AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND THE INDEPENDENT AUDITORS' REPORT
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2021

Building a better working world

Ernst & Young Professional Services

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

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

Key Audit Matters

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

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Expected credit loss allowance against financing</td></tr>
<tr><td>
As at 31 December 2021, the Group's gross financing amounted to SAR 462,028.8 million (2020: SAR 323,183.5 million), against which an expected credit loss ("ECL") allowance of SAR 9,198.2 million (2020: SAR 7,471.4 million) was recorded.
We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgment, and this has a material impact on the consolidated financial statements of the Group. Furthermore, the COVID-19 pandemic continues to pose challenges to businesss, thus increasing the levels of judgment and uncertainty needed to determine the ECL under the requirements of IFRS 9 – Financial Instruments ("IFRS 9"). The key areas of judgment include:
1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of:
(a) exposures that have a significant increase in credit risk ("SICR") since their origination; and
(b) individually impaired / defaulted exposures.
The Group has applied additional judgments to identify and estimate the likelihood of borrowers experiencing SICR, notwithstanding the government support programs that resulted in deferral of instalments to certain segments of counterparties. These deferrals were not deemed to have triggered SICR by themselves in isolation of other factors.
</td><td>
• We obtained and updated our understanding of management's assessment of the ECL allowance in respect of financing, including the Group's internal rating model, accounting policy and methodology, as well as any key changes made during the year.
• We compared the Group's accounting policy and methodology for ECL allowance with the requirements of IFRS 9.
• We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) in relation to:
o the ECL model (including governance over the model; its validation during the year; any model updates performed during the year; and approval of the key inputs, assumptions and post model overlays, if any);
o the classification of financing into Stages 1, 2 and 3 and timely identification of SICR, and the determination of default / individually impaired exposures;
o the IT systems and applications supporting the ECL model; and
o the data inputs into the ECL model.
• For a sample of customers, we assessed:
o the internal ratings determined by management based on the Group's internal models, and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the continued impacts of the COVID-19 pandemic; and also assessed that these were consistent with the ratings used as inputs in the ECL model;
o management's computations for ECL; and
o for selected financings, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.
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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against financing (continued)	
2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including, but not limited to, assessment of the financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages. 3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors, especially relating to the ongoing COVID-19 pandemic, that might not have been captured by the ECL model. The application of these judgments, particularly in the context of the COVID-19 pandemic, continues to result in heightened estimation uncertainty around ECL calculations, and therefore affected the associated audit risk thereon as at 31 December 2021. *Refer to the summary of significant accounting policy note 3f)(5) for the impairment of financial assets; note 2d)i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7-2 which contains the disclosure of impairment against financing; note 27-1a) for details of credit quality analysis and key assumptions and factors considered in determination of ECL; and note 39 for impact of the COVID-19 pandemic on ECL.*	• We assessed the appropriateness of the Group's criteria for the determination of SICR and default, the identification of individually impaired exposures; and the resultant staging classifications. Furthermore, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification of financing facilities with a specific focus on customers operating in sectors most affected by the COVID-19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the relevant Saudi Central Bank ("SAMA") circulars setting out the definition criteria as at 31 December 2021. • We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the outputs from the ECL model, due to data or model limitations or otherwise. • We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic. • We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2021. • Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights; and of assumptions used in post model overlays. • We assessed the adequacy of the disclosures in the consolidated financial statements.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information included in the Group's 2021 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2021 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

Ernst & Young Professional Services

Rashid S. Roshod
Certified Public Accountant
License no. 366

KPMG Professional Services

Khalil Ibrahim Al Sedais
Certified Public Accountant
License no. 371

19 Rajab 1443 H
(20 February 2022)

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021 AND 2020

	Notes	(SAR'000) 2021	2020
ASSETS			
Cash and balances with Central Bank "SAMA" and other central banks	4	**40,363,449**	47,362,522
Due from banks and other financial institutions, net	5	**26,065,392**	28,654,842
Investments, net	6	**84,433,395**	60,285,272
Financing, net	7	**452,830,657**	315,712,101
Investment properties, net	9	**1,411,469**	1,541,211
Property and equipment, net	8	**10,665,799**	10,234,785
Other assets, net	10	**7,901,754**	5,033,990
TOTAL ASSETS		**623,671,915**	468,824,723
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**17,952,140**	10,764,061
Customers' deposits	12	**512,072,213**	382,631,003
Other liabilities	13	**26,338,711**	17,311,141
Total liabilities		**556,363,064**	410,706,205
Shareholders' equity			
Share capital	14	**25,000,000**	25,000,000
Statutory reserve	15	**25,000,000**	25,000,000
Other reserves	15	**309,394**	(134,728)
Retained earnings		**16,999,457**	8,253,246
Total shareholders' equity		**67,308,851**	58,118,518
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**623,671,915**	468,824,723

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
For the years ended 31 December 2021 and 2020

	Notes	(SAR'000) 2021	2020
INCOME			
Gross financing and investment income	17	**21,441,506**	17,377,963
Return on customers', banks' and financial institutions' time investments	17	**(1,049,570)**	(464,946)
Net financing and investment income	17	**20,391,936**	16,913,017
Fee from banking services, net	18	**3,933,107**	2,659,680
Exchange income, net		**787,898**	783,894
Other operating income, net	19	**603,457**	364,669
Total operating income		**25,716,398**	20,721,260
EXPENSES			
Salaries and employees' related benefits	20	**3,132,346**	2,977,344
Depreciation and amortization	8&9	**1,141,932**	1,118,148
Other general and administrative expenses	21	**2,652,244**	2,646,409
Operating expenses before credit impairment charge		**6,926,522**	6,741,901
Impairment charge for financing and other financial assets, net	7	**2,345,086**	2,165,740
Total operating expenses		**9,271,608**	8,907,641
Income for the year before Zakat		**16,444,790**	11,813,619
Zakat for the year	37	**(1,698,579)**	(1,218,071)
NET INCOME FOR THE YEAR		**14,746,211**	10,595,548
Basic and diluted earnings per share (in SAR)	22	**5.90**	4.24

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended 31 December 2021 and 2020

	Notes	(SAR'000) 2021	2020
Net income for the year		**14,746,211**	10,595,548
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods:			
Net change in fair value of investments held at fair value through other comprehensive income ("FVOCI")	15	**399,339**	254,222
Re-measurement of employees' end of service benefits liabilities ("ESOB")	15 & 25	**42,055**	(179,605)
Items that can be reclassified to consolidated statement of income in subsequent periods:			
Exchange difference on translating foreign operations	15	**(21,316)**	6,696
Share in OCI from associate	15	**24,044**	-
Total other comprehensive income		**444,122**	81,313
Total comprehensive income for the year		**15,190,333**	10,676,861

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended 31 December 2021 and 2020

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Balance at 31 December 2020		**25,000,000**	**25,000,000**	**(134,728)**	**8,253,246**	-	**58,118,518**
Net income for the year		-	-	-	**14,746,211**	-	**14,746,211**
Net change in fair value of FVOCI investments	15	-	-	**399,339**	-	-	**399,339**
Re-measurement of employee EOSB liabilities	15 & 25	-	-	**42,055**	-	-	**42,055**
Exchange difference on translation foreign operations	15	-	-	**(21,316)**	-	-	**(21,316)**
Share in OCI from associate	15	-	-	**24,044**	-	-	**24,044**
Net other comprehensive income recognized directly in shareholders' equity		-	-	**444,122**	-	-	**444,122**
Total comprehensive income for the year		-	-	**444,122**	**14,746,211**	-	**15,190,333**
Dividend for annual year 2020	23	-	-	-	**(2,500,000)**	-	**(2,500,000)**
Dividend for the first half of 2021	23	-	-	-	**(3,500,000)**	-	**(3,500,000)**
Balance at 31 December 2021		**25,000,000**	**25,000,000**	**309,394**	**16,999,457**	-	**67,308,851**

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Balance at 31 December 2019		25,000,000	21,789,632	(216,041)	868,066	3,750,000	51,191,657
Net income for the year		-	-	-	10,595,548	-	10,595,548
Net change in fair value of FVOCI investments	15	-	-	254,222	-	-	254,222
Re-measurement of employee EOSB liabilities	15 & 25	-	-	(179,605)	-	-	(179,605)
Exchange difference on translation foreign operations	15	-	-	6,696	-	-	6,696
Net other comprehensive income recognized directly in shareholders' equity		-	-	81,313	-	-	81,313
Total comprehensive income for the year		-	-	81,313	10,595,548	-	10,676,861
Transfer to statutory reserve		-	3,210,368	-	(3,210,368)	-	-
Dividend for the second half 2019	23	-	-	-	-	(3,750,000)	(3,750,000)
Balance at 31 December 2020		25,000,000	25,000,000	(134,728)	8,253,246	-	58,118,518

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman Chief Executive Officer Chief Financial Officer

	Notes	2021 (SAR'000)	2020 (SAR'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Zakat		**16,444,790**	11,813,619
Adjustments to reconcile net income to net cash from/ (used in) operating activities:			
Loss / (gain) on investments held at fair value through statement of income (FVSI)	19	**37,897**	(33,441)
Depreciation and amortization	8	**1,116,280**	1,080,171
Depreciation on investment properties	9	**25,652**	37,977
(Gain) on sale of property and equipment, net	19	**(47,511)**	(10,256)
Impairment charge for financing and other financial assets, net	7	**2,345,086**	2,165,740
Share in profit of an associate	19	**(32,030)**	(42,944)
(Increase) / decrease in operating assets			
Statutory deposit with SAMA and other central banks		**(5,343,990)**	(2,796,037)
Due from banks and other financial institutions		**4,345,399**	9,846,917
Financing		**(139,463,642)**	(68,195,037)
FVSI investments		**(585,805)**	(4,615,776)
Other assets, net		**(2,889,081)**	(609,530)
Increase/ (decrease) in operating liabilities			
Due to banks and other financial institutions		**7,188,079**	8,544,457
Customers' deposits		**129,441,210**	70,225,180
Other liabilities		**9,457,298**	(958,351)
Zakat paid	37	**(2,086,251)**	(2,032,674)
Net cash generated from operating activities		**19,953,381**	24,420,015
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(2,386,485)**	(945,685)
Proceeds from disposal of property and equipment		**886,701**	48,234
Purchase of FVOCI investments		**(2,342,405)**	(2,528,010)
Proceeds from disposal of FVOCI investments		**178,363**	163,231
Proceeds from maturities of investments held at amortized cost		**7,852,423**	23,898,760
Purchase of investments held at amortized cost		**(28,691,735)**	(29,548,322)
Net cash used in investing activities		**(24,503,138)**	(8,911,792)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	23	**(6,000,000)**	(3,750,000)
Payment against lease obligation		**(37,357)**	(42,261)
Net cash used in financing activities		**(6,037,357)**	(3,792,261)
Net (decrease) increase in cash and cash equivalents		**(10,587,114)**	11,715,962
Cash and cash equivalents at the beginning of the year		**32,827,361**	21,111,399
Cash and cash equivalents at end of the year	24	**22,240,247**	32,827,361
Gross financing and investment income received during the year		**21,446,997**	17,579,469
Return on customers', banks' and financial institutions' time investments paid during the year		**(417,115)**	(147,912)
		21,029,882	17,431,557
Non-cash transactions:			
Net change in fair value of FVOCI equity investments		**399,339**	254,222
Share in OCI from associate		**24,044**	-

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman

Chief Executive Officer

Chief Financial Officer

1. GENERAL

a) Incorporation and operation

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to 23 June 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
8467 King Fahd Road - Al Muruj Dist.
Unit No 1
Riyadh 12263 - 2743
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 574 branches (2020: 591) including the branches outside the Kingdom and 15,078 employees (2020: 13,716 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as the "Group") in which it owns all or majority of their shares as set out below (Also see note 3(b)):

Name of subsidiaries	**Shareholding %** **2021**	**Shareholding %** 2020	
Tuder Real Estate Company – KSA (formerly: Al Raji Real Estate Development Company)	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	**100%**	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.

1. GENERAL (continued)

a) Incorporation and operation (continued)

Name of subsidiaries	**Shareholding %**		
	2021	2020	
Al Rajhi Capital Company – KSA	**100%**	100%	A Saudi Closed Joint Stock Company authorized by the Capital Market Authority to carry on securities business in the activities of Dealing/brokerage, Managing assets, advising, Arranging, and Custody.
Al Rajhi Bank – Kuwait	**100%**	100%	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	**100%**	100%	A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	**99%**	99%	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for management services – KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.
Emkan Finance Company – KSA	**100%**	100%	A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing.
Tawtheeq company – KSA	**100%**	100%	A closed joint stock company registered in Kingdom of Saudi Arabia providing financial leasing contracts registration to organize contracts data and streamline litigation processes.
Al Rajhi Financial Markets Ltd	**100%**	100%	A Limited Liability Company registered in the Cayman Islands with the objective of managing certain treasury related transactions on behalf of the Bank.
International Digital Solutions Co. (Neoleap)	**100%**	**-**	A closed joint stock company owned by the Bank for the purpose of practicing technical work in financial services, digital payment systems, financial settlements and related services.

Since the subsidiaries are wholly or substantially owned by the Bank, the non-controlling interest is insignificant and therefore not disclosed. All of the above-mentioned subsidiaries have been consolidated.

1. GENERAL (continued)

b) Shari'a Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Shari'a legislations, since its inception, the Bank has established a Shari'a Authority to ascertain that the Bank's activities are subject to its approval and control. The Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared
- in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"), and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws.

b) Basis of measurement and preparation

The consolidated financial statements are prepared under the historical cost convention except for the following items in the consolidated statement of financial position:

- Derivatives are measured at fair value;
- Financial instruments designated as Fair Value through Profit or Loss ("FVTPL") are measured at fair value;
- Investments designated as Fair Value through Other Comprehensive Income ("FVOCI") are measured at fair value;
- Cash settled share-based payments are measured at fair value; and
- Defined benefit obligations are recognized at the present value of future obligations using the Projected Unit Credit Method.

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 27-2.

c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the Group's functional currency, and are rounded off to the nearest thousand except where otherwise indicated.

d) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Significant areas where management has used estimates, assumptions or exercised judgments is as follows:

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

i) Expected Credit Losses on financial assets

The measurement of impairment losses 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 impairment 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 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 such as probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default rate ("LGD"), that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling that are considered accounting Judgements:

   - The Group's internal credit grading model, which assigns PDs to the individual grades,
   - 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,
   - The segmentation of financial assets when their ECL is assessed on a collective basis,
   - Development of ECL models, including the various formulas and the choice of inputs,
   - Determination of associations between macroeconomic scenarios and, economic inputs and collateral values, and the effect on PDs, EADs and LGDs; and
   - Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

   - Fair value Measurement (note 29),
   - Credit Risk Management (note 27.1.a),
   - Credit Risk Grades (note 27.1.a.3),
   - Classification of Investments at Amortised Cost (note 3.f.(1).1),
   - Determination of control over investees (note 2.d.iii),
   - Depreciation and amortization (note 3.j and 8)
   - Salaries and employees related expenses (note 20)
   - Government grant (note 3.c)

ii) Fair value of financial instruments

The Group measures certain financial instruments at fair value at each consolidated balance sheet date.

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

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

ii) Fair value of financial instruments (continued)

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Inputs that are unobservables. This category include all instruments for which the use of valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

iii) Determination of control over investees

The control indicators are subject to management's judgements, and are set out in (note 3.b).

Investment funds management:

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

iv) Provisions for liabilities and charges

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

v) Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

vi) Determination of lease terms

In determining the lease terms for the purposes of calculation of lease liabilities and Right of Use ("ROU") leased assets, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease terms if the lease is reasonably certain to be extended or not terminated. The Group also reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

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 31 December 2020 except for the effect of the below standards, interpretations, and amendments that became applicable for annual reporting periods beginning on or after January 1, 2021:

- <u>Amendments to IFRS 7, IFRS 4 and IFRS 16 Profit Rate Benchmark Reform – Phase 2:</u>

  A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Inter-Bank Offer Rate ("IBOR"). In 2020, the Group implemented Phase 1, which was mainly amendments to IFRS 9, IAS 39 and IFRS 7, the disclosure relevant to Phase 1 is made in (note 3-d).

  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 directly affected by IBOR reform Whilst adoption is not mandatory for September 2021 year ends, earlier application is permitted, Note 3-d elaborates the impact of such amendments on the Group.

  Effective date of the change: Accounting years beginning on or after 1 January 2021.

- <u>Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions:</u>

  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 date of the change: Accounting years beginning on or after 1 June 2020.

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

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as identified in (note 1). The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee if 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 on which control commences until the date when the Group losses control on the investee.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. Specifically, the Group controls an investee if and only if the Group has:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary;
- Derecognises carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in shareholder's 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 parent's share of components previously recognised in OCI 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.

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

c) Government grants

The Group recognizes a government grant related to income, if there is a reasonable assurance that it will be received, and the Group 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 recognized and measured in accordance with IFRS 9 - Financial Instruments. The benefit of the below-market rate of profit 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 - Accounting for Government grant. The government grant is recognised in the statement of income on a systematic basis over the period in which the Group 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 Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) IBOR Transition (Profit 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 profit 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 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 profit 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 amortized cost changed as a result of profit rate benchmark reform, then the Group updated the effective profit 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 profit rate benchmark reform if the following conditions are met:

- 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 profit rate benchmark reform, the Group first updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by profit 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 profit rate when remeasuring a lease liability because of a lease modification that is required by profit rate benchmark reform.

The Group does not have contracts which reference GBP LIBOR, including swaps which will transition under the ISDA protocols.

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 USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) IBOR Transition (Profit Rate Benchmark Reforms) (continued)

As at 31December 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and finances transitioning from USD LIBOR and the resulting impact on economic risk management. The Group continues to engage with industry participants, to ensure an orderly transition to SOFR and to minimise the risks arising from transition and it will continue to identify and assess risks associated with USD LIBOR replacement.

The table below shows the Group's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs. The table excludes exposures to IBOR that will expire before transition is required.

In SAR 000 **31 December 2021**	**Non-derivative financial assets - carrying value**	**Non-derivative financial liabilities carrying value**	**Derivatives Nominal amount**
LIBOR USD (1 months)	**317,586**	**-**	**384,792**
LIBOR USD (3 months)	**3,345,365**	**-**	**2,212,425**
LIBOR USD (6 months)	**6,089,422**	**-**	**9,194,380**
LIBOR USD (12 months)	**397,709**	**-**	**-**
Total	**10,150,082**	**-**	**11,791,597**

In SAR 000 31 December 2020	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount
LIBOR USD (1 months)	24,000	-	23,019
LIBOR USD (3 months)	3,246,250	-	563,250
LIBOR USD (6 months)	7,160,000	-	6,926,443
LIBOR USD (12 months)	-	-	-
Total	10,430,250	-	7,512,712

e) Investment in an associate

An associate is an entity over which the Group exercises significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint arrangement.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses are recognized in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in OCI included in the shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distribution received from an investee reduces the carrying amount of the investment.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Investment in an associate (continued)

difference between the carrying amount of investment in the associate and the fair value of the consideration received is recognized in the consolidated statement of income.

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

Unrealised gains or losses on transactions are eliminated to the extent of the Group’s interest in the investee. 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.

f) Financial assets and financial liabilities

(1) Classification and measurement of financial assets

On initial recognition, a financial asset is classified and measured at: Amortized Cost, Fair Value through Other Comprehensive Income (“FVOCI”) or Fair Value through Statement of Income (“FVSI”). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and 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 realized.

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 profit
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. “Profit” is the consideration for the time value of money, the credit and other basic financing risk associated with the principal amount outstanding during a particular period and other basic financing 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 profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(1) Classification and measurement of financial assets (continued)

Assessments whether contractual cash flows are solely payments of principal and profit (continued)

- 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 profit rates.

The Group offers profit based products including Mutajara, installment sales and Murabaha to its customers in compliance with Shari'a rules. The Group classifies its Principal financing and Investment as follows:

Financing: These financings represent facilities granted to customers. These financings mainly constitute four broad categories i.e. Mutajara, Installment sales, Murabaha and credit cards. The Group classifies these financings at amortised cost.

Due from banks and other financial institutions: These consists of placements with financial Institutions (FIs). The Group classifies these balances due from banks and other financial institutions at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Murabaha with SAMA): These investments consists of placements with the Saudi Central Bank (SAMA). The Group classifies these investments at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Sukuk): These investments consists of Investment in various Sukuk. The Group classifies these investments at amortised cost except for those Sukuk which fails SPPI criterion, which are classified at FVSI.

Equity Investments: These are the strategic equity investments which the Group does not expect to sell, for which Group has made an irrevocable election on the date of initial recognition to present the fair value changes in other comprehensive income.

Investments (Mutual Funds): The investments consist of Investments in various Mutual Funds. The Group classifies these investment at FVSI as these investments fail SPPI criterion.

The financial assets categories are as follows:

1. Financial assets at amortised cost

A financial asset is measured at amortized 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 to cash flows that are solely payments of principal and profit on the principal amount outstanding.

2. Financial Asset through Other Comprehensive Income ("FVOCI")

A 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 profit 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 OCI. Profit income and foreign exchange gains and losses are recognised in consolidated statement of income.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(1) Classification and measurement of financial assets (continued)

3. Financial Asset at Fair Value through Statement of Income ("FVSI")
All other financial assets are classified as 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 amortized cost or at FVOCI as at FVSI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassification of financial assets
The Group reclassifies the financial assets between FVSI, FVOCI and amortized cost if and only if under rare circumstances and if its business model objective for its financial assets changes so its previous business model assessment would no longer apply.

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.

(2) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and financing commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Profit Rate "EPR".

All amounts due to banks and other financial institutions and customer deposits are initially recognized at fair value less transaction costs. Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(3) Derecognition

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

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

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

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

Any cumulative gain/loss recognized in OCI, among other reserve, in respect of equity investment securities designated as at FVOCI is not recognized in consolidated statement of income on derecognition of such securities. not recognized in the consolidated statement of income on derecognition of such securities. Cumulative gains and losses recognized in OCI in respect of such equity investment securities are transferred to retained earnings on disposal. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

Derecognition of financial liabilities
The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(4) Modifications of financial assets and financial liabilities

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

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

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

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognized in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(5) Impairment

Impairment of financial assets
The loss allowance is based on the Expected Credit Losses ("ECLs") associated with the Probability of Default ("PD") in the next twelve months unless there has been a Significant Increase in Credit Risk ("SICR") since origination. If the financial asset meets the definition of Purchased or Originated Credit Impaired ("POCI"), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and financing income is subsequently recognised based on a credit-adjusted ("EPR"). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

- Due from banks and other financial institution;
- financial assets that are debt instruments;
- lease receivables;
- Financial guarantee contracts issued; and
- Financing commitments issued.

No impairment loss is recognized on equity investments.

The Group measures loss allowances 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 Sukuk 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 assets, for which 12-month ECLs are recognized, 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 recognized but that are not credit-impaired are referred to as "Stage 2 financial assets". Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are nor credit-impaired.

Financial assets for which the lifetime ECLs are recognized and that are credit-impaired are referred to as "Stage 3 financial assets".

Measurement of ECL
ECL are 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 Group 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 financing 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(5) Impairment (continued)

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

- financial assets other than POCI financial assets and lease receivables: the original effective profit rate or an approximation thereof;
- POCI assets: a credit-adjusted effective profit rate;
- Lease receivables: the discount rate used in measuring lease receivables.
- Undrawn financing commitments: the effective profit rate, or an approximation thereof, that will be applied to the financial asset resulting from the financing 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.

The key inputs into the measurement of ECL are the term structure of the following variables;
- Probability of default ("PD"),
- Loss given default ("LGD"), and
- Exposure at default ("EAD").

The above parameters are generally derived from internally developed statistical models and historical data which are adjusted for forward looking information. The Group categorizes its financial assets into the following three stages in accordance with IFRS 9 methodology:
- Stage 1: Performing assets;
- Stage 2: Underperforming assets; and
- Stage 3: Credit-impaired assets.

The three stage categories of financial assets are more elaborated in (note 27-1-a.v)

To evaluate a range of possible outcomes, the Group formulates various scenarios. For each scenario, the Group derives an ECL and applies a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

For how financial assets and ECLs are allocated among the three credit stages, refer to note (4) for due from banks and financial institutions, (note 6) for investments and (note 7) for financing facilities.

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 customer, then an assessment is made of whether the financial asset should be derecognized and then ECLs 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 effective profit rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have 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 customer or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing facility by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the customer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(5) Impairment (continued)

Financing facility that has been renegotiated due to deterioration in the customer's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing that is overdue for 90 days or more is considered impaired. In making an assessment 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 yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of financing being restructured, resulting in holders suffering losses through voluntary or mandatory financing forgiveness.
- 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 intents, whether there is the capacity to fulfil the required criteria.

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

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the financing 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; and
- financing commitments and financial guarantee contracts: generally, as a provision;

Write-off

Financing facilities 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 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 credit loss expense.

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 statement of financial position. However, the fair value of collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or market 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. 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.

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 the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(6) Financial guarantees and financing 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. financing commitments are firm commitments to provide credit under pre-specified terms and conditions.

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

The Group has issued no financing commitments that are measured at FVSI. For other financing facility commitments the Group recognizes loss allowance.

g) Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts and profit rate swaps. These derivatives financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into. These instruments 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. In the ordinary course of business, the Group utilises the following derivative financial instruments for trading purposes:

(1) Profit rate swaps
Swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties exchange fixed and floating profit rate payments in a single currency without exchanging principal.

(2) Foreign exchange forwards
Forwards are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter markets. Foreign currencies are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

(3) Held for trading derivatives
Most of the Group’s derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in foreign exchange income for foreign exchange forward contracts and in other income for profit rate swap contracts.

h) Revenue recognition

The following specific recognition criteria must be met before revenue is recognized.

<u>Income from Mutajara, Murabaha</u>; investments held at amortized cost, Installment sale and credit cards services is recognized based on the effective profit rate basis on the outstanding balances. The effective profit rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset . When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees from banking services are recognized when the service has been provided.

<u>Financing commitment fees;</u> that are likely to be drawn down and other facility related fees are deferred (above certain threshold) and, together with the related direct cost, are recognized as an adjustment to the effective profit rate on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

<u>Fees from banking services;</u> that are integral to the effective profit rate on a financial asset or financial liability are included in the effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue recognition (continued)

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

Fees received for asset management and brokerage activities; wealth Management, financial planning, custody services, capital market trading brokerage services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided i.e. related performance obligation is satisfied. Asset management fees related to investment funds are recognized over the period the service is being provided. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognized. Wealth management and custody services fees that are continuously recognized over a period of time.

Dividend income; is recognised when the right to receive income is established which is generally when the shareholders approve the dividend. Dividends are reflected as a component of net trading income, net income from FVSI financial instruments or other operating income based on the underlying classification of the equity instrument.

Foreign currency exchange income / loss; is recognized when earned / incurred.

Net trading income; results from trading activities and include all realised and unrealised gains and losses from changes in fair value and related gross investment income or expense, dividends for financial assets and financial liabilities held for trading and foreign exchange differences.

Net income from FVSI financial instruments; relates to financial assets and liabilities designated as FVSI and includes all realised and unrealised fair value changes, investment income, dividends and foreign exchange differences.

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. The Group has concluded that revenue from rendering of various services related to payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

i) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due financing. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell (if material). Rental income from other real estate is recognised in the consolidated statement of income.

j) Investment properties

Investment properties are held for long-term rental yield and are not occupied by the Group. They are carried at cost, and depreciation is charged to the consolidated statement of income. The cost of investment properties is depreciated using the straight-line method over the estimated useful life of the assets.

k) Property and equipment, net

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful life of the assets, as follows:

Leasehold land improvements over the lesser of the period of the lease or the useful life

Buildings – 33 years
Leasehold building improvements – over the lease period or 3 years, whichever is shorter
Equipment and furniture – 3 to 10 years
Right of use assets – over the lease period

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

Other expenditures are capitalized only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Accounting for Ijarah (Leases)

Right of Use Asset / 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 Assets

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 profit 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 profit 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 profit 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 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."

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Customers' deposits

Customer deposits are financial liabilities that are initially recognized at fair value less transaction cost, being the fair value of the consideration received, and are subsequently measured at amortized cost.

n) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments. The transactions are treated as a collateralized financing and the counter party liability for amounts received under these agreements is included in due to banks and other financial institutions, as appropriate. The difference between the sale and repurchase price is treated as financing and investment expense and recognized over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as Income from investments and financing and recognized over the life of the reverse repurchase agreement on an effective profit basis.

o) Provisions

Provisions are recognized when the Group has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

p) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, 'cash and cash equivalents' include notes and coins on hand, balances with SAMA (excluding statutory deposits) and due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition which are subject to insignificant risk of changes in their fair value.

q) Special commission excluded from the consolidated statement of income

In accordance with the Shari'a Authority's resolutions, special commission income (non-Shari'a compliant income) received by the Group is excluded from the determination of financing and investment income of the Group, and is transferred to other liabilities in the consolidated statement of financial position and is subsequently paid-off to charity institutions.

r) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

s) End of service benefits for employees

The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labor law and local regulatory requirements.

t) Share-based payments

The Group's founders had established a share-based compensation plan under which the entity receives services from the eligible employees as consideration for equity instruments of the Group which are granted to the employees.

u) Mudaraba funds

The Group carries out Mudaraba transactions on behalf of its customers, and are treated by the Group as being restricted investments. These are included as off balance sheet items. The Group's share of profits from managing such funds is included in the Group's consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Foreign Currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Group's functional currency. Each subsidiary determines its own functional currency and items included in the consolidated financial statements of each subsidiary 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 profit rate and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI. The monetary assets and liabilities of foreign subsidiaries are translated into SAR at rates of exchange prevailing at the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the weighted average exchange rates for the year.

w) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

x) Trade date

All regular way purchases and sales of financial assets are recognized and derecognized on the trade date (i.e. the date on which the Group commits to purchase or sell the assets). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through statement of income) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

y) Offsetting financial instruments

Financial assets and financial liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts, and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Customer loyalty programs

The Group offers customer loyalty programs referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of the transaction price to the reward points awarded to members, based on estimates of costs of future redemptions. The amount of expense allocated to reward points is charged to the consolidated statement of income with a corresponding liability recognized in other liabilities. The cumulative amount of the liability related to unredeemed reward points is adjusted over time based on actual redemption experience and current and expected trends with respect to future redemptions.

aa) Zakat and taxes

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the consolidated statement of income. ZATCA has prescribed a new methodology for calculation on Zakat of financing activities effective January 1, 2019, where previously the Zakat was treated in the consolidated statement of changes in equity. Due accruals have been made for the obligation as at December 31, 2020. Zakat is not accounted for as an income tax and as such no deferred tax assets and liabilities are calculated relating to Zakat.

- **Value Added tax ("VAT")**

The Group is a taxpayer for value added tax as per the Saudi law and its responsibility to collect VAT Output from the customers for qualifying services provided , and makes VAT Input payments to its vendors for qualifying payments. On a monthly basis, the net VAT remittances are made to the 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 capitalized and either depreciated or amortized as part of the capital cost.

- **Withholding tax**

Withholding tax is subject to any payment to non-resident vendors for services rendered and goods purchased with certain criteria and rate according to the tax law applicable in Saudi Arabia and are directly paid to the ZATCA on a monthly basis.

bb) Investment management services

The Group provides investment management services to its customers, through its subsidiary which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVSI investments. Fees earned are disclosed in the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

cc) Bank's products definition

The Group provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

Mutajara financing:
It is a financing agreement whereby the Group purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Group with the sale amount and for the period agreed in the contract.

Installment sales financing:
It is a financing agreement whereby the Group purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price. Accordingly the client becomes a debtor to the Group with the sale amount to be paid through installments as agreed in the contract.

Murabaha financing:
It is a financing agreement whereby the Group purchases a commodity or asset and sells it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that the client is aware of the cost and profit separately.

4. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

Cash and balances with SAMA and other central banks as of 31 December comprise of the following:

	(SAR'000)	
	2021	2020
Cash in hand	**5,445,994**	7,355,940
Statutory deposits	**28,803,530**	23,459,540
Balances with SAMA and other central banks (current accounts)	**314,005**	311,493
Mutajara with SAMA	**5,799,920**	16,235,549
Total	**40,363,449**	47,362,522

In accordance with the Banking Control Law and regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA and other central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' accounts calculated at the end of each Gregorian month.

The above statutory deposits are not available to finance the Group's day-to-day operations and therefore are not considered as part of cash and cash equivalents (note 24) when preparing the consolidated statement of cash flows.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

Due from banks and other financial institutions as of 31 December comprise the following:

	(SAR'000)	
	2021	2020
Current accounts	**2,056,541**	1,259,634
Mutajara	**24,013,126**	27,399,893
Less: Allowance for expected credit losses	**(4,275)**	(4,685)
Total	**26,065,392**	28,654,842

The tables below depict the quality of due from banks and other financial institutions as at 31 December:

2021	(SAR'000)		
	Gross carrying amount	**Allowance for expected credit loss**	Net carrying amount
Investment grade (credit rating AAA to BBB)	**25,575,691**	**(4,275)**	**25,571,416**
Non-investment grade (credit rating BB+ to B-)	**462,716**	**-**	**462,716**
Unrated	**31,260**	**-**	**31,260**
Total	**26,069,667**	**(4,275)**	**26,065,392**

2020	(SAR'000)		
	Gross carrying amount	**Allowance for expected credit loss**	Net carrying amount
Investment grade (credit rating AAA to BBB)	28,018,478	(4,685)	28,013,793
Non-investment grade (credit rating BB+ to B-)	492,593	-	492,593
Unrated	148,456	-	148,456
Total	28,659,527	(4,685)	28,654,842

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired and are classified in stage 1. There were no movements in staging during year.

6. INVESTMENTS, NET

a) Investments comprise the following as of 31 December:

	(SAR'000)	
	2021	2020
Investment in an associate:	**295,253**	239,179
Investments held at amortized cost:		
Murabaha with Saudi Government and SAMA	**22,611,987**	22,904,021
Sukuk	**46,518,108**	25,240,452
Structured Products	**1,000,000**	1,000,000
Less: Impairment (Stage 1)	**(31,824)**	(26,962)
Total investments held at amortized cost	**70,098,271**	49,117,511
Investments held as FVSI:		
Mutual funds	**2,650,605**	2,545,864
Structured Products	**788,765**	1,502,525
Sukuk	**3,745,521**	2,588,595
Total investments held as FVSI	**7,184,891**	6,636,984
FVOCI investments:		
Equity investments	**5,322,369**	3,687,266
Sukuk	**1,532,611**	604,332
Total FVOCI investments	**6,854,980**	4,291,598
Investments, net	**84,433,395**	60,285,272

The designated FVSI investments included above are designated upon initial recognition as FVSI and are in accordance with the documented risk management strategy of the Group.

All investments held at amortized cost are neither past due nor impaired as of 31 December 2021 and 2020, and are classified in stage 1. There were no movements in staging during year.

Equity investment securities designated as at FVOCI
The Group has designated investment in equity securities designated at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

None of the strategic investments were disposed of during 2021, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Investment in an associate
The Group owns 22.5% (31 December 2020: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

b) The analysis of the composition of investments as of 31 December is as follows:

2021	(SAR'000)		
	Quoted	**Unquoted**	**Total**
Murabaha with Saudi Government and SAMA	**-**	**22,611,987**	**22,611,987**
Structured Products	**-**	**1,788,765**	**1,788,765**
Sukuk	**48,022,762**	**3,741,654**	**51,764,416**
Equities	**5,298,009**	**24,360**	**5,322,369**
Investment in Associate	**295,253**	**-**	**295,253**
Mutual Funds	**2,415,228**	**235,377**	**2,650,605**
Total	**56,031,252**	**28,402,143**	**84,433,395**

6. INVESTMENTS, NET (continued)

2020	(SAR'000)		
	Quoted	Unquoted	Total
Murabaha with Saudi Government and SAMA	-	22,904,021	22,904,021
Structured Products	-	2,502,525	2,502,525
Sukuk	24,143,625	4,262,792	28,406,417
Equities	3,662,877	24,389	3,687,266
Investment in Associate	239,179	-	239,179
Mutual funds	2,291,749	254,115	2,545,864
Total	30,337,430	29,947,842	60,285,272

c) The analysis of unrecognized gains and losses and fair values of investments as of 31 December are as follows:

2021	**(SAR'000)**			
	Net carrying value	**Unrecognized gains**	**Unrecognized losses**	**Fair value**
Murabaha with Saudi Government and SAMA	**22,611,987**	**289,012**	-	**22,900,999**
Sukuk	**51,764,416**	**198,991**	-	**51,963,407**
Structure Product	**1,788,765**	**38,043**	-	**1,826,808**
Equities	**5,617,622**	**-**	-	**5,617,622**
Mutual funds	**2,650,605**	**-**	-	**2,650,605**
Total	**84,433,395**	**526,046**	-	**84,959,441**

2020	(SAR'000)			
	Net carrying value	Unrecognized gains	Unrecognized losses	Fair value
Murabaha with Saudi Government and SAMA	22,904,021	322,861	-	23,226,882
Sukuk	28,406,417	915,263	-	29,321,680
Structure Product	2,502,525	48,310	-	2,550,835
Equities	3,926,445	-	-	3,926,445
Mutual funds	2,545,864	-	-	2,545,864
Total	60,285,272	1,286,434	-	61,571,706

d) Credit quality of investments

	(SAR'000)	
	2021	2020
Murabaha with Saudi Government and SAMA	**22,611,987**	22,904,021
Sukuk - Investment grade	**48,079,053**	26,404,319
Structured Products - Investment grade	**1,788,765**	2,502,525
Sukuk – Non Investment grade	**2,268,569**	597,098
Sukuk unrated	**1,416,794**	1,405,000
Total	**76,165,168**	53,812,963

Investment Grade includes those investments having credit exposure equivalent to rating of AAA to BBB-. The unrated category only comprise of unquoted sukuk. Fitch has assigned A rating to KSA as a country as at 31 December 2021 (31 December 2020 : A).

6. INVESTMENTS, NET (continued)

e) The following is an analysis of investments according to counterparties as at 31 December:

	(SAR'000)	
	2021	2020
Government and quasi government	**67,632,706**	45,718,805
Banks and other financial institutions	**5,534,286**	5,091,120
Companies	**8,647,622**	6,956,445
Mutual funds	**2,650,605**	2,545,864
Less: Impairment (Stage 1)	**(31,824)**	(26,962)
Net investments	**84,433,395**	60,285,272

f) The domestic and international allocation of the Group's investments as of December 31, 2021 and 2020 are summarized as follows:

2021	(SAR'000)		
	Domestic	**International**	**Total**
Investment in an associate	**295,253**	**-**	**295,253**
Investments held at amortized cost:			
Fixed-rate Sukuk	**39,364,738**	**4,910,357**	**44,275,095**
Floating-rate Sukuk	**24,855,000**	**-**	**24,855,000**
Structured products	**500,000**	**500,000**	**1,000,000**
Less: Impairment (Stage 1)	**(31,824)**	**-**	**(31,824)**
Total investments held at amortized cost	**64,687,914**	**5,410,357**	**70,098,271**
Investments held as FVSI:			
Mutual funds	**2,650,605**	**-**	**2,650,605**
Structured Products	**500,000**	**288,770**	**788,770**
Fixed-rate Sukuk	**2,013,756**	**-**	**2,013,756**
Floating-rate Sukuk	**1,731,760**	**-**	**1,731,760**
Total investments held as FVSI	**6,896,121**	**288,770**	**7,184,891**
Investments held as OCI:			
Fixed-rate Sukuk	**-**	**1,532,612**	**1,532,612**
Equity investments	**5,128,039**	**194,329**	**5,322,368**
Total investments held as OCI	**5,128,039**	**1,726,941**	**6,854,980**
At 31 December 2021	**77,007,328**	**7,426,067**	**84,433,395**

6. INVESTMENTS, NET (continued)

2020

	(SAR'000)		
	Domestic	International	Total
Investment in an associate	239,179	-	239,179
Investments held at amortized cost:			
Fixed-rate Sukuk	18,707,059	4,196,962	22,904,021
Floating-rate Sukuk	25,240,452	-	25,240,452
Structured products	500,000	500,000	1,000,000
Less: Impairment (Stage 1)	(26,962)	-	(26,962)
Total investments held at amortized cost	44,420,549	4,696,962	49,117,511
Investments held as FVSI:			
Mutual funds	2,545,864	-	2,545,864
Structured Products	500,000	1,002,525	1,502,525
Fixed-rate Sukuk	1,133,595	-	1,133,595
Floating-rate Sukuk	1,455,000	-	1,455,000
Total investments held as FVSI	5,634,459	1,002,525	6,636,984
Investments held as OCI:			
Fixed-rate Sukuk	-	604,332	604,332
Equity investments	3,580,589	106,677	3,687,266
Total investments held as OCI	3,580,589	711,009	4,291,598
At 31 December 2021	53,874,776	6,410,496	60,285,272

7. FINANCING, NET

7–1 Financing

a. Net financing as of 31 December are held at amortized cost only comprises the following:

2021	**(SAR'000)**			
	Performing	**Non-performing**	**Allowance for impairment**	**Net financing**
Mutajara	**68,203,350**	**1,469,013**	**(3,959,756)**	**65,712,607**
Installment sale	**370,497,370**	**1,480,870**	**(4,978,513)**	**366,999,727**
Murabaha	**16,625,088**	**36,520**	**(61,718)**	**16,599,890**
Credit cards	**3,692,903**	**23,697**	**(198,167)**	**3,518,433**
Total	**459,018,711**	**3,010,100**	**(9,198,154)**	**452,830,657**

2020	(SAR'000)			
	Performing	Non-performing	Allowance for impairment	Net financing
Mutajara	38,574,292	1,652,936	(2,995,894)	37,231,334
Installment sale	259,150,038	728,401	(4,398,923)	255,479,516
Murabaha	19,687,898	37,929	(55,734)	19,670,093
Credit cards	3,326,115	25,848	(20,805)	3,331,158
Total	320,738,343	2,445,114	(7,471,356)	315,712,101

7. FINANCING, NET (continued)

7–1 Financing (continued)

b. The net financing by location, inside and outside the Kingdom of Saudi Arabia, as of 31 December is as follows:

2021	**(SAR'000)**				
	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	**68,293,335**	**367,098,242**	**12,111,030**	**3,709,899**	**451,212,506**
Outside the Kingdom of Saudi Arabia	**1,379,028**	**4,879,998**	**4,550,578**	**6,701**	**10,816,305**
Gross financing	**69,672,363**	**371,978,240**	**16,661,608**	**3,716,600**	**462,028,811**
Allowance for impairment	**(3,959,756)**	**(4,978,513)**	**(61,718)**	**(198,167)**	**(9,198,154)**
Net financing	**65,712,607**	**366,999,727**	**16,599,890**	**3,518,433**	**452,830,657**

2020	(SAR'000)				
	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	39,424,015	255,124,933	15,399,038	3,345,758	313,293,744
Outside the Kingdom of Saudi Arabia	803,213	4,753,506	4,326,789	6,205	9,889,713
Gross financing	40,227,228	259,878,439	19,725,827	3,351,963	323,183,457
Allowance for impairment	(2,995,894)	(4,398,923)	(55,734)	(20,805)	(7,471,356)
Net financing	37,231,334	255,479,516	19,670,093	3,331,158	315,712,101

c. The table below depicts the categories of financing as per main business segments at 31 December:

2021	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Mutajara	**2,820,209**	**66,852,154**	**69,672,363**
Installment sale	**364,418,308**	**7,559,932**	**371,978,240**
Murabaha	-	**16,661,608**	**16,661,608**
Credit cards	**3,712,263**	**4,337**	**3,716,600**
Gross financing	**370,950,780**	**91,078,031**	**462,028,811**
Less: Allowance for impairment	**(5,201,431)**	**(3,996,723)**	**(9,198,154)**
Financing, net	**365,749,349**	**87,081,308**	**452,830,657**

2020	(SAR'000)		
	Retail	Corporate	Total
Mutajara	1,202,886	39,024,342	40,227,228
Installment sale	250,470,267	9,408,172	259,878,439
Murabaha	-	19,725,827	19,725,827
Credit cards	3,351,963	-	3,351,963
Gross financing	255,025,116	68,158,341	323,183,457
Less: Allowance for impairment	(4,341,561)	(3,129,795)	(7,471,356)
Financing, net	250,683,555	65,028,546	315,712,101

7. FINANCING, NET (continued)

7–1 Financing (continued)

d. The table below summarizes financing balances at 31 December that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Group:

2021	**(SAR'000)**					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	**Allowance for impairment**	**Net financing**
Retail	**361,318,535**	**8,132,148**	**1,500,097**	**370,950,780**	**(5,201,431)**	**365,749,349**
Corporate	**88,335,265**	**1,232,763**	**1,510,003**	**91,078,031**	**(3,996,723)**	**87,081,308**
Total	**449,653,800**	**9,364,911**	**3,010,100**	**462,028,811**	**(9,198,154)**	**452,830,657**

2020	(SAR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Allowance for impairment	Net financing
Retail	249,438,952	4,831,915	754,249	255,025,116	(4,341,561)	250,683,555
Corporate	65,880,738	586,738	1,690,865	68,158,341	(3,129,795)	65,028,546
Total	315,319,690	5,418,653	2,445,114	323,183,457	(7,471,356)	315,712,101

Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise. 'Neither past due nor impaired' and 'past due but not impaired' comprise total performing financing.

e. The movements of the three credit quality stages for the gross carrying amount of financing facilities held at amortized cost:

2021	**(SAR '000')**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2021	**311,275,457**	**8,460,233**	**3,447,767**	**323,183,457**
Transfer to 12 month ECL	**1,538,438**	**(1,534,491)**	**(3,947)**	-
Transfer to Lifetime ECL not credit impaired	**(3,669,318)**	**3,836,110**	**(166,792)**	-
Transfer to Lifetime ECL credit impaired	**(687,863)**	**(271,691)**	**959,554**	-
Write-offs	-	-	**(2,075,430)**	**(2,075,430)**
New Business / Movement	**139,837,595**	**(932,283)**	**2,015,472**	**140,920,784**
Balance as at 31 December 2021	**448,294,309**	**9,557,878**	**4,176,624**	**462,028,811**

7. FINANCING, NET (continued)

7–1 Financing (continued)

2020	(SAR '000')			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	244,233,852	9,730,884	2,737,665	256,702,401
Transfer to 12 month ECL	1,449,420	(1,449,420)	-	-
Transfer to Lifetime ECL not credit impaired	(3,152,174)	3,257,062	(104,888)	-
Transfer to Lifetime ECL credit impaired	(612,721)	(743,353)	1,356,074	-
Write-offs	-	-	(2,766,535)	(2,766,535)
New Business / Movement	69,357,080	(2,334,940)	2,225,451	69,247,591
Balance as at 31 December 2020	311,275,457	8,460,233	3,447,767	323,183,457

Closing balance of Lifetime ECL credit impaired differs from total reported Non-Performing financing due to IFRS 9 implementation.

f. The movements of the three credit quality stages of carrying amount of financing held at amortized cost allocated by:

1. Retail Segment:

2021	**(SAR '000')**			
Financings to customers at amortized cost	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**250,650,984**	**2,617,230**	**1,756,902**	**255,025,116**
Transfer to 12 month ECL	**1,411,781**	**(1,407,834)**	**(3,947)**	-
Transfer to Lifetime ECL not credit impaired	**(2,920,325)**	**3,087,106**	**(166,781)**	-
Transfer to Lifetime ECL credit impaired	**(571,770)**	**(242,959)**	**814,729**	-
Write-offs	-	-	**(1,778,995)**	**(1,778,995)**
New Business / Movement	**115,364,802**	**295,144**	**2,044,713**	**117,704,659**
Balance as at 31 December 2021	**363,935,472**	**4,348,687**	**2,666,621**	**370,950,780**

2020	(SAR '000')			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	186,184,436	3,320,473	1,050,591	190,555,500
Transfer to 12 month ECL	820,807	(820,807)	-	-
Transfer to Lifetime ECL not credit impaired	(2,018,928)	2,123,816	(104,888)	-
Transfer to Lifetime ECL credit impaired	(422,408)	(144,054)	566,462	-
Write-offs	-	-	(1,676,297)	(1,676,297)
New Business / Movement	66,087,077	(1,862,198)	1,921,034	66,145,913
Balance as at 31 December 2020	250,650,984	2,617,230	1,756,902	255,025,116

7. FINANCING, NET (continued)

7–1 Financing (continued)

2. Corporate Segment:

2021	**(SAR '000')**			
Financings to customers at amortized cost	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**60,624,473**	**5,843,003**	**1,690,865**	**68,158,341**
Transfer to 12 month ECL	**126,657**	**(126,657)**	-	-
Transfer to Lifetime ECL not credit impaired	**(748,993)**	**749,004**	**(11)**	-
Transfer to Lifetime ECL credit impaired	**(116,093)**	**(28,732)**	**144,825**	-
Write-offs	-	-	**(296,435)**	**(296,435)**
New Business / Movement	**24,472,793**	**(1,227,427)**	**(29,241)**	**23,216,125**
Balance as at 31 December 2021	**84,358,837**	**5,209,191**	**1,510,003**	**91,078,031**

2020	(SAR '000')			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	58,049,416	6,410,411	1,687,074	66,146,901
Transfer to 12 month ECL	628,613	(628,613)	-	-
Transfer to Lifetime ECL not credit impaired	(1,133,246)	1,133,246	-	-
Transfer to Lifetime ECL credit impaired	(190,313)	(599,299)	789,612	-
Write-offs	-	-	(1,090,238)	(1,090,238)
New Business / Movement	3,270,003	(472,742)	304,417	3,101,678
Balance as at 31 December 2020	60,624,473	5,843,003	1,690,865	68,158,341

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing:

a. The movement in the allowance for impairment of financing for the years ended 31 December is as follows:

2021	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Balance at beginning of the year	**4,341,561**	**3,129,795**	**7,471,356**
Gross charge for the year	**2,638,865**	**1,163,363**	**3,802,228**
Bad debts written off against provision	**(1,778,995)**	**(296,435)**	**(2,075,430)**
Balance at the end of the year	**5,201,431**	**3,996,723**	**9,198,154**

2020	(SAR'000)		
	Retail	Corporate	Total
Balance at beginning of the year	3,808,273	3,211,323	7,019,596
Gross charge for the year	2,209,585	1,008,710	3,218,295
Bad debts written off against provision	(1,676,297)	(1,090,238)	(2,766,535)
Balance at the end of the year	4,341,561	3,129,795	7,471,356

b. The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financing at amortized cost:

2021	**(SAR '000')**			
Allowance for impairment of financing	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**2,944,807**	**2,030,356**	**2,496,193**	**7,471,356**
Transfer to 12 month ECL	**314,742**	**(312,458)**	**(2,284)**	**-**
Transfer to Lifetime ECL not credit impaired	**(79,419)**	**174,580**	**(95,161)**	**-**
Transfer to Lifetime ECL credit impaired	**(47,348)**	**(126,873)**	**174,221**	**-**
Charge for the year	**580,193**	**560,809**	**2,661,226**	**3,802,228**
Write-offs	**-**	**-**	**(2,075,430)**	**(2,075,430)**
Balance as at 31 December 2021	**3,712,975**	**2,326,414**	**3,158,765**	**9,198,154**

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	(SAR '000')			
Allowance for impairment of financing	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	2,228,200	2,948,959	1,842,437	7,019,596
Transfer to 12 month ECL	256,884	(256,884)	-	-
Transfer to Lifetime ECL not credit impaired	(65,311)	118,509	(53,198)	-
Transfer to Lifetime ECL credit impaired	(15,472)	(247,994)	263,466	-
Charge for the period	540,506	(532,234)	3,210,023	3,218,295
Write-offs	-	-	(2,766,535)	(2,766,535)
Balance as at 31 December 2020	2,944,807	2,030,356	2,496,193	7,471,356

c. The ECL movements of the three credit quality stages of financing held at amortized cost of:
1. Allocated by Retail Segment:

2021	**(SAR '000')**			
Allowance for impairment of financing	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**2,388,807**	**839,120**	**1,113,634**	**4,341,561**
Transfer to 12 month ECL	**299,724**	**(297,440)**	**(2,284)**	**-**
Transfer to Lifetime ECL not credit impaired	**(75,477)**	**170,631**	**(95,154)**	**-**
Transfer to Lifetime ECL credit impaired	**(24,201)**	**(120,776)**	**144,977**	**-**
Charge for the year	**(287,270)**	**425,837**	**2,500,298**	**2,638,865**
Write-offs	**-**	**-**	**(1,778,995)**	**(1,778,995)**
Balance as at 31 December 2021	**2,301,583**	**1,017,372**	**1,882,476**	**5,201,431**

2020	(SAR '000')			
Allowance for impairment of financing	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	1,632,206	1,662,188	513,879	3,808,273
Transfer to 12 month ECL	206,493	(206,493)	-	-
Transfer to Lifetime ECL not credit impaired	(53,588)	106,625	(53,037)	-
Transfer to Lifetime ECL credit impaired	(10,890)	(60,716)	71,606	-
Charge for the year	614,586	(662,484)	2,257,483	2,209,585
Write-offs	-	-	(1,676,297)	(1,676,297)
Balance as at 31 December 2020	2,388,807	839,120	1,113,634	4,341,561

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2. Allocated by Corporate Segment:

2021	**(SAR '000')**			
Allowance for impairment of financing	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**556,000**	**1,191,236**	**1,382,559**	**3,129,795**
Transfer to 12 month ECL	**15,018**	**(15,018)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(3,942)**	**3,949**	**(7)**	**-**
Transfer to Lifetime ECL credit impaired	**(23,147)**	**(6,097)**	**29,244**	**-**
Charge for the year	**867,463**	**134,972**	**160,928**	**1,163,363**
Write-offs	**-**	**-**	**(296,435)**	**(296,435)**
Balance as at 31 December 2021	**1,411,392**	**1,309,042**	**1,276,289**	**3,996,723**

2020	(SAR '000')			
Allowance for impairment of financing	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	595,994	1,286,771	1,328,558	3,211,323
Transfer to 12 month ECL	50,391	(50,391)	-	-
Transfer to Lifetime ECL not credit impaired	(11,723)	11,884	(161)	-
Transfer to Lifetime ECL credit impaired	(4,582)	(187,278)	191,860	-
Charge for the period	(74,080)	130,250	952,540	1,008,710
Write-offs	-	-	(1,090,238)	(1,090,238)
Balance as at 31 December 2020	556,000	1,191,236	1,382,559	3,129,795

7-3 Impairment charge movement

The details of the impairment charge on financing for the year recorded in the consolidated statement of income is as follows:

	(SAR'000)	
	2021	2020
Provided for the year for on balance sheet	**3,806,679**	3,218,295
Provided for the year for off balance sheet	**(134,984)**	200,130
Recovery of written off financing, net	**(1,326,609)**	(1,252,685)
Allowance for financing impairment, net	**2,345,086**	2,165,740

7. FINANCING, NET (continued)

7-4 Installment sale under financing includes finance lease receivables, which are as follows:

	(SAR'000)	
	2021	2020
Gross receivables from finance leases	**27,020,295**	24,042,741
Less than 1 year	**6,286**	1,313,474
1 to 5 years	**17,532,469**	15,397,354
Over 5 years	**9,481,540**	7,331,913
	27,020,295	24,042,741
Unearned future finance income on finance leases	**(3,404,832)**	(3,226,606)
Expect credit loss from finance leases	**(444,532)**	(291,584)
Net receivables from finance leases	**23,170,931**	20,524,551

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net comprises the following as of 31 December:

	(SAR'000)					
	Land	**Buildings**	**Leasehold land & buildings improvements**	**Equipment and furniture**	**Right-of-Use assets**	**Total**
COST						
At 1 January 2020	2,337,885	6,213,799	1,333,461	5,303,941	1,530,099	16,719,185
Additions	27,675	6,964	259,571	630,849	20,627	945,686
Disposals	(14,588)	(38,884)	-	(45,287)	-	(98,759)
At 31 December 2020	**2,350,972**	**6,181,879**	**1,593,032**	**5,889,503**	**1,550,726**	**17,566,112**
Additions	**106,569**	**137,327**	**46,358**	**2,093,072**	**3,159**	**2,386,485**
Disposals	**(20,768)**	**(126,856)**	**-**	**(1,154,444)**	**-**	**(1,302,068)**
At 31 December 2021	**2,436,773**	**6,192,350**	**1,639,390**	**6,828,131**	**1,553,885**	**18,650,529**
ACCUMULATED DEPRECIATION						
As at 1 January 2020	-	858,023	996,846	4,217,232	239,837	6,311,938
Charge for the year	-	137,154	102,203	628,072	212,742	1,080,171
Disposals	-	(31,984)	-	(28,797)	-	(60,781)
At 31 December 2020	**-**	**963,193**	**1,099,049**	**4,816,507**	**452,579**	**7,331,328**
Charge for the year	**-**	**135,205**	**61**	**770,055**	**210,959**	**1,116,280**
Disposals	**-**	**(1,044)**	**-**	**(461,834)**	**-**	**(462,878)**
At 31 December 2021	**-**	**1,097,354**	**1,099,110**	**5,124,728**	**663,538**	**7,984,730**
NET BOOK VALUE						
At 31 December 2021	**2,436,773**	**5,094,996**	**540,280**	**1,703,402**	**890,348**	**10,665,799**
At 31 December 2020	2,350,972	5,218,686	493,983	1,072,996	1,098,147	10,234,785

Buildings include work-in-progress amounting to SAR 271 million as at 31 December 2021 (2020: SAR 225 million), and technology-related assets include work-in-progress amounting to SAR 419 million as of December 2021 (2020: SAR 595 million).

8. PROPERTY AND EQUIPMENT, NET (continued)

Equipment and furniture includes information technology-related assets as follows:

	(SAR'000)		
2021	**Tangible**	**Intangible**	**Total**
COST			
At 31 December 2020	1,810,725	102,614	1,913,339
Additions	**857,511**	**7,008**	**864,519**
Disposals	**(12,641)**	**-**	**(12,641)**
At 31 December 2021	**2,655,595**	**109,622**	**2,765,217**
ACCUMULATED DEPRECIATION			
At 31 December 2020	1,157,364	14,687	1,172,051
Charge for the year	**232,500**	**45,965**	**298,465**
Disposals	**(12,430)**	**-**	**(12,430)**
At 31 December 2021	**1,377,434**	**60,652**	**1,438,086**
NET BOOK VALUE			
At 31 December 2021	**1,278,161**	**48,970**	**1,327,131**
At 31 December 2020	653,361	87,927	741,288

9. INVESTMENT PROPERTIES, NET

The net book value of the investment properties approximates the fair value.

Investment properties, net comprises the following as of 31 December:

	(SAR'000)		
	Land	Buildings	Total
COST			
Balance at 1 January 2020	894,423	559,503	1,453,926
Additions	-	195,339	195,339
At 31 December 2020	894,423	754,842	1,649,265
Additions	**-**	**1,452**	**1,452**
Disposals	**-**	**(105,542)**	**(105,542)**
At 31 December 2021	**894,423**	**650,752**	**1,545,175**
ACCUMULATED DEPRECIATION			
Balance at 1 January 2020	-	70,077	70,077
Charge for the year	-	37,977	37,977
At 31 December 2020	-	108,054	108,054
Charge for the year	**-**	**25,652**	**25,652**
At 31 December 2021	**-**	**133,706**	**133,706**
NET BOOK VALUE			
At 31 December 2021	**894,423**	**517,046**	**1,411,469**
At 31 December 2020	894,423	646,788	1,541,211

10. OTHER ASSETS, NET

Other assets, net comprise the following as of 31 December:

	(SAR'000)	
	2021	2020
Receivables, net	**2,961,252**	1,613,343
Prepaid expenses	**462,550**	218,304
Assets in transit subject to financing	**2,716,492**	1,332,565
Accrued income	**367,345**	276,169
Cheques under collection	**374,668**	413,397
Advance payments	**235,453**	262,475
Other real estate	**28,023**	73,411
Non-Current assets (assets held for sale)	**102,991**	-
Others, net	**652,980**	844,326
Total	**7,901,754**	5,033,990

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise the following as of 31 December:

	(SAR'000)	
	2021	2020
Current accounts	**1,749,131**	448,288
Banks' time investments	**16,203,009**	10,315,773
Total	**17,952,140**	10,764,061

In order to offset the modification losses that the Group is expected to incur in deferring payments under the Private Sector Financing Support Program as disclosed in note 39, the Group has received, during years ended 31 December 2020 and 2021, certain profit free deposits of SAR 2.97 billion with an original maturity of 3 years and SAR 674 million with an original maturity of 1.5 years, some of these deposits' tenures were subsequently extended by SAMA. The Group has received SAR 5.2 billion for 1 year that has matured during Q2 2021, and SAR 3.5 billion with an original maturity of 3 months that has matured during Q3 2021. In September 2021, the Group has received SAR 4 billion with a maturity of 3 years. Please refer to note 39 for further details.

12. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following as of 31 December:

	(SAR'000)	
	2021	2020
Demand deposits	**374,725,352**	332,918,203
Customers' time investments	**130,293,061**	43,017,282
Other customer accounts	**7,053,800**	6,695,518
Total	**512,072,213**	382,631,003

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers. All Customers' time investments are subject to Murabaha contracts and therefore are non-interest.

Customers' deposits by currency comprise the following as of 31 December:

	(SAR'000)	
	2021	2020
Saudi Arabian Riyals	**475,448,079**	365,253,514
Foreign currencies	**36,624,134**	17,377,489
Total	**512,072,213**	382,631,003

13. OTHER LIABILITIES

Other liabilities comprise the following as of 31 December:

	(SAR'000)	
	2021	2020
Accounts payable	**5,400,941**	4,317,852
Employees' end of service benefits liabilities (note 25)	**1,198,261**	1,176,075
Accrued expenses	**2,266,988**	1,554,957
Special commission income excluded from the consolidated financial statements (note 32)	**29,771**	8,885
Zakat payable (note 37)	**3,424,929**	3,812,601
Lease liability	**927,764**	1,128,141
Loss allowance on financial commitments and financial guarantees	**415,591**	550,575
Payable to Developers	**4,890,003**	-
Other	**7,784,463**	4,762,055
Total	**26,338,711**	17,311,141

The loss allowance on financial commitments and financial guarantees are further depicted in Commitments and Contingencies (note 16 - d).

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each as of 31 December 2021 (31 December 2020: 2,500 million shares of SAR 10 each).

15. STATUTORY AND OTHER RESERVES

The Banking Control Law in Saudi Arabia and the By-Laws of the Group require a transfer to statutory reserve at a minimum of 25% of the annual net income for the year. Such transfers continue until the reserve equals the paid up share capital. This reserve is presently not available for distribution.

Other reserves includes FVOCI investments reserve, foreign currency translation reserve and employee share plan reserve.

The movements in FVOCI investments, foreign currency reserves, and employee share plan reserve are summarized as follows:

2021 **(SAR'000)**

	FVOCI investments	**Foreign currency translation**	**Employee share Plan reserve**	**Re-measurement of employees' end of service benefits**	**Share in OCI from associate**	**Total**
Balance at beginning of the year	**173,278**	**(113,881)**	**37,110**	**(231,235)**	**-**	**(134,728)**
Net change in fair value	**399,339**	**-**	**-**	**-**	**-**	**399,339**
Exchange difference on translation of foreign operations	**-**	**(21,316)**	**-**	**-**		**(21,316)**
Re-measurement of employees' end of service benefits (note 25)	**-**	**-**	**-**	**42,055**	**-**	**42,055**
Share in OCI from associate	**-**	**-**	**-**	**-**	**24,044**	**24,044**
Balance at the end of the year	**572,617**	**(135,197)**	**37,110**	**(189,180)**	**24,044**	**309,394**

2020 (SAR'000)

	FVOCI investments	Foreign currency translation	Employee share Plan reserve	Re-measurement of employees' end of service benefits	Total
Balance at beginning of the year	(80,944)	(120,577)	37,110	(51,630)	(216,041)
Net change in fair value	254,222	-	-	-	254,222
Exchange difference on translation of foreign operations	-	6,696	-	-	6,696
Re-measurement of employees' end of service benefits (note 25)	-	-	-	(179,605)	(179,605)
Balance at the end of the year	173,278	(113,881)	37,110	(231,235)	(134,728)

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2021, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Group's legal advisors.

The bank was named as one of many defendants in certain lawsuits initiated in the US commencing in 2002. The bank was successful in defending the claims, all of which were finally dismissed by the relevant courts. With respect to new lawsuits commencing in 2016, however, the most recent dismissal was reversed by the court of appeals to permit limited jurisdictional discovery, which commenced in 2021. The bank's management believes that the claims will be defended successfully, although note that there are inherent uncertainties in litigation.

b) Capital commitments

As at 31 December 2021, the Group had capital commitments of SAR 458 million (2020: SAR 540 million) relating to contracts for computer software update and development, and SAR 193 million (2020: SAR 238 million) relating to building new workstations, and development and improvement of new and existing branches.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, and therefore, carry 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.

Cash requirements under guarantees and letters of credit are considerably less than the amount of the commitment because the Group does not expect the third party to necessarily draw funds under the agreement.

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

16. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

1. The contractual maturities of the Group's commitments and contingent liabilities are as follows:

2021	**(SAR'000)**				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit	**2,147,992**	**2,733,885**	**331,344**	**-**	**5,213,221**
Letters of guarantee	**1,415,796**	**4,599,305**	**1,388,832**	**327,643**	**7,731,576**
Acceptances	**583,808**	**273,752**	**-**	**-**	**857,560**
Irrevocable commitments to extend credit	**1,540,867**	**8,390,296**	**1,306,996**	**46,713**	**11,284,872**
Total	**5,688,463**	**15,997,238**	**3,027,172**	**374,356**	**25,087,229**

2020	(SAR'000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit	1,729,492	545,033	104,908	-	2,379,433
Letters of guarantee	760,935	3,310,309	1,171,463	200,481	5,443,188
Acceptances	305,577	365,191	-	-	670,768
Irrevocable commitments to extend credit	3,880,062	6,265,899	516,740	-	10,662,701
Total	6,676,066	10,486,432	1,793,111	200,481	19,156,090

d) Contingent commitments that may result in credit exposure

The table below shows the gross carrying amount and ECL allowance of the financing commitments and financial guarantees.

2021	**(SAR'000)**				
	Letter of credits	**Acceptances**	**Letter of guarantees**	**Irrevocable commitments to extend credit**	**Total**
Gross carrying amount					
Stage 1 - (12-months ECL)	**5,186,457**	**856,792**	**7,006,356**	**11,065,878**	**24,115,483**
Stage 2 - (lifetime ECL not credit impaired)	**24,328**	**768**	**356,166**	**210,608**	**591,870**
Stage 3 - (lifetime ECL for credit impaired)	**2,436**	**-**	**369,054**	**8,386**	**379,876**
Total outstanding balance at end of the year	**5,213,221**	**857,560**	**7,731,576**	**11,284,872**	**25,087,229**
Credit loss allowance of the financing commitments and financial guarantees					
Stage 1 - (12-months ECL)	**61,532**	**821**	**13,780**	**6,982**	**83,115**
Stage 2 - (lifetime ECL not credit impaired)	**103**	**39**	**2,727**	**2,043**	**4,912**
Stage 3 - (lifetime ECL for credit impaired)	**2,436**	**-**	**319,577**	**5,551**	**327,564**
Total	**64,071**	**860**	**336,084**	**14,576**	**415,591**

16. COMMITMENTS AND CONTINGENCIES (continued)

d) Contingent commitments that may result in credit exposure (continued)

2020	(SAR'000)				
	Letter of credits	Acceptances	Letter of guarantees	Irrevocable commitments to extend credit	Total
Gross carrying amount					
Stage 1 - (12-months ECL)	2,341,991	660,394	4,329,805	10,392,221	17,724,411
Stage 2 - (lifetime ECL not credit impaired)	33,933	10,374	570,077	255,090	869,474
Stage 3 - (lifetime ECL for credit impaired)	3,509	-	543,306	15,390	562,205
Total	2,379,433	670,768	5,443,188	10,662,701	19,156,090
Credit loss allowance of the financing commitments and financial guarantees					
Stage 1 - (12-months ECL)	15,460	1,414	19,695	7,789	44,357
Stage 2 - (lifetime ECL not credit impaired)	63	112	3,177	3,905	7,257
Stage 3 - (lifetime ECL for credit impaired)	3,509	-	489,917	5,534	498,960
Total	19,032	1,526	512,789	17,228	550,575

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

	(SAR'000)	
	2021	2020
Corporates	**23,381,445**	18,318,019
Banks and other financial institutions	**1,705,784**	838,071
Total	**25,087,229**	19,156,090

17. NET FINANCING AND INVESTMENT INCOME

Net financing and investment income for the years ended 31 December comprises the following:

	(SAR'000)	
	2021	2020
Financing		
Corporate Mutajara	**2,263,820**	1,629,182
Installment sale	**15,806,344**	12,819,648
Murabaha	**686,398**	802,882
Investments and other		
Murabaha with SAMA	**1,167,653**	970,595
Mutajara with banks	**1,230,388**	980,343
Income from sukuk	**286,903**	175,313
Gross financing and investment income	**21,441,506**	17,377,963
Return on customers' time investments	**(803,888)**	(354,193)
Return on due to banks and financial institutions' time investments	**(245,682)**	(110,753)
Return on customers', banks' and financial institutions' time investments	**(1,049,570)**	(464,946)
Net financing and investment income	**20,391,936**	16,913,017

18. FEE FROM BANKING SERVICES, NET

Fee from banking services, net for the years ended 31 December comprise the following:

	(SAR'000)	
	2021	2020
Fee income:		
Drafts and remittances	**258,878**	270,434
Credit cards	**515,992**	416,816
Other electronic channel related	**1,514,817**	1,218,272
Brokerage and asset management, net	**803,484**	672,193
Others	**1,376,306**	702,423
Total fee income	**4,469,477**	3,280,138
Fee expenses:		
ATM Interchange related	**(536,370)**	(620,458)
Fee from banking services, net	**3,933,107**	2,659,680

19. OTHER OPERATING INCOME, NET

Other operating income for the years ended 31 December comprises the following:

	(SAR'000)	
	2021	2020
Dividend income	**169,602**	94,445
Gain on sale of property and equipment, net	**47,511**	10,256
Rental income from investment properties	**94,693**	96,134
Share in profit of an associate	**32,030**	42,944
Gain/(loss) on investments held as FVSI	**(37,897)**	33,441
Loss on sale of other real estate	**-**	(2,251)
Other income, net	**297,518**	89,700
Total	**603,457**	364,669

20. SALARIES AND EMPLOYEES' RELATED BENEFITS

The following tables provide an analysis of the salaries and employees' related benefits for the years ended 31 December:

2021	**(SAR'000)**			
			Variable compensations paid	
	Number of employees	**Fixed and variable compensation**	**Cash**	**Shares**
Executives	**23**	**40,790**	**20,926**	**42,322**
Employees engaged in risk taking activities	**2,077**	**568,126**	**161,216**	**22,242**
Employees engaged in control functions	**610**	**178,878**	**27,190**	**19,241**
Other employees	**12,368**	**1,789,839**	**385,506**	**34,675**
Total	**15,078**	**2,577,633**	**594,838**	**118,480**
Accrued compensations in 2021	**-**	**231,087**	**-**	**-**
Other employees' costs	**-**	**323,626**	**-**	**-**
Gross total	**15,078**	**3,132,346**	**594,838**	**118,480**

2020	(SAR'000)			
			Variable compensations paid	
	Number of employees	Fixed and variable compensation	Cash	Shares
Executives	22	40,552	20,591	45,954
Employees engaged in risk taking activities	1,684	509,487	131,639	20,312
Employees engaged in control functions	412	155,859	25,969	21,608
Other employees	11,598	1,826,261	274,757	28,022
Total	13,716	2,532,159	452,956	115,896
Accrued compensations in 2020	-	188,652	-	-
Other employees' costs	-	256,533	-	-
Gross total	13,716	2,977,344	452,956	115,896

Salaries and employees' related benefits include end of services, General Organization for Social Insurance, business trips, training and other benefits.

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the Financial Stability Board.

SAMA, as the regulator for financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the Financial Stability Board.

In light of the above SAMA's regulations, the Group issued compensation and bonuses policy which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the Group and its subsidiary companies (local and international) that are operating in the financial services sector. Accordingly it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

20. SALARIES AND EMPLOYEES' RELATED BENEFITS (continued)

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Group has used a combination of fixed and variable compensation to attract and maintain talent. The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowances and benefits which is related to the employees' ranks. The variable compensation is related to the employees' performance and their compatibility to achieve the agreed-on objectives. It includes incentives, performance bonus and other benefits. Incentives are mainly paid to branches' employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Group's net income.

21. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses for the years ended 31 December comprises the following:

	(SAR'000)	
	2021	2020
Communications and utilities expenses	**638,822**	628,591
Maintenance and security expenses	**424,722**	547,520
Cash feeding and transfer expenses	**261,042**	338,404
Software and IT support expenses	**315,836**	351,348
Other operational expenses	**1,011,822**	780,546
Total	**2,652,244**	2,646,409

22. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2021 and 2020 have been calculated by dividing the net income for the year by 2,500 million shares. The diluted earnings per share is the same as the basic earnings per share.

23. PAID DIVIDENDS

The Board of Directors of Al Rajhi Bank approved on 29 June 2021 to distribute cash dividends to the shareholders for the first half of 2021, amounting to SAR 3,500 million, being SAR 1.40 per share. These dividends were subsequently paid on 14 July 2021.

The Board of Directors proposed on 28 February 2021, distribution of final dividends to shareholders for the year ended 31 December 2020, amounting to SAR 2,500 million, being SAR 1 per share. The proposed final dividends for 2020 was approved by the Annual General Assembly in its meeting held on 29 March 2021. These dividends were subsequently paid on 6 April 2021.

The Board of Directors proposed on 2 February 2020, distribution of final dividends to shareholders for the year ended 31 December 2019, amounting to SAR 3,750 million, being SAR 1.5 per share. The proposed final dividends for 2019 was approved by the Annual General Assembly in its meeting held on 29 March 2020. These dividends were subsequently paid on 6 April 2020.

24. CASH AND CASH EQUIVALENTS

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

	(SAR'000)	
	2021	2020
Cash in hand	**5,445,994**	7,355,940
Due from banks and other financial institutions maturing within 90 days from the date of purchased	**10,680,328**	8,924,379
Balances with SAMA and other central banks (current accounts)	**314,005**	311,493
Mutajara with SAMA	**5,799,920**	16,235,549
Total	**22,240,247**	32,827,361

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES

25.1 General description

The Group operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under the projected unit credit method, while the benefit payments liabilities are discharged as and when they fall due.

25.2 The amounts recognized in the consolidated statement of financial position and movement in the liabilities during the year based on its present value are as follows:

	(SAR'000)	
	2021	2020
Employees' end of service benefits liabilities at the beginning of the year	**1,176,075**	980,304
Current service cost	**146,375**	86,355
Financing cost	**33,264**	38,041
Benefits paid	**(115,398)**	(108,230)
Remeasurement (gain)/loss	**(42,055)**	179,605
Employees' end of service benefits liabilities at the end of the year	**1,198,261**	1,176,075

25.3 Charge for the year

	(SAR'000)	
	2021	2020
Current service cost	**146,375**	86,355
Past service cost	**-**	-
	146,375	86,355

25.4 Re-measurement recognised in other comprehensive income

	(SAR'000)	
	2021	2020
(Gain)/loss from change in experience assumptions	**6,528**	(10,911)
(Gain)/loss from change in demographic assumptions		532
(Gain)/loss from change in financial assumptions	**(48,583)**	189,984
	(42,055)	179,605

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

	2021	2020
Discount rate	**3.05%**	2.75%
Expected rate of salary increase	**2.5% for FY 2022 and 3% thereafter**	2.6% for FY 2021 and 2022 and 3% thereafter
Normal retirement age	**60 years for male employees and 55 for female employees**	60 years for male employees and 55 for female employees

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES (continued)

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December 2021 to the discount rate 3.05% (31 December 2020: 2.75%), salary increase rate 2.5% (31 December 2020: 2.6%), withdrawal assumptions and mortality rates.

	SAR 000'		
2021	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+/- 100 basis points**	**(119,306)**	**140,910**
Expected rate of salary increase	**+/- 100 basis points**	**139,572**	**(120,486)**
Normal retirement age	**Increase or decrease by 20%**	**(9,825)**	**10,113**

	SAR 000'		
2020	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 100 basis points	(120,862)	143,318
Expected rate of salary increase	+/- 100 basis points	141,537	(121,755)
Normal retirement age	Increase or decrease by 20%	(14,148)	15,024

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

25.7 Expected maturity

Expected maturity analysis of undiscounted employees' end of service benefits liabilities is as follows:

As at 31 December	Discounted liability	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2021	**1,198,261**	**89,324**	**93,492**	**332,743**	**2,994,291**	**3,509,850**
2020	1,176,075	82,333	91,365	307,844	2,894,768	3,376,310

The weighted average duration of the employees' end of service benefits liabilities is 12.7 years (2020: 13years).

26. OPERATING SEGMENTS

The Group identifies operating segments on the basis of internal reports about the activities of the Group that are regularly reviewed by the chief operating decision maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Group is organized into the following four main businesses segments:

Retail segment: Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.

Corporate segment: Incorporates deposits of corporate customers, credit facilities, and debit current accounts (overdrafts).

Treasury segment: Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.

Investment services and brokerage segments: Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Group's assets and liabilities.

a) The Group's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended 31 December for each segment are as follows:

	(SAR'000)				
2021	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Total assets	418,026,653	88,031,046	112,692,243	4,921,973	623,671,915
Total liabilities	319,610,568	207,506,186	29,156,964	89,346	556,363,064
Gross financing and investment income from external customers	16,060,249	3,199,791	2,106,498	74,968	21,441,506
Inter-segment operating income / (expense)	(4,549,247)	(63,795)	4,613,042	-	-
Gross financing and investment income	11,511,002	3,135,996	6,719,540	74,968	21,441,506
Return on customers', banks' and financial institutions' time investments	(158,337)	(695,687)	(195,546)	-	(1,049,570)
Net financing and investment income	11,352,665	2,440,309	6,523,994	74,968	20,391,936
Fees from banking services, net	2,103,700	973,970	59,677	795,760	3,933,107
Exchange income, net	413,470	106,067	268,361	-	787,898
Other operating income, net	136,870	-	363,179	103,408	603,457
Total operating income	14,006,705	3,520,346	7,215,211	974,136	25,716,398
Depreciation and amortization	(1,057,504)	(49,832)	(23,609)	(10,987)	(1,141,932)
Impairment charge for financing and other financial assets, net	(1,785,410)	(566,292)	6,616	-	(2,345,086)
Other operating expenses	(4,974,437)	(487,561)	(161,191)	(161,401)	(5,784,590)
Total operating expenses	(7,817,351)	(1,103,685)	(178,184)	(172,388)	(9,271,608)
Income before zakat	6,189,354	2,416,661	7,037,027	801,748	16,444,790

26. OPERATING SEGMENTS (continued)

	(SAR'000)				
2020	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Total assets	268,108,818	66,837,086	129,950,664	3,928,155	468,824,723
Total liabilities	289,583,836	108,514,833	12,442,931	164,605	410,706,205
Gross financing and investments income from external customers	12,663,067	2,605,516	2,061,630	47,750	17,377,963
Inter-segment operating income / (expense)	(1,151,244)	(123,040)	1,274,284	-	-
Gross financing and investment income	11,511,823	2,482,476	3,335,914	47,750	17,377,963
Return on customers', banks' and financial institutions' time investments	(177,283)	(150,387)	(137,276)	-	(464,946)
Net financing & investment income	11,334,540	2,332,089	3,198,638	47,750	16,913,017
Fees from banking services, net	1,650,305	289,794	47,388	672,193	2,659,680
Exchange income, net	372,289	109,020	302,585	-	783,894
Other operating income, net	99,409	4	179,830	85,426	364,669
Total operating income	13,456,543	2,730,907	3,728,441	805,369	20,721,260
Depreciation and amortization	(1,046,483)	(41,570)	(22,802)	(7,293)	(1,118,148)
Impairment charge for financing and other financial assets, net	(1,152,042)	(1,014,526)	828	-	(2,165,740)
Other operating expenses	(5,006,796)	(284,449)	(181,974)	(150,534)	(5,623,753)
Total operating expenses	(7,205,321)	(1,340,545)	(203,948)	(157,827)	(8,907,641)
Income before zakat	6,251,222	1,390,362	3,524,493	647,542	11,813,619

b) The Group's credit exposure by business segments as of 31 December is as follows:

	(SAR'000)				
2021	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Consolidated balance sheet assets	**365,749,349**	**87,081,308**	**102,230,559**	**2,961,252**	**558,022,469**
Commitments and contingencies excluding irrevocable commitments to extend credit	**-**	**13,802,357**	**-**	**-**	**13,802,357**

26. OPERATING SEGMENTS (continued)

2020	(SAR'000) Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Consolidated balance sheet assets	250,683,555	65,028,546	82,467,805	1,613,343	399,793,249
Commitments and contingencies excluding irrevocable commitments to extend credit	-	8,493,389	-	-	8,493,389

27. FINANCIAL RISK MANAGEMENT

The Group 's activities are exposed it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Group reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, operational risk and price risk.

27-1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG, which sets parameters and thresholds for the Group's financing activities.

a) Credit risk measurement

i) Financing

The Group has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Group's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Group considers the overall credit worthiness of the customer based on a proprietary risk methodology.

This risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a. Credit risk measurement (continued)
ii) Credit risk grades

For corporate exposures, the Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. 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 customer.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of corporate exposure involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the customer or in its business activities

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its customers analyzed by segment as well as by credit risk grading.

iii) Generating the term structure of PD
The Group employs analytical techniques incorporating internal default estimates backed by transition matrices published by external agencies to construct PD term structures that can be applied to each exposure based on the its remaining lifetime. These PD term structures are then adjusted to incorporate the impact of macroeconomic outlook to arrive at a forward looking estimate of PD across the lifetime.

For retail exposure, customer and financing specific information collected at the time of application, repayment behavior etc. are used to construct risk based segmentation using Chi-square Automatic Interaction Detection (CHAID) (or Decision Tree) technique. Risk segments are constructed to identify and aggregate customers with similar risk characteristics. For each risk segment thus formed, PD term structures are constructed using historical data that can be applied to each exposure based on its remaining lifetime.

Based on consideration of a variety of external actual and forecast information from published sources, the Group formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

Bank has a master rating scale in place that comprises of 22 risk rating grades in total which is further split into 19 performing grades and 3 non-performing grades. Each of these 19 performing risk rating grades has a probability of default range assigned to it along with a mid-point PD. The probability of default for performing portfolio ranges from a minimum of 0% up to a maximum of 99% depending on the risk grades. The 12 month probability of default (PD) for on and off-balance sheet financing exposures in grades 1 to 6 and unrated exposures range from 0% to 8%. For 12 month PD for watch list exposures ranges from 8% to 99%, For the 3 non performing grades, the probability of default (PD) assigned is 100%.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

Risk Rating 1
Exceptional - Obligors of unquestioned credit standing at the pinnacle of credit quality.

Risk Rating 2
Excellent - Obligors of the highest quality, presently and prospectively. Virtually no risk in financing to this class, Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk Rating 3
Superior - Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.

Risk Rating 4
Good - Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk Rating 5
Satisfactory - These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the customers have sufficient strength and financial flexibility to offset these issues.

Risk Rating 6
Adequate - Obligors with declining earnings, strained cash flow, increasing leverage and/ or weakening market fundamentals that indicate above average risk, such customers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present customer performance is satisfactory, but could be adversely affected by developing collateral quality/ adequacy etc.

Risk Rating 7
Very high risk - Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk Rating 8
Substandard - Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

Risk Rating 9
Doubtful - Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk Rating 10
Loss - Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

iv) ECL - Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

For Corporate portfolio, the Group’s assessment of significant increase in credit risk is based on facility level except for watch-list accounts, whereby the Group’s assessment is based on counterparty. Significant increase in credit risk assessment for retail financing is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Group considers all investment grade Sukuk issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs , delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on quantitative assessment and / or using its expert credit judgment and, where possible, relevant historical experience, the Group 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 Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the customer.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

v) Determining whether credit risk has increased significantly (continued)

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected behavioral maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is assumed to be stage 3.

vi) Modified financial assets

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing with terms have been modified may be derecognized and the renegotiated finance recognized as a new financing at fair value in accordance with the accounting policy

The Group renegotiates finances to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, finance forbearance 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 profit payments and amending the terms of financing covenants. Both retail and corporate financing are subject to the forbearance policy.

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

vii) Definition of 'Default'

The Group considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the customer is past due more than 90 days on any material credit obligation to the Group.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a customer is in default. the Group 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 Group; and
- based on data developed internally and obtained from external sources.

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

The definition of default largely aligns with that applied for the Group for regulatory purposes.

viii) Incorporation of forward looking information

The Group considers macroeconomic forecasts for next 5 years (consistent with forecasts available from public sources), beyond which the long term average macroeconomic conditions prevail. The forward-looking PD curve would account for the changing expectation of macroeconomic environment over time Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Central Bank (SAMA) are used for making the base case forecast. For other scenarios (namely upturn and downturn), adjustments are made to base case forecasts based standard deviation of the macroeconomic factors.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

The Group has in place suite of macroeconomic models pertaining to specific portfolios that are used to incorporate the forward-looking information. The Group chose to adopt a macroeconomic regression-based approach to determine the link function between historical default rates (up to 10 years) and prevalent macroeconomic condition. Key factors used across different macroeconomic models being: Change in Oil price, Government net lending and Investments as percentage of GDP, Current Account Balance, Gross National Savings and Government Revenue.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

ix) Incorporation of forward looking information (continued)

The Group has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2021 ECL model		
	2022	2023	2024
Yearly Growth in Oil Price	-5.9%	-3.8%	-2.1%
General Government Net Lending (% of GDP)	-2.5%	-2.0%	-1.4%
Investment (% of GDP)	28.4%	28.5%	28.3%
Current Account Balance to GDP	1.9%	0.5%	-0.2%
Crude Oil Production Avg Daily (million barrel)	9.8	10	10.1
Gross National Savings to GDP (YoY) Growth	-1.0%	-4.3%	-2.9%
General Government Revenue (% of GDP)	28.9%	28.9%	28.9%

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

	Due from Bank and other financial institutions	Investment	Financing	Off Balance Sheet Items	Total
31-Dec-21	**SAR '000'**				
Most likely (Base case)	4,275	31,824	9,198,154	415,591	9,649,844
More optimistic (Upside)	2,892	21,069	8,314,379	404,118	8,742,458
More pessimistic (Downside)	5,633	42,382	9,984,351	441,607	10,473,973

x) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

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

i. probability of default (PD);
ii. loss given default (LGD);
iii. 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.

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 compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

For Corporate and Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

x) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financing 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. The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

xi) Credit quality analysis

a) The following table sets out information about the credit quality of financings measured at amortized cost as at 31 December :

2021	***SAR '000'***			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	**10,983,194**	**-**	**-**	**10,983,194**
Grade (4-6) / (Baa1 - B3)	**73,375,643**	**2,358,621**	**-**	**75,734,264**
Grade 7- Watch list / (Caa1 – C)	**-**	**2,850,570**	**-**	**2,850,570**
Non-performing	**-**	**-**	**1,510,003**	**1,510,003**
Total Corporate performing and non-performing	**84,358,837**	**5,209,191**	**1,510,003**	**91,078,031**
Total Retail (un-rated)	**363,935,472**	**4,348,687**	**2,666,621**	**370,950,780**
Total Carrying amount	**448,294,309**	**9,557,878**	**4,176,624**	**462,028,811**

2020	*SAR '000'*			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	10,218,303	-	-	10,218,303
Grade (4-6) / (Baa1 - B3)	50,406,170	3,176,554	-	53,582,724
Grade 7- Watch list / (Caa1 – C)	-	2,666,449	-	2,666,449
Non-performing	-	-	1,690,865	1,690,865
Total Corporate performing and non-performing	60,624,473	5,843,003	1,690,865	68,158,341
Total Retail (un-rated)	250,650,984	2,617,230	1,756,902	255,025,116
Total Carrying amount	311,275,457	8,460,233	3,447,767	323,183,457

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xii) Financings

a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

2021

Description	Performing	Non-Performing	Allowance for impairment	Net financing
	(SAR'000)			
Commercial	**32,288,030**	**544,141**	**(427,931)**	**32,404,240**
Industrial	**32,577,200**	**137,392**	**(104,470)**	**32,610,122**
Building and construction	**3,329,919**	**709,105**	**(668,271)**	**3,370,753**
Consumer	**369,450,684**	**1,500,097**	**(1,163,714)**	**369,787,067**
Services	**17,747,557**	**114,092**	**(71,307)**	**17,790,342**
Agriculture and fishing	**474,037**	**133**	**(99)**	**474,071**
Others	**3,151,284**	**5,140**	**(4,211)**	**3,152,213**
Total	**459,018,711**	**3,010,100**	**(2,440,003)**	**459,588,808**
12 month and life time ECL not credit impaired	**-**	**-**	**(6,758,151)**	**(6,758,151)**
Balance	**459,018,711**	**3,010,100**	**(9,198,154)**	**452,830,657**

2020

Description	Performing	Non-Performing	Allowance for impairment	Net financing
	(SAR'000)			
Commercial	20,831,819	654,288	(527,116)	20,958,991
Industrial	27,896,009	229,237	(138,592)	27,986,654
Building and construction	1,396,185	636,587	(604,646)	1,428,126
Consumer	254,270,868	754,249	(642,253)	254,382,864
Services	13,936,713	170,055	(105,083)	14,001,685
Agriculture and fishing	539,561	-	-	539,561
Others	1,867,188	698	(7,122)	1,860,764
Total	320,738,343	2,445,114	(2,024,812)	321,158,645
12 month and life time ECL not credit impaired	-	-	(5,446,544)	(5,446,544)
Balance	320,738,343	2,445,114	(7,471,356)	315,712,101

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xii) Financings (continued)

b) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

2021	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Individually impaired financing	**1,500,097**	**1,510,003**	**3,010,100**
Fair value of collateral	**925,297**	**135,352**	**1,060,649**

2020	(SAR'000)		
	Retail	Corporate	Total
Individually impaired financing	754,249	1,690,865	2,445,114
Fair value of collateral	573,602	453,208	1,026,810

C. The table below stratifies The banks in the ordinary course of financing activities hold collaterals as security to mitigate credit risk in the financings. 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 and consumer financings and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting year, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk. The outstanding credit impaired financing facility balances, that are covered by collateral, as of December 31 is as follows:

	(SAR'000)	
	2021	2020
Less than 50%	**26,830**	21,799
51-70%	**107,023**	87,603
More than 70%	**581,717**	328,547
Total exposure	**715,570**	437,949

b) Settlement risk

The Group is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Group pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

The following business units within the Group assist in the credit control process:

- Corporate Credit Unit.
- Credit Administration, Monitoring and Control Unit.
- Remedial Unit.
- Credit Policy Unit.
- Retail Credit Unit.

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Group manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

The Group manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

c-1) Collateral

The Group implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralized share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Group.

Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

d) Impairment and provisioning policies

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

	(SAR'000)	
On-balance sheet items	**2021**	2020
Investments, net:		
Murabaha with Saudi Government and SAMA	**22,611,987**	22,904,021
Sukuk	**51,764,416**	28,406,417
Structured Products	**1,788,765**	2,502,525
Due from banks and other financial institutions	**26,065,392**	28,654,842
Financing, net		
Corporate	**87,081,308**	65,028,546
Retail	**365,749,349**	250,683,555
Other finaincal assets		
Receivables, net	**2,961,252**	1,613,343
Total on-balance sheet items	**558,022,469**	399,793,249
Off-balance sheet items:		
Letters of credit and acceptances	**6,070,781**	3,050,200
Letters of guarantee	**7,731,576**	5,443,189
Irrevocable commitments to extend credit	**11,284,872**	10,662,701
Total off-balance sheet items	**25,087,229**	19,156,090
Maximum exposure to credit risk	**583,109,698**	418,949,339

The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27-2 Liquidity risks

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfill financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Group help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Group's liquidity management process is as monitored by the Group's Asset and Liabilities Committee (ALCO), and includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury / ALCO also monitors the level and type of undrawn financing commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Group's liquidity position.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

The tables below summarizes the maturity profile of the Group's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Group maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Group maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Group has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflects the expected cash flows indicated by the deposit retention history of the Group. Management monitors a rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movements. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

2021	**(SAR'000)**					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No Fixed Maturity**	**Total**
Assets						
Cash and balance with SAMA and other central banks	**5,799,920**	**-**	**-**	**-**	**34,563,529**	**40,363,449**
Due from banks and other financial institutions	**10,680,328**	**8,531,326**	**4,797,197**	**-**	**2,056,541**	**26,065,392**
Financing, net						
Mutajara	**18,781,527**	**19,227,767**	**20,892,884**	**6,810,429**	**-**	**65,712,607**
Installment sale	**16,206,795**	**38,917,960**	**161,495,958**	**150,379,014**	**-**	**366,999,727**
Murabaha	**1,104,177**	**2,409,123**	**6,384,504**	**6,702,086**	**-**	**16,599,890**
Credit cards	**1,452,961**	**881,980**	**1,172,832**	**10,660**	**-**	**3,518,433**
Investments, net						
Investment in an associate	**-**	**-**	**-**	**-**	**295,253**	**295,253**
Investments held at amortized cost	**-**	**1,459,651**	**32,470,004**	**36,168,616**	**-**	**70,098,271**
FVSI investments	**-**	**-**	**1,706,145**	**2,828,141**	**2,650,605**	**7,184,891**
FVOCI investments	**488,205**	**-**	**259,039**	**785,367**	**5,322,369**	**6,854,980**
Other assets, net	**-**	**-**	**-**	**-**	**19,979,022**	**19,979,022**
Total	**54,513,913**	**71,427,807**	**229,178,563**	**203,684,313**	**64,867,319**	**623,671,915**
Liabilities						
Due to banks and other financial institutions	**7,805,606**	**2,698,866**	**5,698,537**	**-**	**1,749,131**	**17,952,140**
Demand deposits	**-**	**-**	**-**	**-**	**374,725,352**	**374,725,352**
Customers' time investments	**72,910,255**	**53,893,319**	**3,469,487**	**20,000**	**-**	**130,293,061**
Other customer accounts	**1,854,045**	**2,354,454**	**2,845,301**	**-**	**-**	**7,053,800**
Other liabilities	**-**	**-**	**-**	**-**	**26,338,711**	**26,338,711**
Total Liabilities	**82,569,906**	**58,946,639**	**12,013,325**	**20,000**	**402,813,194**	**556,363,064**
Gap	**(28,055,993)**	**12,481,168**	**217,165,238**	**203,664,313**	**(337,945,875)**	**67,308,851**

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2020	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	16,235,549	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	8,924,380	6,519,752	11,951,076	-	1,259,634	28,654,842
Financing, net						
Mutajara	14,385,991	9,205,279	11,161,268	2,478,796	-	37,231,334
Installment sale	14,550,254	31,842,841	115,670,114	93,416,307	-	255,479,516
Murabaha	1,233,638	2,760,214	4,281,018	11,395,223	-	19,670,093
Credit cards	1,409,529	823,202	1,096,299	2,128	-	3,331,158
Investments, net						
Investment in an associate	-	-	-	-	239,179	239,179
Investments held at amortized cost	488,781	-	18,408,177	30,220,553	-	49,117,511
FVSI investments	-	-	1,502,525	2,588,595	2,545,864	6,636,984
FVOCI investments	103,743	48,043	75,495	377,051	3,687,266	4,291,598
Other assets, net	-	-	-	-	16,809,986	16,809,986
Total	57,331,865	51,199,331	164,145,972	140,478,653	55,668,902	468,824,723
Liabilities						
Due to banks and other financial institutions	1,208,109	5,459,613	3,648,051	-	448,288	10,764,061
Demand deposits	-	-	-	-	332,918,203	332,918,203
Customers' time investments	29,729,360	13,278,009	9,913	-	-	43,017,282
Other customer accounts	-	-	-	-	6,695,518	6,695,518
Other liabilities	-	-	-	-	17,311,141	17,311,141
Total	30,937,469	18,737,622	3,657,964	-	357,373,150	410,706,205
Gap	26,394,396	32,461,709	160,488,008	140,478,653	(301,704,248)	58,118,518

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2021	**(SAR'000)**					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Due to banks and other financial institutions	**9,554,737**	**2,698,866**	**5,698,537**	**-**	**-**	**17,952,140**
Customer deposits	**74,764,300**	**56,247,773**	**6,314,788**	**20,000**	**374,725,352**	**512,072,213**
Other liabilities	**-**	**-**	**-**	**-**	**26,338,711**	**26,338,711**
Total	**84,319,037**	**58,946,639**	**12,013,325**	**20,000**	**401,064,063**	**556,363,064**

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2020	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	1,208,109	5,459,613	3,648,051	-	448,288	10,764,061
Customers' deposits	29,729,360	13,278,009	9,913	-	339,613,721	382,631,003
Other liabilities	-	-	-	-	17,311,141	17,311,141
Total	30,937,469	18,737,622	3,657,964	-	357,373,150	410,706,205

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27-3 Market risks

The Group is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury / Credit & Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensures that they are appropriate.

a. Market risks - speculative operations

The Group is not exposed to market risks from speculative operations. The Group is committed to Sharia guidelines which do not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

b. Market risks - banking operations

- **Profit rate risk**

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Group does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the financial statements at amortized cost. In addition to this, a substantial portion of the Group's financial liabilities are non-profit bearing.

Profit rate risk arises from the possibility that the changes in profit rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established profit rate gap limits for stipulated periods. The Group monitors positions daily and uses gap management strategies to ensure maintenance of positions within the established gap limits.

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Profit rate risk (continued)**

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Group's consolidated statement of income or shareholders' equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2021 and 2020. All the banking book exposures are monitored and analyzed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

2021		**SAR in Million**			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**+25**	**325**	**306**	**325**	**283**

Currency	**Decrease in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**-25**	**(325)**	**(306)**	**(325)**	**(283)**

2020		SAR in Million			
Currency	Increase in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	+25	255	244	255	229

Currency	Decrease in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	-25	(255)	(244)	(255)	(229)

Profit rate movements affect reported consolidated shareholders 'equity through retained earnings, i.e. increases or decreases in financing and investment income.

Commission sensitivity of assets, liabilities and off balance sheet items:

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

The Board sets limits on the level of mismatch of profit rate repricing that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarizes the Group's exposure to profit rate risks. Included in the table are the Group's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

27. FINANCIAL RISK MANAGEMENT (continued)
27-3 Market risks (continued)
b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

(SAR'000)

2021	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	5,799,758	-	-	-	-	34,563,691	40,363,449
Due from banks and other financial institutions	11,531,741	4,606,477	3,379,876	4,490,757	-	2,056,541	26,065,392
Investments, net							
Investment in an associate	-	-	-	-	-	295,253	295,253
Investments held at amortized cost	25,855,000	3,216,475	-	7,749,046	33,277,750	-	70,098,271
FVSI investments	600,000	1,131,760	-	788,765	2,013,761	2,650,605	7,184,891
FVOCI investments	488,205	-	-	259,039	785,367	5,322,369	6,854,980
Financing, net							
Mutajara	28,281,674	23,307,071	5,877,092	6,409,798	1,836,972	-	65,712,607
Installment sale	36,467,842	23,238,717	40,756,516	145,219,264	121,317,388	-	366,999,727
Murabaha	6,438,635	7,919,605	338,633	183,487	1,719,530	-	16,599,890
Credit cards	1,452,873	294,023	588,045	1,172,832	10,660	-	3,518,433
Other assets	-	-	-	-	-	19,979,022	19,979,022
Total Assets	116,915,728	63,714,128	50,940,162	166,272,988	160,961,428	64,867,481	623,671,915
Liabilities							
Due to banks and other financial institutions	6,217,633	2,664,761	527,693	6,792,922	-	1,749,131	17,952,140
Customer deposits	-	-	-	-	-	374,725,352	374,725,352
Customers' time investments	72,900,341	27,547,100	26,337,227	3,488,168	20,225	-	130,293,061
Other customer accounts	-	-	-	-	-	7,053,800	7,053,800
Other liabilities	-	-	-	-	-	26,338,711	26,338,711
Total liabilities	79,117,974	30,211,861	26,864,920	10,281,090	20,225	409,866,994	556,363,064
Shareholders' equity	-	-	-	-	-	67,308,851	67,308,851
Gap	37,797,754	33,502,267	24,075,242	155,991,898	160,941,203	(412,308,364)	-
Profit Rate Sensitivity – On consolidated statement of financial position	37,797,754	33,502,267	24,075,242	155,991,898	160,941,203	(412,308,364)	-
Profit Rate Sensitivity - Off consolidated statement of financial Position	90,684	96,174	248,178	41,380	7,065	-	483,481
Total Profit Rate Sensitivity Gap	37,888,438	33,598,441	24,323,420	156,033,278	160,948,268	(412,308,364)	483,481
Cumulative Profit Rate Sensitivity Gap	37,888,438	71,486,878	95,810,299	251,843,576	412,791,845	(483,481)	-

27. FINANCIAL RISK MANAGEMENT (continued)
27-3 Market risks (continued)
b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

2020 (SAR'000)

	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	16,235,549	-	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	10,131,068	2,902,451	2,410,613	11,951,076	-	1,259,634	28,654,842
Investments, net							
Investment in an associate	-	-	-	-	-	239,179	239,179
Investments held at amortized cost	22,355,265	2,005,632	-	15,545,908	9,210,706	-	49,117,511
Investments held as FVSI	-	2,588,595	-	1,502,525	-	2,545,864	6,636,984
FVOCI investments	-	604,332	-	-	-	3,687,266	4,291,598
Financing, net							
Mutajara	16,174,148	11,265,923	3,283,366	5,343,271	1,164,626	-	37,231,334
Installment sale	21,730,136	13,139,501	22,689,661	117,297,161	80,623,057	-	255,479,516
Murabaha	10,302,648	8,213,185	35,286	282,279	836,695	-	19,670,093
Credit cards	1,409,504	274,410	548,817	1,096,299	2,128	-	3,331,158
Other assets	-	-	-	-	-	16,809,986	16,809,986
Total Assets	98,338,318	40,994,029	28,967,743	153,018,519	91,837,212	55,668,902	468,824,723
Liabilities							
Due to banks and other financial institutions	2,027,236	4,891,925	649,025	2,747,587	-	448,288	10,764,061
Customer deposits	-	-	-	-	-	332,918,203	332,918,203
Customers' time investments	29,729,361	9,015,881	4,262,127	9,913	-	-	43,017,282
Other customer accounts	-	-	-	-	-	6,695,518	6,695,518
Other liabilities	-	-	-	-	-	17,311,141	17,311,141
Total liabilities	31,756,597	13,907,806	4,911,152	2,757,500	-	357,373,150	410,706,205
Shareholders' equity	-	-	-	-	-	58,118,518	58,118,518
Gap	66,581,721	27,086,223	24,056,591	150,261,019	91,837,212	(359,822,766)	-
Profit Rate Sensitivity - On Consolidated Statement of Financial Positions	66,581,721	27,086,223	24,056,591	150,261,019	91,837,212	(359,822,766)	-
Profit Rate Sensitivity - Off Consolidated Statement of Financial Positions	86,891	136,217	134,359	33,212	934	-	391,613
Total Profit Rate Sensitivity Gap	66,668,612	27,222,440	24,190,950	150,294,231	91,838,146	(359,822,766)	391,613
Cumulative Profit Rate Sensitivity Gap	66,668,612	93,891,052	118,082,002	268,376,233	360,214,379	391,613	-

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks**

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Group management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as at 31 December 2021 and 2020, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonably possible movements of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the consolidated statement of income or consolidated shareholders' equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or consolidated statement of changes in shareholders' equity.

(SAR in '000)

Currency Exposures As at 31 December 2021	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**
UAE Dirham	**+/-2**	**1,306**	**1,306**
US Dollar	**+/-2**	**41,005**	**41,005**
Malaysian Ringgit	**+/-5**	**45,630**	**45,630**
Jordanian Dinar	**+/-5**	**25,874**	**25,874**
Kuwaiti Dinar	**+/-5**	**19,502**	**19,502**

(SAR in '000)

Currency Exposures As at 31 December 2020	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
UAE Dirham	+/-2	1,601	1,601
US Dollar	+/-2	177,857	177,857
Malaysian Ringgit	+/-5	48,380	48,380
Jordanian Dinar	+/-5	23,408	23,408
Kuwaiti Dinar	+/-5	(589)	(589)

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency position

The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	SAR '000	
	2021	2020
	Long/(short)	Long/(short)
US Dollar	**2,050,261**	8,892,870
Jordanian Dinar	**517,473**	468,162
Kuwaiti Dinar	**390,037**	(11,786)
UAE Dirham	**65,276**	80,027
Malaysian Ringgit	**912,599**	967,597
Others	**267,293**	255,438
Total	**4,202,939**	10,652,308

c. Price risk

The Group has certain investments which are carried at fair value through the income statement (FVSI) and fair value through other comprehensive income (FVOCI). Price risk arises due to changes in these investments.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Group monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order, and therefore involve minimal risk.

- **Equity Price Risk**

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

The effect on the Group's equity investments held as FVOCI due to reasonably possible changes in equity indices, with all other variables held constant, as at 31 December is as follows:

	2021		2020	
Local Market Indices	**Change in Equity price %**	**Effect in SAR Million**	Change in Equity price %	Effect in SAR Million
Equity investments	**+ /- 10**	**+/- 532,237**	+ /- 10	+/- 368,727

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Group's activities. This necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of Operational Risk within the Group. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Group.

The three primary operational risk management processes in the Group are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

2021	**(SAR'000)**					
	Kingdom of Saudi Arabia	**Other GCC and Middle East**	**North America**	**South East Asia**	**Other Countries**	**Total**
Assets						
Cash and balances with SAMA and other central banks	**39,842,383**	**86,663**	**368,698**	**17,579**	**48,126**	**40,363,449**
Due from banks and other financial institutions	**7,586,983**	**15,604,674**	**758,132**	**1,517,932**	**597,671**	**26,065,392**
Financing, net						
Mutajara	**64,370,413**	**1,342,194**	**-**	**-**	**-**	**65,712,607**
Installment sale	**362,227,916**	**3,568,681**	**-**	**1,203,130**	**-**	**366,999,727**
Murabaha	**12,111,030**	**302,171**	**-**	**4,186,689**	**-**	**16,599,890**
Credit cards	**3,511,798**	**6,518**	**-**	**117**	**-**	**3,518,433**
Investments, net						
Investment in an associate	**295,253**	**-**	**-**	**-**	**-**	**295,253**
Investments held at amortized cost	**64,687,914**	**4,809,311**	**-**	**601,046**	**-**	**70,098,271**
FVSI Investments	**6,896,121**	**-**	**-**	**-**	**288,770**	**7,184,891**
FVOCI investments	**5,128,039**	**20,908**	**-**	**1,706,033**	**-**	**6,854,980**
Total assets	**566,657,850**	**25,741,120**	**1,126,830**	**9,232,526**	**934,567**	**603,692,893**
Liabilities						
Due to banks and other financial institutions	**14,916,740**	**862,015**	**1,157,182**	**1,016,203**	**-**	**17,952,140**
Customer deposits	**499,872,716**	**5,712,243**	**-**	**6,487,254**	**-**	**512,072,213**
Total liabilities	**514,789,456**	**6,574,258**	**1,157,182**	**7,503,457**	**-**	**530,024,353**
Commitments and contingencies	**16,601,812**	**1,758,776**	**8,115**	**2,480,106**	**4,238,420**	**25,087,229**
Credit exposure (stated at credit equivalent value)	**8,926,470**	**-**	**-**	**2,358,402**	**-**	**11,284,872**

28. GEOGRAPHICAL CONCENTRATION (continued)

2020	(SAR'000)					
	Kingdom of Saudi Arabia	Other GCC and Middle East	North America	South East Asia	Other Countries	Total
Assets						
Cash and balances with SAMA and other central banks	47,297,397	48,505	-	16,620	-	47,362,522
Due from banks and other financial institutions	10,606,664	16,518,568	157,458	997,102	375,050	28,654,842
Financing, net						
Mutajara	36,440,691	790,643	-	-	-	37,231,334
Installment sale	250,835,125	3,381,628	-	1,262,763	-	255,479,516
Murabaha	15,343,304	2,381,816	-	1,944,973	-	19,670,093
Credit cards	3,324,953	6,058	-	147	-	3,331,158
Investments, net						
Investment in an associate	239,179	-	-	-	-	239,179
Investments held at amortized cost	48,265,117	175,723	-	676,671	-	49,117,511
FVSI Investments	6,636,984	-	-	-	-	6,636,984
FVOCI investments	3,580,187	21,309	-	690,102	-	4,291,598
Total assets	422,569,601	23,324,250	157,458	5,588,378	375,050	452,014,737
Liabilities						
Due to banks and other financial institutions	10,049,256	20,448	435,859	258,498	-	10,764,061
Customer deposits	365,253,514	8,578,469	452	8,769,155	29,413	382,631,003
Total Liabilities	375,302,770	8,598,917	436,311	9,027,653	29,413	393,395,064
Commitments and contingencies	13,585,335	1,161,669	16,508	3,773,101	619,477	19,156,090
Credit exposure (stated at credit equivalent value)	8,336,590	-	-	2,326,111	-	10,662,701

28. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing are as follows:

2021	**(SAR'000)**			
	Kingdom of Saudi Arabia	**GCC and Middle East**	**South East of Asia**	**Total**
Non-performing				
Mutajara	**1,415,129**	**53,884**	**-**	**1,469,013**
Installment sale	**1,431,779**	**35,603**	**13,488**	**1,480,870**
Murabaha	**-**	**-**	**36,520**	**36,520**
Credit cards	**23,697**	**-**	**-**	**23,697**
Allowance for impairment of financing				
Mutajara	**(3,922,922)**	**(36,834)**	**-**	**(3,959,756)**
Installment sale	**(4,870,326)**	**(72,677)**	**(35,510)**	**(4,978,513)**
Murabaha	**-**	**-**	**(61,718)**	**(61,718)**
Credit cards	**(198,102)**	**(65)**	**-**	**(198,167)**

2020	(SAR'000)			
	Kingdom of Saudi Arabia	GCC and Middle East	South East of Asia	Total
Non-performing				
Mutajara	1,647,513	5,423	-	1,652,936
Installment sale	690,942	25,559	11,900	728,401
Murabaha	-	-	37,929	37,929
Credit cards	25,848	-	-	25,848
Allowance for impairment of financing				
Mutajara	(2,983,324)	(12,570)	-	(2,995,894)
Installment sale	(4,289,808)	(62,293)	(46,822)	(4,398,923)
Murabaha	(55,734)	-	-	(55,734)
Credit cards	(20,805)	-	-	(20,805)

Refer to Note 7-1a for performing financing.

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or additions).

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.

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

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

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

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Carrying amounts and fair value:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December, including their levels in the fair value hierarchy (refer note 2d (ii)). It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	(SAR'000)				
2021	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	**2,650,605**	**-**	**2,415,228**	**235,377**	**2,650,605**
FVOCI equity investments	**5,322,369**	**5,298,010**	**-**	**24,359**	**5,322,369**
FVSI Sukuk	**3,745,521**	**-**	**3,745,521**	**-**	**3,745,521**
FVOCI Sukuk	**1,532,611**	**-**	**1,532,611**	**-**	**1,532,611**
Structure Products	**788,765**	**-**	**-**	**788,765**	**788,765**
Derivative financial instruments	**208,582**	**-**	**208,582**	**-**	**208,582**
Financial assets not measured at fair value					
Due from banks and other financial institutions	**26,065,392**	**-**	**-**	**26,181,679**	**26,181,679**
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	**22,611,987**	**-**	**22,900,999**	**-**	**22,900,999**
- Sukuk	**46,518,108**		**46,717,099**	**-**	**46,717,099**
- Structured Products	**1,000,000**	**-**	**-**	**1,038,043**	**1,038,043**
Gross Financing	**462,028,811**	**-**	**-**	**478,238,097**	**478,238,097**
Total	**572,472,751**	**5,298,010**	**77,520,040**	**506,506,320**	**589,324,370**
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**17,952,140**	**-**	**-**	**18,198,581**	**18,198,581**
Customers' deposits	**512,072,213**	**-**	**-**	**511,991,640**	**511,991,640**
Total	**530,024,353**	**-**	**-**	**530,190,221**	**530,190,221**

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Carrying amounts and fair value (continued):

2020	(SAR'000)				
Financial assets	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
FVSI Investments – Mutual funds	2,545,864	-	2,291,749	254,115	2,545,864
FVOCI equity investments	3,687,266	3,662,877	-	24,389	3,687,266
FVSI Sukuk	2,588,595	-	2,588,595	-	2,588,595
FVOCI Sukuk	604,332	-	604,332	-	604,332
Structure Products	1,502,525	-	-	1,502,525	1,502,525
Derivative financial instruments	32,611	-	32,611	-	32,611
Financial assets not measured at fair value					
Due from banks and other financial institutions	28,654,842	-	-	29,128,159	29,128,159
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,904,021	-	23,226,882	-	23,226,882
- Sukuk	25,240,452		26,155,715	-	26,155,715
- Structured Products	1,000,000	-	-	1,048,310	1,048,310
Gross Financing	323,183,457	-	-	331,028,641	331,028,641
Total	411,943,965	3,662,877	54,899,884	362,986,139	421,548,900
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	10,764,061	-	-	10,909,221	10,909,221
Customers' deposits	382,631,003	-	-	382,641,604	382,641,604
Total	393,395,064	-	-	393,550,825	393,550,825

FVSI investments classified as level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximates fair value.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant current effective profit rate. Investments held at amortized cost, due to / from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/ SAMA murabaha rates.

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

During the current year, no financial assets / liabilities have been transferred between level 1 and/ or level 2 of the fair value hierarchy.

30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

	(SAR'000)	
Related parties	**2021**	2020
Members of the Board of Directors		
Mutajara	**172,442**	59,321
Current accounts	**376,377**	242,323
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**12,127,165**	10,222,874
Contingent liabilities (*)	**4,664,225**	3,664,052
Associate		
Contributions payable	**116,038**	321,512
Receivable against claims	**332,173**	169,437
Bank balances	**253,332**	188,276

(*) = off balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	(SAR'000)	
	2021	2020
Income from financing and other financial assets	**40,275**	32,141
Mudaraba Fees	**85,394**	72,689
Employees' salaries and benefits (air tickets)	**1,061**	795
Rent and premises related expenses	**2,119**	5,522
Contribution – policies written	**709,180**	721,077
Claims incurred and notified during the period	**661,300**	440,395
Claims paid	**498,565**	465,270
Board of Directors' remunerations	**5,948**	6,009

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ended 31 December are as follows:

	(SAR'000)	
	2021	2020
Short-term benefits	**104,038**	107,097
Provision for employees' end of service benefits	**3,679**	3,406

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

31. MUDARABA FUNDS

Mudaraba funds comprise the following as at 31 December:

	(SAR'000)	
	2021	2020
Customers' Mudaraba and investments	**37,458,437**	29,216,806
Total	**37,458,437**	29,216,806

Mudaraba and investments accounts represents customers' investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. Consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in a fiduciary capacity.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENT OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see note 13) for the year ended 31 December:

	(SAR'000)	
	2021	2020
Balance at beginning of the year	**8,885**	10,994
Additions during the year	**36,616**	11,745
Payments made during the year	**(15,730)**	(13,854)
Balance at end of the year	**29,771**	8,885

33. INVESTMENT MANAGEMENT SERVICES

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Group's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 58,255 million (2020: SAR 50,220 million). The mutual funds are not controlled by the Group and neither are under significant influence to be considered as associates / subsidiaries. Mutual funds' financial statements are not included in the consolidated financial statements of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 683,351 million at 31 December 2021 (2020: SAR 1,166 million).

34. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires to hold and maintain ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed minimum.

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 2017), which relates to the interim approach and transitional arrangements for the accounting provisions under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

As part of SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity

34. CAPITAL ADEQUACY (continued)

Tier 1 (CET1) for the full two years' period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years.

Starting June 2021, the Group has opted to apply SAMA allowance to recognize 100% of IFRS9 transitional adjustment amount in the bank's Common Equity Tier 1 (CET 1) which resulted in an increase of SAR 2,883 million as of December 2021.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December:

	(SAR'000)	
	2021	2020
Credit risk weighted assets	**385,415,205**	280,373,990
Operational risk weighted assets	**37,798,847**	33,318,660
Market risk weighted assets	**2,414,738**	9,316,353
Total Pillar I - risk weighted assets	**425,628,790**	323,009,003

	(SAR'000)	
	2021	2020
Tier I – capital	**70,191,539**	58,118,518
Tier II capital	**4,817,690**	3,504,675
Total tier I & II capital	**75,009,229**	61,623,193
Capital Adequacy Ratio %		
Tier I ratio	**16.49%**	17.99%
Tier I and II ratio	**17.62%**	19.08%

35. SHARIAH COMPLIANT DERIVATIVES

The table below summarises the positive and negative fair values of Shariah compliant derivatives, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.
In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

a) Profit rate swaps

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

b) Forwards and futures

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

35. SHARIAH COMPLIANT DERIVATIVES (continued)

C) FX Swaps

FX swaps are agreements between two parties to exchange a given amount of one currency for an amount of another currency based on the current spot rate and forward rates quoted in the interbank market. The two parties will then settle their respective foreign exchange notional amounts governed by the previously agreed specific forward rate, The forward rate locks in the exchange rate at which the funds will be exchanged in the future.

Derivative financial instruments 31 December 2021	**Positive fair value**	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
			Notional amounts by term to maturity				
			(SAR'000)				
Held for trading:							
Profit rate swaps	**179,694**	**(150,455)**	**17,305,197**	**-**	**7,034,837**	**4,218,159**	**6,052,201**
Foreign exchange forward contracts	**12,224**	**(11,853)**	**227,966**	**170,101**	**57,865**	**-**	**-**
FX Swaps	**16,664**	**(5,327)**	**7,443,526**	**7,443,526**	**-**	**-**	**-**
Total	**208,582**	**(167,635)**	**24,976,689**	**7,613,627**	**7,092,702**	**4,218,159**	**6,052,201**

Derivative financial instruments 31 December 2020	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	1-5 years	Over 5 years
			Notional amounts by term to maturity				
			(SAR'000)				
Held for trading:							
Profit rate swaps	30,460	(22,157)	9,127,752	-	-	5,438,733	3,689,019
Foreign exchange forward contracts	2,151	(1,889)	1,353,546	786,539	567,007	-	-
FX Swaps	-	-	-	-	-	-	-
Total	32,611	(24,046)	10,481,298	786,539	567,007	5,438,733	3,689,019

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- <u>Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient</u>
  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 date of the change: Accounting years beginning on or after 1 April 2021.

- <u>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:</u>

  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.

  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'.
  Effective date of the change: Accounting years beginning on or after 1 January 2022.

- <u>Amendments to IAS 1, Presentation of financial statements', on classification of liabilities:</u>

  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.

  Effective date of the change: Accounting years beginning on or after 1 January 2023.

- <u>Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8:</u>

  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.
  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.
  Effective date of the change: Accounting years 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.

- <u>Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction:</u>
  These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductable temporary differences.
  Effective date of the change: Accounting years beginning on or after 1 January 2023.

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

- 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 date of the change: Accounting years 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 date of the change: Accounting years beginning on or after 1 January 2023.

37. ZAKAT

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the consolidated statement of income. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to zakat.

a) Provisions for Zakat and Income tax for the years ended December 31 is summarized as follows:

	(SAR'000)	
	2021	2020
Beginning balance for Zakat Provision	**3,812,601**	4,627,204
Provided during the year	**1,698,579**	1,218,071
Payments made during the year	**(2,086,251)**	(2,032,674)
Provisions for Zakat and Income tax	**3,424,929**	3,812,601

b) The Group has filed the required Zakat returns with the ZATCA which are due on April 30 each year. The Group's Zakat calculations and corresponding accruals and payments for Zakat are based on the ownership of the Bank to each of its subsidiaries.

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

The Group has provided for Zakat for the year ended December 31, 2021 and 2020 on the basis of the Group's understanding of these rules.

38. SUBSEQUENT EVENTS

- On 8 December 2021, the Group entered into a sale and purchase agreement with the shareholders of Ejada Systems Limited Company ("Ejada") pursuant to which the Group will full acquire the Ejada subject to certain conditions which will be either satisfied or waived in accordance with terms of the agreement. On 16 January 2022, the Group announced that it obtained SAMA's and General Authority for Competition on the acquisition. The Group has not exercised control on Ejada as of 31 December 2021.

- On 23 Jan 2022, the Group issued 6500 Perpetual Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly in arrears. The Group has a call option which can be exercised on or after 1 Jan 2027 as per the terms mentioned in the related offering circular. The expected profit distribution on the Sukuk is the base rate for three months in addition to a profit margin of 3.50 %.

- On 16 Rajab 1443 H (corresponding to 17th of February 2022), the bank's Board of Directors recommended to the Extraordinary General Assembly to increase the bank's capital from SAR 25,000 million to SAR 40,000 million by granting bonus shares (3 shares for every 5 shares owned). The paid-up capital increase of SAR 15,000 million will be capitalized from retained earnings. The proposed grant is subject to obtaining necessary approvals from official authorities and Extraordinary General Assembly on the capital increase and number of granted shares.

39. IMPACT OF COVID-19 ON EXPEXTED 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 of this infections. 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.

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 review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financing, where required. The Group 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.

During the period ended December 31, 2021, the Group has revised the scenario probabilities used for the determination of ECL. In 2020, the Group made certain adjustments to the macroeconomic factors and scenario weightings used in the ECL to the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models, the Group has therefore recognized overlays of SAR 486 million for corporate as at 31 December 2021.

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

39. IMPACT OF COVID-19 AND SAMA PROGRAMS (Continued)

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to 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 the deferred payments program launched by SAMA in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Group deferred payments and extended maturities on financing facilities to all eligible MSMEs as follows:

Support Programs	Instalment deferred (SAR 'billion)	Cost of deferral (SAR 'million)
April 2020 – September 2020	**3.1**	**89.2**
October 2020 – December 2020	**1,9**	**26.7**
January 2021 – March 2021	**3,2**	**49.6**
April 2021 – June 2021	**3,5**	**186.4**
July 2021 – September 2021	**0.7**	**46.2**
October 2021 – December 2021	**1,0**	**57.7**
January 2022 – March 2022	**1,1**	**44.2**

The payment reliefs were considered as short-term liquidity support to address customer' 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 as assessment with respect to SICR for the customers still under DPP program as at December 31, 2021 and recorded an additional overlay of SAR 228 million during the period as a result of the potential impact of stage movement.

In order to compensate the related cost that the Group has incurred under SAMA and other public authorities program, the Group has received, during years ended 31 December 2021 and 2020, multiple profit free deposits from SAMA. The outstanding balance of such deposits is SAR 7.6 billion and SAR 3.6 billion as of 31 December 2021 and 31 December 2020 respectively, with varying maturities, which 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 on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2021, total amount of SAR 334.5 million (31 December 2020: SAR 165.5 million) had been recognized in the statement of income with respect to related deposits with an aggregate of SAR 22.8 million deferred grant income as at 31 December 2021 (31 December 2020: SAR 159.1 million).

40. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 13 Rajab 1443H (corresponding to 14 February 2022).