484,852	–	51,650,673	99,884,532
Special commission rate sensitivity – on balance sheet	6,110,437	4,095,855	15,700,102	16,003,638	(41,910,032)	–
Special commission rate sensitivity – off-balance sheet	12,687,153	(562,785)	(5,406,488)	(6,717,880)	–	–
Total special commission rate sensitivity gap	18,797,590	3,533,070	10,293,614	9,285,758	(41,910,032)	–
Cumulative special commission rate sensitivity gap	18,797,590	22,330,660	32,624,274	41,910,032	–	–

Notes to the Consolidated Financial Statements

28. Market risk – continued

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	892,087	892,087
Balances with SAMA	6,025,000	–	–	–	3,301,729	9,326,729
Due from banks and other financial institutions, net						
Current accounts	–	–	–	–	371,416	371,416
Money market placements	2,541,378	115,721	–	–	–	2,657,099
Investments:						
Held at FVTPL	–	–	–	–	165,260	165,260
Held at FVOCI	3,278,182	2,601,982	11,041,261	8,825,996	262,799	26,010,220
Positive fair values of derivatives, net						
Held for trading	–	–	–	–	407,352	407,352
Associated company put option	–	–	–	–	421,243	421,243
CSA/EMIR cash margins	–	–	–	–	476,481	476,481
Loans and advances, net						
Commercial and others	21,506,016	16,485,551	2,495,655	104,710	–	40,591,932
Overdrafts	3,194,993	–	–	–	–	3,194,993
Consumer	1,630,091	3,744,503	6,650,984	1,300,404	–	13,325,982
Investments in associates	–	–	–	–	994,298	994,298
Other real estate	–	–	–	–	457,679	457,679
Property and equipment, net	–	–	–	–	1,134,495	1,134,495
Information Technology intangible assets, net	–	–	–	–	254,336	254,336
Other assets, net	–	–	–	–	132,994	132,994
Total	38,175,660	22,947,757	20,187,900	10,231,110	9,272,169	100,814,596

Notes to the Consolidated Financial Statements

28. Market risk – continued

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Liabilities and equity						
Due to banks and other financial institutions, net						
Current accounts	–	–	–	–	8,918	8,918
Repurchase agreements	6,770,458	3,552,553	–	–	–	10,323,011
Money market deposits	2,759,823	696,439	–	–	–	3,456,262
Customers' deposits						
Time	35,837,305	3,541,189	590,850	–	–	39,969,344
Savings	1,698,795	–	–	–	–	1,698,795
Demand	–	–	–	–	25,865,987	25,865,987
Other	–	606,457	–	–	917,471	1,523,928
Negative fair values of derivatives, net						
Held for trading	–	–	–	–	405,333	405,333
Held as fair value hedges	–	–	–	–	591,114	591,114
CSA/EMIR cash margins	–	–	–	–	(680,928)	(680,928)
Term loans	2,011,626	–	–	–	–	2,011,626
Other liabilities	–	–	–	–	1,634,199	1,634,199
Total equity	–	–	–	–	14,007,007	14,007,007
Total	49,078,007	8,396,638	590,850	–	42,749,101	100,814,596
Special commission rate sensitivity – on balance sheet	(10,902,347)	14,551,119	19,597,050	10,231,110	(33,476,932)	–
Special commission rate sensitivity – off-balance sheet	12,835,216	(93,790)	(5,045,902)	(7,695,524)	–	–
Total special commission rate sensitivity gap	1,932,869	14,457,329	14,551,148	2,535,586	(33,476,932)	–
Cumulative special commission rate sensitivity gap	1,932,869	16,390,198	30,941,346	33,476,932	–	–

The off-balance sheet gap position represents the net notional amounts of derivative financial instruments, which are used to manage special commission rate risk.

Notes to the Consolidated Financial Statements

28. Market risk – continued

(ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2020 and 2019, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the Consolidated Statement of Income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2016-2020) (2019: 2015-2019). A positive effect shows a potential net increase in the Consolidated Statement of Income, whereas a negative effect shows a potential net reduction in consolidated statement of income.

Currency Exposures as of December 31, 2020	Change in currency rate in %	Effect on Income before provisions for Zakat and Income tax SAR '000
USD	+0.36/-0.21	+3,508/-2,078
EUR	+9.47/-9.04	+7/-7
GBP	+15.75/-10.34	+137/-90

Currency Exposures as of December 31, 2019	Change in currency rate in %	Effect on Income before provisions for Zakat and Income tax SAR '000
USD	+0.28/-0.15	+432/-232
EUR	+11.70/-7.20	+9/-5
GBP	+24.36/-5.81	+90/-21

(iii) Currency position

The Group manages the exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. As of December 31, 2020 and 2019, the Group had the following significant net exposures denominated in foreign currencies:

	2020 SAR '000 Long/(short)	2019 SAR '000 Long/(short)
US Dollar	972,839	155,075
Euro	79	74
Pound Sterling	870	369
Japanese Yen	199	242
UAE Dirham	61,071	8,791
Others	102,169	33,709

Notes to the Consolidated Financial Statements

28. Market risk – continued

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's net income and shareholders' equity as of December 31, 2020 and 2019. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2016-2020) (2019: 2015-2019). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	2020		
Market Indices	Change in equity price %	Effect on Income before provisions for Zakat and Income tax SAR '000	Shareholders' equity Effect SAR '000
TADAWUL	+21.14/-29.92	+28,099/-39,772	+104,302/-147,631
Unquoted	+5.00/-5.00	+563/-563	+1,227/-1,227

	2019		
Market Indices	Change in equity price %	Effect on Income before provisions for Zakat and Income tax SAR '000	Shareholders' equity Effect SAR '000
TADAWUL	+16.71/-35.72	+19,162/-40,957	+60,859/-130,087
Unquoted	+5.00/-5.00	+578/-578	+1,241/-1,241

29. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, Management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets. Management also monitors the asset and liability maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2019: 7%) of average demand deposits and 4% (2019: 4%) of average saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 98% of the nominal value of Saudi Riyal denominated bonds held.

The Bank has an established Liquidity Risk Appetite that is approved by Board of Directors and that is reviewed monthly through ALCO and with quarterly reports to the Board Risk Committee (BRC). The Risk Appetite statement is based on a range of key monitoring metrics, including the short-term Liquidity Coverage Ratio and the long-term Net Stable Funding Ratio along with Liquidity Gap limits giving due consideration to stress factors relating to both the market in general and Bank specific conditions. The Bank has also established a comprehensive Contingency Funding Plan (CFP) using early warning monitoring metrics to forewarn Senior Management of impending stress and which establishes a clear allocation of roles and clear lines of management responsibility to address any liquidity stress situations.

Notes to the Consolidated Financial Statements

29. Liquidity risk – continued

(a) Contractual maturity profile of assets and liabilities

The tables below summarise the contractual maturity profile of the Group's assets, liabilities, and equity as of December 31, 2020 and 2019. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

	2020 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	704,645	704,645
Balances with SAMA	4,610,000	–	–	–	3,008,845	7,618,845
Due from banks and other financial institutions, net						
Current accounts	–	–	–	–	1,666,654	1,666,654
Money market placements	500,088	–	–	–	–	500,088
Investments:						
Held at FVTPL	–	–	–	–	180,115	180,115
Held at FVOCI	2,454,839	1,605,776	12,228,254	13,671,040	373,819	30,333,728
Positive fair values of derivatives, net						
Held for trading	–	443,129	–	–	–	443,129
Associated company put option	–	–	–	–	336,575	336,575
CSA/EMIR cash margins	–	238,645	–	–	–	238,645
Loans and advances, net						
Commercial and others	10,811,652	14,938,931	8,479,392	6,158,902	–	40,388,877
Overdrafts	3,590,815	–	–	–	–	3,590,815
Consumer	2,113,106	1,639,890	5,248,823	2,092,383	–	11,094,202
Investments in associates	–	–	–	–	845,744	845,744
Other real estate	–	–	–	–	446,678	446,678
Property and equipment, net	–	–	–	–	1,064,660	1,064,660
Information Technology intangible assets, net	–	–	–	–	281,780	281,780
Other assets, net	–	149,352	–	–	–	149,352
Total	24,080,500	19,015,723	25,956,469	21,922,325	8,909,515	99,884,532

Notes to the Consolidated Financial Statements

29. Liquidity risk – continued

	2020 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Liabilities and equity						
Due to banks and other financial institutions, net						
Current Accounts	–	–	–	–	8,758	8,758
Repurchase agreements	9,144,477	3,358,150	–	–	–	12,502,627
Money market deposits	1,294,763	489,529	–	–	–	1,784,292
Commission free deposits from SAMA, net	–	2,306,393	3,471,014	–	–	5,777,407
Customer deposits						
Time	18,482,923	3,050,883	3,014,448	–	–	24,548,254
Savings	–	–	–	–	1,041,362	1,041,362
Demand	–	–	–	–	32,485,210	32,485,210
Other	–	–	–	–	2,068,763	2,068,763
Negative fair values of derivatives, net						
Held for trading	–	444,745	–	–	–	444,745
Held as fair value hedges	–	1,301,327	–	–	–	1,301,327
CSA/EMIR cash margins	–	(1,416,610)	–	–	–	(1,416,610)
Term loans	6,169	2,000,000	–	–	–	2,006,169
Other liabilities	210,554	1,542,497	248,144	–	–	2,001,195
Total equity	–	–	–	–	15,331,033	15,331,033
Total	29,138,886	13,076,914	6,733,606	–	50,935,126	99,884,532
Derivatives, commitments and contingencies	4,640,027	8,758,824	19,001,094	12,718,439	–	45,118,384

Notes to the Consolidated Financial Statements

29. Liquidity risk – continued

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	892,087	892,087
Balances with SAMA	6,025,000	–	–	–	3,301,729	9,326,729
Due from banks and other financial institutions, net						
Current accounts	–	–	–	–	371,416	371,416
Money market placements	2,541,378	115,721	–	–	–	2,657,099
Investments:						
Held at FVTPL	–	–	–	–	165,260	165,260
Held at FVOCI	687,856	2,821,188	12,811,321	9,427,056	262,799	26,010,220
Positive fair values of derivatives, net						
Held for trading	–	407,352	–	–	–	407,352
Associated company put option	–	–	–	–	421,243	421,243
CSA/EMIR cash margins	–	476,481	–	–	–	476,481
Loans and advances, net:						
Commercial and others	11,666,019	14,723,860	7,639,305	6,562,748	–	40,591,932
Overdrafts	3,194,993	–	–	–	–	3,194,993
Consumer	4,399,511	2,000,560	5,680,478	1,245,433	–	13,325,982
Investments in associates	–	–	–	–	994,298	994,298
Other real estate	–	–	–	–	457,679	457,679
Property and equipment, net	–	–	–	–	1,134,495	1,134,495
Information Technology intangible assets, net	–	–	–	–	254,336	254,336
Other assets, net	–	132,994	–	–	–	132,994
Total	28,514,757	20,678,156	26,131,104	17,235,237	8,255,342	100,814,596

Notes to the Consolidated Financial Statements

29. Liquidity risk – continued

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Liabilities and equity						
Due to banks and other financial institutions, net						
Current Accounts	–	–	–	–	8,918	8,918
Repurchase agreements	6,770,458	3,552,553	–	–	–	10,323,011
Money market deposits	2,759,823	696,439	–	–	–	3,456,262
Customer deposits						
Time	32,987,304	2,741,190	4,240,850	–	–	39,969,344
Savings	–	–	–	–	1,698,795	1,698,795
Demand	–	–	–	–	25,865,987	25,865,987
Other	–	–	–	–	1,523,928	1,523,928
Negative fair values of derivatives, net						
Held for trading	–	405,333	–	–	–	405,333
Held as fair value hedges	–	591,114	–	–	–	591,114
CSA/EMIR cash margins	–	(680,928)	–	–	–	(680,928)
Term loans	11,626	–	2,000,000	–	–	2,011,626
Other liabilities	217,397	899,462	386,456	33,463	97,421	1,634,199
Total equity	–	–	–	–	14,007,007	14,007,007
Total	42,746,608	8,205,163	6,627,306	33,463	43,202,056	100,814,596
Derivatives, commitments and contingencies	4,709,237	8,265,063	20,820,240	11,611,034	–	45,405,574

Assets available to meet all the liabilities and to cover outstanding loan commitments include cash and balances with SAMA, due from banks and other financial institutions, investments, and loans and advances. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in Note 18 (c) (i).

Notes to the Consolidated Financial Statements

29. Liquidity risk – continued

(b) Analysis of financial liabilities by remaining undiscounted maturities

The tables below summarise the estimated maturity profile of the Group's financial liabilities as of December 31, 2020 and 2019 based on contractual undiscounted future repayment obligations. As special commission payment estimates up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the Consolidated Statement of Financial Position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables therefore do not reflect the expected cash flows indicated by the Group's deposit retention history.

The undiscounted maturity profile of financial liabilities is as follows:

	2020 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity/ on demand	Total
Due to banks and other financial institutions:						
Current Accounts	–	–	–	–	8,758	8,758
Repurchase agreements	9,149,964	3,366,210	–	–	–	12,516,174
Money market deposits	1,297,806	494,131	–	–	–	1,791,937
Commission free deposits from SAMA	–	2,322,722	3,860,069	–	–	6,182,791
Customer deposits:						
Time	18,502,231	3,066,947	3,170,741	–	–	24,739,919
Savings	–	–	–	–	1,041,362	1,041,362
Demand	–	–	–	–	32,485,210	32,485,210
Other	–	–	–	–	2,068,763	2,068,763
Negative fair values of derivatives, net:						
Held for trading	–	444,745	–	–	–	444,745
Held as fair value hedges	–	1,301,327	–	–	–	1,301,327
CSA/EMIR cash margins	–	(1,416,610)	–	–	–	(1,416,610)
Term loans	6,184	2,019,300	–	–	–	2,025,484
Total	28,956,185	11,598,772	7,030,810	–	35,604,093	83,189,860
Derivatives	98,700	376,038	1,438,993	1,084,901	–	2,998,632
Total	29,054,885	11,974,810	8,469,803	1,084,901	35,604,093	86,188,492

Notes to the Consolidated Financial Statements

29. Liquidity risk – continued

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity/ on demand	Total
Due to banks and other financial institutions:						
Current Accounts	–	–	–	–	8,918	8,918
Repurchase agreements	6,793,562	3,601,045	–	–	–	10,394,607
Money market deposits	2,770,068	706,782	–	–	–	3,476,850
Customer deposits:						
Time	33,110,463	2,781,715	4,682,107	–	–	40,574,285
Savings	–	–	–	–	1,698,795	1,698,795
Demand	–	–	–	–	25,865,987	25,865,987
Other	–	–	–	–	1,523,928	1,523,928
Negative fair values of derivatives, net:						
Held for trading	–	405,333	–	–	–	405,333
Held as fair value hedges	–	591,114	–	–	–	591,114
CSA/EMIR cash margins	–	(680,928)	–	–	–	(680,928)
Term loans	20,980	37,200	2,186,000	–	–	2,244,180
Total	**42,695,073**	**7,442,261**	**6,868,107**	**–**	**29,097,628**	**86,103,069**
Derivatives	107,242	408,911	1,492,088	1,034,564	–	3,042,805
Total	**42,802,315**	**7,851,172**	**8,360,195**	**1,034,564**	**29,097,628**	**89,145,874**

30. Credit and financial risk management

The Group's Board of Directors is responsible for establishing Corporate Governance processes and approving the Risk Appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines, accounting and reporting standards and best industry practices including Basel guidelines. The Board of Directors has approved the Group's Risk Management Guide Policy as an overarching Risk Policy under which the Group has a suite of policies including a Risk Appetite Framework Policy, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, Internal Capital Adequacy Assessment Plan Policy, Operational Risk Policy, Fraud Risk Policies, Information Security Policies, among others.

The Board of Directors has also approved the Group's comprehensive IFRS 9 Governance Framework Policy, addressing the Group's IFRS 9 Approach and Methodology Policy, which is supplemented with additional management level policies including an IFRS 9 Data Management and Control Framework Policy, and the IFRS 9 Governance Framework, along with standard operating and accounting procedures.

The Board of Directors is supported by the Board Risk Committee, a committee of the Board, responsible for recommending policies for Board approval and for monitoring risks within the Group. At the Management level, the Group operates various committees including an Enterprise Risk Management Committee, a Credit Committee, and an Asset Liability Committee (ALCO), which are responsible for various areas of risk management. A management level Expected Credit Loss (ECL) Committee linked to the Group's IFRS 9 Governance and Framework Policy also operates which is responsible for all aspects of IFRS 9 including expected credit losses.

Other management level committees include the Operational Risk Management Committee, Stress Testing Committee, Financial Fraud Control Committee, Business Continuity Management Committee, Information Security Steering Committee, and the Structured Solution Approval Committee.

At the departmental level, the Group has a Risk Management Group headed by a Chief Risk Officer who is assisted by assistant general managers in charge of Risk Management, Credit Risk Review, Credit Administration, Collections and other functions.

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

(a) Credit risk

The Group manages its exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in customer lending activities that lead to loans and advances, and other investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments and financial guarantee contracts. The Group assesses the Probability of Default (PD) of counterparties using internal rating tools which can be mapped to external ratings where available. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken. The Group assesses wholesale counterparties using the same techniques as for its lending activities to clients.

Concentrations of credit risk arise when several counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting concentration risks, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are regularly monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

(b) Credit Risk management

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses, or economic sectors.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between portfolios and allocates expected credit loss allowances. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessment criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a periodic quality classification exercises over all of its existing borrowers and the results of these exercises are validated by the independent risk management unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance.

(c) Credit Risk management ("CRM")

The Group in the ordinary course of lending activities holds collateral as security for Credit Risk Mitigation (CRM) on its loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realizable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and assesses the adequacy of the allowance for credit losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed.

The estimated fair value of collateral held as CRM by the Group for total loans and advances is approximately SAR 50.5 billion (2019: SAR 47.3 billion). The amount of real estate, local and international equities and other cash deposits held as CRM for Stage 3 performing and non-performing exposures is as follows:

	Exposure SAR '000	Credit Risk Mitigation SAR '000	ECL SAR '000
December 31, 2020	**2,458,028**	**2,317,269**	**1,068,973**
December 31, 2019	3,359,920	2,662,795	1,841,562

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

The Group, in the ordinary course of business, acquires real estate against settlement of loans and advances. The Group acquires the real estate with an intention to sell. The real estate acquired is presented as "Other real estate" in the consolidated statement of financial position. The movement of Other real estate for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Balance at the beginning of the year	457,679	718,724
Acquisitions during the year	–	121,285
Disposals during the year	(11,001)	(315,924)
Write-offs [Note 38 (a)]	–	(66,406)
Balance at the end of the year	446,678	457,679

(d) Credit risk disclosures

The Group's credit quality for financial assets and financial guarantee contracts is included in Note 30 (o).

The debt securities included in the investment portfolio are due mainly from corporates, banks, financial institutions, and sovereigns. An analysis of the Group's investments by type of counterparty is included in Note 6 (c).

Information on the credit quality for loans and advances is provided in Note 7 (d).

Economic sector risk concentrations for loans and advances are provided in Note 7 (e).

The Group's credit risk relating to derivative financial instruments is included in Notes 11 and 27.

An analysis of the Group's financial guarantee contracts by type of counterparty is included in Notes 18 (c) (ii).

The Group's credit exposure by business segment is included in Note 26 (d).

The Group's distribution of geographic concentration is provided in Note 27.

The Group's total credit risk exposure and the relative risk weighted assets is included in Note 33 (a).

(e) Credit analysis of investments held at FVTPL

The Group's investments held at FVTPL are comprised Mutual fund investments and other securities which are unrated. Refer to Note 6 (a).

(f) Credit risk grades

The Group allocates exposures to a credit risk grade based on an array of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of a risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk Grades 1 and 2 is smaller than the difference between credit risk Grades 2 and 3.

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Each non-consumer exposure is allocated a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves the use of the following data:

Non-consumer exposures	Consumer exposures	All exposures
• Information obtained during periodic reviews of customer files – e.g. audited financial statements, management accounts, budgets, and projections. Examples of areas of particular focus include: gross profit margins, financial leverage ratios, debt service coverages, compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, and changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory, and technological environment of the borrower, or in its business activities	• Internally collected data and customer behaviour – e.g. utilization of credit card facilities • External data from credit reference agencies including industry-standard credit scores • Affordability metrics	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial, and economic conditions

(g) Generating the term structure for the Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures and analyzes the information by type of product and borrower as well as by credit risk grading. For some portfolios, information sourced from external credit reference agencies is also used.

The Group employs models developed based on the analysis of the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time due to the impact of macroeconomic factors. This analysis includes the identification and calibration of relationships between changes in default rates and macroeconomic factors. For most exposures, key macroeconomic indicators include GDP growth and oil prices.

Based on a variety of external actual and forecasted information, the Group formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PD term-structures.

The 12 month PD for on and off-balance sheet exposures in grades 1 to 6 and unrated exposures range from 0.03% to 14.93%. The 12 month PD for Grade 7 – Special Mention is 23.55%.

(h) Determining whether credit risk has increased significantly

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and credit assessments, including forward-looking information.

The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative as well as qualitative factors, including a backstop based on delinquency. One of the key quantitative indicators used by the Group is the relative downgrade of the internal rating of a borrower since origination and thereby the consequent change in the PD.

Using credit judgement and, where possible, relevant historical experience, the Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and for which the effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The qualitative indicators

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

include specific high risk rating grades, cross facility defaults, and renegotiation of loans to customers in financial difficulty (referred to as forbearance).

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in the expected credit loss allowance resulting from transfers between 12-month PD (Stage 1) and lifetime PD (Stages 2 or 3).

The Group uses three main components to measure ECL, which are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The Group has leveraged existing regulatory practices and SAMA guidance to develop the methodology for model inputs which are adjusted when and where necessary to comply with IFRS 9 requirements.

Financial assets and financial guarantee contracts reflecting a significant increase in credit risk are classified in Stage 2 and the Group recognizes loss allowances at an amount equal to lifetime expected credit losses, reflecting a lifetime expected PD that represents the probability of default over the remaining life of the financial asset. The allowances for Stage 2 are higher than for Stage 1, reflecting the impact of a longer time horizon compared to a 12-month horizon used for the allowance in Stage 1.

(i) Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days.

Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default the Group considers indicators that are:

- qualitative, e.g. breaches of covenants;
- quantitative, e.g. overdue status and non-payment of another obligation of the same borrower; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. IFRS 9 does not define the term “default”, but instead requires each entity to do so. In this regard, the Group ensures that it is in alignment with the SAMA definition of default and also that it follows a common definition for regulatory and financial reporting.

The Group recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% and recoverable cash flows on the asset. These financial assets are credit impaired and are classified under Stage 3.

(j) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention, and other factors not related to a current or potential credit deterioration of the credit of the customer. An existing loan for which the terms have been modified may be de-recognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the Group’s policies.

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

The Group may also renegotiate loans to customers in financial difficulty to maximize collection opportunities and minimize the risk of default. Loan forbearance is granted on a selective basis:

- if there is a high risk of default; or
- if there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually can include extending the maturity, changing the timing of commission and/or principal payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect special commission and principal and the Group’s previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk. A customer needs to demonstrate consistently good payment behaviour over a period of time before the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL. The Group considers a period of 12 months as a curing period to move assets from loss allowance measurement at Lifetime ECL (stages 2 and 3) to a 12-month ECL (Stage 1).

(k) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters are generally derived from internally developed models and external benchmarks. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on internal rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this can lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated repayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties as well as external benchmarks. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and the net recovery amount of any collateral that is integral to the financial asset. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization.

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or financial guarantee.

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

For retail overdrafts and other facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period which may be longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect. This contractual right may not be enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These can include a reduction in limits, or cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include the instrument type, credit risk rating, time to maturity, collateral type, industry; and geographic location of the borrower. Regular reviews are also conducted to ensure that exposures within a particular portfolio remain appropriately homogeneous.

For portfolios where the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	PD	LGD
Due from banks and other financial institutions	Moody's default study	SAMA LGD Estimates
Investments	Moody's default study	SAMA LGD Estimates

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime PD at the reporting date with the remaining lifetime PD for the point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

(i) Incorporation of forward looking information

Based on a consideration of a variety of external actual and forecasted information, the Group formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities and selected private sector forecasters.

The current scenario represents a most likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group identifies key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and other credit losses.

Predicted relationships between the key indicators and default and loss rates on the portfolios of financial assets and financial guarantee contracts have been developed based on analyzing historical data from 2013 onwards.

Sensitivity of allowance for credit losses:

A sensitivity analysis has been conducted on the macroeconomic scenarios including GDP and oil prices in order to assess the potential change in ECL.

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

The following table summarizes the results of this sensitivity analysis as of December 31, 2020 and 2019 showing the effect of more optimistic and more pessimistic scenarios on ECL:

	2020 (SAR '000)					
	Due from banks and other financial institutions	Investments – Debt securities	Loans and advances	Financial guarantee contracts	Other assets – customer and other receivables	Total
Most likely	3,202	31,385	1,755,424	210,554	275	2,000,840
More optimistic (Upside)	2,653	29,638	1,470,400	190,216	261	1,693,168
More pessimistic (Downside)	3,260	31,570	1,764,589	212,713	289	2,012,421

	2019 (SAR '000)					
	Due from banks and other financial institutions	Investments – Debt securities	Loans and advances	Financial guarantee contracts	Other assets – customer and other receivables	Total
Most likely	2,088	29,659	2,405,585	217,397	386	2,655,115
More optimistic (Upside)	1,925	28,997	2,359,912	206,744	367	2,597,945
More pessimistic (Downside)	2,199	30,110	2,436,713	224,658	405	2,694,085

The following table summarizes the results of sensitivity on the total ECL as of December 31, 2020 showing the effect of changes in oil prices and GDP:

	ECL SAR '000
Decrease in Oil Price and GDP by $10 per barrel and 4% respectively	2,256,348
Increase in Oil Price and GDP by $10 per barrel and 4% respectively	1,965,225

(m) Offsetting financial assets and financial liabilities

The table set out below include financial assets and financial liabilities as at December 31, 2020 and 2019 that are offset in the Group's consolidated statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

	2020 (SAR '000)		
	Gross assets/ (liabilities) before offset	Offset with gross (assets)/ liabilities	Net assets/ (liabilities) recognized
Positive fair values of derivatives [Note 11 (c)]	2,575,796	(1,557,447)	1,018,349
Negative fair values of derivatives [Note 11 (c)]	(1,886,909)	1,557,447	(329,462)

	2019 (SAR '000)		
	Gross assets/ (liabilities) before offset	Offset with gross (assets)/ liabilities	Net assets/ (liabilities) recognized
Positive fair values of derivatives [Note 11 (c)]	2,205,598	(900,522)	1,305,076
Negative fair values of derivatives [Note 11 (c)]	(1,216,041)	900,522	(315,519)

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

(n) Reconciliations of gross carrying amounts and allowances for credit losses

Combined – Financial Assets and Financial guarantee contracts

A combined reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for all financial assets and financial guarantee contracts, for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	90,244,992	6,897,179	3,026,327	100,168,498	518,356	170,647	1,350,642	2,039,645
Transfers from Stage 1 to Stage 2	(341,244)	341,244	–	–	(6,170)	14,709	–	8,539
Transfers from Stage 1 to Stage 3	(151,079)	–	151,079	–	(2,632)	–	114,870	112,238
Transfers from Stage 2 to Stage 1	546,553	(546,553)	–	–	7,709	(4,622)	–	3,087
Transfers from Stage 2 to Stage 3	–	(787,605)	787,605	–	–	(33,183)	319,058	285,875
Transfers from Stage 3 to Stage 1	1,631	–	(1,631)	–	99	–	(698)	(599)
Transfers from Stage 3 to Stage 2	–	3,835	(3,835)	–	–	248	(1,760)	(1,512)
Changes in exposures and re-measurements	1,032,516	(241,680)	446,839	1,237,675	3,259	63,746	801,598	868,603
Net movement for the year	1,088,377	(1,230,759)	1,380,057	1,237,675	2,265	40,898	1,233,068	1,276,231
Write-offs, net	–	–	(660,761)	(660,761)	–	–	(660,761)	(660,761)
Balances as of December 31, 2019	91,333,369	5,666,420	3,745,623	100,745,412	520,621	211,545	1,922,949	2,655,115
Transfers from Stage 1 to Stage 2	(485,532)	485,532	–	–	(12,667)	62,022	–	49,355
Transfers from Stage 1 to Stage 3	(391,515)	–	391,515	–	(4,322)	–	200,395	196,073
Transfers from Stage 2 to Stage 1	844,194	(844,194)	–	–	12,679	(24,860)	–	(12,181)
Transfers from Stage 2 to Stage 3	–	(59,924)	59,924	–	–	(11,753)	33,655	21,902
Transfers from Stage 3 to Stage 1	34,313	–	(34,313)	–	461	–	(12,118)	(11,657)
Transfers from Stage 3 to Stage 2	–	56,315	(56,315)	–	–	5,780	(27,604)	(21,824)
Post-model overlays	–	–	–	–	104,801	32,879	60,992	198,672
Changes in exposures and re-measurements	2,307,768	(767,113)	(141,382)	1,399,273	(45,285)	(12,769)	87,127	29,073
Net movement for the year	2,309,228	(1,129,384)	219,429	1,399,273	55,667	51,299	342,447	449,413
Write-offs, net	–	–	(1,103,688)	(1,103,688)	–	–	(1,103,688)	(1,103,688)
Balances as of December 31, 2020	93,642,597	4,537,036	2,861,364	101,040,997	576,288	262,844	1,161,708	2,000,840

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Due from banks and other financial institutions

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for due from banks and other financial institutions for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	2,917,319	3,081	–	2,920,400	2,336	367	–	2,703
Changes in exposures and re-measurements	110,276	(73)	–	110,203	(606)	(9)	–	(615)
Balances as of December 31, 2019	3,027,595	3,008	–	3,030,603	1,730	358	–	2,088
Transfers from Stage 1 to Stage 2	(801)	801	–	–	(27)	95	–	68
Transfers from Stage 2 to Stage 1	3,008	(3,008)	–	–	103	(358)	–	(255)
Changes in exposures and re-measurements	(860,786)	127	–	(860,659)	1,286	15	–	1,301
Net movement for the year	(858,579)	(2,080)	–	(860,659)	1,362	(248)	–	1,114
Balances as of December 31, 2020	2,169,016	928	–	2,169,944	3,092	110	–	3,202

Investments – debt securities

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for debt securities for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	24,198,778	3,686	–	24,202,464	71,794	3,686	–	75,480
Changes in exposures and re-measurements	1,548,643	(3,686)	–	1,544,957	(42,135)	(3,686)	–	(45,821)
Balances as of December 31, 2019	25,747,421	–	–	25,747,421	29,659	–	–	29,659
Net movement for the year	4,212,488	–	–	4,212,488	1,726	–	–	1,726
Balances as of December 31, 2020	29,959,909	–	–	29,959,909	31,385	–	–	31,385

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Total loans and advances

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for total loans and advances for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	52,249,546	6,267,935	2,690,624	61,208,105	339,621	135,456	1,320,499	1,795,576
Transfers from Stage 1 to Stage 2	(132,172)	132,172	–	–	(2,718)	1,641	–	(1,077)
Transfers from Stage 1 to Stage 3	(82,883)	–	82,883	–	(1,622)	–	49,302	47,680
Transfers from Stage 2 to Stage 1	516,094	(516,094)	–	–	6,725	(2,790)	–	3,935
Transfers from Stage 2 to Stage 3	–	(754,982)	754,982	–	–	(30,860)	304,474	273,614
Transfers from Stage 3 to Stage 1	1,631	–	(1,631)	–	99	–	(698)	(599)
Transfers from Stage 3 to Stage 2	–	3,181	(3,181)	–	–	204	(1,463)	(1,259)
Changes in exposures and re-measurements	(1,392,499)	(133,357)	497,004	(1,028,852)	37,406	80,861	830,209	948,476
Net movement for the year	(1,089,829)	(1,269,080)	1,330,057	(1,028,852)	39,890	49,056	1,181,824	1,270,770
Write-offs, net	–	–	(660,761)	(660,761)	–	–	(660,761)	(660,761)
Balances as of December 31, 2019	51,159,717	4,998,855	3,359,920	59,518,492	379,511	184,512	1,841,562	2,405,585
Transfers from Stage 1 to Stage 2	(453,281)	453,281	–	–	(12,474)	60,783	–	48,309
Transfers from Stage 1 to Stage 3	(353,398)	–	353,398	–	(3,881)	–	182,922	179,041
Transfers from Stage 2 to Stage 1	784,268	(784,268)	–	–	9,079	(19,768)	–	(10,689)
Transfers from Stage 2 to Stage 3	–	(57,415)	57,415	–	–	(11,586)	32,478	20,892
Transfers from Stage 3 to Stage 1	34,313	–	(34,313)	–	461	–	(12,118)	(11,657)
Transfers from Stage 3 to Stage 2	–	56,062	(56,062)	–	–	5,770	(27,484)	(21,714)
Post-model overlays	–	–	–	–	104,801	32,879	60,992	198,672
Changes in exposures and re-measurements	(978,934)	(487,910)	(118,642)	(1,585,486)	(34,201)	(9,435)	94,309	50,673
Net movement for the year	(967,032)	(820,250)	201,796	(1,585,486)	63,785	58,643	331,099	453,527
Write-offs, net	–	–	(1,103,688)	(1,103,688)	–	–	(1,103,688)	(1,103,688)
Balances as of December 31, 2020	**50,192,685**	**4,178,605**	**2,458,028**	**56,829,318**	**443,296**	**243,155**	**1,068,973**	**1,755,424**

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Loans and advances – commercial, overdrafts, and other loans

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for commercial, overdraft, and other loans for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	37,982,359	6,078,316	2,399,940	46,460,615	159,244	95,760	1,075,419	1,330,423
Transfers from Stage 1 to Stage 2	(132,172)	132,172	–	–	(2,718)	1,641	–	(1,077)
Transfers from Stage 1 to Stage 3	(39,949)	–	39,949	–	(1,140)	–	11,447	10,307
Transfers from Stage 2 to Stage 1	516,094	(516,094)	–	–	6,725	(2,790)	–	3,935
Transfers from Stage 2 to Stage 3	–	(727,389)	727,389	–	–	(30,668)	289,356	258,688
Transfers from Stage 3 to Stage 1	1,631	–	(1,631)	–	99	–	(698)	(599)
Transfers from Stage 3 to Stage 2	–	3,181	(3,181)	–	–	204	(1,463)	(1,259)
Changes in exposures and re-measurements	(416,898)	(176,292)	522,708	(70,482)	96,379	27,695	878,716	1,002,790
Net movement for the year	(71,294)	(1,284,422)	1,285,234	(70,482)	99,345	(3,918)	1,177,358	1,272,785
Write-offs, net	–	–	(589,716)	(589,716)	–	–	(589,716)	(589,716)
Balances as of December 31, 2019	37,911,065	4,793,894	3,095,458	45,800,417	258,589	91,842	1,663,061	2,013,492
Transfers from Stage 1 to Stage 2	(350,715)	350,715	–	–	(8,625)	17,720	–	9,095
Transfers from Stage 1 to Stage 3	(283,056)	–	283,056	–	(1,603)	–	134,473	132,870
Transfers from Stage 2 to Stage 1	745,351	(745,351)	–	–	7,433	(5,354)	–	2,079
Transfers from Stage 2 to Stage 3	–	(33,326)	33,326	–	–	(2,180)	15,843	13,663
Transfers from Stage 3 to Stage 1	23,448	–	(23,448)	–	186	–	(4,512)	(4,326)
Transfers from Stage 3 to Stage 2	–	50,011	(50,011)	–	–	3,463	(23,329)	(19,866)
Post-model overlays	–	–	–	–	87,112	29,670	60,992	177,774
Changes in exposures and re-measurements	1,079,317	(387,094)	18,097	710,320	(3,214)	44,521	164,957	206,264
Net movement for the year	1,214,345	(765,045)	261,020	710,320	81,289	87,840	348,424	517,553
Write-offs, net	–	–	(1,035,847)	(1,035,847)	–	–	(1,035,847)	(1,035,847)
Balances as of December 31, 2020	39,125,410	4,028,849	2,320,631	45,474,890	339,878	179,682	975,638	1,495,198

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Loans and advances – consumer loans

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for consumer loans for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	14,267,187	189,619	290,684	14,747,490	180,377	39,696	245,080	465,153
Transfers from Stage 1 to Stage 3	(42,934)	–	42,934	–	(482)	–	37,855	37,373
Transfers from Stage 2 to Stage 3	–	(27,593)	27,593	–	–	(192)	15,118	14,926
Changes in exposures and re-measurements	(975,601)	42,935	(25,704)	(958,370)	(58,973)	53,166	(48,507)	(54,314)
Net movement for the year	(1,018,535)	15,342	44,823	(958,370)	(59,455)	52,974	4,466	(2,015)
Write-offs, net	–	–	(71,045)	(71,045)	–	–	(71,045)	(71,045)
Balances as of December 31, 2019	13,248,652	204,961	264,462	13,718,075	120,922	92,670	178,501	392,093
Transfers from Stage 1 to Stage 2	(102,566)	102,566	–	–	(3,849)	43,063	–	39,214
Transfers from Stage 1 to Stage 3	(70,342)	–	70,342	–	(2,278)	–	48,449	46,171
Transfers from Stage 2 to Stage 1	38,917	(38,917)	–	–	1,646	(14,414)	–	(12,768)
Transfers from Stage 2 to Stage 3	–	(24,089)	24,089	–	–	(9,406)	16,635	7,229
Transfers from Stage 3 to Stage 1	10,865	–	(10,865)	–	275	–	(7,606)	(7,331)
Transfers from Stage 3 to Stage 2	–	6,051	(6,051)	–	–	2,307	(4,155)	(1,848)
Post-model overlays	–	–	–	–	17,689	3,209	–	20,898
Changes in exposures and re-measurements	(2,058,251)	(100,816)	(136,739)	(2,295,806)	(30,987)	(53,956)	(70,648)	(155,591)
Net movement for the year	(2,181,377)	(55,205)	(59,224)	(2,295,806)	(17,504)	(29,197)	(17,325)	(64,026)
Write-offs, net	–	–	(67,841)	(67,841)	–	–	(67,841)	(67,841)
Balances as of December 31, 2020	11,067,275	149,756	137,397	11,354,428	103,418	63,473	93,335	260,226

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Financial guarantee contracts

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for financial guarantee contracts for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	10,838,500	622,477	335,703	11,796,680	104,039	31,138	30,143	165,320
Transfers from Stage 1 to Stage 2	(209,072)	209,072	–	–	(3,452)	13,068	–	9,616
Transfers from Stage 1 to Stage 3	(68,196)	–	68,196	–	(1,010)	–	65,568	64,558
Transfers from Stage 2 to Stage 1	30,459	(30,459)	–	–	984	(1,832)	–	(848)
Transfers from Stage 2 to Stage 3	–	(32,623)	32,623	–	–	(2,323)	14,584	12,261
Transfers from Stage 3 to Stage 2	–	654	(654)	–	–	44	(297)	(253)
Changes in exposures and re-measurements	775,209	(104,564)	(50,165)	620,480	8,774	(13,420)	(28,611)	(33,257)
Net movement for the year	528,400	42,080	50,000	620,480	5,296	(4,463)	51,244	52,077
Balances as of December 31, 2019	11,366,900	664,557	385,703	12,417,160	109,335	26,675	81,387	217,397
Transfers from Stage 1 to Stage 2	(31,450)	31,450	–	–	(166)	1,144	–	978
Transfers from Stage 1 to Stage 3	(38,117)	–	38,117	–	(441)	–	17,473	17,032
Transfers from Stage 2 to Stage 1	56,918	(56,918)	–	–	3,497	(4,734)	–	(1,237)
Transfers from Stage 2 to Stage 3	–	(2,509)	2,509	–	–	(167)	1,177	1,010
Transfers from Stage 3 to Stage 2	–	253	(253)	–	–	10	(120)	(110)
Changes in exposures and re-measurements	(106,960)	(279,330)	(22,740)	(409,030)	(13,985)	(3,349)	(7,182)	(24,516)
Net movement for the year	(119,609)	(307,054)	17,633	(409,030)	(11,095)	(7,096)	11,348	(6,843)
Balances as of December 31, 2020	**11,247,291**	**357,503**	**403,336**	**12,008,130**	**98,240**	**19,579**	**92,735**	**210,554**

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Other assets – customer and other receivables

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for customer and other receivables, included in other assets, for the years ended December 31, 2020 and 2019 is summarized as follows:

	Gross Carrying Amounts (SAR '000)				Allowances for credit losses (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2018	40,849	–	–	40,849	566	–	–	566
Changes in exposures and re-measurements	(9,113)	–	–	(9,113)	(180)	–	–	(180)
Balances as of December 31, 2019	31,736	–	–	31,736	386	–	–	386
Changes in exposures and re-measurements	41,960	–	–	41,960	(111)	–	–	(111)
Balances as of December 31, 2020	73,696	–	–	73,696	275	–	–	275

The transfer amounts in the above reconciliations represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the years ended December 31, 2020 and 2019.

(o) Credit quality analysis

Due from banks and other financial institutions

The following table sets out information about the credit quality of due from banks and other financial institutions as of December 31, 2020 and 2019:

	2020 (SAR '000)				2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Investment grade	2,104,763	–	–	2,104,763	2,635,376	–	–	2,635,376
Non-investment grade	62,220	928	–	63,148	391,348	3,008	–	394,356
Unrated	2,033	–	–	2,033	871	–	–	871
Total	2,169,016	928	–	2,169,944	3,027,595	3,008	–	3,030,603

Investments – debt securities

The following table sets out information about the credit quality of debt securities as of December 31, 2020 and 2019:

	2020 (SAR '000)				2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Investment grade	26,931,789	–	–	26,931,789	22,577,137	–	–	22,577,137
Non-investment grade	2,039,423	–	–	2,039,423	1,933,924	–	–	1,933,924
Unrated	988,697	–	–	988,697	1,236,360	–	–	1,236,360
Total	29,959,909	–	–	29,959,909	25,747,421	–	–	25,747,421

Investment grade generally have a minimum external rating from approved rating agencies including Standard and Poor's (BBB-), Moody's (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities.

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

Total loans and advances

The following table sets out information about the credit quality of total loans and advances as of December 31, 2020 and 2019:

	2020 (SAR '000)				2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Grade 1 to 6 and unrated	50,192,685	2,941,773	–	53,134,458	51,159,717	4,339,576	–	55,499,293
Grade 7 – Special Mention	–	1,236,832	–	1,236,832	–	659,279	–	659,279
Lifetime ECL credit impaired	–	–	2,458,028	2,458,028	–	–	3,359,920	3,359,920
Total	50,192,685	4,178,605	2,458,028	56,829,318	51,159,717	4,998,855	3,359,920	59,518,492

Loans and advances – commercial, overdrafts, and other loans

The following table sets out information about the credit quality of commercial, overdrafts, and other loans and advances as of December 31, 2020 and 2019:

	2020 (SAR '000)				2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Grade 1 to 6 and unrated	39,125,410	2,792,017	–	41,917,427	37,911,065	4,134,615	–	42,045,680
Grade 7 – Special Mention	–	1,236,832	–	1,236,832	–	659,279	–	659,279
Lifetime ECL credit impaired	–	–	2,320,631	2,320,631	–	–	3,095,458	3,095,458
Total	39,125,410	4,028,849	2,320,631	45,474,890	37,911,065	4,793,894	3,095,458	45,800,417

Refer to Note 7 (d) (i) for a description of the grading categories for loans and advances.

Loans and advances – consumer loans

The following table sets out information about the credit quality of consumer loans and advances as of December 31, 2020 and 2019:

	2020 (SAR '000)				2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Unrated	11,067,275	149,756	–	11,217,031	13,248,652	204,961	–	13,453,613
Lifetime ECL credit impaired	–	–	137,397	137,397	–	–	264,462	264,462
Total	11,067,275	149,756	137,397	11,354,428	13,248,652	204,961	264,462	13,718,075

Financial guarantee contracts

The following table sets out information about the credit quality of financial guarantee contracts as of December 31, 2020 and 2019:

	2020 (SAR '000)				2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Grade 1 to 6 and unrated	11,247,291	302,379	–	11,549,670	11,366,900	620,576	–	11,987,476
Grade 7 – Special Mention	–	55,124	–	55,124	–	43,981	–	43,981
Lifetime ECL credit impaired	–	–	403,336	403,336	–	–	385,703	385,703
Total	11,247,291	357,503	403,336	12,008,130	11,366,900	664,557	385,703	12,417,160

Notes to the Consolidated Financial Statements

30. Credit and financial risk management – continued

(p) Summary of financial assets and financial liabilities

The following tables summarize the balances of financial and other assets and financial and other liabilities by measurement category in the Consolidated Statement of Financial Position as of December 31, 2020 and 2019:

	2020 SAR '000				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets:					
Cash and balances with SAMA	8,323,490	–	–	–	8,323,490
Due from banks and other financial institutions, net	2,166,742	–	–	–	2,166,742
Investments	–	180,115	373,819	29,959,909	30,513,843
Positive fair values of derivatives, net	–	1,018,349	–	–	1,018,349
Loans and advances, net	55,073,894	–	–	–	55,073,894
Other assets, net	149,352	–	–	–	149,352
Total financial and other assets	65,713,478	1,198,464	373,819	29,959,909	97,245,670
Financial and other liabilities:					
Due to banks and other financial institutions	20,073,084	–	–	–	20,073,084
Customers' deposits	60,143,589	–	–	–	60,143,589
Negative fair value of derivatives, net	–	329,462	–	–	329,462
Term loans	2,006,169	–	–	–	2,006,169
Other liabilities	2,001,195	–	–	–	2,001,195
Total financial and other liabilities	84,224,037	329,462	–	–	84,553,499

	2019 (SAR '000)				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets:					
Cash and balances with SAMA	10,218,816	–	–	–	10,218,816
Due from banks and other financial institutions, net	3,028,515	–	–	–	3,028,515
Investments	–	165,260	262,799	25,747,421	26,175,480
Positive fair values of derivatives, net	–	1,305,076	–	–	1,305,076
Loans and advances, net	57,112,907	–	–	–	57,112,907
Other assets, net	132,994	–	–	–	132,994
Total financial and other assets	70,493,232	1,470,336	262,799	25,747,421	97,973,788
Financial and other liabilities:					
Due to banks and other financial institutions	13,788,191	–	–	–	13,788,191
Customers' deposits	69,058,054	–	–	–	69,058,054
Negative fair value of derivatives, net	–	315,519	–	–	315,519
Term loans	2,011,626	–	–	–	2,011,626
Other liabilities	1,634,199	–	–	–	1,634,199
Total financial and other liabilities	86,492,070	315,519	–	–	86,807,589

Notes to the Consolidated Financial Statements

31. Fair values of financial assets and liabilities

(a) The Group uses the fair value hierarchy disclosed in Note 2dii for determining and disclosing the fair value of financial instruments. The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2020 and 2019 by level of the fair value hierarchy:

	2020 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL, net	–	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, net	–	329,462	–	329,462
Total	–	329,462	–	329,462

	2019 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL, net	–	883,833	421,243	1,305,076
Investments at FVOCI	18,296,609	7,246,430	467,181	26,010,220
Investments at FVTPL	114,664	–	50,596	165,260
Total	18,411,273	8,130,263	939,020	27,480,556
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL, net	–	315,519	–	315,519
Total	–	315,519	–	315,519

The total amount of the changes in fair value recognized in the consolidated Statement of Income for the year ended December 31, 2020 which was estimated using valuation models, is a loss of SAR 84.6 million (2019: a gain of SAR 3.2 million) which primarily relate to changes in the valuation of the associated company put option described in Note 11 (e), which is included in unrealized fair value through profit and 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, 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.

Notes to the Consolidated Financial Statements

31. Fair values of financial assets and liabilities – continued

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

Level 3 derivative financial instruments include the embedded derivative put option arising from the existing master agreement entered into by the Bank relating to its investment in an associated company [(see Note 11 (e)]. 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 60.2 million (2019: SAR 90.4 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 26.1 million (2019: SAR 41.6 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 (2019: SAR 37.4 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 Bank's estimates of fair value.

(b) The following table summarizes the movement of the Level 3 fair values for the years ended December 31, 2020 and 2019:

	2020 SAR '000	2019 SAR '000
Fair values at the beginning of the year	939,020	933,216
Transfers to Level 2	(453,906)	–
Net change in fair value	(88,098)	10,406
Investments sold	–	(4,602)
Fair values at the end of the year	397,016	939,020

(c) The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2020 and 2019 that are not carried at fair value in the Consolidated Financial Statements, along with the comparative carrying amounts for each.

December 31, 2020	Carrying values SAR '000	Estimated fair values SAR '000
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

Notes to the Consolidated Financial Statements

31. Fair values of financial assets and liabilities – continued

December 31, 2019	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions, net	3,028,515	3,028,515
Loans and advances, net	57,112,907	60,151,426
Total	60,141,422	63,179,941
Financial liabilities:		
Due to banks and other financial institutions, net	13,788,191	13,788,191
Customers' deposits	69,058,054	68,224,293
Term loans	2,011,626	2,011,626
Total	84,857,871	84,024,110

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 would be considered as Level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the 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 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.

32. Related party transactions

(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 2020, SAMA issued rules on Banks exposures to Related Parties. These updates 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 complies with the guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Managemeznt of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and/or their relatives;
- 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.

Notes to the Consolidated Financial Statements

32. Related party transactions – 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 Bank, in addition to incumbents of any other positions determined by SAMA.

Principal shareholders include those owners of record of more than 5% 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 December 31, 2020 and 2019, resulting from such transactions included in the consolidated statement of financial position are as follows:

	2020 SAR '000	2019 SAR '000
Management of the Bank, their relatives and/or their affiliated entities:		
Loans and advances	804,421	363,327
Customers' deposits	469,228	1,084,621
Tier I Sukuk	7,000	7,000
Commitments and contingencies	306,912	88,145
Investments	429,675	400,727
Principal shareholders of the Bank and/or their relatives:		
Customer deposits	760,091	2,448,755
Tier I Sukuk	30,000	30,000
Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives:		
Loans and advances	732,527	873,967
Customers' deposits	381,956	63,155
Tier I Sukuk	5,000	5,000
Commitments, contingencies and derivatives	102,050	62,764
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customers' deposits and other liabilities	264,141	176,722

Notes to the Consolidated Financial Statements

32. Related party transactions – continued

(c) Income and expense for the years ended December 31, 2020 and 2019, pertaining to transactions with related parties included in the Consolidated Statement of Income are as follows:

	2020 SAR '000	2019 SAR '000
Management of the Bank and/or members of their immediate family:		
Special commission income	29,195	6,258
Special commission expense	5,595	2,873
Fee income from banking services	25	111
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission expense	293	13,864
Rent and premises-related expenses (Building rental)	7,758	7,758
Other expenses	100	–
Affiliates of the Bank and entities for which the investment is accounted for using the equity method of accounting:		
Special commission income	31,863	31,143
Special commission expense	6,284	373
Fee income from banking services	3,113	3,328
Other income	5,394	–
Other expenses	2,659	–
Board of Directors and other Board Committee member remuneration	6,545	7,118

The information presented for 2019 does not reflect the requirements of the new related party rules issued during 2020 and therefore is not comparable to the information presented for 2020.

All related party transactions are conducted on terms approved by the Management.

The total amount of compensation charged or paid to Key Management Personnel during the year is included in Note 23b.

33. 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 Consolidated Statement of Financial Position assets, commitments, and notional amounts of derivatives, at a weighted amount to reflect their relative risk.

Notes to the Consolidated Financial Statements

33. 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 December 31, 2020 and 2019:

	2020 SAR '000	2019 SAR '000
Credit Risk RWA	72,782,528	76,419,416
Operational Risk RWA	5,112,624	5,061,360
Market Risk RWA	1,642,306	1,380,148
Total Pillar I RWA	79,537,458	82,860,924
Tier I Capital	16,135,294	14,482,246
Tier II Capital	730,973	648,296
Total Tier I + Tier II Capital	16,866,267	15,130,542
Capital Adequacy Ratios:		
Tier I Ratio (%)	20.29	17.48
Tier I + Tier II Ratio (%)	21.21	18.26

The Tier I and Tier II capital as of December 31, 2020 and 2019 is comprised of the following:

	2020 SAR '000	2019 SAR '000
Total Equity	15,331,033	14,007,007
IFRS 9 five-year transitional adjustment	822,556	493,534
Goodwill adjustment	(18,295)	(18,295)
Tier I Capital	16,135,294	14,482,246
Tier II Subordinated debt	–	–
Qualifying general provisions, net	730,973	648,296
Tier II Capital	730,973	648,296
Tier I + Tier II Capital	16,866,267	15,130,542

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 December 31, 2020 and 2019, 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 03, 2017) on the ECL accounting transitional arrangement for regulatory capital, allowed banks to transition the Day 1 impact of IFRS 9 on regulatory capital over five years by using a dynamic approach to reflect the impact of the transition.

In April 2020, SAMA issued a guidance document entitled "Guidance on Accounting and Regulatory Treatment of COVID-19 – Extraordinary Support Measures". Under the guidance, banks have been allowed to add-back up to 100% of the Day 1 impact of IFRS 9 as a transitional adjustment amount to Common Equity Tier I (CET I) 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 increase to SAR 822.5 million as of December 31, 2020.

Notes to the Consolidated Financial Statements

33. Capital adequacy – continued

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

- Pillar III, Qualitative disclosures (Annually)
- Pillar III, Quantitative disclosures (Annually/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.

34. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under Management totalling SAR 20,800 million (2019: SAR 18,799 million). This includes funds managed under Shariah approved portfolios amounting to SAR 5,766 million (2019: SAR 1,625 million).

35. Employee end of service benefits

(a) The actuarial obligation amounts recognized in the Consolidated Statement of Financial Position which is included in other liabilities and the corresponding movement during the years ended December 31, 2020 and 2019 is as follows:

	2020 SAR '000	2019 SAR '000
Actuarial obligation at the beginning of the year	174,512	165,120
Current service and net interest cost	38,657	38,429
Benefits paid	(17,119)	(49,726)
Effect of changes in actuarial assumptions	6,394	20,689
Actuarial obligation at the end of the year (Note 15a)	202,444	174,512

(b) The principal actuarial assumptions used in the calculation of the actuarial obligations as of December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate (%)	2.77	4.35
Expected rate of salary increment (%)	2.00	2.00
Normal retirement age (years)	60	60

Notes to the Consolidated Financial Statements

35. Employee end of service benefits – continued

(c) Should the above actuarial assumptions change in the future, the actuarial obligation could be higher or lower. The table below illustrates the sensitivity of the actuarially determined obligation as of December 31, 2020 and 2019 to the discount rate of 2.77% as of December 31, 2020 (2019: 4.35%), and the salary increment rate of 2.00% as of December 31, 2020 (2019: 2.00%):

	2020			2019		
	Impact on actuarially determined obligation increase (decrease)			Impact on actuarially determined obligation increase (decrease)		
	Change in assumption %	Increase in assumption SAR '000	Decrease in assumption SAR '000	Change in assumption %	Increase in assumption SAR '000	Decrease in assumption SAR '000
Discount rate	10	(3,576)	3,814	10	(5,283)	5,654
Salary increment rate	10	1,325	(1,415)	10	2,219	(2,596)

The above sensitivity analyses is based on a change in a single assumption holding other assumptions constant.

(d) The approximate expected maturity analysis of the undiscounted actuarially determined obligation as of December 31, 2020 and 2019 is as follows:

	2020 SAR '000	2019 SAR '000
Less than one year	24,581	36,042
One to two years	922	17,464
Two to five years	10,216	41,040
Over five years	205,105	119,479
Total	240,824	214,025

(e) The weighted average duration of the actuarially determined obligation is approximately 6.57 years (2019: 6.33 years).

36. Tier I Sukuk

The Bank completed the establishment of a Shariah 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 December 31, 2020 and 2019:

	2020 SAR '000	2019 SAR '000
November 16, 2016	500,000	500,000
June 6, 2017	285,000	285,000
March 21, 2018	1,000,000	1,000,000
April 15, 2019	215,000	215,000
Total	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.

Notes to the Consolidated Financial Statements

37. 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 totalling SAR 1,041.1 million presented as a reduction of shareholders' equity.

38. Operating expenses

(a) Provisions for credit and other losses for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Provisions for credit losses:		
Due from banks and other financial institutions (Note 5b)	1,114	(615)
Investments (Note 6d)	1,726	(45,821)
Loans and advances (Note 7c)	453,527	1,270,770
Financial guarantee contracts (Note 15b)	(6,843)	52,077
Other assets (Note 10b)	(111)	(180)
Provisions for credit losses	449,413	1,276,231
Provisions for real estate losses (Note 30c)	–	66,406
Provisions for credit and other losses	449,413	1,342,637

(b) Other general and administrative expenses for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 SAR '000	2019 SAR '000
Professional and other related services	73,247	71,598
Communications	39,299	48,843
Advertising and contributions	35,583	30,818
Postal, shipping and supplies	23,491	24,301
Licenses and Subscriptions	16,844	18,178
SAMA Deposit Insurance Premiums	19,332	19,200
Non-recurring expenses	–	36,473
Others	61,194	70,911
	268,990	320,322

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39. 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 second 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 to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Bank continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 poses, the effects of which may be felt for some time, and is closely monitoring its exposures. This has entailed reviewing specific economic sectors, regions, counterparties, collateral protection, and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The Bank has also revised certain inputs and assumptions used for the determination of the ECL allowance. The revisions mainly revolved around:

- adjusting macroeconomic factors used by the Bank in its ECL model including observed default rates;
- revising the scenario probabilities; and
- refining staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The adjustments to macroeconomic factors and scenario weightages resulted in an additional ECL provision of SAR 47.8 million for the year ended December 31, 2020. The Group'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.

As the situation continues to be fluid, Management considers certain effects cannot be fully incorporated into the ECL calculations at this point in time. 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 177.7 million and SAR 20.8 million for the year ended December 31, 2020 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.

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.

Notes to the Consolidated Financial Statements

GRI 201-4

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

Deferred payment program

As part of the deferred payments program, the Bank was required to defer payments for six months on lending facilities to those companies that qualify as MSMEs and financing companies regulated by SAMA. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14, 2020 for a period of six months without increasing the facility tenor. The accounting impact of these changes was assessed and treated as per the requirements of IFRS 9 as a modification in terms of arrangement. This resulted in the Bank recognizing a day 1 modification loss of SAR 97.3 million for the year ended December 31, 2020 which is included in special commission income. 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.

Further to the above, on September 1, 2020, SAMA extended the deferred payments program by requiring an additional three month payment deferrals for eligible MSMEs until December 14, 2020. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from September 15, 2020 to December 14, 2020 for an additional three month period without increasing the facility tenure. The accounting impact of these changes has been assessed and are treated as per the requirements of IFRS 9 as a modification in the terms of the arrangement. This resulted in the Bank recognizing an additional modification loss of SAR 27.4 million during the year ended December 31, 2020 which is included in special commission income.

During the three-month period ended December 31, 2020, SAMA further extended the deferred payments program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from December 15, 2020 to March 31, 2021 without increasing the facility tenure. The accounting impact of these changes has been assessed and are treated as per the requirements of IFRS 9 as a modification in the terms of the arrangement. This resulted in the Bank recognizing an additional modification loss of SAR 73.9 million during the year ended December 31, 2020 which is included in special commission income.

As a result of the above program and related extensions, the Bank has deferred payments of SAR 3.3 billion on the MSME portfolio and accordingly has recognized total modification losses of SAR 198.6 million during the year ended December 31, 2020 of which SAR 120.7 million has been unwound and has been included in special commission income. The total exposures against these customers amounted to SAR 4.8 billion as of December 31, 2020.

In order to compensate for the related costs that the Bank is expected to incur under the SAMA and other public authorities programs, the Bank received commission free deposits from SAMA amounting to SAR 3.8 billion with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification losses incurred on the deferral of payments as described above. The benefit of the subsidized funding rate has been accounted for on a systematic basis in accordance with government grant accounting requirements. By the end of December 31, 2020, total income of SAR 198.6 million has been recognized in special commission income and SAR 103.1 million deferred and included in other liabilities. The Management has exercised certain judgement in the recognition and measurement of this grant income. During the year ended December 31, 2020, SAR 81.6 million for unwinding of day 1 gain has been charged to special commission expense.

Further to the above, on December 31, 2020, SAMA extended the maturity of its commission free deposits amounting to SAR 3.4 billion by 21 months. Management has determined based on the communication from SAMA, that the extension of commission free deposits 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. This resulted in the Bank recognizing modification gain of SAR 146.6 million during the year ended December 31, 2020 which is deferred and included in other liabilities.

The Bank has recognized SAR 30.6 million in incremental ECL for the MSME portfolio having a total exposure of SAR 5.4 billion.

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.

Notes to the Consolidated Financial Statements

GRI 201-4

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

Funding for lending and Facility guarantee program

As of December 31, 2020, the Bank has yet to participate in SAMA's funding for lending and facility guarantee programs.

POS and e-commerce service fee support

Furthermore, during the year ended December 31, 2020, the Bank has recognized reimbursements from SAMA for the forgone POS and e-commerce service fees amounting to SAR 24.7 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 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 has been recognized in the Consolidated Statement of income for the year ended December 31, 2020 and with the remaining amount deferred.

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 has voluntarily postponed loan payments for three months for all public and private health care workers who have credit facilities with the Group. This has resulted in the Group recognizing a day 1 modification loss of SAR 8.9 million for the year ended December 31, 2020 which has been charged to special commission income.

40. Analysis of changes in financing during the year

A reconciliation from the opening to the closing balances of the liabilities and equity due to changes in cash flows arising from financing activities for the years ended December 31, 2020 and 2019 is summarized as follows:

		Liabilities			Equity		
	Notes	Term loans SAR '000	Subordinated debt SAR '000	Total SAR '000	Treasury shares SAR '000	Tier I Sukuk SAR '000	Total SAR '000
Balances as of December 31, 2018		2,030,371	2,011,626	4,041,997	(787,536)	1,785,000	997,464
Redemption of subordinated debt		–	(2,000,000)	(2,000,000)	–	–	–
Treasury shares purchased	37	–	–	–	(253,531)	–	(253,531)
Tier I Sukuk proceeds	36	–	–	–	–	215,000	215,000
Special commission expense	19	74,562	39,612	114,174	–	–	–
Special commission paid		(93,307)	(51,238)	(144,545)	–	–	–
Net movement during the year		(18,745)	(2,011,626)	(2,030,371)	(253,531)	215,000	(38,531)
Balances as of December 31, 2019		2,011,626	–	2,011,626	(1,041,067)	2,000,000	958,933
Special commission expense	19	47,329	–	47,329	–	–	–
Special commission paid		(52,786)	–	(52,786)	–	–	–
Net movement during the year		(5,457)	–	(5,457)	–	–	–
Balances as of December 31, 2020		2,006,169	–	2,006,169	(1,041,067)	2,000,000	958,933

Notes to the Consolidated Financial Statements

41. Interest Rate Benchmark Reforms – Interbank Offer Rate ("IBOR") Transition

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 as follows:

- **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 are 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 ("RFR"). The Phase 2 amendments are effective for annual periods beginning on or after January 1, 2021 and early application is permitted. The Group will complete its assessment of the accounting implications of the scenarios it expects to encounter in the transition from IBOR to RFR in order to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement. The Group will ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Group will assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

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.

The Group's IBOR exposures included in loans and advances amount to SAR 263.8 million. The Group holds derivatives for risk management purposes, some of which are designated as fair value hedges. The notional amount of commission rate swaps that are indexed to IBOR and maturing after December 31, 2021 amounts to SAR 4,567 million.

42. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Group's accounting years beginning on or after January 1, 2021.

- COVID-19 – Related Rent Concessions (Amendments to IFRS 16);
- IFRS 17 – Insurance Contracts, applicable for periods beginning on or after January 1, 2023;
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022;
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37);
- Interest Rate Benchmark Reform – IBOR Transition – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to Conceptual Framework (Amendments to IFRS 3).

The Group does not anticipate that these will have a significant impact on the Group's Consolidated Financial Statements. Refer to Note 41 for further details regarding IBOR transition.

43. Board of Director's approval

The Consolidated Financial Statements were authorized for issue by the Board of Directors on 29 Jumada II 1442H, corresponding to February 11, 2021

ANNEXES

SAIB's strategies seek to create sustainable long-term value for itself and its stakeholders. To achieve the goals of its strategies, the Bank forms various capitals, which are discussed in detail in this section.

Five Year Financial Highlights

(SAR in millions)	2020	2019	2018	2017	2016
Operations					
Total income [(1)]	2,892	2,906	2,824	2,792	2,557
Total expense [(2)]	1,214	1,234	1,133	1,059	1,051
Operating profit before provisions	1,678	1,672	1,691	1,733	1,506
Provisions for credit and other losses	449	1,343	247	322	453
Provisions for Zakat and Income Tax [(3)]	249	90	868	–	–
Net income	980	239	576	1,411	1,053
Financial position					
Total assets	99,885	100,815	96,070	93,796	93,047
Loans and advances, net	55,074	57,112	59,413	59,588	60,249
Investments	30,514	26,175	24,638	21,714	21,448
Investments in associates	846	994	1,012	1,020	1,000
Term loans	2,006	2,012	2,030	2,015	2,032
Subordinated debt	–	–	2,006	2,003	2,002
Customer deposits	60,144	69,058	63,690	66,943	65,640
Shareholders' equity	13,331	12,007	11,621	13,494	12,834
Tier I Sukuk	2,000	2,000	1,785	785	500
Total equity	15,331	14,007	13,406	14,279	13,334
Key ratios					
Return on average Shareholders' equity (%)	7.73	2.03	4.73	10.72	8.54
Return on average assets (%)	0.98	0.24	0.61	1.51	1.13
Capital adequacy (%)	21.21	18.26	19.31	20.38	18.93
Equity to total assets (%)	15.35	13.89	13.95	15.22	14.33

(1) Total income includes total operating income plus share in earnings of associates.
(2) Total expense includes total operating expenses before impairment charges.
(3) The years prior to 2018 have not been adjusted for provisions for Zakat and Income Tax.

GRI Content Index

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GRI CONTENT INDEX SERVICE 2021

For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report.

The service was performed on the English version of the report.

GRI Standard/Disclosure		Page No.	Report commentary and/or direct answers
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of the organization	6	The Saudi Investment Bank
102-2	Activities, brands, products, and services	6 72-77	The Saudi Investment Bank Customer Capital
102-3	Location of headquarters	214	Corporate information
102-4	Location of operations	77	Customer Capital
102-5	Ownership and legal form	214	Corporate information
102-6	Markets served	6	The Saudi Investment Bank
102-7	Scale of the organization	6-7 10-11	The Saudi Investment Bank SAIB at a glance
102-8	Information on employees and other workers	82-86	Employee Capital
102-9	Supply chain	90	Business Partner Capital
102-10	Significant changes to the organization and its supply chain	90	Business Partner Capital
102-11	Precautionary principle or approach	32-35	Risk Management
102-12	External initiatives	8-9	The Saudi Investment Bank
102-13	Membership of associations	92	Business Partner Capital
	Strategy		
102-14	Statement from senior decision-maker	12	Letter from the Chairman
	Ethics and integrity		
102-16	Values, principles, standards, and norms of behaviour	7 31	The Saudi Investment Bank Corporate Governance
Governance			
102-18	Governance structure	21	Corporate Governance
102-19	Delegating authority	21	Corporate Governance
Stakeholder engagement			
102-40	List of stakeholder groups	46-47	Stakeholders
102-41	Collective bargaining agreements	–	No collective bargaining approach
102-42	Identifying and selecting stakeholders	46	Stakeholders
102-43	Approach to stakeholder engagement	46-47	Stakeholders
102-44	Approach to stakeholder engagement	46-47	Stakeholders

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GRI Standard/Disclosure		Page No.	Report commentary and/or direct answers
Reporting practice			
102-45	Entities included in the consolidated financial statements	116	Notes to the Consolidated Financial Statements
102-46	Defining report content and topic boundaries	4	About this Report
102-47	List of material topics	48-49	Materiality
102-48	Restatements of information	4	About this Report
102-49	Changes in reporting	4	About this Report
102-50	Reporting period	4	About this Report
102-51	Date of most recent report	4	About this Report
102-52	Reporting cycle	4	About this Report
102-53	Contact point for questions regarding the report	4	About this Report
102-54	Claims of reporting in accordance with the GRI Standards	4	About this Report This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI content index	207-212	GRI Content Index
102-56	External assurance	–	No external assurance obtained
GRI 200: Economic			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	40-41	Business Model
103-2	The management approach and its components	40-41	Business Model
103-3	Evaluation of the management approach	40-41	Business Model
GRI 201: Economic performance 2016			
201-3	Defined benefit plan obligations and other retirement plans	116	Notes to the Consolidated Financial Statements
201-4	Financial assistance received from government	201-203	Notes to the Consolidated Financial Statements
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 202: Market presence 2016			
202-2	Proportion of senior management hired from the local community	81	Employee Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	40-41	Business Model
103-2	The management approach and its components	40-41	Business Model
103-3	Evaluation of the management approach	40-41	Business Model
GRI 203: Indirect economic impacts 2016			
203-1	Infrastructure investments and services supported	93-97	Social and Environmental Capital
203-2	Significant indirect economic impacts	93-97	Social and Environmental Capital

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GRI Standard/Disclosure		Page No.	Report commentary and/or direct answers
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	90	Business Partner Capital
103-2	The management approach and its components	90	Business Partner Capital
103-3	Evaluation of the management approach	90	Business Partner Capital
GRI 204: Procurement practices 2016			
204-1	Proportion of spending on local suppliers	90	Business Partner Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	36-37	Compliance
103-2	The management approach and its components	36-37	Compliance
103-3	Evaluation of the management approach	36-37	Compliance
GRI 205: Anti-corruption 2016			
205-1	Operations assessed for risks related to corruption	36-37	Compliance
205-2	Communication and training about anti-corruption policies and procedures	36-37	Compliance
205-3	Confirmed incidents of corruption and actions taken	–	No confirmed incidents of corruption
GRI 300: Environmental			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	93-94	Social and Environmental Capital
103-2	The management approach and its components	93-94	Social and Environmental Capital
103-3	Evaluation of the management approach	93-94	Social and Environmental Capital
GRI 301: Materials 2016			
301-2	Recycled input materials used	94-95	Social and Environmental Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	93-94	Social and Environmental Capital
103-2	The management approach and its components	93-94	Social and Environmental Capital
103-3	Evaluation of the management approach	93-94	Social and Environmental Capital
GRI 302: Energy 2016			
302-1	Energy consumption within the organisation	94	Social and Environmental Capital
302-4	Reduction of energy consumption	94	Social and Environmental Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	93-94	Social and Environmental Capital
103-2	The management approach and its components	93-94	Social and Environmental Capital
103-3	Evaluation of the management approach	93-94	Social and Environmental Capital

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GRI Standard/Disclosure		Page No.	Report commentary and/or direct answers
GRI 303: Water and Effluents 2018			
303-1	Interactions with water as a shared resource	–	This information was not ready for the year in review and will be included in future reviews
303-2	Management of water discharge-related impacts	–	This information was not ready for the year in review and will be included in future reviews
303-3	Water withdrawal	–	This information was not ready for the year in review and will be included in future reviews
303-4	Water discharge	–	This information was not ready for the year in review and will be included in future reviews
303-5	Water consumption	95	Social and Environmental Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	93-94	Social and Environmental Capital
103-2	The management approach and its components	93-94	Social and Environmental Capital
103-3	Evaluation of the management approach	93-94	Social and Environmental Capital
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	94	Social and Environmental Capital
305-2	Energy indirect (Scope 2) GHG emissions	94	Social and Environmental Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary		Social and Environmental Capital
103-2	The management approach and its components	93-94	Social and Environmental Capital
103-3	Evaluation of the management approach	93-94	Social and Environmental Capital
GRI 306: Effluents and waste 2016			
306-2	Waste by type and disposal method	94-95	Social and Environmental Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	93-94	Social and Environmental Capital
103-2	The management approach and its components	93-94	Social and Environmental Capital
103-3	Evaluation of the management approach	93-94	Social and Environmental Capital
GRI 307: Environmental compliance 2016			
307-1	Non-compliance with environmental laws and regulations	–	No non-compliance with environmental laws and regulations reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	90	Business Partner Capital
103-2	The management approach and its components	90	Business Partner Capital
103-3	Evaluation of the management approach	90	Business Partner Capital
GRI 308: Supplier environmental assessment 2016			
308-1	New suppliers that were screened using environmental criteria	90	Business Partner Capital

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GRI Standard/Disclosure		Page No.	Report commentary and/or direct answers
GRI 400: Social			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 401: Employment 2016			
401-1	New employee hires and employee turnover	82	Employee Capital
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	84-85	Employee Capital
401-3	Parental leave	84	Employee Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 403: Occupational Health and Safety 2018			
403-1	Occupational health and safety management system	86	Employee Capital
403-2	Hazard identification, risk assessment, and incident investigation	86-87	Employee Capital
403-3	Occupational health services	–	This information was not ready for the year in review and will be included in future reviews
403-4	Worker participation, consultation, and communication on occupational health and safety	–	This information was not ready for the year in review and will be included in future reviews
403-5	Worker training on occupational health and safety	86-87	Employee Capital
403-6	Promotion of worker health	–	This information was not ready for the year in review and will be included in future reviews
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	86-87	Employee Capital
403-8	Workers covered by an occupational health and safety management system	–	This information was not ready for the year in review and will be included in future reviews
403-9	Work-related injuries	87	Employee Capital
403-10	Work-related ill health	–	There were no instances of work-related ill health during the year in review
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital

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GRI Standard/Disclosure		Page No.	Report commentary and/or direct answers
GRI 404: Training and education 2016			
404-1	Average hours of training per year per employee	85-86	Employee Capital
404-2	Programs for upgrading employee skills and transition assistance programs	85-86	Employee Capital
404-3	Percentage of employees receiving regular performance and career development reviews	85-86	Employee Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 405: Diversity and equal opportunity 2016			
405-1	Diversity of governance bodies and employees	83	Employee Capital
405-2	Ratio of basic salary and remuneration of women to men	83	Employee Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 406: Non-discrimination 2016			
406-1	Incidents of discrimination and corrective actions taken	–	No incidents of discrimination were reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 408: Child labor 2016			
408-1	Operations and suppliers at significant risk for incidents of child labor	–	No operations and suppliers at significant risk for incidents of child labor reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 409: Forced or compulsory labor 2016			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	–	No operations and suppliers at significant risk for incidents of forced or compulsory labor reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Employee Capital
103-2	The management approach and its components	81	Employee Capital
103-3	Evaluation of the management approach	81	Employee Capital
GRI 412: Human rights assessment 2016			
412-2	Employee training on human rights policies or procedures	85	Employee Capital

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GRI Standard/Disclosure		Page No.	Report commentary and/or direct answers
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	93-94	Social and Environmental Capital
103-2	The management approach and its components	93-94	Social and Environmental Capital
103-3	Evaluation of the management approach	93-94	Social and Environmental Capital
GRI 413: Local communities 2016			
413-1	Operations with local community engagement, impact assessments, and development programs	95-97	Social and Environmental Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	90	Business Partner Capital
103-2	The management approach and its components	90	Business Partner Capital
103-3	Evaluation of the management approach	90	Business Partner Capital
GRI 414: Supplier social assessment 2016			
414-1	New suppliers that were screened using social criteria	90	Business Partner Capital
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	90	Business Partner Capital
103-2	The management approach and its components	90	Business Partner Capital
103-3	Evaluation of the management approach	90	Business Partner Capital
GRI 417: Marketing and labeling 2016			
417-2	Incidents of non-compliance concerning product and service information and labeling	–	No incidents of non-compliance concerning product and service information and labeling reported
417-3	Incidents of non-compliance concerning marketing communications	–	No incidents of non-compliance concerning marketing communications reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	72	Customer Capital
103-2	The management approach and its components	78-80	Customer Capital
103-3	Evaluation of the management approach	78-80	Customer Capital
GRI 418: Customer privacy 2016			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	–	No complaints of breaches of customer privacy and losses of customer data
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	60	Financial Capital
103-2	The management approach and its components	60	Financial Capital
103-3	Evaluation of the management approach	60	Financial Capital
GRI 419: Socioeconomic compliance 2016			
419-1	Non-compliance with laws and regulations in the social and economic area	60	Financial Capital

Corporate Information

GRI 102-3, 102-5

Name
The Saudi Investment Bank

Commercial registration
1010011570

Registered logo
البنك السعودي للاستثمار
The Saudi Investment Bank

Legal form
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.

Stock exchange listing
The shares of the Bank are listed on the Saudi Stock Exchange (Tadawul)
Stock code: 1030

Auditors
Ernst & Young & Co.
KPMG Al Fozan & Partners

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Subsidiary and associate companies

Name of Subsidiary	Country of operation	Country of establishment
Alistithmar for Financial Securities and Brokerage Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Investment Real Estate Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
SAIB Markets Limited Company	Kingdom of Saudi Arabia	Cayman Islands

Name of Associate	Country of operation	Country of establishment
American Express (Saudi Arabia)	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Orix Leasing Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Amlak International for Finance and Real Estate Development Co.	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

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