Financial Statements.

Consolidated Statement of Financial Position as at December 31, 2021 and 2020
(Amounts in SAR '000)

	Notes	2021	2020
ASSETS			
Cash and balances with SAMA	4	11,141,437	12,633,339
Due from banks and other financial institutions, net	5	2,283,200	1,081,984
Positive fair value of derivatives	11	967,485	994,828
Investments, net	6	44,168,178	43,774,875
Loans and advances, net	7	126,674,105	113,362,613
Investments in associates	8	1,155,655	1,289,732
Other real estate owned		179,063	219,977
Property, equipment and right of use assets, net	9	2,207,411	2,300,770
Other assets	10	3,725,125	4,737,724
Total assets		192,501,659	180,395,842
LIABILITIES AND EQUITY			
Liabilities			
Due to banks, SAMA and other financial institutions	12	14,207,108	9,797,744
Negative fair value of derivatives	11	2,217,213	3,446,905
Customers' deposits	13	135,713,885	129,352,176
Sukuk	15	2,829,100	2,829,654
Other liabilities	14	6,406,616	5,203,219
Total liabilities		161,373,922	150,629,698
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	15,000,000	15,000,000
Statutory reserve	17	8,862,000	8,317,000
Other reserves		542,868	279,460
Retained earnings		6,046,534	6,137,867
Proposed dividends	27	649,692	–
Total equity attributable to equity holders of the Bank		31,101,094	29,734,327
Non-controlling interest		26,643	31,817
Total equity		31,127,737	29,766,144
Total liabilities and equity		192,501,659	180,395,842

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company
Consolidated Statement of Income for the years ended December 31, 2021 and 2020 (Amounts in SAR '000)

	Notes	2021	2020
Special commission income	19	5,171,654	5,991,789
Special commission expense	19	499,622	1,123,132
Net special commission income		4,672,032	4,868,657
Fee and commission income	20	1,198,176	1,235,703
Fee and commission expense	20	709,063	686,014
Fee and commission income, net		489,113	549,689
Exchange income, net		222,179	321,663
Gains/ (losses) on FVSI financial instruments, net		64,746	(117,424)
Trading income, net	21	13,415	5,416
Dividend income	22	87,589	83,375
Gain on sale of non-trading investments, net	23	172,582	10,488
Other operating income	24	42,862	102,375
Total operating income		5,764,518	5,824,239
Salaries and employee related expenses	29	1,254,690	1,192,068
Rent and premises related expenses		53,119	62,283
Depreciation and amortisation	9	210,352	220,272
Other general and administrative expenses		683,233	571,927
Total operating expenses before impairment charges		2,201,394	2,046,550
Allowance charges for expected credit losses (ECL) and other provisions, net	25	1,030,506	1,282,202
Impairment charges/ (reversal of impairment charges) for other financial assets, net		3,991	(11,408)
Total operating expenses		3,235,891	3,317,344
Net operating income		2,528,627	2,506,895
Share in earnings of associates, net	8	84,921	49,562
Gain on disposal of investment in an associate	8	8,019	15,217
Net income before Zakat and income tax		**2,621,567**	**2,571,674**
Zakat	27 (d)	243,151	284,966
Income tax	27 (d)	210,968	222,155
Deferred tax reversal	27 (d)	(3,969)	(4,413)
Net income		**2,171,417**	**2,068,966**
Attributable to:			
Equity holders of the Bank		2,176,591	2,072,212
Non-controlling interest		(5,174)	(3,246)
Net income		**2,171,417**	**2,068,966**
Basic and diluted earnings per share (expressed in SAR)	26	**1.45**	**1.38**

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, 2021 and 2020 (Amounts in SAR '000)

	Notes	2021	2020
Net income		2,171,417	2,068,966
Other comprehensive income:			
Items that will not be reclassified to consolidated statement of income in subsequent periods			
Equity instruments at FVOCI:			
- Net changes in fair value		317,460	57,531
Actuarial (losses)/ gains on defined benefit plans	30	(44,403)	21,342
Items that may be reclassified to the consolidated statement of income in subsequent periods			
Debt instruments at FVOCI:			
- Net changes in fair value		16,346	(26,134)
- Net amounts transferred to consolidated statement of income		(25,572)	(4,642)
Cash flow hedge:			
- Effective portion of change in the fair value		(423)	-
Total other comprehensive income		263,408	48,097
Total comprehensive income		2,434,825	2,117,063
Attributable to:			
Equity holders of the Bank		2,439,999	2,120,309
Non-controlling interest		(5,174)	(3,246)
Total comprehensive income		2,434,825	2,117,063

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

December 31, 2021 and 2020 (Amounts in SAR '000)

		Attributable to equity holders of the Bank									
				Other Reserves							
	Notes	Share capital	Statutory reserve	FVOCI	Cash flow hedge reserve	Actuarial (losses)/gains on defined benefit plan	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
2021											
Balance at December 31, 2020		15,000,000	8,317,000	336,126	-	(56,666)	6,137,867	-	29,734,327	31,817	29,766,144
■ **Changes in equity for the year:**											
Net changes in fair values of FVOCI equity investments		-	-	317,460	-	-	-	-	317,460	-	317,460
Net changes in fair values of FVOCI debt instruments		-	-	16,346	-	-	-	-	16,346	-	16,346
Net changes in fair value of cash flow hedges		-	-	-	(423)	-	-	-	(423)		(423)
Actuarial losses	30	-	-	-	-	(44,403)	-	-	(44,403)	-	(44,403)
Net transfers to consolidated statement of income		-	-	(25,572)	-	-	-	-	(25,572)	-	(25,572)
Net income		-	-	-	-	-	2,176,591	-	2,176,591	(5,174)	2,171,417
Total comprehensive income		-	-	308,234	(423)	(44,403)	2,176,591	-	2,439,999	(5,174)	2,434,825
Transfer to statutory reserve	17	-	545,000	-	-	-	(545,000)	-	-	-	-
2020 final dividends	27 (a)	-	-	-	-	-	(567,822)	-	(567,822)	-	(567,822)
2021 interim dividends	27 (b)	-	-	-	-	-	(505,410)	-	(505,410)	-	(505,410)
2021 proposed dividends	27 (c)	-	-	-	-	-	(649,692)	649,692	-	-	-
Balance at December 31, 2021		15,000,000	8,862,000	644,360	(423)	(101,069)	6,046,534	649,692	31,101,094	26,643	31,127,737

December 31, 2021 and 2020 (Amounts in SAR '000)

(continued)

		Attributable to equity holders of the Bank									
				Other Reserves							
	Notes	Share capital	Statutory reserve	FVOCI	Cash flow hedge reserve	Actuarial (losses)/gains on defined benefit plan	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
2020											
Balance at December 31, 2019		15,000,000	7,756,000	308,794	-	(78,008)	4,627,232	694,205	28,308,223	35,063	28,343,286
■ **Changes in equity for the year:**											
Net changes in fair values of FVOCI equity investments		-	-	57,531	-	-	-	-	57,531	-	57,531
Net changes in fair values of FVOCI debt instruments		-	-	(26,134)	-	-	-	-	(26,134)	-	(26,134)
Actuarial gains		-	-	-	-	21,342	-	-	21,342	-	21,342
Net transfers to consolidated statement of income	30	-	-	(4,642)	-	-	-	-	(4,642)	-	(4,642)
Net income		-	-	-	-	-	2,072,212	-	2,072,212	(3,246)	2,068,966
Total comprehensive income		-	-	26,755	-	21,342	2,072,212	-	2,120,309	(3,246)	2,117,063
Net loss on derecognition of FVOCI equity investments		-	-	577	-	-	(577)	-	-	-	-
Transfer to statutory reserve	17	-	561,000	-	-	-	(561,000)	-	-	-	-
2019 final dividends	27 (a)	-	-	-	-	-	-	(694,205)	(694,205)	-	(694,205)
Balance at December 31, 2020	27 (b)	15,000,000	8,317,000	336,126	-	(56,666)	6,137,867	-	29,734,327	31,817	29,766,144

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

December 31, 2021 and 2020 (Amounts in SAR '000)

	Notes	2021	2020
Operating Activities			
Net income before zakat and income tax		2,621,567	2,571,674
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on investments not held as FVSI, net		36,372	28,268
Special commission expense on Sukuk	19	93,283	63,663
Gains on sale of non-trading investments, net	23	(172,582)	(10,488)
(Gains)/ losses on FVSI financial instruments, net		(64,746)	117,424
Dividend income	22	(87,589)	(83,375)
Depreciation and amortisation	9	210,352	220,272
Loss on disposal of property and equipment, net	24	171	46
Allowance charges for expected credit losses and other provisions, net	25	1,030,506	1,282,202
Impairment charges/ (reversal of impairment charges) for other financial assets, net		3,991	(11,408)
Share in earnings of associates, net	8	(84,921)	(49,562)
Gain on disposal of investment in associate	8	(8,019)	(15,217)
Loss on sale of other real estate owned		9,524	1,220
		3,587,909	4,114,719
Net (increase)/ decrease in operating assets:			
Statutory deposit with SAMA		115,570	(216,406)
Investments held at FVSI		9,431	(121,164)
Positive fair value of derivatives		27,343	230,308
Loans and advances, net		(14,421,209)	4,160,843
Other assets		1,285,430	(1,955,832)
Other real estate owned		31,390	1,000
Net increase/ (decrease) in operating liabilities:			
Due to banks, SAMA and other financial institutions		4,409,364	6,715,563
Negative fair value of derivatives		(1,229,692)	1,105,721
Customers' deposits		6,361,709	(12,776,722)
Other liabilities		1,343,657	749,477
Zakat and income tax paid		(506,476)	(745,083)
Net cash from operating activities		1,014,426	1,262,424

December 31, 2021 and 2020 (Amounts in SAR '000)

(continued)

	Notes	2021	2020
Investing Activities			
Proceeds from sale and maturities of investments not held as FVSI		4,346,427	2,041,748
Purchase of investments not held as FVSI		(4,246,720)	(8,680,354)
Investment in associate/ disposal	8	227,017	(351,055)
Purchase of property and equipment		(80,557)	(75,819)
Proceeds from sale of property and equipment		3,834	75
Dividends received		87,589	83,375
Net cash from/ (used in) investing activities		337,590	(6,982,030)
Financing Activities			
Redemption of debt security in issue		-	(2,000,000)
Proceeds from issuance of Sukuk		-	2,812,762
Dividends paid		(1,073,232)	(695,196)
Payment of lease liabilities		(89,567)	(96,473)
Special commission paid on Sukuk		(93,837)	(64,675)
Net cash used in financing activities		(1,256,636)	(43,582)
Net increase/ (decrease) in cash and cash equivalents		95,380	(5,763,188)
Cash and cash equivalents at the beginning of the year		6,476,956	12,240,144
Cash and cash equivalents at the end of the year	28	6,572,336	6,476,956
Special commission received		5,134,202	6,227,857
Special commission paid		(496,214)	(1,488,820)
Supplemental non-cash information			
Net changes in fair value of investments held at fair value through other comprehensive income		333,806	31,397

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

1. General

Arab National Bank (a Saudi Joint Stock Company, the "Bank") was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 131 branches (2020: 136 branches), 85 remittance centres (2020: 87 remittance centres) in the Kingdom of Saudi Arabia and one branch in the United Kingdom.

The address of the Bank's head office is as follows:
Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides its customers non-commission based banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries (collectively referred to as "the Group"):

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank has established ANB Invest, a wholly owned subsidiary, a Saudi closed joint stock company, registered in the Kingdom under Commercial Registration No. 1010239908 issued on Shawwal 26, 1428H (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA. The subsidiary commenced its operations effective Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective from January 12, 2008. On Muharram 19, 1436H (corresponding to November 12, 2014). The subsidiary changed its legal structure from a limited liability company to a closed joint stock company. The objective of the subsidiary was amended and approved by CMA Board of Commissioners on Muharram 28, 1437H (corresponding to November 10, 2015) through resolution number S/1/6/14832/15 to include

1. General (continued)

dealing as a principal activity. The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Central Bank (SAMA) circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

▪ Arabian Heavy Equipment Leasing Company (AHEL)

An 87.5% owned subsidiary incorporated in the Kingdom, as a Saudi closed joint stock company, under Commercial Registration no 1010267489 issued in Riyadh dated Jumada I 15, 1430H (corresponding to May 10, 2009). The Company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah principles. The Bank started consolidating the subsidiary's financial statements effective May 10, 2009, the date the subsidiary started its operations. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to reach 87.5%.

▪ ANB Insurance Agency

A Saudi limited liability company established during 2013 as a wholly owned subsidiary, registered in the Kingdom under Commercial Registration no. 1010396423 issued in Riyadh dated Muharram 28, 1435H (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Central Bank (SAMA) to start its activities in insurance agency and related business on Jumada I 5, 1435H (corresponding to March 6, 2014).

In reference to the Article No (75) of the Insurance Company Control Law, the company requested to seize its operation at July 19, 2020 (corresponding to Dhul Qadah 28, 1441H). The request has been approved by the Central Bank at Rabih Al-Akhar 4, 1442H (corresponding to November 19, 2020). The same was communicated to the Ministry of Commerce. The Company is currently under the process of completing the closure procedures with related regulatory bodies.

▪ Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase of lands and real estates and invest them through sale or rent in favor of the company, maintenance and management of owners and others' assets as guarantee, sale and purchase of real estates for financing purposes as per SAMA approval No. 361000109161 dated 10/8/1436H.

▪ ANB Global Markets Limited

The Bank established on Jumada I 3, 1438H (corresponding to January 31, 2017) ANB Global Markets Limited, as a limited liability company registered in the Cayman Islands. The Bank has 100% ownership in the investee. The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared;

i) in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia; other standards and pronouncements endorsed by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA") referred to as "IFRS as endorsed in KSA"; and

ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-laws of the Bank.

b) Basis of measurement and presentation

The consolidated financial statements are prepared on a going concern basis under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Statement of Income (FVSI), financial instruments held at Fair Value through Other Comprehensive Income (FVOCI), and employee defined benefit obligations which are stated at present value of their obligation using the projected unit credit method. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship and otherwise adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position is stated broadly in order of liquidity.

c) Going concern

In making the going concern assessment, the Bank has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources etc.

d) Basis of consolidation

The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries where necessary to align them with the Bank's financial statements.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, 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 subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Specifically, the Group controls an investee if and only if it 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 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.

2. Basis of preparation (continued)

d) Basis of consolidation (continued)

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

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of income; and
- Reclassifies the Group's share of components previously recognised in other comprehensive income to the consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognised as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interest is subsequently adjusted for the Group's share of changes in the equity of the consolidated subsidiary after the date of acquisition.

All intra-group assets and liabilities, equity, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation.

e) Functional and presentation currency

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

2. Basis of preparation (continued)

f) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the 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 setting expectations of future events that are believed to be reasonable under the current circumstances.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, 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 notes to these financial statements.

Revisions to accounting estimates are recognised 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. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Expected credit losses (ECL) on financial assets

The measurement of ECL under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which 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:**

1 - The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:

a) The Group's internal credit grading model, which assigns Probabilities of Defaults (PDs) to the individual grades;

b) The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;

c) The segmentation of financial assets when their ECL is assessed on a collective basis;

d) Development of ECL models, including the various formulae and the choice of inputs; and

e) Selection of forward-looking macro economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2. Basis of preparation (continued)

f) Critical accounting judgements, estimates and assumptions (continued)

2 – The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs:

i) Allowance for expected credit losses of FVOCI debt investments (Note 32);
ii) Fair value measurement (Note 36);
iii) Classification of investments at Amortised Cost (Note 6);
iv) Determination of control over investees;
v) Provisions for liabilities and charges;
vi) Define benefit plans (Note 30);
vii) Going concern;
viii) Deferred tax;
ix) Government grant; and
x) Depreciation and amortisation (Note 9).

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 the annual consolidated financial statements for the year ended December 31, 2020. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies applicable effective January 1, 2021 are replacing amending or adding to the corresponding accounting policies set out in 2020 annual consolidated financial statement.

The Group has not early adopted standards, interpretation or amendment that have been issued but is not yet effective.

b. New standards, interpretations and amendments adopted by the Group

Following standard, interpretations or amendments are effective from the current year and are adopted by the Group, however, these does not have any impact on the consolidated financial statements of the year:

- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships

3. Summary of significant accounting policies (continued)

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

directly affected by IBOR reform. Whilst adoption is not mandatory for 2021 year end, earlier application is permitted. Please also refer note 40 to these consolidated financial statements.

Effective from annual periods beginning on or after 1 January 2021.

- **Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions.** As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

  Effective from annual periods beginning on or after 1 June 2020.

c. Accounting standards issued but not yet effective

- The International Accounting Standard Board (IASB) issued the following accounting standards and amendments, which are effective from periods on or after January 1, 2022. The Group opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Group.

- **Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient:**

  As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

  Effective from annual periods beginning on or after 1 April 2021.

- **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16:**

  Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

3. Summary of significant accounting policies (continued)

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

Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

Effective from annual periods beginning on or after 1 January 2022.

- **Amendments to IAS 1, Presentation of financial statements', on classification of liabilities:**

  These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.

  Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. Effective from annual periods beginning on or after 1 January, 2023.

- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8:**

  The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

  Effective from annual periods beginning on or after 1 January, 2023. However, the IASB plans to publish an exposure draft in the fourth quarter of 2021 proposing the deferral of the effective date to no earlier than 1 January 2024.

3. Summary of significant accounting policies (continued)

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

- **Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction:**

  These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

  Effective from annual periods beginning on or after 1 January 2023.

- **IFRS 17, 'Insurance contracts', as amended in June 2020:**

  This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

  Effective from annual periods beginning on or after 1 January 2023.

- **A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts:**

  The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17.

  IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time.

  The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.

  Effective from annual periods beginning on or after 1 January 2023.

d. Government grant

The Bank recognises a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognised in the statement of income on a systematic basis over the period in which the Bank recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Bank. Where the customer is the ultimate beneficiary, the bank only records the respective receivable and payable amounts. If the Grant is not directly attributable to any cost, it is deferred and amortised over the term of the deposit using effective interest rate.

3. Summary of significant accounting policies (continued)

e. Classification of financial assets

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

▪ Financial asset at amortised cost (AC)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVSI:

- 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 of cash flows that are solely payments of principal and interest on the principal amount outstanding.

▪ Financial asset at fair value through other comprehensive income (FVOCI)

Debt instrument

Debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVSI:

- 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 recognised in Other Comprehensive Income (OCI). Interest income and foreign exchange gains and losses are recognised in the consolidated statement of income.

Equity Instruments

On initial recognition of 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 basis.

▪ Financial Asset at fair value through statement of income (FVSI)

All other financial assets are classified measured at FVSI.

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

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

▪ Business model assessment

The Group assesses 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 realising cash flows through the sale of the assets;

3. Summary of significant accounting policies (continued)

e. Classification of financial assets (continued)

Business model assessment (continued)

- 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 its 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 realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised 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 going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVSI because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell 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. 'Interest' 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 profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank 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).

Designation at FVSI

At initial recognition, the Group may designate certain financial assets at FVSI. The designated financial assets (if any) are required to be managed, evaluated and reported internally on a fair value basis.

3. Summary of significant accounting policies (continued)

f. Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium and costs that are an integral part of the Effective Interest Rate ("EIR").

g. Derecognition

i) Financial assets

The Group derecognises 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 derecognised) 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 recognised in OCI is recognised 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 recognise 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 retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

ii) Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

3. Summary of significant accounting policies (continued)

h. Modifications of financial assets and financial liabilities

i) Financial assets

If the terms of a financial asset are modified, the Bank 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 derecognised with the difference recognised as a de-recognition gain or loss and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised 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 recognises 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 allowance for expected credit losses. In other cases, it is presented as interest income.

ii) Financial liabilities

The Group derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in statement of income.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in consolidated statement of income. For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than ten percent.

Interest rate benchmark reform

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

3. Summary of significant accounting policies (continued)

h. Modifications of financial assets and financial liabilities (continued)

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

i. Allowance for expected credit losses

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

- Due from banks and other financial institutions;
- Debt instruments;
- Lease receivables;
- Loans and advances;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No allowance for expected credit losses is recognised on FVOCI equity investments.

The Group measures allowances for credit losses at an amount equal to lifetime ECL, except for the following, for which they are measured as 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.

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 are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage1' financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to stage 2 are those that have experienced a significant

3. Summary of significant accounting policies (continued)

i. Allowance for expected credit losses (continued)

increase in credit risk since initial recognition but are nor credit-impaired.

Financial instruments for which the lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- Lease receivables: the discount rate used in measuring lease receivables;
- Undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- Financial Guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

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 of whether the financial asset should be derecognised and ECL are 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.

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 EIR of the existing financial asset.

3. Summary of significant accounting policies (continued)

i. Allowance for expected credit losses (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets 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 reorganisation; 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 allowance for expected credit losses. In addition, a loan that is overdue for 90 days or more is considered impaired.

In assessing of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields;
- The 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
- 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.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

3. Summary of significant accounting policies (continued)

i. Allowance for expected credit losses (continued)

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision classified under 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 a provision under other liabilities; and
- debt instruments measured at FVOCI: no ECL allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the ECL allowance is disclosed and is recognised in the fair value reserve. Allowances charge for expected credit losses are recognised in the consolidated statement of income and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

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 loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to allowance charges for expected credit losses and other provisions.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re- assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

3. Summary of significant accounting policies (continued)

i. Allowance for expected credit losses (continued)

Collateral repossessed

The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for its internal operations are transferred to their relevant asset category at the fair value, if material. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio to settle outstanding debt, but engages external agents to recover funds generally at auction. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

j. 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. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

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

The Group has not issued loan commitments that are measured at FVSI. It recognises an expected credit loss allowance for all other loan commitments.

k. Revenue/expenses recognition

Special commission income and expenses

Special commission income and expense are recognised in the consolidated statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts of the financial instrument or the amortised cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, excluding expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3. Summary of significant accounting policies (continued)

k. Revenue/expenses recognition (continued)

Measurement of amortised cost and special commission income

The amortised 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 amortisation 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 amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Exchange income/ (loss)

Exchange income/ (loss) is recognised when earned/ incurred.

Fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the special commission income / expense as applicable.

Income from asset management and brokerage are recognised at a point-in-time when the performance obligation of the Group is satisfied.

Investment banking and corporate finance fee revenues are recognised over the period of time that the performance obligations are met in accordance with the applicable terms of the contract.

Other fee and commission income – including account servicing fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed and performance obligations are achieved as point-in-time. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Dividend income is recognised when the right to receive income is established.

Trading income, net

Net income from other financial instruments at FVSI relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVSI.

3. Summary of significant accounting policies (continued)

l. Rendering of services

The Group provides various services to its customer. These services are either rendered separately or bundled together with rendering of other services.

Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Group is satisfied when the Group carries out the transaction, which is considered as a performance obligation satisfied at a point in time, which triggers immediate recognition of the revenue, as the Group will have no further commitments.

Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Group attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Group's efforts to perform services for that period. As asset management fees are not subject to clawbacks, management does not expect any significant reversal of revenue previously recognised.

Revenue from rendering of various services related to trade finance, corporate finance and advisory and other banking services, should be recognised at the point when services are rendered i.e. when performance obligation is satisfied. Whereas the Group recognises revenue for free services related to credit card, over the period of providing such services.

m. Customer Loyalty Program

The Group offers a customer loyalty program (reward points), which allows card holders to earn points that can be redeemed at certain Partner outlets. The Group allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative standalone selling price. The amount of revenue allocated to reward points is deferred and released to the consolidated statement of income when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

n. Investments in associates

Investments in associates are initially recognised at cost and subsequently equity accounted. An associate is an entity in which the Group has significant influence (but not control) over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Group share of net assets of the associate, less any impairment in the value of individual investments. The Group share of its associates' post-acquisition profits or losses are recognised in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

3. Summary of significant accounting policies (continued)

n. Investments in associates (continued)

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group’s share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects the Group’s share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains on transactions are eliminated to the extent of the Group’s interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group’s share of profit of an associate is shown on the face of the statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in any 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 recognise an additional impairment loss on its investment in its 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 recognises the amount in the ‘share of profit of an associate’ in the statement of income.

o. Settlement date accounting

All regular-way purchases and sales of financial assets are accounted for on settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or market convention. For financial instruments held at fair value, the Group accounts for any change in fair values between the trade date and the settlement date.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

p. Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps and currency and commission rate options are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in fair values depends on classifying derivatives into the following categories:

3. Summary of significant accounting policies (continued)

p. Derivative financial instruments and hedge accounting (continued)

i) Derivatives held for trading

Changes in the fair value of derivatives held for trading are taken directly to the consolidated statement of income and disclosed under trading income, net. Derivatives held for trading do not qualify for hedge accounting and embedded derivatives..

ii) Embedded derivatives

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

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

Separated embedded derivatives are measured at fair value. with all changes in fair value recognised in statement of income unless they form part of a qualifying cash flow or net investment hedging relationship.

iii) Hedge accounting

The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Group 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 recognised asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised 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 item 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 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 on an ongoing basis. In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from fair valuing the hedging instruments is recognised immediately in the consolidated statement of income. An equal and opposite adjustment is made against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases

3. Summary of significant accounting policies (continued)

p. Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting (continued)

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 its face value is amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

■ Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the statement of income.

For hedged items measured at amortised 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 amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

- Micro fair value hedges

A fair value hedge relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a micro fair value hedge relationship include fixed rate corporate and small business loans, fixed rate debt instruments at FVOCI and fixed rate issued long-term deposits. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis. If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Bank decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement. For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at FVOCI, changes in fair value that were recorded in the income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the statement of financial position, the fair value hedge adjustments are transferred from the income statement to OCI. There were no such instances in either the current year or in the comparative year.

3. Summary of significant accounting policies (continued)

p. Derivative financial instruments and hedge accounting (continued)

– Portfolio (macro) fair value hedges

The Bank applies macro fair value hedging to its fixed rate mortgages. The Bank determines hedged items by identifying portfolios of homogenous loans based on their contractual interest rates, maturity and other risk characteristics. Loans within the Identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments (pay fix/receive floating rate interest rate swaps) are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range. The aggregated fair value changes in the hedged loans are recognised as an asset in the Fair value hedge accounting adjustment on the face of the Statement of financial position.

Should hedge effectiveness testing highlight that movements for a particular bucket fall outside the 80-125% range (i.e., the hedge relationship was ineffective for the period), no fair value hedge accounting adjustment is recorded for that month for that particular bucket. Regardless of the results of the retrospective hedge effectiveness testing, at the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Bank voluntarily de-designates the hedge relationships and re-designates them as new hedges. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the original hedged life. The Bank has elected to commence amortisation at the date of de-designation.

IBOR reform Phase 2 provide relief for items within a designated group of items such as those forming part of the Bank's macro fair value hedging strategy, that are amended as a result of IBOR reform. The reliefs allow the Bank's hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, the Bank transfers them to sub-groups of instruments that reference RFRs as the hedged risk.

▪ Cash flow hedges

For designated and qualifying cash flow hedging, derivatives instruments in a hedge of a variability in cash flows attributable to a particular risk associated with recognised asset or a liability or a highly probable forecast transaction that could affect the statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged item affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognised.

Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset

3. Summary of significant accounting policies (continued)

p. Derivative financial instruments and hedge accounting (continued)

- **Cash flow hedges** (continued)

or liability is recognised the associated gains or losses that had previously been recognised 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 is expired or sold, terminated, or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur, or the Bank 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 recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in "other comprehensive income" is transferred immediately to the consolidated statement of income for the period.

q. Interest Rate Benchmark Reform issued in September 2019 (the Phase 1 amendments)

If a hedging relationship is directly affected by IBOR reform,

The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument is uncertain.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument or when the hedging relationship is discontinued, the Group ceases to apply the respective Phase 1 amendments.

However, when determining whether a previously designated forecast transaction is no longer expected to occur, the Group continues to assume that the hedged interest rate benchmark cash flows will not be altered as a result of IBOR reform in accordance with the Phase 1 exemption.

The Group has concluded that as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

- Interest Rate Benchmark Reform issued in August 2020 (the Phase 2 amendments)

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform.

For this purpose, the hedge designation is amended only to make one or more of the following changes:

3. Summary of significant accounting policies (continued)

- Interest Rate Benchmark Reform issued in August 2020 (the Phase 2 amendments) (continued)

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- updating the description of the hedging instrument; or
- updating the description of how the entity will assess hedge effectiveness.

The Group amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument;
- the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those economically equivalent changes required by IBOR reform described above, the Group considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

For the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform.

r. Foreign currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Bank's functional currency. Each entity determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the date of the consolidated statement of financial position.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective profits rate and payments during the year and the amortised

3. Summary of significant accounting policies (continued)

r. Foreign currencies (continued)

cost in foreign currency translated at exchange rate at the end of the year.

Realised and unrealised gains or losses on exchange are credited or charged to the consolidated statement of comprehensive income.

Foreign currency differences arising from the translation of the following items are recognised in OCI:

FVOCI instruments in respect of which an election has been made to present subsequent changes in fair value in OCI;

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at 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.

Assets and liabilities of foreign operations are translated into SAR at the rate of exchange as at the reporting date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in the consolidated statement of other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

s. Offsetting financial instruments

Financial assets and financial liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by an accounting standard or interpretation and as specifically disclosed in these accounting policies.

t. Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised on the consolidated statement of financial position and are measured in accordance with relevant accounting policies for trading, FVSI, FVOCI and at amortised cost securities. The counterparty liability for amounts received under these agreements is included in Due to banks and other financial institutions or Customers' deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in cash and balances with SAMA, due from banks and other financial institutions or Loans and advances, as appropriate. The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3. Summary of significant accounting policies (continued)

u. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Bank purchases the Bank's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Bank as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Bank.

Shares held by the Bank are disclosed as treasury shares and deducted from contributed equity.

v. Deposits, debt securities issued and subordinated liabilities

When the Bank designates a financial liability as at FVSI, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in statement of income. **This assessment is made by using a regression analysis to compare:**

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on statement of income of expected changes in fair value of the related instruments.

w. Other real estate owned

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as assets held for sale and are initially stated at the lower of net realisable value of due 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.

Subsequent to initial recognition, write downs to fair value, less costs to sell, is charged to the consolidated statement of income. Similarly, subsequent gains in fair value less costs to sell are recognised as income to the extent that it does not exceed the cumulative write down. Gains or losses on disposal are recognised in the consolidated statement of income.

x. Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and accumulated allowance for expected credit losses. Freehold land is not depreciated.

Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treating it as a change in accounting estimates.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

3. Summary of significant accounting policies (continued)

x. Property and equipment (continued)

The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of assets as follows:

Buildings	33 years
Leasehold improvements	shorter of lease term or useful life
Furniture, equipment, vehicles, computer and software	3 to 10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

y. Investment property

Properties held for rental or capital appreciation purposes are classified as investment properties.

Investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. The estimated useful live of buildings is 30-33 years.

No depreciation is charged on land and capital work-in-progress. The useful live and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected inflow of economic benefits from these assets.

The Group determines at each reporting date whether there is objective evidence that investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognised in the consolidated statement of income.

z. Provisions

Provisions other than allowance charges for expected credit losses are recognised when a reliable estimate can be made of a present legal or constructive obligation as a result of past events that is more likely than not to lead to an outflow of resources to settle the obligation.

- **Provisions for liabilities and charges**

The Bank receives legal claims against it in the normal course of business. Management has made 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 depend on the due process being followed as per law.

aa. Non-current assets classified as held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets held at fair value.

3. Summary of significant accounting policies (continued)

aa. Non-current assets classified as held for sale (continued)

An impairment loss is recognised for any initial or subsequent write-down of the assets to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the assets is recognised at the date of derecognition. Assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Assets classified as held for sale are presented separately from the other assets in the consolidated statement of financial position.

bb. Accounting for leases

■ Right of Use Assets / Lease Liabilities

On initial recognition, at inception of the contract, the Group assesses whether the 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. Control is identified if most of the benefits are flowing to the group and the group can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

■ Right of Use Asset

The Group applies a cost model, and measures the right of use of an asset at cost;

1. less any accumulated depreciation and any accumulated impairment losses; and
2. adjusted for any re-measurement of the lease liability for lease modifications

■ Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, 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.

After the commencement date, the Group measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability; and
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured 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 in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in consolidated statement of income

3. Summary of significant accounting policies (continued)

■ Lease Liability (continued)

if the carrying amount of the right-of-use asset has been reduced to zero.

■ Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

cc. 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, cash with others, balances with SAMA (excluding statutory deposit) and due from banks and other financial institutions maturing within 90 days.

dd. End-of-service benefits

The provision for end of service benefits is made based on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Bank is reviewed by using a projected unit credit method. Actuarial gains and losses (Re-measurements) are recognized in full in the period in which they occur in other comprehensive income. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

Interest expense is calculated by applying the discount rate to the net defined benefit liability. The Bank recognizes the following changes in the net defined benefit obligation under **'salaries and employee related expenses'** in the consolidated statement of income.

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Net interest expense or income.

The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

ee. Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of a subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

ff. Zakat and income tax

■ Zakat

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority (ZATCA). The Zakat expense is charged to the consolidated statement of income. Zakat principles are not the same basis as income tax and as such no deferred tax is required to be calculated.

3. Summary of significant accounting policies (continued)

ff. Zakat and income tax (continued)

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

Value Added tax ("VAT")

The Group collects VAT from its customers for qualifying services and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to ZATCA 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 capitalised and either depreciated or amortised as part of the capital cost.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. A deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the consolidated statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

3. Summary of significant accounting policies (continued)

gg. Investment management services

The Group offers investment services to its customers, through its subsidiary, ANBI, which include management of certain investment funds. The Group's share of these funds is included in the FVSI 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.

hh. Shari'ah compliant banking products

In addition to conventional banking, the Group offers its customers the following non-special commission based banking products, which are approved by its Shari'ah Board:

i. Murabaha

is 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. Ijarah

is an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on its promise to lease the asset for an agreed rent and specific period that would transfer the ownership of the leased asset to the lessee by the end of the lease term.

iii. Tawarruq

is a form of Murabaha transactions 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.

These non-commission based banking products are included in "loans and advances" in conformity with the related accounting policies described in these consolidated financial statements.

December 31, 2021 and 2020 (Amounts in SAR '000)

4 - Cash and balances with SAMA

	2021	2020
Cash in hand	1,251,731	1,358,600
Statutory deposit	7,179,125	7,294,695
Reverse repo with SAMA	2,697,963	3,975,890
Current account	12,618	4,154
Total	11,141,437	12,633,339

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 the average balances of its demand, savings, time and other deposits. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and is therefore not part of cash and cash equivalents (note 28). The Bank holds balances with SAMA which has investment grade credit rating.

5 - Due from banks and other financial institutions, net

	2021	2020
Current accounts	974,639	1,088,249
Money market placements	1,313,241	750
Less: allowance for expected credit losses	(4,680)	(7,015)
Total	2,283,200	1,081,984

The above balances do not include any Shariah compliant products.

December 31, 2021 and 2020 (Amounts in SAR '000)

5. Due from banks and other financial institutions (continued)

The following table further explains changes in gross carrying amount of the due from banks and other financial institutions:

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2021	1,088,249	-	750	1,088,999
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	1,198,881	-	-	1,198,881
Write-offs	-	-	-	-
Balance at December 31, 2021	2,287,130	-	750	2,287,880

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	2,071,878	-	-	2,071,878
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	(750)	-	750	-
Changes in exposures and remeasurements	(982,879)	-	-	(982,879)
Write-offs	-	-	-	-
Balance at December 31, 2020	1,088,249	-	750	1,088,999

December 31, 2021 and 2020 (Amounts in SAR ‘000)

5. Due from banks and other financial institutions (continued)

An analysis of changes of the ECL allowance for due from banks and other financial institutions is, as follows:

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance balance as at January 1, 2021	6,265	-	750	7,015
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net reversal for the year	(2,335)	-	-	(2,335)
Write-offs	-	-	-	-
ECL allowance at December 31, 2021	3,930	-	750	4,680

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance balance as at January 1, 2020	3,886	-	-	3,886
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	2,379	-	750	3,129
Write-offs	-	-	-	-
ECL allowance at December 31, 2020	6,265	-	750	7,015

December 31, 2021 and 2020 (Amounts in SAR '000)

6 - Investments, net

a) Investment securities are classified as follows:

	2021	2020
Investments at amortised cost	40,169,517	39,278,082
Equity investments at FVOCI	2,415,892	2,098,464
Debt investments at FVOCI	988,850	1,852,935
Investments at FVSI	613,729	558,415
Less: ECL allowance	(19,810)	(13,021)
Total	44,168,178	43,774,875

Certain equity investments designated at FVOCI were disposed off during the year and cumulative net loss transferred within the equity related to these investments amounted to SAR nil for the year ended December 31, 2021 (SAR 577 thousands as of December 31, 2020).

Investments include SAR 2,693 million as at December 31, 2021 (2020: SAR 194 million), which have been pledged under repurchase agreement with other banks and customers. The market value of such investments are SAR 2,825 million as at December 31, 2021 (2020: SAR 213 million).

b) Investments by type of securities:

	Domestic		International		Total	
	2021	2020	2021	2020	2021	2020
Fixed rate securities	**26,554,618**	25,174,801	**1,589,415**	3,239,983	**28,144,033**	28,414,784
Floating rate securities	**13,014,334**	12,716,233	-	-	**13,014,334**	12,716,233
Equities	**2,415,488**	2,098,027	**404**	437	**2,415,892**	2,098,464
Other	**153,765**	188,344	**459,964**	370,071	**613,729**	558,415
Less: ECL allowance	**(19,810)**	(13,021)	-	-	**(19,810)**	(13,021)
Total	**42,118,395**	40,164,384	**2,049,783**	3,610,491	**44,168,178**	43,774,875

December 31, 2021 and 2020 (Amounts in SAR '000)

6. Investments, net (continued)

c) Staging details by class of investments:

The following table further explains changes in gross carrying amount of debt investments at amortised cost:

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2021	39,278,082	-	-	39,278,082
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	891,435	-	-	891,435
Write-offs	-	-	-	-
Balance at December 31, 2021	40,169,517	-	-	40,169,517

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	32,736,543	-	-	32,736,543
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	6,541,539	-	-	6,541,539
Write-offs	-	-	-	-
Balance at December 31, 2020	39,278,082	-	-	39,278,082

December 31, 2021 and 2020 (Amounts in SAR '000)

6. Investments, net (continued)

c) Staging details by class of investments: (continued)

The following table further explains changes in gross carrying amount of debt investments at FVOCI:

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2021	1,845,276	7,659	-	1,852,935
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	(864,051)	(34)	-	(864,085)
Write-offs	-	-	-	-
Balance at December 31, 2021	981,225	7,625	-	988,850

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	2,783,708	7,708	-	2,791,416
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	(938,432)	(49)	-	(938,481)
Write-offs	-	-	-	-
Balance at December 31, 2020	1,845,276	7,659	-	1,852,935

December 31, 2021 and 2020 (Amounts in SAR '000)

6. Investments, net (continued)

c) Staging details by class of investments: (continued)

The analysis of changes in loss allowance for debt instruments carried at amortised cost

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance as at January 1, 2021	13,021	-	-	13,021
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	6,789	-	-	6,789
Write-offs	-	-	-	-
ECL allowance as at December 31, 2021	19,810	-	-	19,810

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance as at January 1, 2020	27,929	-	-	27,929
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	(14,908)	-	-	(14,908)
Write-offs	-	-	-	-
ECL allowance as at December 31, 2020	13,021	-	-	13,021

December 31, 2021 and 2020 (Amounts in SAR '000)

6. Investments, net (continued)

c) Staging details by class of investments: (continued)

The analysis of changes in ECL allowance for debt instruments carried at FVOCI

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance as at January 1, 2021	5,303	169	-	5,472
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net (reversal) / charge for the year	(481)	19	-	(462)
Write-offs	-	-	-	-
ECL allowance as at December 31, 2021	4,822	188	-	5,010

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
ECL allowance as at January 1, 2020	4,958	144	-	5,102
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	345	25	-	370
Write-offs	-	-	-	-
ECL allowance as at December 31, 2020	5,303	169	-	5,472

December 31, 2021 and 2020 (Amounts in SAR ‘000)

6. Investments, net (continued)

d) The analysis of the composition of investments is as follows:

	2021			2020		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	27,676,202	467,831	28,144,033	28,193,182	221,602	28,414,784
Floating rate securities	9,802,238	3,212,096	13,014,334	9,811,383	2,904,850	12,716,233
Equities	2,415,488	404	2,415,892	2,097,133	1,331	2,098,464
Others	31,417	582,312	613,729	-	558,415	558,415
Less: ECL allowance	(19,810)	-	(19,810)	(13,021)	-	(13,021)
Investments, net	39,905,535	4,262,643	44,168,178	40,088,677	3,686,198	43,774,875

e) The analysis of unrealised gains and losses and fair values of investments held at amortised cost is as follows:

	2021				2020			
	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value
Fixed rate securities	27,541,729	1,223,436	(629,137)	28,136,028	26,947,153	2,451,408	((341,076	29,057,485
Floating rate securities	12,627,788	102,630	(8,503)	12,721,915	12,330,929	146,845	-	12,477,774
Less: ECL allowance	(19,810)	-	-	(19,810)	(13,021)	-	-	(13,021)
Total	40,149,707	1,326,066	(637,640)	40,838,133	39,265,061	2,598,253	(341,076)	41,522,238

December 31, 2021 and 2020 (Amounts in SAR '000)

6. Investments, net (continued)

f) The analysis of investments by counter-party is as follows:

	2021	2020
Government and quasi government	41,300,899	41,558,234
Banks and other financial institutions	1,283,285	500,199
Corporate	761,766	937,464
Other	822,228	778,978
Total	44,168,178	43,774,875

g) Investment include Shariah based investments as follows:

	2021	2020
Investments at amortised cost	29,118,293	26,364,671
Equity investments at FVOCI	2,189,820	1,891,987
Debt investments at FVOCI	616,571	1,090,796
Investments at FVSI	610,707	555,591
Less: ECL allowance	(17,210)	(10,008)
Total	32,518,181	29,893,037

7. Loans and advances, net

a) Loans and advances (held at amortised cost) comprise the following:

	2021				
	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	2,950,612	516,757	32,962,349	91,166,208	127,595,926
Non-performing loans and advances, net	12,060	7,185	61,591	2,110,800	2,191,636
Total loans and advances	2,962,672	523,942	33,023,940	93,277,008	129,787,562
ECL allowance	(110,072)	(56,746)	(370,582)	(2,576,057)	(3,113,457)
Loans and advances, net	2,852,600	467,196	32,653,358	90,700,951	126,674,105

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) (continued)

	2020				
	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	2,667,942	385,974	29,149,545	81,124,510	113,327,971
Non-performing loans and advances, net	30,296	5,968	73,956	3,949,483	4,059,703
Total loans and advances	2,698,238	391,942	29,223,501	85,073,993	117,387,674
ECL allowance	(125,645)	(36,527)	(376,968)	(3,485,921)	(4,025,061)
Loans and advances, net	2,572,593	355,415	28,846,533	81,588,072	113,362,613

The above includes Shariah based loans and advances as below:

	2021	2020
Murabaha	30,925,680	25,204,937
Tawarruq	58,047,413	52,202,608
Others	1,478,918	2,710,090
Less: ECL allowance	(1,654,847)	(2,568,597)
Total	88,797,164	77,549,038

The following table further explains changes in gross carrying amount:

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Total Loans and advances				
Gross carrying amount as at January 1, 2021	101,380,411	11,871,844	4,135,419	117,387,674
Transfer to 12-month ECL	1,749,253	(1,728,908)	(20,345)	-
Transfer to lifetime ECL not credit - impaired	(4,254,357)	4,345,197	(90,840)	-
Transfer to lifetime ECL credit impaired	(119,411)	(130,360)	249,771	-
Changes in exposures and remeasurements	16,102,648	(1,645,990)	117,153	14,573,811
Write-offs	-	-	(2,173,923)	(2,173,923)
Balance at December 31, 2021	114,858,544	12,711,783	2,217,235	129,787,562

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) (continued)

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Total Loans and advances				
Gross carrying amount as at January 1, 2020	104,673,940	15,000,891	2,563,873	122,238,704
Transfer to 12-month ECL	1,530,256	(1,516,454)	(13,802)	-
Transfer to lifetime ECL not credit - impaired	(3,731,891)	3,749,094	(17,203)	-
Transfer to lifetime ECL credit impaired	(281,596)	(2,043,413)	2,325,009	-
Changes in exposures and remeasurements	(810,298)	(3,318,274)	250,810	(3,877,762)
Write-offs	-	-	(973,268)	(973,268)
Balance at December 31, 2020	101,380,411	11,871,844	4,135,419	117,387,674

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdrafts				
Gross carrying amount at January 1, 2021	2,438,985	227,820	31,433	2,698,238
Transfer to 12-month ECL	152,451	(152,431)	(20)	-
Transfer to lifetime ECL not credit - impaired	(10,350)	50,251	(39,901)	-
Transfer to lifetime ECL credit impaired	(10)	(305)	315	-
Changes in exposures and remeasurements	204,673	38,144	160,785	403,602
Write-offs	-	-	(139,168)	(139,168)
Balance at December 31, 2021	2,785,749	163,479	13,444	2,962,672

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) (continued)

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdrafts				
Gross carrying amount at January 1, 2020	3,842,508	478,003	8,774	4,329,285
Transfer to 12-month ECL	6,585	(6,585)	-	-
Transfer to lifetime ECL not credit - impaired	(110,020)	110,020	-	-
Transfer to lifetime ECL credit impaired	-	(26,827)	26,827	-
Changes in exposures and remeasurements	(1,300,088)	(326,791)	(4,168)	(1,631,047)
Write-offs	-	-	-	-
Balance at December 31, 2020	2,438,985	227,820	31,433	2,698,238

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit Cards				
Gross carrying amount at January 1, 2021	315,102	69,721	7,119	391,942
Transfer to 12-month ECL	32,412	(32,040)	(372)	-
Transfer to lifetime ECL not credit - impaired	(77,822)	78,268	(446)	-
Transfer to lifetime ECL credit impaired	(2,304)	(2,313)	4,617	-
Changes in exposures and remeasurements	121,097	13,680	8,747	143,524
Write-offs	-	-	(11,524)	(11,524)
Balance at December 31, 2021	388,485	127,316	8,141	523,942

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) (continued)

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit Cards				
Gross carrying amount at January 1, 2020	400,633	67,101	8,756	476,490
Transfer to 12-month ECL	27,933	(27,563)	(370)	-
Transfer to lifetime ECL not credit - impaired	(56,995)	57,385	(390)	-
Transfer to lifetime ECL credit impaired	(3,157)	(1,770)	4,927	-
Changes in exposures and remeasurements	(53,312)	(25,432)	16,681	(62,063)
Write-offs	-	-	(22,485)	(22,485)
Balance at December 31, 2020	315,102	69,721	7,119	391,942

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer Loans				
Gross carrying amount at January 1, 2021	27,175,111	1,916,177	132,213	29,223,501
Transfer to 12-month ECL	342,153	(325,317)	(16,836)	-
Transfer to lifetime ECL not credit - impaired	(1,275,469)	1,287,360	(11,891)	-
Transfer to lifetime ECL credit impaired	(44,118)	(28,915)	73,033	-
Changes in exposures and remeasurements	4,518,411	(623,126)	161,663	4,056,948
Write-offs	-	-	(256,509)	(256,509)
Balance at December 31, 2021	30,716,088	2,226,179	81,673	33,023,940

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) (continued)

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer Loans				
Gross carrying amount at January 1, 2020	25,362,241	1,829,960	148,330	27,340,531
Transfer to 12-month ECL	390,691	(377,259)	(13,432)	-
Transfer to lifetime ECL not credit - impaired	(1,126,545)	1,143,358	(16,813)	-
Transfer to lifetime ECL credit impaired	(69,646)	(68,878)	138,524	-
Changes in exposures and remeasurements	2,618,370	(611,004)	97,751	2,105,117
Write-offs	-	-	(222,147)	(222,147)
Balance at December 31, 2020	27,175,111	1,916,177	132,213	29,223,501

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commercial Loans and others				
Gross carrying amount at January 1, 2021	71,451,213	9,658,126	3,964,654	85,073,993
Transfer to 12-month ECL	1,222,237	(1,219,120)	(3,117)	-
Transfer to lifetime ECL not credit - impaired	(2,890,716)	2,929,318	(38,602)	-
Transfer to lifetime ECL credit impaired	(72,979)	(98,827)	171,806	-
Changes in exposures and remeasurements	11,258,467	(1,074,688)	(214,042)	9,969,737
Write-offs	-	-	(1,766,722)	(1,766,722)
Balance at December 31, 2021	80,968,222	10,194,809	2,113,977	93,277,008

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) (continued)

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commercial Loans and others				
Gross carrying amount at January 1, 2020	75,068,558	12,625,827	2,398,013	90,092,398
Transfer to 12-month ECL	1,105,047	(1,105,047)	-	-
Transfer to lifetime ECL not credit - impaired	(2,438,331)	2,438,331	-	-
Transfer to lifetime ECL credit impaired	(208,793)	(1,945,938)	2,154,731	-
Changes in exposures and remeasurements	(2,075,268)	(2,355,047)	140,546	(4,289,769)
Write-offs	-	-	(728,636)	(728,636)
Balance at December 31, 2020	71,451,213	9,658,126	3,964,654	85,073,993

b) ECL allowance for expected credit losses

	2021				
	Overdrafts	Credit Cards	Consumer Loans	Commercial Loans and others	Total
ECL Allowance for expected credit losses balance at January 1, 2021	125,645	36,527	376,968	3,485,921	4,025,061
Charges for the year, net	123,595	31,743	250,123	856,858	1,262,319
Written off against allowance	(139,168)	(11,524)	(256,509)	(1,766,722)	(2,173,923)
ECL Allowance for expected credit losses balance at December 31, 2021	110,072	56,746	370,582	2,576,057	3,113,457

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

b) ECL allowance for expected credit losses (continued)

	2020				
	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
ECL allowance for expected credit losses balance at January 1, 2020	80,878	32,136	359,241	2,929,328	3,401,583
Charges for the year, net	44,767	26,876	239,874	1,285,229	1,596,746
Written off against allowance	-	(22,485)	(222,147)	(728,636)	(973,268)
ECL Allowance for expected credit losses balance at December 31, 2020	125,645	36,527	376,968	3,485,921	4,025,061

ECL allowance for expected credit losses, net for the year ended December 31, 2021 amounted to SAR 1,109,719 thousand (2020: SAR 1,434,258 thousand) (note 25), including bad debts directly written-off to consolidated income statement amounting to SAR 23,167 thousand (2020: SAR 18,286 thousand), and net of recoveries amounting to SAR 175,767 thousand (2020: SAR 180,774 thousand).

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

b) ECL allowance for expected credit losses (continued)

An analysis of changes in the ECL allowance by product is as follows:

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Total Loans and advances				
ECL allowance at January 1, 2021	1,013,107	962,831	2,049,123	4,025,061
Transfer to 12-month ECL	54,070	(41,781)	(12,289)	-
Transfer to lifetime ECL not credit - impaired	(39,344)	69,413	(30,069)	-
Transfer to lifetime ECL credit impaired	(1,844)	(20,769)	22,613	-
Net (reversal) / charge for the year	(11,950)	(21,053)	1,295,322	1,262,319
Write-offs	-	-	(2,173,923)	(2,173,923)
ECL allowance at December 31, 2021	1,014,039	948,641	1,150,777	3,113,457

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Total Loans and advances				
ECL allowance at January 1, 2020	788,442	924,022	1,689,119	3,401,583
Transfer to 12-month ECL	60,518	(48,400)	(12,118)	-
Transfer to lifetime ECL not credit - impaired	(22,187)	35,588	(13,401)	-
Transfer to lifetime ECL credit impaired	(2,691)	(220,201)	222,892	-
Net charge for the year	189,025	271,822	1,135,899	1,596,746
Write-offs	-	-	(973,268)	(973,268)
ECL allowance at December 31, 2020	1,013,107	962,831	2,049,123	4,025,061

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

b) ECL allowance for expected credit losses (continued)

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdrafts				
ECL allowance at January 1, 2021	31,528	15,164	78,953	125,645
Transfer to 12-month ECL	1,600	(1,580)	(20)	-
Transfer to lifetime ECL not credit - impaired	(99)	20,050	(19,951)	-
Transfer to lifetime ECL credit impaired	-	(12)	12	-
Net (reversal) / charge for the year	(10,280)	(28,350)	162,225	123,595
Write-offs	-	-	(139,168)	(139,168)
ECL allowance at December 31, 2021	22,749	5,272	82,051	110,072

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdrafts				
ECL allowance at January 1, 2020	24,905	22,389	33,584	80,878
Transfer to 12-month ECL	445	(445)	-	-
Transfer to lifetime ECL not credit - impaired	(489)	489	-	-
Transfer to lifetime ECL credit impaired	-	(7,441)	7,441	-
Net charge for the year	6,667	172	37,928	44,767
Write-offs	-	-	-	-
ECL allowance at December 31, 2020	31,528	15,164	78,953	125,645

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

b) ECL allowance for expected credit losses (continued)

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit Cards				
ECL allowance at January 1, 2021	21,658	9,551	5,318	36,527
Transfer to 12-month ECL	4,524	(4,153)	(371)	-
Transfer to lifetime ECL not credit - impaired	(2,049)	2,487	(438)	-
Transfer to lifetime ECL credit impaired	(173)	(209)	382	-
Net charge for the year	16,633	3,252	11,858	31,743
Write-offs	-	-	(11,524)	(11,524)
ECL allowance at December 31, 2021	40,593	10,928	5,225	56,746

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit Cards				
ECL allowance at January 1, 2020	19,516	6,454	6,166	32,136
Transfer to 12-month ECL	2,693	(2,283)	(410)	-
Transfer to lifetime ECL not credit - impaired	(1,739)	2,142	(403)	-
Transfer to lifetime ECL credit impaired	(147)	(218)	365	-
Net charge for the year	1,335	3,456	22,085	26,876
Write-offs	-	-	(22,485)	(22,485)
ECL allowance at December 31, 2020	21,658	9,551	5,318	36,527

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

b) ECL allowance for expected credit losses (continued)

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer Loans				
ECL allowance at January 1, 2021	202,583	66,836	107,549	376,968
Transfer to 12-month ECL	25,789	(13,908)	(11,881)	-
Transfer to lifetime ECL not credit - impaired	(8,708)	17,465	(8,757)	-
Transfer to lifetime ECL credit impaired	(617)	(2,646)	3,263	-
Net charge (reversal) / for the year	25,633	(14,237)	238,727	250,123
Write-offs	-	-	(256,509)	(256,509)
ECL allowance at December 31, 2021	244,680	53,510	72,392	370,582

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer Loans				
ECL allowance at January 1, 2020	190,575	49,016	119,650	359,241
Transfer to 12-month ECL	22,417	(10,709)	(11,708)	-
Transfer to lifetime ECL not credit - impaired	(8,449)	21,447	(12,998)	-
Transfer to lifetime ECL credit impaired	(810)	(3,750)	4,560	-
Net (reversal) / charge for the year	(1,150)	10,832	230,192	239,874
Write-offs	-	-	(222,147)	(222,147)
ECL allowance at December 31, 2020	202,583	66,836	107,549	376,968

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

b) ECL allowance for expected credit losses (continued)

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commercial Loans and others				
ECL allowance at January 1, 2021	757,338	871,280	1,857,303	3,485,921
Transfer to 12-month ECL	22,157	(22,140)	(17)	-
Transfer to lifetime ECL not credit - impaired	(28,488)	29,411	(923)	-
Transfer to lifetime ECL credit impaired	(1,054)	(17,902)	18,956	-
Net (reversal) / charge for the year	(43,936)	18,282	882,512	856,858
Write-offs	-	-	(1,766,722)	(1,766,722)
ECL allowance at December 31, 2021	706,017	878,931	991,109	2,576,057

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commercial Loans and others				
ECL allowance at January 1, 2020	553,446	846,163	1,529,719	2,929,328
Transfer to 12-month ECL	34,963	(34,963)	-	-
Transfer to lifetime ECL not credit - impaired	(11,510)	11,510	-	-
Transfer to lifetime ECL credit impaired	(1,733)	(208,792)	210,525	-
Net charge for the year	182,172	257,362	845,695	1,285,229
Write-offs	-	-	(728,636)	(728,636)
ECL allowance at December 31, 2020	757,338	871,280	1,857,303	3,485,921

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

c) Economic sector risk concentration for loans and advances, net is as follows:

		2021			
		Performing	Non-performing	Allowance for expected credit losses	Loans and advances, net
1	Government and quasi government	5,020	-	(48)	4,972
2	Banks and other financial institutions	4,297,459	1,938	(72,266)	4,227,131
3	Agriculture and fishing	1,090,729	13,205	(3,998)	1,099,936
4	Manufacturing	10,709,034	655,761	(480,501)	10,884,294
5	Mining and quarrying	1,016,456	-	(1,605)	1,014,851
6	Electricity, water, gas and health services	5,718,138	2,983	(64,559)	5,656,562
7	Building and construction	7,385,223	420,959	(752,179)	7,054,003
8	Commerce	10,910,426	362,865	(312,588)	10,960,703
9	Real estate activities	19,031,521	421,440	(129,740)	19,323,221
10	Transportation and communication	8,060,756	956	(190,747)	7,870,965
11	Services	4,272,622	9,984	(67,089)	4,215,517
12	Consumer loans and credit cards	33,479,106	68,776	(427,328)	33,120,554
13	Other	21,619,436	232,769	(610,809)	21,241,396
	Total	127,595,926	2,191,636	(3,113,457)	126,674,105

December 31, 2021 and 2020 (Amounts in SAR '000)

7. Loans and advances, net (continued)

c) Economic sector risk concentration for loans and advances, net is as follows: (continued)

		2020			
		Performing	Non-performing	Allowance for expected credit losses	Loans and advances, net
1	Government and quasi government	-	-	-	-
2	Banks and other financial institutions	3,144,434	12,678	(23,858)	3,133,254
3	Agriculture and fishing	661,049	-	(943)	660,106
4	Manufacturing	9,463,323	1,323,176	(877,985)	9,908,514
5	Mining and quarrying	172,982	-	(1,010)	171,972
6	Electricity, water, gas and health services	5,869,678	2,945	(84,637)	5,787,986
7	Building and construction	7,077,273	1,358,895	(1,126,018)	7,310,150
8	Commerce	10,916,957	562,334	(456,113)	11,023,178
9	Real estate activities	16,137,542	436,261	(136,538)	16,437,265
10	Transportation and communication	7,680,257	2,166	(250,355)	7,432,068
11	Services	3,505,188	9,610	(96,059)	3,418,739
12	Consumer loans and credit cards	29,535,519	79,924	(413,495)	29,201,948
13	Other	19,163,769	271,714	(558,050)	18,877,433
	Total	113,327,971	4,059,703	(4,025,061)	113,362,613

December 31, 2021 and 2020 (Amounts in SAR '000)

8. Investments in associates

	2021	2020
Balance at beginning of the year	1,289,732	889,115
Investment made during the year	-	435,956
Dividends during the year	(49,962)	(42,649)
Share in earnings, net	84,921	49,562
Gain on disposal of investment in an associate	8,019	15,217
Sale of investment of an associate	(177,055)	(57,469)
Balance at end of the year	1,155,655	1,289,732

Saudi Home Loans Company

The Bank participated in the setting up of Saudi Home Loans Company (SHL). The associate's authorised capital is SAR 1 billion and its issued and paid-up capital, SAR 1 billion. The Bank's share of the paid-up capital amounted to SAR 400 million, representing 40% of the issued share capital of the associate.

The associate is a specialised Islamic home and real estate finance company with all its products and services being fully Shariah compliant. The associate was launched at the end of the fourth quarter of 2007 and is equity accounted.

ANBI Business Gate Fund

The Group owns indirectly 12.75% (December 31, 2020: 25.47%) of ANBI Business Gate Fund (the Fund), which is a closed-ended private placement real estate investment fund launched on August 25, 2014 for a period of 5 years starting from the date of closure of the first offering on January 11, 2015. Since its launch the fund was extended a number of times. The last being December 14, 2020 when the unitholders approved an extension to December 31, 2025.

During the year, the Group sold half of its share to the remaining unitholders for a gain of SAR 8,019 thousand, which was recognised as a realised gain on disposal of investment in an associate in the consolidated statement of income. The Group continues to be:

- Represented by two directors on the Board of Directors;
- Participate in policy making decisions, including a veto right over the sale of assets;
- Provide the majority of the funding (SAR 1,125 million); and
- Manages the Fund through its subsidiary ANBI.

Accordingly, the Group continues to classify its investment in the Fund as an Associate.

December 31, 2021 and 2020 (Amounts in SAR '000)

8. Investments in associates (continued)

■ Sara Second Real Estate Investment Fund (Sara Second Fund)

The Group invested in the Sara Second Real Estate Investment Fund, a private, CMA regulated and closed ended fund. It was formed to acquire an income generating residential compound in Khobar. The Fund commenced operations in May 2020 and ANB Group's interest in the Fund is 31.9%.

The Group's share of associates' financial statements:

	ANBI Business Gate Fund*	
	2021	2020
Total assets	208,048	420,850
Total liabilities	157,288	214,807
Total equity	50,760	206,044
Total income	25,878	44,161
Total expenses	(20,607)	(40,180)

	Saudi Home Loans Company*	
	2021	2020
Total assets	1,788,026	1,808,361
Total liabilities	1,112,979	1,176,819
Total equity	675,047	631,542
Total income	81,895	76,727
Total expenses	(41,461)	(45,413)

	Sara Second Fund*	
	2021	2020
Total assets	615,048	638,160
Total liabilities	201,356	219,588
Total equity	413,692	418,572
Total income	60,650	37,091
Total expenses	(23,653)	(18,605)

(*) Based on latest available financial information.

December 31, 2021 and 2020 (Amounts in SAR ‘000)

9. Property, equipment and right of use assets, net

	Land and buildings	Leasehold improvements	Equipment furniture, & vehicles	Computer and Software	Work in-progress	Right of Use assets (ROU)	Total
Cost							
Balance at beginning of the year	1,378,246	612,635	760,474	1,264,527	81,597	1,058,522	5,156,001
Additions/ (transfers)	-	22,485	17,361	41,700	(989)	70,948	151,505
Disposals	-	(2,970)	(6,029)	(46,210)	-	(37,783)	(92,992)
Balance as at December 31, 2021	1,378,246	632,150	771,806	1,260,017	80,608	1,091,687	5,214,514
Cost							
Balance at beginning of the year	1,388,603	603,633	791,695	1,235,054	61,956	796,819	4,877,760
Additions	-	11,200	6,261	32,228	19,641	269,971	339,301
Disposals	(10,357)	(2,198)	(37,482)	(2,755)	-	(8,268)	(61,060)
Balance as at December 31, 2020	1,378,246	612,635	760,474	1,264,527	81,597	1,058,522	5,156,001
Accumulated depreciation							
Balance at beginning of the year	470,485	508,626	561,286	1,160,696	-	154,138	2,855,231
Charge for the year	29,267	26,978	33,487	38,834	-	81,786	210,352
Disposals/ adjustments	-	(2,770)	(2,453)	(45,981)	-	(7,276)	(58,480)
Balance as at December 31, 2021	499,752	532,834	592,320	1,153,549	-	228,648	3,007,103
Net book value							
as at December 31, 2021	878,494	99,316	179,486	106,468	80,608	863,039	2,207,411
Accumulated depreciation							
Balance at beginning of the year	450,119	481,898	561,615	1,121,934	-	80,346	2,695,912
Charge of the year	30,722	28,887	37,085	41,518	-	82,060	220,272
Disposals/ adjustments	(10,356)	(2,159)	(37,414)	(2,756)	-	(8,268)	(60,953)
Balance as at December 31, 2020	470,485	508,626	561,286	1,160,696	-	154,138	2,855,231
Net book value							
as at December 31, 2020	907,761	104,009	199,188	103,831	81,597	904,384	2,300,770

December 31, 2021 and 2020 (Amounts in SAR '000)

10. Other assets

	2021	2020
Derivatives collateral margins	2,681,888	3,827,864
Cash with others	322,144	49,313
Prepaid expenses	124,710	123,721
Other	596,383	736,826
Total	3,725,125	4,737,724

11. Derivative financial instruments

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

a) Swaps

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

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price on a date in the future. Forwards are customised contracts transacted in the over the counter market.

Foreign currency and commission rate futures are transacted in standardised amounts on regulated exchanges with changes in fair values settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for the cash settlement, on a specified future date or series of dates, of the difference between the contracted commission rate and the market rate calculated on a notional principal.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell, on 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.

11. Derivative financial instruments (continued)

Held for trading purposes

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

Held for hedging purposes

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

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

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its exposure to currency and commission rate risks to acceptable levels. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for hedge accounting and related derivatives are accounted for as held for trading.

The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses commission rate swaps and commission rate futures to hedge against commission rate risk arising from specifically identified fixed commission rate exposures.

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

The tables below show the notional amounts and the positive and negative fair values of derivative financial instruments analyzed by the term to maturity and monthly average.

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

December 31, 2021 and 2020 (Amounts in SAR '000)

11. Derivative financial instruments (continued)

■ Held for hedging purposes (continued)

2021	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate and cross currency swaps	424,731	394,080	20,794,734	163,124	6,988,501	4,259,227	9,383,882	20,591,216
Commission rate futures and options	464,564	465,236	12,715,298	-	-	511,428	12,203,870	12,643,311
Forward foreign exchange and commodity contracts	44,375	20,624	8,095,565	6,946,553	1,149,012	-	-	9,064,216
Currency and commodity options	-	-	-	-	-	-	-	401,027
Held as fair value hedges:								
Commission rate swaps	33,815	1,336,850	25,106,771	644,993	291,679	1,525,962	22,644,137	22,859,913
Held as cash flow hedges:								
Commission rate swaps	-	423	350,000	-	-	350,000	-	50,000
Total	967,485	2,217,213	67,062,368	7,754,670	8,429,192	6,646,617	44,231,889	65,609,683

December 31, 2021 and 2020 (Amounts in SAR '000)

11. Derivative financial instruments (continued)

Held for hedging purposes (continued)

2020	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate and cross currency swaps	466,134	434,504	18,923,116	200,000	545,000	10,595,173	7,582,943	20,977,613
Commission rate futures and options	475,365	476,175	12,622,282	-	20,000	397,143	12,205,139	13,814,268
Forward foreign exchange and commodity contracts	37,719	14,389	4,616,536	2,809,455	1,804,563	2,518	-	7,445,802
Currency and commodity options	290	222	134,364	134,364	-	-	-	286,328
Held as fair value hedges:								
Commission rate swaps	15,320	2,521,615	23,139,238	-	-	3,664,035	19,475,203	23,550,020
Total	994,828	3,446,905	59,435,536	3,143,819	2,369,563	14,658,869	39,263,285	66,074,031

The above includes Shariah approved derivatives products as follows:

2021	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate and cross currency swaps	37,017	237,106	5,425,507	-	1,914,121	592,409	2,918,977	5,608,561
Commission rate futures and options	452,203	11,744	6,202,000	-	-	100,000	6,102,000	6,152,000
Total	489,220	248,850	11,627,507	-	1,914,121	692,409	9,020,977	11,760,561

December 31, 2021 and 2020 (Amounts in SAR '000)

11. Derivative financial instruments (continued)

Held for hedging purposes (continued)

2020			Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate and cross currency swaps	96,522	167,922	5,518,476	-	-	2,450,566	3,067,910	5,969,878
Commission rate futures and options	469,729	3,728	6,102,589	-	-	-	6,102,589	6,102,049
Total	566,251	171,650	11,621,065	-	-	2,450,566	9,170,499	12,071,927

Derivatives have been disclosed at gross amounts as at the reporting date and have not been netted off by cash margins placed and received. These are detailed as follows:

	2021	2020
Held for trading:	1,098,063	1,665,937
Commission rate and cross currency swaps	-	228,232
Commission rate futures and options	35,718	34,055
Forward foreign exchange and commodity contracts	-	344
Currency and commodity options		
Held as fair value hedges:		
Commission rate swaps	1,544,836	1,899,950
Held as cash flow hedges:		
Commission rate swaps	-	-
Total	2,678,617	3,828,518

December 31, 2021 and 2020 (Amounts in SAR '000)

11. Derivative financial instruments (continued)

■ Held for hedging purposes (continued)

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value:

	2021					
Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	19,206,603	18,189,051	Fair value	Commission rate	33,294	1,072,156
Fixed commission rate loans	8,756,047	8,491,451	Fair value	Commission rate	521	265,117
	2020					
Fixed commission rate investments	17,273,551	15,519,859	Fair value	Commission rate	15,320	1,937,993
Fixed commission rate loans	8,453,916	7,870,826	Fair value	Commission rate	-	583,622

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Approximately 37% (2020: 27%) of the positive fair value of the Group's derivatives are entered into with financial institutions and approximately 63% (2020: 73%) of the positive fair value contracts are with non-financial institutions at the reporting date. Derivative activities are mainly carried out by the Group's treasury segment.

12. Due to banks, SAMA and other financial institutions

	2021	2020
Current accounts	80,116	103,822
Money market deposits	5,864,165	1,064,049
Commission free deposits from SAMA (notes 3d and 41)	8,262,827	8,629,873
Total	14,207,108	9,797,744

December 31, 2021 and 2020 (Amounts in SAR '000)

12. Due to banks, SAMA and other financial institutions (continued)

The above balances do not include any Shariah compliant products. Money market deposits include repurchase agreement with Saudi Central Bank, amounting to SAR 2,693 million as of December 31, 2021 (2020: SAR 194 million).

13. Customers' deposits

	2021	2020
Demand	77,006,510	76,241,408
Time	51,657,650	47,205,310
Saving	283,681	219,031
Other	6,766,044	5,686,427
Total	135,713,885	129,352,176

Time deposits do not include any deposits against sale of securities with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 1,782 million (2020: SAR 2,084 million) of margins held against irrevocable commitments.

The above include Shariah approved customer deposits as below:

	2021	2020
Demand	50,068,780	44,834,564
Time	23,877,412	28,719,534
Other	457,163	161,310
Total	74,403,355	73,715,408

December 31, 2021 and 2020 (Amounts in SAR '000)

13. Customers' deposits (continued)

Customers' deposits include foreign currency deposits as follows:

	2021	2020
Demand	3,257,670	3,022,932
Time	12,396,041	5,557,610
Saving	4,913	5,796
Other	149,179	162,339
Total	15,807,803	8,748,677

14. Other liabilities

	2021	2020
Provision for end of service benefits (note 30)	541,206	537,013
Loss allowance on loan commitment and financial guarantee contracts (14 a)	515,402	594,615
Accrued expenses	568,850	565,278
Zakat and income tax accrual / provision payable (note 27)	553,858	606,215
Lease liability	920,172	948,523
Others	3,307,128	1,951,575
Total	6,406,616	5,203,219

a) Movement in the carrying gross exposure and provision for credit related commitments and contingencies:

The following table explains changes in gross carrying amount of the commitments and financial guarantee contracts to help explain their significance to the changes in the loss allowance for the same periods.

December 31, 2021 and 2020 (Amounts in SAR '000)

13. Other Liabilities (continued)

December 31, 2021	Credit Loss allowance 12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total	Gross exposure of credit commitments and contingencies (at credit equivalents) 12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance at the beginning of the year	72,430	49,464	472,721	594,615	8,582,731	516,126	129,717	9,228,574
Transfer to 12-month ECL	8,204	(6,702)	(1,502)	-	168,157	(166,166)	(1,991)	-
Transfer to life time ECL, not credit impaired	(3,752)	3,752	-	-	(567,906)	567,906	-	-
Transfer to life time ECL, credit impaired	-	(3,162)	3,162	-	(295)	(37,063)	37,358	-
New commitments, net of expired / matured commitments	-	-	-	-	(2,404,811)	214,477	(57,048)	(2,247,382)
Net (reversal)/ charge for the year	(19,487)	26,506	(86,232)	(79,213)	-	-	-	-
Balance as at December 31, 2021	**57,395**	**69,858**	**388,149**	**515,402**	**5,777,876**	**1,095,280**	**108,036**	**6,981,192**

December 31, 2020	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance at the beginning of the year	68,773	47,307	630,591	746,671	9,180,703	1,351,650	129,220	10,661,573
Transfer to 12-month ECL	1,032	(1,032)	-	-	83,053	(83,053)	-	-
Transfer to life time ECL, not credit impaired	(2,159)	2,159	-	-	(433,726)	433,726	-	-
Transfer to life time ECL, credit impaired	(9)	(1,105)	1,114	-	(1,500)	(8,856)	10,356	-
New commitments, net of expired / matured commitments	-	-	-	-	(245,799)	(1,177,341)	(9,859)	(1,432,999)
Net (reversal)/ charge for the year	4,793	2,135	(158,984)	(152,056)	-	-	-	-
Balance as at December 31, 2020	**72,430**	**49,464**	**472,721**	**594,615**	**8,582,731**	**516,126**	**129,717**	**9,228,574**

December 31, 2021 and 2020 (Amounts in SAR '000)

15. Sukuk

On October 7, 2015 the Bank issued SAR 2 billion, 10 year subordinated and unsecured Tier II Capital (Sukuk), callable in 5 years. These Sukuk carried a special commission rate of SIBOR plus 140 bps. On October 7, 2020 the Bank exercised its call option to early redeem 100% of the principal amount of outstanding notes, together with the accrued interests till the option redemption date.
On October 21, 2020 the Bank issued USD 750 million 10 year subordinated Tier II capital (Sukuk) callable in 5 years and carrying a special commission rate of 3.326%.

16. Share capital

As at December 31, 2021, the authorised, issued and fully paid share capital of the Bank consists of 1,500 million shares of SAR 10 each (2020: 1,500 million shares of SAR 10 each).

The ownership of the Bank's share capital is as follows:

	2021	2020
Saudi shareholders	**60 %**	60 %
Arab Bank PLC – Jordan	**40 %**	40 %

17. Statutory reserve

In accordance with the Saudi Arabian Banking Control Law and the By Laws 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 share capital of the Bank. Accordingly, SAR 545 million was transferred from 2021 net income to statutory reserve (2020: SAR 561 million). The statutory reserve is not currently available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2021 and 2020 there were legal proceedings of a routine nature outstanding against the Group. No material provision has been made as professional legal advice indicates that it is not probable that a significant loss will arise.

b) Capitalcommitments

As at December 31, 2021 the Group had capital commitments of SAR 49.7 million (2020: SAR 39.2 million) in respect of building and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers 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 authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised 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.

December 31, 2021 and 2020 (Amounts in SAR '000)

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

Commitments to extend credit represent the unused portion of authorisations 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, which cannot readily be quantified, 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.

1. The contractual maturity structure of the Bank's commitments and contingencies is as follows:

	2021				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,885,244	3,169,519	62,375	-	5,117,138
Letters of guarantee	4,038,021	9,161,675	3,610,338	54,866	16,864,900
Acceptances	546,314	278,641	2,361	-	827,316
Irrevocable commitments to extend credit	316,030	2,269,419	109,375	207,584	2,902,408
Other	-	-	-	13,500	13,500
Total	6,785,609	14,879,254	3,784,449	275,950	25,725,262

	2020				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,637,358	2,054,542	101,634	-	4,793,534
Letters of guarantee	3,441,142	10,347,873	3,442,582	18,709	17,250,306
Acceptances	685,063	1,221,646	5,677	-	1,912,386
Irrevocable commitments to extend credit	38,513	168,396	1,884,622	68,958	2,160,489
Other	-	-	-	16,102	16,102
Total	6,802,076	13,792,457	5,434,515	103,769	26,132,817

December 31, 2021 and 2020 (Amounts in SAR '000)

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

The unutilised portion of non-firm commitments for commercial and corporate loans as at December 31, 2021, which can be revoked unilaterally at any time by the Bank, amounts to SAR 14,993 million (2020: SAR 18,471 million).

2. The analysis of commitments and contingencies by counter-party is as follows:

	2021	2020
Corporate	**23,495,506**	20,611,097
Banks and other financial institutions	**2,216,256**	5,505,618
Other	**13,500**	16,102
Total	**25,725,262**	26,132,817

d) Assets pledged

Securities pledged under repurchase agreements with other banks include government and non-government bonds. The market value of assets pledged as collateral with other financial institutions as security are as follows:

	2021		2020	
	Assets	**Related liabilities**	Assets	Related liabilities
Held at amortised cost (notes 6a, 12 and 13)	**2,825,665**	**2,693,491**	213,349	194,000

December 31, 2021 and 2020 (Amounts in SAR '000)

19. Net special commission income

	2021	2020
Special commission income		
Investments:		
FVOCI	24,926	51,661
Amortised cost	727,171	858,185
	752,097	909,846
Due from banks and other financial institutions	141,395	229,681
Loans and advances	4,278,162	4,852,262
Total	5,171,654	5,991,789
Special commission expense		
Due to banks, SAMA and other financial institutions	27,443	26,673
Customers' deposits	354,175	1,006,978
Sukuk	93,283	63,663
Other	24,721	25,818
Total	499,622	1,123,132
Net special commission income	4,672,032	4,868,657

Net special commission income for the years ended December 31, 2021 and 2020 include income from shariah transactions amounting to SAR 4,115 million and SAR 3,955 million, respectively.

December 31, 2021 and 2020 (Amounts in SAR '000)

20. Fee and commission income, net

	2021	2020
Fee and commission income		
Share trading and fund management	123,026	127,652
Trade finance	197,084	204,138
Credit cards	250,449	214,668
Credit facilities	233,663	332,136
Other banking services	393,954	357,109
Total	1,198,176	1,235,703
Fee and commission expense		
Credit cards	158,388	141,896
Credit facilities	144,101	176,263
Other banking services	406,574	367,855
Total	709,063	686,014
Fee and commission income, net	489,113	549,689

21. Trading income / (loss), net

	2021	2020
Derivatives	12,380	5,436
Debt securities	1,035	(20)
Total	13,415	5,416

22. Dividend income

	2021	2020
FVSI investments	7,940	15,774
FVOCI investments	79,649	67,601
Total	87,589	83,375

December 31, 2021 and 2020 (Amounts in SAR '000)

23. Gain on sale of non-trading investments, net

	2021	2020
FVOCI – Debt investments	25,572	4,642
Investments at amortised cost	147,010	5,846
Total	172,582	10,488

24. Other operating income, net

	2021	2020
Rental income, net	33,759	42,715
Losses on disposal of property and equipment, net	(171)	(46)
Others	9,274	59,706
Total	42,862	102,375

25. ECL allowance charges for expected credit losses and other provisions, net

	2021	2020
Allowance charges for expected credit losses, net (note 7)	1,109,719	1,434,258
Reversal of provision for credit-related commitments and contingencies (note 14 a)	(79,213)	(152,056)
Total	1,030,506	1,282,202

26. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2021 and 2020 is calculated by dividing the net income for the period attributable to the equity holders of the Bank by 1,500 million shares. The diluted earnings per share is the same as the basic earnings per share.

27. Dividends, Zakat and Income Tax

a. On March 3, 2021 the Board recommended to pay cash dividends of SAR 600 million from net income for the year. After deducting zakat this proposed final dividend will result in a net payment of SAR 0.40 per share to Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) will be deducted from their share of the dividend. This cash dividends distribution has been approved in the Ordinary General Assembly Meeting dated March 30, 2021.

b. An interim dividend of SAR 525 million has been recommended by the Board of Directors on June 24, 2021, which has been paid to shareholders by July 14, 2021. After deducting zakat, this interim dividend resulted in a net payment of SAR 0.35 per share to the Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) was deducted from their share of the dividend.

c. On December 12, 2021 the Board recommended to pay cash dividends of SAR 675 million for the second half of 2021. After deducting zakat this proposed final dividend will result in a net payment of SAR 0.45 per share to Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) will be deducted from their share of the dividend. This cash dividends distribution is subject to approval by Extraordinary General Assembly.

d. Zakat and income tax

The dividends are paid to Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Zakat

Zakat for the year attributable to Saudi Shareholders amounted to approximately SAR 243 million (2020: SAR 285 million).

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year’s share of net income is SAR 211 million (2020: SAR 222 million).

Zakat Claims Settlement with the Zakat, Tax and Customs Authority (ZATCA)

The Group has filed its Zakat and Income Tax returns with ZATCA and paid Zakat and Income Tax for financial years up to and including the year 2019 and received assessments for the years up to 2013 in which the ZATCA raised additional demands. On December 20, 2018 the Group has reached a settlement agreement with ZATCA to settle Zakat liability amounting to SAR 649 million for previous years and accordingly all assessments are finalized until 2017. The settlement agreement requires the Bank to settle 20% of the agreed Zakat liability upfront and the remaining to be settled over a period of five years. Yet, the settlement agreement resulted in an increase in shareholders’ equity in the amount of SAR 1,113 million being surplus in Zakat provision for the years up to and including the year 2017, and the Zakat provision has been disclosed in note 14 to the accompanying consolidated financial statements.

December 31, 2021 and 2020 (Amounts in SAR '000)

27. Dividends, Zakat and Income Tax (continued)

d. Zakat and income tax (continued)

■ Deferred Tax

The components and movements of deferred tax is as follows:

	2021		
	Opening deferred tax	Recognised in statement of income	Closing deferred tax
Accelerated depreciation for accounting purposes	9,194	2,920	12,114
Provision for employee benefit obligation	45,188	355	45,543
Provision for losses	13,250	694	13,944
Total	67,632	3,969	71,601

	2020		
	Opening deferred tax	Recognised in statement of income	Closing deferred tax
Accelerated depreciation for accounting purposes	15,310	(6,116)	9,194
Provision for employee benefit obligation	39,344	5,844	45,188
Provision for losses	8,565	4,685	13,250
Total	63,219	4,413	67,632

28. Cash and cash equivalents

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

	2021	2020
Cash and balances with SAMA excluding statutory deposit (note 4)	3,962,312	5,338,644
Cash with others (note 10)	322,144	49,313
Due from banks and other financial institutions maturing within ninety days of acquisition	2,287,880	1,088,999
Total	6,572,336	6,476,956

29. Compensation practices

The Group has implemented a "Risk-Based Compensation Policy" in compliance with the rules issued by SAMA, which are consistent with the principles and standards of the Financial Stability Board (FSB). The policy was approved by the Board and gives highest consideration to the alignment of compensation with risk and provides a competitive and balanced package of fixed and variable compensation. The policy ensures that compensation takes into account the likelihood and timelines of earnings and its impact on the Group's capital. It also focuses on promoting effective risk management, achieving financial stability and dealing with risks posed by the Group's compensation practices. The Group takes into account all types of existing and potential material risks and ensures a balance between general industry practices and Group-specific factors such as business model, financial condition, operating performance, market perception, business prospects and appropriate managerial judgement, etc.

The Board, while determining and approving the bonus pool of the Group, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, etc. Similarly, while allocating the Group-wide bonus pool to business units, due consideration is given to the type of business transacted, level of risk assumed, relative importance of earnings, distinctive business drivers, historical bonus pool, current performance and the business unit's consistency of performance.

The Board has ultimate responsibility for promoting effective governance and sound compensation practices. In order to assist it in overseeing the Compensation policies design and its operation, the Board has appointed a Nomination & Compensation Committee. The Nomination & Compensation Committee comprises three non- executives members of the Board and is chaired by an independent member of the Board. The Committee has full authority on behalf of the Board to review and where considered appropriate propose changes to the Bank's compensation policy and practices and recommend the same to the Board, for its approval and to ensure adequacy and effectiveness of the policy in meeting its intended objectives. The Committee also reviews the level and composition of remuneration of key executives of the Group and recommends a risk-adjusted bonus pool to the Board, for approval.

December 31, 2021 and 2020 (Amounts in SAR '000)

29. Compensation practices (continued)

The governance process ensures that the Compensation Policy is consistently applied and operates as intended. The Bank has established an oversight mechanism to regularly evaluate the design characteristics of compensation practices and their implementation.

Categories of employees	2021		
	Number of employees	Fixed compensation	Variable cost paid cash in 2021
1. Senior executive requiring SAMA no objections	23	44,435	40,278
2. Employees engaged in risk taking activities	182	86,547	27,056
3. Employees engaged in control functions	599	148,065	25,588
4. Other employees	3,255	606,807	76,671
Total	4,059	885,854	169,593
Variable compensation accrued in 2021		141,424	
Other employment related costs*		227,412	
Total salaries and employee related expenses		1,254,690	

Categories of employees	2020		
	Number of employees	Fixed compensation	Variable cost paid cash in 2020
1. Senior executive requiring SAMA no objections	20	41,937	37,618
2. Employees engaged in risk taking activities	189	90,318	33,662
3. Employees engaged in control functions	546	144,344	26,029
4. Other employees	3,204	603,764	75,773
Total	3,959	880,363	173,082
Variable compensation accrued in 2020		149,171	
Other employment related costs*		162,534	
Total salaries and employee related expenses		1,192,068	

* Other employee related costs include end of service benefits, GOSI, business travel, training and development, and other employees' benefits.

December 31, 2021 and 2020 (Amounts in SAR '000)

30. Employee benefit obligation

a - General description

The Bank operates an End of Service Benefit Plan (EOSB) for its employees based on the Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

b - The amounts recognised in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2021	2020
Defined benefit obligation at the beginning of the year	537,013	545,849
Past service cost	100	114
Current service cost	55,074	48,250
Special commission cost	12,000	17,592
Benefits paid	(107,384)	(53,450)
Remeasurements due to actuarial loss/ (gain)	44,403	(21,342)
Defined benefit obligation at the end of the year	541,206	537,013

c) Charge for the year

	2021	2020
Current service cost	55,074	48,250
Special commission cost	12,000	17,592
Past service cost	100	114
	67,174	65,956

d) Re-measurement recognised in Other comprehensive income

	2021	2020
Loss/ (gain) from change in experience assumptions	60,423	(4,170)
Gain from change in financial assumptions	(16,020)	(17,172)
	44,403	(21,342)

December 31, 2021 and 2020 (Amounts in SAR ‘000)

30. Employee benefit obligation (continued)

e) Principal EOSB actuarial assumptions (in respect of the employee benefit scheme)

	2021	2020
Discount rate	2.9 %	2.6 %
Expected rate of salary increase	2 %	2 %
Years remaining to retirement	11.4 years	11.4 years

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2021 and 2020 based on the principal actuarial assumptions disclosed in note (e) above.

2021	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	+1 %	(48,026)	-
	-1%	-	56,726
Expected rate of salary increase	+1 %	56,666	-
	-1 %	-	(48,857)
Withdrawal rate	+20 %	(25)	-
	- 20 %	-	(722)

2020	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+1 %	(47,528)	-
	-1%	-	56,022
Expected rate of salary increase	+1 %	55,786	-
	-1 %	-	(48,222)
Withdrawal rate	+20 %	(1,786)	-
	- 20 %	-	1,361

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

31. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief executive officer in order to allocate resources to the segments and to assess its performance.

For management purposes, the Group is organised into the following major operating segments:

Retail banking

Deposit, credit and investment products for individuals and the Bank's London branch.

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses.

Treasury

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission rate risks.

Investment and brokerage services

Investment management services, asset management activities related to dealing, managing, arranging, advising and custody of securities.

Other

Includes income on capital and unallocated costs and assets and liabilities of Head Office and other supporting departments.

Transactions between operating segments are reported as recorded in the Group's transfer pricing system. The basis for determining intersegment operating income/(expense) for the current year are consistent with the basis used for December 31, 2020. Segment assets and liabilities comprise mainly operating assets and liabilities.

The Group's primary business is conducted in the Kingdom with one international branch in London. The total assets, liabilities, commitments and results of operations of this branch are, however, not material to the Group's overall consolidated financial statements.

December 31, 2021 and 2020 (Amounts in SAR '000)

31. Operating segments (continued)

a. The Group's total assets and liabilities as at December 31, 2021 and 2020 and its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

	2021					
	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	45,239,488	85,226,879	59,869,788	556,218	1,609,286	192,501,659
Investments in associates	-	-	-	359,162	796,493	1,155,655
Total liabilities	70,009,290	71,041,265	19,092,044	90,973	1,140,350	161,373,922
Operating income/(expense) from external customers	2,254,268	2,667,195	674,429	177,925	(9,299)	5,764,518
Intersegment operating income/(expense)	(282,805)	(720,940)	902,897	-	100,848	-
Total operating income	1,971,463	1,946,255	1,577,326	177,925	91,549	5,764,518
Of which:						
Net special commission income	1,824,546	1,583,945	1,112,480	37,146	113,915	4,672,032
Fees and commission income, net	57,339	358,208	3,100	124,596	(54,130)	489,113
ECL allowance charges and other provisions, net	172,764	857,742	-	-	-	1,030,506
Impairment charges for other financial assets, net	-	-	3,991	-	-	3,991
Depreciation and amortisation	165,429	9,112	962	4,049	30,800	210,352
Total operating expenses	1,503,086	1,502,516	96,731	83,305	50,253	3,235,891
Share in earnings of associates	-	-	-	59,910	33,030	92,940
Net income before Zakat and income tax	468,377	443,739	1,480,595	154,530	74,326	2,621,567

December 31, 2021 and 2020 (Amounts in SAR '000)

31. Operating segments (continued)

	2020					
	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	40,672,018	76,951,380	60,532,743	779,503	1,460,198	180,395,842
Investments in associates	-	-	-	517,273	772,459	1,289,732
Total liabilities	65,167,293	67,453,814	16,294,583	81,581	1,632,427	150,629,698
Operating income from external customers	2,189,483	3,323,672	101,902	193,337	15,845	5,824,239
Intersegment operating income/(expense)	18,137	(1,029,988)	875,721	-	136,130	-
Total operating income	2,207,620	2,293,684	977,623	193,337	151,975	5,824,239
Of which:						
Net special commission income	2,029,990	1,886,069	794,594	26,739	131,265	4,868,657
Fees and commission income, net	64,741	393,890	(1,042)	128,275	(36,175)	549,689
ECL allowance charges and other provisions, net	80,199	1,202,003	-	-	-	1,282,202
Reversal of impairment charges for other financial assets, net	-	-	(11,408)	-	-	(11,408)
Depreciation and amortisation	165,665	9,600	1,276	5,051	38,680	220,272
Total operating expenses	1,326,222	1,786,533	84,877	83,813	35,899	3,317,344
Share in earnings of associates	-	-	-	-	64,779	64,779
Net income before Zakat and income tax	881,398	507,151	892,746	109,524	180,855	2,571,674

December 31, 2021 and 2020 (Amounts in SAR '000)

31. Operating segments (continued)

b. The Group's credit exposure by operating segments is as follows:

	2021					
	Retail Banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	42,140,736	84,918,458	57,132,607	512,928	433,600	185,138,329
Credit-related commitment and contingencies	538,021	16,242,564	-	-	-	16,780,585
Derivatives	-	777,568	3,188,610	-	-	3,966,178

	2020					
	Retail Banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	38,901,484	76,644,881	56,648,630	188,343	758,185	173,141,523
Credit-related commitment and contingencies	405,057	16,922,807	-	-	-	17,327,864
Derivatives	-	1,025,703	2,652,005	-	-	3,677,708

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property, equipment and right of use assets, other real estate owned, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 33a).

32. Credit Risk

Credit risk is the risk that a customer or counter-party may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from the potential that a customer or counter-party is either unwilling to perform an obligation or its ability to perform such an obligation is impaired, resulting in an economic loss to the Bank. The Bank is exposed to credit risk when its business units extend credit to counterparties. The Bank's Executive Committee (ExCom)/Board provides oversight of Credit Risk through the documented Credit Policy.

32. Credit Risk (continued)

The enterprise-wide requirements for identification, assessment, monitoring and reporting of credit risk is set by the Risk Management Group, while business/support units are accountable for the credit risks within their respective areas, aligning business strategies with Bank's risk appetite.

Credit Risk policies and procedures are established to provide control of credit portfolios through periodic assessment of the credit standing of borrowers and quantifying maximum permissible exposures to specific borrowers. Such individuals and/or groups exposures are monitored periodically on a portfolio basis. The Bank's Credit Policy provides detailed guidelines to manage credit risk effectively; it is reviewed and updated from time to time based on experience, emerging issues, best market practices and directives from regulatory authorities.

The Credit Policy is designed to ensure clear recognition of credit risk management strategies and objectives, which, inter-alia, include:

- Strengthening and enhancing Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimise credit losses.
- Strengthening and enhancing credit portfolio management process.
- Strengthening and enhancing Bank's systems and procedures for early problem recognition.
- Compliance with local regulatory requirement and industry's best practices for credit risk management.

The Credit Policy addresses all functions and activities related to the credit process including the underwriting criteria. It stipulates Bank's appetite for risk, which, inter-alia, provides guidance on the target markets (Corporate, Commercial/Small and Medium Enterprises (SMEs), Consumer and High Net-Worth Individuals) and desirable type of borrowers/industries. Some criteria are product-specific and are governed by individual credit product policies while others generally include credit quality standards, purpose and terms of facilities, undesirable loans, credit analysis, concentrations of credit, repayment ability, compliance with laws & regulations, expected losses and documentation.

Portfolio Monitoring

Portfolio management is ensured through diversification of the credit portfolio on the basis of tenor, industries/business segments, risk grades and geographical areas to avoid the risk of over-exposure to certain economic sectors/credit products, which might be impacted by unfavourable developments in the economy. The Bank broadly uses borrower and sector criteria for mitigating concentration risk. The Bank's business is predominantly concentrated in Saudi Arabia, minimising cross-currency risk although geographical concentration remains but this is considered acceptable and within Bank's risk appetite.

Consumer Banking portfolio is a diversified one since relatively small exposures are approved to a large number of individuals, based mainly on assignment of salary or security with exposure caps on products/employers, etc.

32. Credit Risk (continued)

▪ Risk Measurement and Reporting System

Credit Risk tracks trends and identifies weaknesses in the quality of corporate, commercial, retail and private banking loans portfolio by employing:

- Obligor and Facility risk rating system to assess the quality of obligor and riskiness of facilities; and
- Periodic reviews and reporting of aggregate statistics on asset diversification and credit quality for key segments of the portfolio.

Rating system is established with the objective to:

- place the responsibility on business units to regularly evaluate credit risk on exposures and identify problems within their portfolios;
- establish early warning signals for detecting deterioration in credit quality;
- set standards for business units to submit their inputs on problematic exposures; and
- provide guidelines to respond and take remedial actions as soon as deterioration in credit quality is detected.

The Bank classifies its exposures into 13 risk categories, of which 10 are for performing obligors and 3 are for non- performing obligors. A rating is assigned to a borrower through a system-based methodology that takes into account financial and non-financial information, translating into a grade and Probability of Default (PD) for the relationship.

Facility Risk Rating (FRR), which assesses the riskiness of facilities, is used for deriving the Loss Given Default (LGD) for a relationship, thus assigning separate rating for obligor and facility characteristics.

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually. These reports are comprehensive, have wide scope and address several issues including:

- Portfolio quality, industry concentration and large exposures;
- Product concentration, credit monitoring and concentration of shares held by the Bank as collateral; and
- Past due follow-up, customer-provisioning details and provision movement.

Retail portfolio comprises of personal loans, credit cards, housing loans and auto leasing.

Individual customers are assessed on the basis of standardised pre-set criteria for specific schemes to assess eligibility for each of the above products. Delinquent customers, based on days past due (bucket-wise), are classified as non-performing.

Major portion of retail portfolio is personal loans, which are granted against salary assignments to borrowers who are employees of approved list of acceptable employers, mainly government departments. The main criteria for lending to this portfolio include approved employer, minimum salary requirements, length of service and pre-specified Debt Service Ratio (DSR). Housing loan and auto leasing products are considered generally secured since the underlying assets are owned by the Bank and leased to customers, thus mitigating risk to a large extent.

32. Credit Risk (continued)

▪ Risk Measurement and Reporting System (continued)

The Bank has developed application score-cards and behavior score-cards, using internal and external data, to evaluate, monitor and control consumer credits as this is expected to go a long way in making consumer credit risk management more effective and efficient.

▪ Asset Quality

Corporate and commercial exposures are considered non-performing and placed on non-accrual status in the following circumstances:

- The principal of loan or interest payment remains past due more than 90 days after its due date;
- The outstanding of an overdraft remains in excess of approved limit for more than 90 days or the overdraft account is in-active for more than 180 days.

Non-performing exposures migrate across the non-performing risk grades (Substandard, Doubtful and Loss) according to their days past due and/or deterioration in credit quality.

In determining whether a corporate exposure has become impaired, the Bank makes judgements as to whether there is any observable data indicating decrease in the estimated future cash flows. This evidence may include an indication that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics, when estimating the cash flows.

The methodology and assumptions used for estimating both - the amount and timing of future cash flows - are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Consumer assets are considered non-performing and placed on non-accrual status if payment remains past due more than 90 days after its due date.

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

Credit quality analysis

a. The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from Bank and other financial institutions				
Investment grade	2,259,408	-	-	2,259,408
Non-investment grade	27,722	-	750	28,472
Unrated	-	-	-	-
Gross carrying amount	2,287,130	-	750	2,287,880

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from Bank and other financial institutions				
Investment grade	1,082,134	-	-	1,082,134
Non-investment grade	6,115	-	750	6,865
Unrated	-	-	-	-
Gross carrying amount	1,088,249	-	750	1,088,999

December 31, 2021 and 2020 (Amounts in SAR ‘000)

32. Credit Risk (continued)

■ Credit quality analysis (continued)

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortised cost				
Grades 1- 8: Low - fair risk	114,858,544	8,906,888	10,905	123,776,337
Grades 9 - 10: Watch list	-	3,804,895	14,694	3,819,589
Grades 11 - 13: Substandard, doubtful, loss	-	-	2,191,636	2,191,636
Gross carrying amount	114,858,544	12,711,783	2,217,235	129,787,562

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortised cost				
Grades 1- 8: Low - fair risk	101,341,631	7,183,230	46,092	108,570,953
Grades 9 - 10: Watch list	38,781	4,688,613	29,624	4,757,018
Grades 11 - 13: Substandard, doubtful, loss	-	-	4,059,703	4,059,703
Gross carrying amount	101,380,412	11,871,843	4,135,419	117,387,674

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortised cost – Consumer Loans and Credit cards				
Grades 1- 8: Low - fair risk	31,104,573	2,193,583	7,146	33,305,302
Grades 9 - 10: Watch list	-	159,912	13,515	173,427
Grades 11 - 13: Substandard, doubtful, loss	-	-	69,153	69,153
Gross carrying amount	31,104,573	2,353,495	89,814	33,547,882

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortised cost – Consumer Loans and Credit cards				
Grades 1- 8: Low - fair risk	27,490,213	1,822,047	34,935	29,347,195
Grades 9 - 10: Watch list	-	163,851	24,473	188,324
Grades 11 - 13: Substandard, doubtful, loss	-	-	79,924	79,924
Gross carrying amount	27,490,213	1,985,898	139,332	29,615,443

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortised cost – Commercial Loans, Overdrafts and others				
Grades 1- 8: Low - fair risk	83,753,971	6,713,305	3,759	90,471,035
Grades 9 - 10: Watch list	-	3,644,983	1,179	3,646,162
Grades 11 - 13: Substandard, doubtful, loss	-	-	2,122,483	2,122,483
Gross carrying amount	83,753,971	10,358,288	2,127,421	96,239,680

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortised cost – Commercial Loans, Overdrafts and others				
Grades 1- 8: Low - fair risk	73,851,417	5,361,184	11,157	79,223,758
Grades 9 - 10: Watch list	38,781	4,524,762	5,151	4,568,694
Grades 11 - 13: Substandard, doubtful, loss	-	-	3,979,779	3,979,779
Gross carrying amount	73,890,198	9,885,946	3,996,087	87,772,231

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortised cost				
Investment grade	38,583,144	-	-	38,583,144
Non-investment grade	-	-	-	-
Unrated	1,586,373	-	-	1,586,373
Gross carrying amount	40,169,517	-	-	40,169,517

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortised cost				
Investment grade	37,554,047	-	-	37,554,047
Non-investment grade	-	-	-	-
Unrated	1,724,035	-	-	1,724,035
Gross carrying amount	39,278,082	-	-	39,278,082

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI				
Investment grade	702,265	-	-	702,265
Non-investment grade	-	7,625	-	7,625
Unrated	278,960	-	-	278,960
Carrying amount – fair value	981,225	7,625	-	988,850

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

■ Credit quality analysis (continued)

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI				
Investment grade	1,559,530	–	–	1,559,530
Non-investment grade	–	7,659	–	7,659
Unrated	285,746	–	–	285,746
Carrying amount – fair value	1,845,276	7,659	–	1,852,935

Investment Grade comprises investments having credit rating equivalent to Standard & Poor's AAA to BBB. The unrated investments comprise mainly corporate debt securities, sukuk, mutual funds and investment in equities.

	December 31, 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit-related commitments and contingencies				
Grades 1- 8: Low - fair risk	5,777,876	1,067,843	–	6,845,719
Grades 9 - 10: Watch list	–	27,437	286	27,723
Grades 11 - 13: Substandard, doubtful, loss	–	–	107,750	107,750
Gross carrying amount	5,777,876	1,095,280	108,036	6,981,192

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit-related commitments and contingencies				
Grades 1- 8: Low - fair risk	8,573,478	471,142	491	9,045,111
Grades 9 - 10: Watch list	9,253	44,984	1,849	56,086
Grades 11 - 13: Substandard, doubtful, loss	–	–	127,377	127,377
Gross carrying amount	8,582,731	516,126	129,717	9,228,574

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

■ Credit quality analysis (continued)

b- Credit analysis of financial assets held as FVSI

The following table sets out the credit analysis for financial assets measured at FVSI.

	2021	2020
Investment funds		
Investment grade	-	-
Non-investment grade	-	-
Unrated	613,729	558,415
Total carrying amount - Fair value	613,729	558,415

c- Amounts arising from ECL - Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and including forward-looking information.

Consideration due to COVID-19

In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer note 41 for further details). The exercise of the deferment option by a customer, in its own, is not consider by the Bank as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

32. Credit Risk (continued)

■ Credit quality analysis (continued)

c- Amounts arising from ECL - Significant increase in credit risk (continued)

■ Credit risk grades

The Bank allocates credit risk grades to each exposure based on a variety of variables that is determined to be predictive of the risk of default and applying experienced credit judgements. Credit risk grades are defined using qualitative and quantitative factors that are indicative of 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 significantly 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 8 and 9.

The 12 months PIT PD for the exposures in grade 1 to 8 ranges from 0.39% to 9.96%. The 12 months PIT PD for grade 9 and 10 (watch list) goes up to 51.85%.

Credit risk grade or score is allocated to corporate exposures 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 or score. The monitoring of exposures involves use of the following data:

Corporate exposures	Retail exposures
■ Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes etc. ■ Data from credit reference agencies, press articles, 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 behavior data – e.g. utilisation of credit card facilities ■ Affordability metrics ■ External data from credit reference agencies including default information.

32. Credit Risk (continued)

■ Credit quality analysis (continued)

c- Amounts arising from ECL - Significant increase in credit risk (continued)

1 - Generating the term structure of PD

Credit risk grades are a primary input in the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For retail portfolios, SIMAH information is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change over a period of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. For most exposures, key macro-economic indicators include Oil Price, GDP growth, Government Expenditures, Share Price Index and Employment.

Based on the available economic data and consideration of a variety of external actual and forecast information, the Bank 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 Bank then uses these forecasts to adjust its estimates of PDs.

2 - Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and a backstop based on delinquency.

Using its expert credit judgements and, where possible, relevant historical experience, the Bank may 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 whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank 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 when full payment became due.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria can identify 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 loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

3 - Modified financial assets

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An

32. Credit Risk (continued)

▪ Credit quality analysis (continued)

c- Amounts arising from ECL - Significant increase in credit risk (continued)

3 - Modified financial assets (continued)

existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining Net Present Value (NPV) of the cash-flows at the reporting date based on the modified terms; with
- the remaining NPV of the cash-flows calculated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. As per Bank's policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, 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 include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the restructuring policy.

For financial assets modified as part of the Bank's policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar restructuring action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of restructuring may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

4 - Definition of 'Default'

The following criteria are used to determine obligor default. The obligor:

- Has an obligation which is 90 (or more) days past due.
- Has an obligation for which the Bank has stopped accruing interest.
- Has obligation(s) that has/have been restructured with loss to the Bank.
- Has an obligation that is classified as non-performing by the Bank.
- Has an obligation that the Bank has charged off in part or in full.

32. Credit Risk (continued)

Credit quality analysis (continued)

c- Amounts arising from ECL - Significant increase in credit risk (continued)

4 - Definition of 'Default' (continued)

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative - e.g. breaches of covenant;
- Quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs to the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

5 - Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of actual and forecast information, the Bank 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 provided by agencies, such as Moody's Economic Data services.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio using an analysis of historical data and estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at December 31, 2021 included the following ranges of key indicators.

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

c- Amounts arising from ECL – Significant increase in credit risk (continued)

5- Incorporation of forward looking information (continued)

Economic Indicators	2021	2020
GDP	Upside 25% Base case 30% Downside 45%	Upside 30% Base case 40% Downside 30%
Brent oil prices	Upside 25% Base case 30% Downside 45%	Upside 30% Base case 40% Downside 30%
Tadawul all shares index	Upside 25% Base case 30% Downside 45%	Upside 30% Base case 40% Downside 30%

Probability weightings

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank's credit portfolios in determining them.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

To account for the impact of COVID 19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

	Forecast calendar years used in 2021 ECL model			Forecast calendar years used in 2020 ECL model		
Economic Indicators	2022	2023	2024	2021	2022	2023
GDP	863	882	903	855	878	899
Brent oil prices (USD $)	63.80	63.75	64.31	53.22	61.59	63.77
Tadawul all shares index	11,439	11,797	12,110	9,129	9,754	10,143

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

c- Amounts arising from ECL – Significant increase in credit risk (continued)

5- Incorporation of forward looking information (continued)

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by the Bank:

	December 31, 2021				
	Due from Banks and other financial institutions	Investments	Loans and advances	Commitments and contingencies	Total
Most likely (Base case)	4,205	13,817	2,352,487	162,503	2,533,012
More optimistic (Upside)	3,984	12,572	2,302,116	159,917	2,478,589
More pessimistic (Downside)	7,170	37,172	3,121,870	206,456	3,372,668

	December 31, 2020				
	Due from Banks and other financial institutions	Investments	Loans and advances	Commitments and contingencies	Total
Most likely (Base case)	6,817	12,241	3,399,054	220,709	3,638,821
More optimistic (Upside)	6,155	10,618	3,284,857	214,642	3,516,272
More pessimistic (Downside)	10,643	32,199	4,218,311	264,882	4,526,035

6- Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD);
3. Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

32. Credit Risk (continued)

■ Credit quality analysis (continued)

c- Amounts arising from ECL - Significant increase in credit risk (continued)

6- Measurement of ECL (continued)

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral and recovery costs of any collateral that is integral to the financial asset. For secured retail loans, asset value / type is a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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 Bank 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 Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank'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 Bank can cancel them with immediate effect, however this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of significant increase in credit risk at the facility level, prompting such action. This longer period is estimated considering the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

c- Amounts arising from ECL - Significant increase in credit risk (continued)

6- Measurement of ECL (continued)

Sensitivity of ECL allowance:

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgements applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the yearend:

Assumptions sensitised	Statement of Income Impact 2021	Statement of Income Impact 2020
Changes in Macro-economic factors while other assumptions kept constant:		
Decrease in Oil price by 1%	6,871	8,077
Decrease in GDP by 1%	13,161	12,618
Decrease in Tadawul all shares index by 1%	3,282	4,113
Scenario weightages:		
Base scenario sensitised by - 5% with corresponding change in downside	41,983	44,361
Base scenario increases by + 5% with corresponding change in upside	2,721	6,127

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

■ Credit quality analysis (continued)

d. Aging of loans and advances (past due but not impaired)

	2021			
	Credit cards	Consumer loans	Commercial loans, overdrafts and others	Total
Past due (1 – 30) days	16,613	691,891	221,820	930,324
Past due (31 – 60) days	3,119	114,574	172,796	290,489
Past due (61 – 90) days	1,678	54,056	58,156	113,890
Past due (91 – 180) days	–	–	138,459	138,459
Above 180 days	–	–	710,331	710,331
Total	21,410	860,521	1,301,562	2,183,493

	2020			
	Credit cards	Consumer loans	Commercial loans, overdrafts and others	Total
Past due (1 – 30) days	15,557	655,594	101,934	773,085
Past due (31 – 60) days	2,547	125,905	198,496	326,948
Past due (61 – 90) days	1,713	58,159	8,858	68,730
Past due (91 – 180) days	–	–	229,289	229,289
Above 180 days	–	–	448,600	448,600
Total	19,817	839,658	987,177	1,846,652

e. Collateral

In the ordinary course of lending activities, the Bank hold collaterals as security to mitigate credit risk. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial loans and are managed against relevant exposures at their net realisable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

December 31, 2021 and 2020 (Amounts in SAR '000)

32. Credit Risk (continued)

■ Credit quality analysis (continued)

e. Collateral (continued)

The Bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements. The collateral for commercial and corporate loans is as follows:

	2021	2020
Nature of collateral held as security		
Listed securities	38,444,233	25,906,859
Properties	26,140,124	26,811,643
Others	8,678,716	7,442,752
Total	73,263,073	60,161,254

33. Concentration risk of financial assets with credit risk exposure and financial liabilities

a) Geographical concentration

The bank's main credit exposure by geographical region is as follows:

	2021							
	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
■ Cash and balances with SAMA								
Cash in hand	1,249,418	–	2,313	–	–	–	–	1,251,731
Balances with SAMA	9,889,706	–	–	–	–	–	–	9,889,706
■ Due from banks and other financial								
Current accounts	–	123,933	233,338	527,114	–	85,242	332	969,959
Money market placements	–	750,747	562,494	–	–	–	–	1,313,241

December 31, 2021 and 2020 (Amounts in SAR '000)

(continued)

	2021							
	Saudi Arabia	Other GCC & Middle East	Europe	North America	North America	South East Asia	Other countries	Total
Assets								
■ Investments, net								
Held as FVSI	153,766	29,990	114	2,908	–	–	426,951	613,729
Held as FVOCI	3,093,423	310,915	404	–	–	–	–	3,404,742
Held at amortised cost	40,115,527	34,180	–	–	–	–	–	40,149,707
■ Positive fair value of derivatives								
Held for trading	184,439	2,545	197,112	549,574	–	–	–	933,670
Held as fair value hedges	110	–	33,705	–	–	–	–	33,815
■ Loans and advances, net								
Overdraft	2,788,720	–	63,865	–	–	–	15	2,852,600
Credit cards	467,196	–	–	–	–	–	–	467,196
Consumer loans	32,653,250	–	108	–	–	–	–	32,653,358
Commercial loans and others	88,293,703	497,983	1,848,251	–	–	–	61,014	90,700,951
■ Other assets								
Accounts receivable	3,599,997	–	418	–	–	–	–	3,600,415
Total assets	182,489,255	1,750,293	2,942,122	1,079,596	–	85,242	488,312	188,834,820
Liabilities								
■ Due to banks, SAMA and other financial institutions								
Current accounts	–	74,670	1,133	3,926	–	387	–	80,116
Money market deposits & commission free deposits from SAMA	13,382,866	597,494	146,632	–	–	–	–	14,126,992
■ Customers' deposits								
Demand	76,767,957	179,620	34,427	–	–	289	24,217	77,006,510
Time	51,631,524	1,495	19,667	–	–	–	4,964	51,657,650
Saving	283,681	–	–	–	–	–	–	283,681
Other	6,766,044	–	–	–	–	–	–	6,766,044
■ Negative fair value of derivatives								
Held for trading	18,732	10,594	384,597	466,017	–	–	–	879,940
Held as fair value hedges	466	671	785,332	550,804	–	–	–	1,337,273

December 31, 2021 and 2020 (Amounts in SAR '000)

(continued)

	2021							
	Saudi Arabia	Other GCC & Middle East	Europe	North America	North America	South East Asia	Other countries	Total
Other liabilities								
Accrued expenses and accounts	5,347,701	–	2,307	–	–	–	–	5,350,008
Sukuk	2,829,100	–	–	–	–	–	–	2,829,100
Total liabilities	157,028,071	864,544	1,374,095	1,020,747	–	676	29,181	160,317,314
Commitments and contingencies								
Letters of credit	2,386,612	667,743	833,331	5,948	7,893	1,215,611	–	5,117,138
Letters of guarantee	14,097,121	697,277	1,325,627	500	–	744,375	–	16,864,900
Acceptances	261,603	13,622	58,333	469,165	–	24,593	–	827,316
Irrevocable commitments to extend	2,789,493	112,915	–	–	–	–	–	2,902,408
Other	13,500	–	–	–	–	–	–	13,500
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	424,870	32,803	2,180,473	–	–	–	397,048	3,035,194
Held as fair value hedges	9,105	–	921,879	–	–	–	–	930,984
Commitments and contingencies								
Letters of credit	4,372,439	9,215	–	–	–	–	18	4,381,672
Letters of guarantee	8,981,169	736,424	382,966	250	–	55,535	150,943	10,307,287
Acceptances	827,316	–	–	–	–	–	–	827,316
Irrevocable commitments to extend	1,264,310	–	–	–	–	–	–	1,264,310
Other	–	–	–	–	–	–	–	–

December 31, 2021 and 2020 (Amounts in SAR ‘000)

(continued)

	2020							
	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
■ Cash and balances with SAMA								
Cash in hand	1,357,816	–	784	–	–	–	–	1,358,600
Balances with SAMA	11,274,739	–	–	–	–	–	–	11,274,739
■ Due from banks and other financial institutions								
Current accounts	–	92,061	95,535	585,418	–	306,309	1,911	1,081,234
Money market placements	–	750	–	–	–	–	–	750
■ Investments, net								
Held as FVSI	188,343	–	179	2,643	–	–	367,250	558,415
Held as FVOCI	3,697,987	252,975	437	–	–	–	–	3,951,399
Held at amortised cost	39,265,061	–	–	–	–	–	–	39,265,061
■ Positive fair value of derivatives								
Held for trading	296,109	5,796	134,344	543,259	–	–	–	979,508
Held as fair value hedges	–	–	15,320	–	–	–	–	15,320
■ Loans and advances, net								
Overdraft	2,537,255	–	33,648	–	–	–	1,690	2,572,593
Credit cards	355,415	–	–	–	–	–	–	355,415
Consumer loans	28,846,384	–	149	–	–	–	–	28,846,533
Commercial loans and others	79,169,821	560,730	1,765,788	–	–	–	91,733	81,588,072
■ Other assets								
Accounts receivable	4,614,003	–	–	–	–	–	–	4,614,003
Total assets	171,602,933	912,312	2,046,184	1,131,320	–	306,309	462,584	176,461,642
Liabilities								
■ Due to banks, SAMA and other financial institutions								
Current accounts	–	83,338	1,411	18,165	–	908	–	103,822
Money market deposits & commission free deposits from SAMA	8,823,993	711,415	158,514	–	–	–	–	9,693,922

December 31, 2021 and 2020 (Amounts in SAR '000)

(continued)

	2020							
	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
■ Customers' deposits								
Demand	76,030,063	121,093	57,768	-	-	528	31,956	76,241,408
Time	47,117,625	1,514	82,205	-	-	-	3,966	47,205,310
Saving	219,031	-	-	-	-	-	-	219,031
Other	5,686,427	-	-	-	-	-	-	5,686,427
■ Negative fair value of derivatives								
Held for trading	33,846	4,256	429,297	457,891	-	-	-	925,290
Held as fair value hedges	27,763	14,145	1,362,516	1,117,191	-	-	-	2,521,615
■ Other liabilities								
Accrued expenses and accounts payable	4,068,841	-	2,750	-	-	-	-	4,071,591
Sukuk	2,829,654	-	-	-	-	-	-	2,829,654
Total liabilities	144,837,243	935,761	2,094,461	1,593,247	-	1,436	35,922	149,498,070
Commitments and contingencies								
Letters of credit	2,455,448	593,016	915,114	55,876	41,103	732,955	22	4,793,534
Letters of guarantee	14,678,966	684,566	1,301,882	6,041	-	578,851	-	17,250,306
Acceptances	337,410	110,458	494,982	149,386	-	820,150	-	1,912,386
Irrevocable commitments to extend credit	2,160,489	-	-	-	-	-	-	2,160,489
Other	16,102	-	-	-	-	-	-	16,102
Maximum credit exposure (stated at credit equivalent amounts)								
■ Derivatives								
Held for trading	546,810	46,740	1,664,241	-	-	-	537,234	2,795,025
Held as fair value hedges	1,288	296	881,099	-	-	-	-	882,683
■ Commitments and contingencies								
Letters of credit	4,038,559	8,342	-	-	-	-	-	4,046,901
Letters of guarantee	9,345,915	800,611	155,213	3,273	-	12,938	33,932	10,351,882
Acceptances	1,906,511	5,875	-	-	-	-	-	1,912,386
Irrevocable commitments to extend credit	1,016,695	-	-	-	-	-	-	1,016,695
Other	-	-	-	-	-	-	-	-

Credit equivalent amounts reflect the amounts that result from translating the Bank's off consolidated statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to commitments being exercised.

December 31, 2021 and 2020 (Amounts in SAR '000)

33. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

b) The distributions by geographical concentration of non-performing loans and advances and allowance for expected credit losses are as follows:

	2021							
	Non-Performing Loans, net				Allowance for expected credit losses			
	Overdraft	Credit cards	Consumer loans	Commercial loans and others	Overdraft	Credit cards	Consumer loans	Commercial loans and others
Saudi Arabia	12,060	7,185	61,591	2,110,800	110,072	56,746	370,582	2,576,057

	2020							
	Non-Performing Loans, net				Allowance for expected credit losses			
	Overdraft	Credit cards	Consumer loans	Commercial loans and others	Overdraft	Credit cards	Consumer loans	Commercial loans and others
Saudi Arabia	30,296	5,968	73,956	3,949,483	125,645	36,527	376,968	3,485,921

34. 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 Bank classifies exposures to market risk into either trading, non-trading or banking-book.

a) Market risk - Trading book

The Board has set limits for the acceptable level of risk in managing the trading book. To manage market risk in the trading book, the Bank periodically applies a VaR (Value at Risk) methodology to assess the market risk positions held and to estimate the potential economic loss based on a set of parameters and assumptions regarding changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses risk models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use thereof has limitations due to it being based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR that the bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held

34. Market risk (continued)

a) Market risk - Trading book (continued)

unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VaR should occur, on average, not more than once every hundred days.

The VaR represents the market risk in a portfolio at the close of a business day. It does not account for any losses that may occur beyond the defined confidence interval. Actual trading results can, however, differ from the VaR calculations. VaR does not provide a meaningful indication of profits and losses in stressed market conditions.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

1. A 1-day holding period assumes that it is possible to hedge or dispose of positions within a one day horizon. This is considered to be a realistic assumption in most cases but may not be true in situations where there is severe market liquidity for a prolonged period.
2. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed VaR.
3. VaR is calculated on an end of day basis and does not reflect exposures that may arise on positions during the trading day.
4. VaR is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of VaR are recognised by supplementing the VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank carries out stress testing on its trading book to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset and Liabilities Committee (ALCO) for review.

34. Market risk (continued)

a) Market risk - Trading book (continued)

The bank's calculated VAR for the years ended December 31, 2021 and 2020 is as follows. All the figures are in SAR million:

	2021				2020			
	Year-end	Average	High	Low	Year-end	Average	High	Low
Special commission rate risk	0.7193	1.4167	7.0151	0.0029	0.3306	0.3397	4.0519	0.0062
Foreign exchange risk	0.2292	0.3448	1.5770	0.0980	0.8109	0.7941	2.5953	0.2122
Diversification effect *	(0.2387)	(0.2841)	**	**	(0.1817)	(0.2621)	**	**
Total VaR (one day measure)	0.7098	1.4774	7.0394	0.0338	0.9598	0.8717	4.0948	0.1162

* Total VaR is less than the sum of the VaR of the different market risk types due to risk offsets resulting from a portfolio diversification effect.

** It is not meaningful to compute a diversification effect because the high and low may occur on different days for different risk types.

b) Market risk: non-trading or banking book

Market risk on non-trading or banking positions mainly arises from commission rate and foreign currency exposures and equity price changes.

1 - 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 financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure positions are maintained within the established gap limits.

The following table shows the sensitivity of the Group's consolidated statement of income and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impact of assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at year end, after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate FVOCI / AFS financial assets, including the effect of any associated hedges as at December 31, 2021 and 2020, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SAR million.

December 31, 2021 and 2020 (Amounts in SAR '000)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

1 - Commission rate risk (continued)

2021

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity: 6 months or less	Sensitivity of equity: 1 year or less	Sensitivity of equity: 1 - 5 years or less	Sensitivity of equity: Over 5 years	Total
SAR	+ 10	33.72	-	(0.03)	(0.05)	-	(0.08)
USD	+ 10	10.57	(0.06)	-	(0.56)	-	(0.62)
Other	+ 10	0.85	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity: 6 months or less	Sensitivity of equity: 1 year or less	Sensitivity of equity: 1 - 5 years or less	Sensitivity of equity: Over 5 years	Total
SAR	- 10	(33.72)	-	0.03	0.05	-	0.08
USD	- 10	(10.57)	0.06	-	0.56	-	0.62
Other	- 10	(0.85)	-	-	-	-	-

2020

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity: 6 months or less	Sensitivity of equity: 1 year or less	Sensitivity of equity: 1 - 5 years or less	Sensitivity of equity: Over 5 years	Total
SAR	+ 10	32.37	-	-	(0.07)	(0.01)	(0.08)
USD	+ 10	15.64	-	-	(0.43)	0.15	(0.28)
Other	+ 10	0.68	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity: 6 months or less	Sensitivity of equity: 1 year or less	Sensitivity of equity: 1 - 5 years or less	Sensitivity of equity: Over 5 years	Total
SAR	- 10	(32.37)	-	-	0.07	0.01	0.08
USD	- 10	(15.64)	-	-	0.43	(0.15)	0.28
Other	- 10	(0.68)	-	-	-	-	-

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

1 - Commission rate risk (continued)

■ Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarises the Group's exposure to commission rate risk. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual re- pricing or maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities and derivatives, credit related commitment and contingencies that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

December 31, 2021 and 2020 (Amounts in SAR '000)

34. Market risk (continued)

1 - Commission rate risk (continued)

■ Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

	2021					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	2,697,963	-	-	-	8,443,474	11,141,437
Due from banks and other financial institutions	1,313,241	-	-	-	969,959	2,283,200
Positive fair value derivatives	88,951	174,388	133,426	570,720	-	967,485
■ Investments, net						
Held as FVSI	-	-	31,417	-	582,312	613,729
Held as FVOCI	356,593	275,960	78,748	277,549	2,415,892	3,404,742
Held at amortised cost	13,014,440	2,035,652	193,749	24,905,866	-	40,149,707
■ Loans and advances, net						
Overdrafts	2,852,600	-	-	-	-	2,852,600
Credit cards	467,196	-	-	-	-	467,196
Consumer loans	1,183,653	4,108,975	15,037,566	12,323,164	-	32,653,358
Commercial loans and others	57,400,162	28,642,699	4,223,712	434,378	-	90,700,951
■ Other assets						
Accounts receivable	-	-	-	-	3,600,415	3,600,415
Total assets	79,374,799	35,237,674	19,698,618	38,511,677	16,012,052	188,834,820
Liabilities						
Due to banks, SAMA and other financial institutions	10,170,500	-	3,956,492	-	80,116	14,207,108
Negative fair value derivatives	59,480	226,280	252,842	1,678,611	-	2,217,213
Customers' deposits	44,226,282	7,341,823	373,226	-	83,772,554	135,713,885
■ Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	5,350,008	5,350,008
Sukuk	-	-	2,829,100	-	-	2,829,100
Total liabilities	54,456,262	7,568,103	7,411,660	1,678,611	89,202,678	160,317,314
Commission rate sensitivity on financial assets and liabilities financial position gap	24,918,537	27,669,571	12,286,958	36,833,066	(73,190,626)	28,517,506
Commission rate sensitivity for derivative financial instruments	12,719,665	11,257,134	(678,440)	(23,298,359)	-	-
Total commission rate sensitivity gap	37,638,202	38,926,705	11,608,518	13,534,707	(73,190,626)	28,517,506
Cumulative commission rate sensitivity gap	37,638,202	76,564,907	88,173,425	101,708,132	28,517,506	-

December 31, 2021 and 2020 (Amounts in SAR '000)

34. Market risk (continued)

1 – Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

	2020					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	5,338,644	-	-	-	7,294,695	12,633,339
Due from banks and other financial institutions	750	-	-	-	1,081,234	1,081,984
Positive fair value derivatives	38,619	42,240	305,671	608,298	-	994,828
■ Investments, net						
Held as FVSI	-	-	-	-	558,415	558,415
Held as FVOCI	273,672	280,510	281,097	1,017,657	2,098,463	3,951,399
Held at amortised cost	11,825,326	2,725,310	2,244,256	22,470,169	-	39,265,061
■ Loans and advances, net						
Overdrafts	2,572,593	-	-	-	-	2,572,593
Credit cards	355,415	-	-	-	-	355,415
Consumer loans	1,926,362	4,011,748	13,726,149	9,182,274	-	28,846,533
Commercial loans and others	54,769,512	23,170,151	3,552,800	95,609	-	81,588,072
■ Other assets						
Accounts receivable	-	-	-	-	4,614,003	4,614,003
Total assets	77,100,893	30,229,959	20,109,973	33,374,007	15,646,810	176,461,642

	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non commission bearing	Total
Liabilities						
Due to banks, SAMA and other financial institutions	870,045	4,024,570	4,799,307	-	103,822	9,797,744
Negative fair value derivatives	56,492	32,191	807,922	2,550,300	-	3,446,905
Customers' deposits	35,520,016	12,577,220	8,921	-	81,246,019	129,352,176
■ Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,071,591	4,071,591
Sukuk	-	-	2,829,654	-	-	2,829,654
Total liabilities	36,446,553	16,633,981	8,445,804	2,550,300	85,421,432	149,498,070
Commission rate sensitivity on financial assets and liabilities financial position gap	40,654,340	13,595,978	11,664,169	30,823,707	(69,774,622)	26,963,572
Commission rate sensitivity for derivative financial instruments	13,813,992	8,390,030	(4,264,661)	(17,939,361)	-	-
Total commission rate sensitivity gap	54,468,332	21,986,008	7,399,508	12,884,346	(69,774,622)	26,963,572
Cumulative commission rate sensitivity gap	54,468,332	76,454,340	83,853,848	96,738,194	26,963,572	-

34. Market risk (continued)

1 – Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

The off consolidated statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

2 – Currency risk

Currency risk represents the risk of changes in the value of financial instruments due to changes in foreign exchange rates. Foreign currency risk exposures that arise in the banking book are transferred to the trading book and are managed as part of the trading portfolio. The Board sets various types of currency risk limits that are monitored daily, including position, stop-loss and VaR limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR with all other variables held constant, on the consolidated statement of income (due to changes in fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to changes in fair values of currency swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity whereas, a negative effect shows a potential net reduction in the consolidated statement of income or equity, and are disclosed in SAR million.

	2021		2020	
Currency risk exposures	Changes in currency rate in %	Effect on net income	Changes in currency rate in %	Effect on net income
US Dollar	+ 5	38.525	+ 5	8.399
	- 5	(38.525)	- 5	(8.399)
Euro	+ 3	0.004	+ 3	(0.005)
	- 3	(0.004)	- 3	0.005
Pound Sterling	+ 3	(0.266)	+ 3	(0.110)
	- 3	0.266	- 3	0.110

34. Market risk (continued)

3 - Currency position

The Bank manages exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. These limits are monitored daily.

At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	Long (short) 2021	Long (short) 2020
US Dollar	770,502	167,982
Euro	145	(162)
Pound Sterling	(8,858)	(3,668)

4 - Equity price risk

Equity price risk refers to the risk of a decrease in the fair values of equities in the non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's FVOCI / available for sale equity investments due to reasonable possible change in equity indices, with all other variables held constant is as follows:

	2021		2020	
Market indices	Change in index %	Effect in SAR'000	Change in index %	Effect in SAR'000
Tadawul	+ 5	120,730	+ 5	104,857
	- 5	(120,730)	- 5	(104,857)

35. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up suddenly. To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind and maintains a healthy balance of cash, cash equivalents and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2020: 7%) of total demand deposits and 4% (2020: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets that can be converted into cash within 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

1- Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting 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 the Group could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

December 31, 2021 and 2020 (Amounts in SAR '000)

35. Liquidity risk (continued)

1- Analysis of undiscounted financial liabilities by remaining contractual maturities (continued)

	2021					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed Maturity	Total
Financial liabilities						
Due to banks, SAMA and other financial institutions	8,448,639	432,975	5,260,553	-	80,116	14,222,283
Customers' deposits	44,117,389	7,997,702	474,029	-	83,361,739	135,950,859
■ Derivative financial instruments						
Contractual amounts payable	173,141	645,603	2,565,448	3,465,389	-	6,849,581
Contractual amounts receivable	(58,271)	(361,082)	(2,016,395)	(3,173,423)	-	(5,609,171)
Sukuk	16,630	76,914	374,175	3,187,195	-	3,654,914
■ Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	5,350,008	5,350,008
Total financial liabilities	52,697,528	8,792,112	6,657,810	3,479,161	88,791,863	160,418,474

	2020					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed Maturity	Total
Financial liabilities						
Due to banks, SAMA and other financial institutions	974,053	3,916,028	4,862,979	-	103,822	9,856,882
Customers' deposits	35,233,251	12,790,611	166,618	-	81,246,019	129,436,499
■ Derivative financial instruments						
Contractual amounts payable	173,902	577,648	2,211,849	2,756,640	-	5,720,039
Contractual amounts receivable	(58,698)	(195,831)	(744,253)	(2,160,802)	-	(3,159,584)
Sukuk	16,630	78,213	379,632	3,239,683	-	3,714,158
■ Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,071,591	4,071,591
Total financial liabilities	36,339,138	17,166,669	6,876,825	3,835,521	85,421,432	149,639,585

35. Liquidity risk (continued)

2 – Maturity profile of Bank’s financial assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See note (i) above for the Bank's contractual undiscounted financial liabilities.

Management monitors the 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 ALCO. Daily reports cover the liquidity position of the Bank, operating subsidiaries and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

December 31, 2021 and 2020 (Amounts in SAR '000)

35. Liquidity risk (continued)

2 – Maturity profile of Bank's financial assets and liabilities (continued)

	2021					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed Maturity	Total
Assets						
Cash and balances with SAMA	3,962,312	-	-	-	7,179,125	11,141,437
Due from banks and other financial institutions	1,313,241	-	-	-	969,959	2,283,200
Positive fair value of derivatives	88,951	174,388	133,426	570,720	-	967,485
■ Investments, net						
Held as FVSI	-	-	31,417	-	582,312	613,729
Held as FVOCI	83,894	121,731	465,369	317,856	2,415,892	3,404,742
Held at amortised cost	1,017,273	1,214,738	11,191,561	26,726,135	-	40,149,707
■ Loans and advances, net						
Overdraft	2,852,600	-	-	-	-	2,852,600
Credit cards	467,196	-	-	-	-	467,196
Consumer loans	1,209,494	3,997,265	14,978,123	12,468,476	-	32,653,358
Commercial loans and others	35,499,613	27,909,298	18,525,083	8,766,957	-	90,700,951
Other assets - Accounts receivable	-	-	-	-	3,600,415	3,600,415
Total assets	46,494,574	33,417,420	45,324,979	48,850,144	14,747,703	188,834,820

Liabilities						
Due to banks, SAMA and other financial institutions	8,543,462	430,000	5,153,530	-	80,116	14,207,108
Negative fair value of derivatives	59,480	226,280	252,842	1,678,611	-	2,217,213
Customers' deposits	44,136,905	7,902,172	313,069	-	83,361,739	135,713,885
■ Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	5,350,008	5,350,008
Sukuk	-	-	-	2,829,100	-	2,829,100
Total liabilities	52,739,847	8,558,452	5,719,441	4,507,711	88,791,863	160,317,314

December 31, 2021 and 2020 (Amounts in SAR '000)

35. Liquidity risk (continued)

2 – Maturity profile of Bank's financial assets and liabilities (continued)

	2020					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	5,338,644	-	-	-	7,294,695	12,633,339
Due from banks and other financial institutions	750	-	-	-	1,081,234	1,081,984
Positive fair value of derivatives	38,619	42,240	305,671	608,298	-	994,828
■ Investments, net						
Held as FVSI	-	-	-	-	558,415	558,415
Held as FVOCI	-	-	597,080	1,255,856	2,098,463	3,951,399
Held at amortised cost	-	342,658	4,581,635	34,340,768	-	39,265,061
■ Loans and advances, net						
Overdraft	2,572,593	-	-	-	-	2,572,593
Credit cards	355,415	-	-	-	-	355,415
Consumer loans	1,717,791	3,953,793	13,615,817	9,559,132	-	28,846,533
Commercial loans and others	36,625,816	18,593,249	17,498,970	8,870,037	-	81,588,072
Other assets - Accounts receivable	-	-	-	-	4,614,003	4,614,003
Total assets	46,649,628	22,931,940	36,599,173	54,634,091	15,646,810	176,461,642
Liabilities						
Due to banks, SAMA and other financial institutions	869,920	4,039,699	4,784,303	-	103,822	9,797,744
Negative fair value of derivatives	56,492	32,191	807,922	2,550,300	-	3,446,905
Customers' deposits	35,577,256	12,519,870	9,031	-	81,246,019	129,352,176
■ Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,071,591	4,051,591
Sukuk	-	16,890	-	2,812,764	-	2,829,654
Total liabilities	36,503,668	16,608,650	5,601,256	5,363,064	85,421,432	149,498,070

36. Fair values of financial assets and liabilities

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 in either:

a. The accessible principal market for the asset or liability; or
b. The absence of a principal market, in the most advantageous accessible market for the asset or liability.

The fair values of on-consolidated statement of financial position financial instruments are not significantly different from their carrying amounts included in the consolidated financial statements.

Determination of fair value and fair value hierarchy

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

- **Level 1:**
  quoted prices in active markets for the same instrument (i.e., without modification or repacking);
- **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 inputs are not based on observable market data.

a - Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. It does not include the fair value hierarchy information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

December 31, 2021 and 2020 (Amounts in SAR '000)

36. Fair values of financial assets and liabilities (continued)

a – Carrying amounts and fair value (continued)

Financial assets

	December 31, 2021				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Total
Financial assets measured at fair value					
Investments at FVSI	613,729	-	31,417	582,312	613,729
Investments at FVOCI	3,404,742	2,415,892	988,850	-	3,404,742
Positive fair value of derivatives	967,485	-	967,485	-	967,485
Financial assets not measured at fair value					
Investments at amortised cost	40,149,707	-	40,838,133	-	40,838,133
Loans and advances	126,674,105	-	-	131,343,981	131,343,981

	December 31, 2020				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Total
Financial assets measured at fair value					
Investments at FVSI	558,415	-	185,418	372,997	558,415
Investments at FVOCI	3,951,399	2,097,133	1,853,373	893	3,951,399
Positive fair value of derivatives	994,828	-	994,828	-	994,828
Financial assets not measured at fair value					
Investments at amortised cost	39,265,061	-	41,522,238	-	41,522,238
Loans and advances	113,362,613	-	-	119,841,435	119,841,435

December 31, 2021 and 2020 (Amounts in SAR '000)

36. Fair values of financial assets and liabilities (continued)

a – Carrying amounts and fair value (continued)

Financial Liabilities

	December 31, 2021				
		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	2,217,213	-	2,217,213	-	2,217,213
Financial liabilities not measured at fair value					
Sukuk	2,829,100	-	-	2,829,100	2,829,100

	December 31, 2020				
		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	3,446,905	-	3,446,905	-	3,446,905
Financial liabilities not measured at fair value					
Sukuk	2,829,654	-	-	2,829,654	2,829,654

b – Measurement of fair values

1 – Transfer between levels of the fair value hierarchy

There have been no transfers between levels of the fair value hierarchy during the years ended December 31, 2021 and 2020.

December 31, 2021 and 2020 (Amounts in SAR '000)

36. Fair values of financial assets and liabilities (continued)

b - Measurement of fair values (continued)

2- Level 3 fair values (continued)

- **Reconciliation of Level 3 fair values** (continued)

The following table shows the movement of Level 3 fair values for the year:

	2021		2020	
	Investments at FVSI	Investments at FVOCI	Investments at FVSI	Investments at FVOCI
Balance at the beginning of the year	372,997	893	487,000	893
Total unrealised gain/ (loss) in consolidated statement of income	64,746	-	(115,147)	-
Settlements/ adjustments	144,569	(893)	1,144	-
Balance at the end of the year	582,312	-	372,997	893

3 - Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at December 31, 2021 and 2020, as well as the significant unobservable inputs used.

Type	FVSI investments
Valuation technique	Fair value is determined based on the investee fund's most recent reported net assets value.
Significant unobservable inputs	None
Inter-relationship between significant unobservable inputs and fair value measurement	Not applicable

Type	FVOCI investments classified as Level 2 include plain vanilla bonds for which market quotes are not available.
Valuation technique	Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.
Significant unobservable inputs	None
Inter-relationship between significant unobservable inputs and fair value measurement	Not applicable

36. Fair values of financial assets and liabilities (continued)

b - Measurement of fair values (continued)

3- Valuation technique and significant unobservable inputs (continued)

Type	FVOCI investments classified as Level 3 include Private Equity Funds
Valuation technique	Fair value is determined based on the fund's most recent reported net assets value.
Significant unobservable inputs	None
Inter-relationship between significant unobservable inputs and fair value measurement	Not applicable

Type	Derivatives classified as Level 2 are comprised of over the counter special commission rate swaps, cross currency swaps, special commission rate futures and options, forward foreign exchange contracts, currency and commodity options and other derivative financial instruments
Valuation technique	These instruments are fair valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs on these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.
Significant unobservable inputs	None
Inter-relationship between significant unobservable inputs and fair value measurement	Not applicable

Type	Financial assets and liabilities that are disclosed at fair value and classified as Level 2 include investments held at amortised cost.
Valuation technique	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.
Significant unobservable inputs	Additional buffer is added to account for any potential model discrepancy or any stressed market conditions.
Inter-relationship between significant unobservable inputs and fair value measurement	Not applicable

December 31, 2021 and 2020 (Amounts in SAR '000)

36. Fair values of financial assets and liabilities (continued)

b - Measurement of fair values (continued)

3- Valuation technique and significant unobservable inputs (continued)

Type	Financial assets and liabilities that are disclosed at fair value and classified as Level 3 include loans and advances and debt issuances.
Valuation technique	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.
Significant unobservable inputs	Additional buffer is added to the credit spreads to account for any potential model discrepancy or any stressed market conditions.
Inter-relationship between significant unobservable inputs and fair value measurement	The higher the credit spread, the lower is the valuation; vice versa.

37. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board, the related party transactions are performed on an arm's length basis. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

a- The balances as at December 31 resulting from transactions with related parties included in the consolidated financial statements are as follows:

	2021	2020
Non-Saudi Major Shareholder and their Affiliates:		
Due from banks and other financial institutions	25,704	28,673
Due to banks and other financial institutions	511,741	600,828
Commitments and contingencies	1,267,455	1,402,699
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	7,171,980	5,912,293
Customers' deposits	16,774,040	6,875,297
Commitments and contingencies	1,951,214	1,732,474

December 31, 2021 and 2020 (Amounts in SAR '000)

37. Related party transactions (continued)

	2021	2020
Bank's mutual funds and others:		
Investments	211,231	266,201
Loans and advances	1,644,040	1,228,678
Customers' deposits	660,075	410,899
Associates:		
Investments in associates	1,155,655	1,289,732
Loans and advances	3,405,325	3,211,099
Customers' deposits	153,848	16,508
Commitments and contingencies	30,000	100

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

b- Income and expense transactions with related parties included in these consolidated financial statements are as follows:

	2021	2020
Special commission income	302,392	389,474
Special commission expense	(118,916)	(266,521)
Fees and commission income	67,476	60,250
Gain on disposal of investment in an associate	8,019	15,217
Share in earnings of associates, net	84,921	49,562
Directors' remuneration	(6,917)	(6,709)
Miscellaneous expenses	(48,535)	(50,298)
Insurance contracts	(53,104)	(31,690)

c- The total amount of compensation paid to key management personnel during the year is as follows:

	2021	2020
Short-term employee benefits (Salaries and allowances)	62,385	61,830
Post-employment benefits (End of service indemnity and social security)	7,468	7,376

Key management personnel are those persons, including an executive director, having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Bank.

December 31, 2021 and 2020 (Amounts in SAR '000)

38. Capital Adequacy

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA maintain a strong capital base, to safeguard the Group's ability to continue as a going concern. During the year, the Group has fully complied with regulatory capital requirements.

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 amount of derivatives at a weighted amount to reflect their relative risk.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective starting January 1, 2013. Accordingly, the Group's Pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios are as follows:

	2021	2020
Credit Risk RWA	147,861,398	140,270,140
Operational Risk RWA	14,504,194	14,022,208
Market Risk RWA	1,639,885	1,120,163
Total Pillar I RWA	164,005,477	155,412,511
Tier I Capital	31,002,690	30,285,615
Tier II Capital	4,017,642	3,953,227
Total Tier I & II Capital	35,020,332	34,238,842
Capital Adequacy Ratio %		
Tier I ratio	18.90 %	19.49 %
Tier I + Tier II ratio	21.35 %	22.03 %

The increase in regulatory capital for the year is mainly due to the contribution of current-year profit.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by SAMA in supervising the Bank.

39. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 5,990 million (2020: SAR 6,398 million).

The financial statements of these funds are not consolidated with these consolidated financial statements, as the Group is not significantly exposed to variability of return and hence do not qualify to be considered as a subsidiary.

However, the Group's share of these non-consolidated funds is included in FVSI 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 these consolidated financial statements.

40. IBOR Transition (Interest Rate Benchmark Reforms)

A fundamental review and reform of major profit rate benchmarks are being undertaken globally. The IASB has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk-Free Rate ("RFR").

The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective interest rate, resulting in no immediate statement of income impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.
- The Group has exposure to IBOR rates that are subject to reform through [its issuance of sukuk, the structural profit rate position, holdings of investment securities, and products denominated in foreign currencies and, where applicable, associated hedging]

The Group however, has an insignificant number of contracts that reference GBP LIBOR and extend beyond 2021, including swaps that will transition under ISDA protocols.

40. IBOR Transition (Interest Rate Benchmark Reforms) (continued)

During 2019 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's GBP LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference GBP LIBOR to transition them to SONIA, with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible finance losses.

This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at 30 June 2020, changes required to systems, processes and models have been identified. Specific changes to contracts required by LIBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of GBP LIBOR are: updating systems and processes which capture GBP LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and loans transitions from GBP LIBOR and the resulting impact on economic risk management; and updating hedge designations. The Group continues to engage with industry participants, to ensure an orderly transition to SONIA and to minimize the risks arising from transition, and it will continue to identify and assess risks associated with GBP LIBOR replacement.

41. Impact of Covid-19 on Expected Credit Losses ("ECL") and SAMA programs

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

December 31, 2021 and 2020 (Amounts in SAR ‘000)

41. Impact of Covid-19 on Expected Credit Losses (“ECL”) and SAMA programs (continued)

The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting a review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and takingappropriatecustomercreditratingact ionsandinitiatingrestructuringofloans,whererequired. TheGroup has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models.

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.

Private Sector Financing Support Program (“PSFSP”)

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. As part of this program and with further extensions up to March 2022, the Group deferred payments and extended maturities on lending facilities to all eligible MSMEs as follows:

Support Programs	Instalment deferred/ tenor extended (SAR ’billion)	Cost of deferral/ extension (SAR ‘million)
April 2020 – December 2020	5.7	184.4
January 2021 – March 2021	5.2	56.6
April 2021 – June 2021	4.7	219.3
July 2021 – September 2021	0.75	14.2
October 2021 – December 2021	0.79	15.5
January 2021 – March 2022	0.44	18.5

41. Impact of Covid-19 on Expected Credit Losses ("ECL") and SAMA programs (continued)

▪ Private Sector Financing Support Program ("PSFSP") (continued)

The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. Since July 2021 this support only applied to those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement..

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed an assessment with respect to SICR and concluded that no further overlay was required.

In order to compensate the related cost that the Group has incurred under the SAMA and other public authorities' programs, during the years 2021 and 2020, the Group has received multiple profit free deposits from SAMA amounting to SAR 5.04 billion with varying maturities. These deposits qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for in line with the Group's grant income accounting policy. Management has exercised its judgement in the recognition and measurement of this grant income. By the end of 2021, total income of SAR 502.4 million has been recognised in the statement of income. Grant income amounting to SAR 9.9 million arose on the profit free deposit amounting to SAR 4.7 billion received during the year ended December 31, 2021. During the year ended December 31, 2021, a total of SAR 261.2 million (December 31, 2020: SAR 184.4 million) was recognised in the statement of income with respect to related deposits with no deferred grant income as at December 31, 2021 (December 31, 2020: SAR 236.7 million).

The Group participated in SAMA's facility guarantee programs and the accounting impact for the year is immaterial.

During the year the Group recognised reimbursements amounting to SAR 45.3 million from SAMA for the forgone POS and e-commerce service fees (December 31, 2020: SAR 13.5 million).

42. Comparative figures

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

43. Board of directors' approval

The consolidated financial statements were approved by the Board on 22 Rajab, 1443 (corresponding to February 23, 2022).


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