

## IMPORTANT NOTICE

**IMPORTANT: You must read the following notice before continuing.** The following notice applies to the attached Base Offering Circular following this page (the “**Base Offering Circular**”), whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Base Offering Circular. In reading, accessing or making any other use of the Base Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Base Offering Circular, including any modifications made to them from time to time, each time you receive any information from Banque Saudi Fransi (the “**Issuer**”) as a result of such access.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR SOLICITATION IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE BASE OFFERING CIRCULAR HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (REGULATION S)) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

**THE BASE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE BASE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS AND REGULATIONS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.**

The Base Offering Circular may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the board of the Capital Market Authority of the Kingdom of Saudi Arabia (the “**Authority**”) pursuant to its Resolution number 3-123-2017, dated 09/04/1439H (corresponding to 27 December 2017) as amended by its Resolution number 8-5-2023 dated 25/06/1444H (corresponding to 18 January 2023) (the “**Rules on the Offer of Securities and Continuing Obligations**”). In the Kingdom of Saudi Arabia, the Base Offering Circular must not be acted on or relied on by any other person and a prospective investor who is not permitted under the Rules on the Offer of Securities and Continuing Obligations. For a more detailed description of restrictions on offers, sales and deliveries, see “*Subscription and Sale*” of the Base Offering Circular.

**CONFIRMATION OF YOUR REPRESENTATION:** In order to be eligible to view the Base Offering Circular or make an investment decision with respect to the sukuk described therein (the “**Sukuk**”), each prospective investor in respect of the Sukuk being offered in the Kingdom of Saudi Arabia must be permitted under the Rules on the Offer of Securities and Continuing Obligations. The attached Base Offering Circular is delivered to you at your request and on the basis that you have represented, and by accessing, reading or making

any other use of the attached Base Offering Circular, you shall be deemed to have represented, to the Sole Arranger and the Dealers (each as defined in the Base Offering Circular) and the Issuer that:

- (a) you have understood and agree to the terms set out herein;
- (b) you are a person who is permitted under applicable law and regulation to receive the Base Offering Circular and in particular, if applicable, you are permitted under the Rules on the Offer of Securities and Continuing Obligations to receive the Base Offering Circular;
- (c) you consent to delivery by electronic transmission;
- (d) you will not transmit the attached Base Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Issuer, the Sole Arranger and the Dealers. The contents of the Base Offering Circular are confidential and you owe the Issuer, the Sole Arranger, the Dealers and any person supplying to you on their behalf in any form whatsoever (including, without limitation, oral, written and electronic) any non-public, confidential and proprietary information provided to you in connection with the offering or the issue of any Sukuk, whether contained in the Base Offering Circular or otherwise, a duty of confidentiality;
- (e) you will conduct your own investigation with respect to the Issuer and your potential purchase of any Sukuk;
- (f) you have such knowledge and experience in financial and business matters that you are capable of making a meaningful evaluation of the Sukuk, the merits and risks of any investment in any Sukuk and the information contained in the Base Offering Circular or any applicable supplement;
- (g) you have access to competent professional advisers and will make your own assessment regarding any legal, *Shari'ah*, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Sukuk; and
- (h) if the laws of any territory or jurisdiction outside the Kingdom of Saudi Arabia are applicable to you in connection with the delivery of the Base Offering Circular, and any offers, sales or deliveries of the Sukuk, you have complied with all such laws, obtained all governmental and other consents which may be required, complied with all requisite formalities in any territory and that you have not taken any action or omitted to take any action which will result in the Issuer, the Sole Arranger, the Dealers or any of their respective affiliates or its or their respective officers, agents or employees acting in breach of the regulatory or legal requirements, directly or indirectly, of any territory or jurisdiction outside the Kingdom of Saudi Arabia in connection with your receipt of the Base Offering Circular, or any offers, sales or deliveries of the Sukuk.

The Authority does not make any representation as to the accuracy or completeness of the Base Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of the Base Offering Circular. Prospective investors of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of the Base Offering Circular, you should consult an authorised financial adviser.

The Saudi Central Bank (“**SAMA**”) does not make any representation as to the accuracy or completeness of the Base Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of the Base Offering Circular. In particular, prospective investors of the Sukuk agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Sukuk for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event (as defined in the Base Offering Circular). If you do not understand the contents of the Base Offering Circular, you should consult an authorised financial adviser. See “*Risk Factors – Risks relating to the Sukuk – The circumstances triggering a Write-down*”

*are unpredictable” and “Risk Factors – Risks relating to the Sukuk – The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”.*

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Sukuk other than as contained in this Base Offering Circular or as approved for such purpose by it. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Sole Arranger or the Dealers.

You are reminded that the Base Offering Circular has been delivered to you on the basis that you are a person into whose possession the Base Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Base Offering Circular, electronically or otherwise, to any other person. Failure to comply with this directive may result in a violation of the Rules on the Offer of Securities and Continuing Obligations or the applicable laws of other jurisdictions.

If you received the attached Base Offering Circular by e-mail, you should not reply by e-mail to this communication. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Base Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Sole Arranger, the Dealers nor any person who controls or is a director, officer, employee or agent of any of the Issuer, the Sole Arranger, the Dealers nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Sole Arranger and the Dealers.

**RESTRICTION:** The Base Offering Circular is not intended for distribution to, or use by, any person or entity, in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. Under no circumstances shall the Base Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any Sukuk in any jurisdiction in which such offer, solicitation or sale would be unlawful. Persons into whose possession the Base Offering Circular comes are requested to inform themselves about, and to observe, any such restrictions.

Capitalised terms and expressions in this notice shall have the meanings set out in the Base Offering Circular.



## Banque Saudi Fransi

*(a joint stock company with commercial registration number 1010073368 incorporated pursuant to Royal Decree No. M/23 dated 4 June 1977 under the laws of the Kingdom of Saudi Arabia)*

### SAR 8,000,000,000 ADDITIONAL TIER 1 CAPITAL SUKUK PROGRAMME

Under the additional tier 1 capital sukuk programme described in this Base Offering Circular (the “**Programme**”), Banque Saudi Fransi (in its capacity as the issuer of Sukuk (as defined below), the “**Issuer**” or “**BSF**”), subject to compliance with all applicable laws, regulations and directives, may from time to time issue additional tier 1 capital sukuk (the “**Sukuk**”).

The Sukuk may only be issued in registered form subject to, and in accordance with, the terms and conditions of the Sukuk (the “**Conditions**”, and any reference herein to a numbered Condition is to the corresponding numbered provision thereof).

Each Series of Sukuk will constitute direct, unsecured, conditional and subordinated instruments with no fixed maturity date. The Sukuk are redeemable at the Issuer’s option: (i) in the case of Fixed/Reset Rate Sukuk, if Condition 11.1(b)(ii) (*Issuer’s Call Option*) is specified as applicable in the Applicable Final Terms (as defined below), on any date during the period commencing (and including) the relevant First Call Date to (and including) the relevant First Reset Date or on any relevant Periodic Distribution Date thereafter (each as defined in the Conditions); or (ii) in the case of Floating Rate Sukuk, or in the case of Fixed/Reset Rate Sukuk if Condition 11.1(b)(iii) (*Issuer’s Call Option*) is specified as applicable in the Applicable Final Terms, on the First Call Date or on any relevant Periodic Distribution Date thereafter. In addition (on any date on or after the relevant Issue Date (whether or not a Periodic Distribution Date)), upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), all, but not some only, of the Sukuk of the relevant Series may be redeemed in accordance with Conditions 11.1(c) (*Redemption due to Taxation*) and 11.1(d) (*Redemption for Capital Event*). In all cases, any redemption of Sukuk is subject to the conditions described in Condition 11 (*Redemption*). Fixed/Reset Rate Sukuk shall bear profit for the Initial Period at the relevant Initial Periodic Distribution Rate (as defined in the Conditions). The relevant Profit Rate (as defined in the Conditions) will then be reset on each relevant Reset Date on the basis of the aggregate of the relevant Margin and the Relevant Reset Rate on the relevant Determination Date, as determined by the Payment Administrator (each as defined in the Conditions). Floating Rate Sukuk shall bear profit at the relevant Floating Profit Rate (as defined in the Conditions).

The aggregate face amount of the Sukuk from time to time as are current under the Programme will not exceed SAR 8,000,000,000, subject to increase in accordance with the Programme Agreement (as defined in “*Subscription and Sale*” of this Base Offering Circular) and all applicable rules and regulations of the Kingdom of Saudi Arabia (“**Saudi Arabia**” or the “**Kingdom**”).

Each Series (as defined in the Conditions) issued under the Programme will be the subject of, *inter alia*, a master declaration of agency (the “**Master Declaration of Agency**”) dated 14 February 2024 between the Issuer and Saudi Fransi Capital (in its capacity as agent on behalf of the Sukukholders (as defined below), the “**Sukukholders’ Agent**”, which expression includes any successor Sukukholders’ Agent in relation to the Sukuk), as supplemented by a supplemental declaration of agency between the same parties in relation to each Tranche (as defined in the Conditions) of such Series (each a “**Supplemental Declaration of Agency**” and together with the Master Declaration of Agency, each a “**Declaration of Agency**”), and a payment administration agreement (the “**Payment Administration Agreement**”) dated 14 February 2024 between the Issuer, the Sukukholders’ Agent and Saudi Fransi Capital (in its capacity as payment administrator, the “**Payment Administrator**”). Sukuk of each Series confer on the holders thereof from time to time (the “**Sukukholders**”) the right to receive certain payments (as more particularly described herein) arising from the Sukuk Assets (as defined in the Conditions) in relation to the relevant Series.

The Sukuk may be issued on a continuing basis to one or more dealers (each a “**Dealer**” and together the “**Dealers**”) and any additional Dealer appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis. References in this Base Offering Circular to the relevant Dealer shall, in the case of an issue of Sukuk being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe (or procure the subscription of) such Sukuk.

Notice of the aggregate face amount of the Sukuk and any other terms and conditions not contained herein which are applicable to each Tranche will be set out in a final terms document applicable to such Tranche (the “**Applicable Final Terms**”).

The Issuer may agree with any Dealer that Sukuk may be issued with terms and conditions not contemplated by the Conditions, in which event a supplemental Base Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Sukuk.

This Base Offering Circular should be read and construed together with any amendments or supplements hereto and, in relation to any Tranche, should be read and construed together with the Applicable Final Terms.

**This Base Offering Circular may not be distributed in the Kingdom except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority (the “Authority”) of Saudi Arabia pursuant to its Resolution number 3-123-2017 dated 09/04/1439H (corresponding to 27 December 2017) as amended by its Resolution number 8-5-2023 dated 25/06/1444H (corresponding to 18 January 2023) (the “Rules on the Offer of Securities and Continuing Obligations”).**

The Securities Depository Centre Company (“**Edaa**”) will be appointed as registrar (the “**Registrar**”, which expression includes any successor registrar) of any Sukuk issued under the Programme (as described in the Conditions and the section entitled “*Subscription and Sale*” of this Base Offering Circular, respectively). Each Tranche issued under the Programme will be collectively represented at all times by interests in a registered form global sakk, without coupons attached (the “**Global Sakk**”), which will be deposited as the Sukukholders’ Agent may direct in accordance with the provisions of the Master Declaration of Agency. The Sukuk may only be held in book entry dematerialised registered form and definitive sukuk will not be issued to Sukukholders in relation to their holdings of Sukuk.

BSF has been assigned long-term issuer default ratings of A- with a stable outlook by Fitch Ratings Ltd. (“**Fitch**”), A2 with a positive outlook by Moody’s Investors Service Limited (“**Moody’s**”) and A- with a stable outlook by S&P Global Ratings Europe Limited (“**S&P**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Prospective investors should note that the Issuer shall not pay any additional amounts in respect of any withholding required by law to any person who holds Sukuk who is not a Qualified Person (as defined in the Conditions). See Condition 14 (*Taxation*).

**An investment in the Sukuk issued under the Programme involves certain risks and uncertainties. For a discussion of certain factors to be considered before determining whether to invest in the Sukuk issued under the Programme, see the “Important Notice” and “Risk Factors” sections of this Base Offering Circular. In particular, investors should review and consider the risk factors relating to a Write-down (as defined in the Conditions) and the impact this will have on their investment.**

The Authority does not make any representation as to the accuracy or completeness of this Base Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Offering Circular. Prospective investors of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Base Offering Circular you should consult an authorised financial adviser.

The Saudi Central Bank (“**SAMA**”) does not make any representation as to the accuracy or completeness of this Base Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Offering Circular. In particular, prospective investors of the Sukuk agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Sukuk for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event (as defined in the Conditions). If you do not understand the contents of this Base Offering Circular, you should consult an authorised financial adviser. See “*Risk Factors – Risks relating to the Sukuk – The circumstances triggering a Write-down are unpredictable*” and “*The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any*

*profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”.*

The Issuer accepts full responsibility for the accuracy of the information contained in this Base Offering Circular and the Applicable Final Terms for each Tranche issued under the Programme, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, the information contained in this Base Offering Circular is in accordance with the facts and there are no other facts, the omission of which would make any statement herein misleading.

Any Sukuk to be issued under the Programme may only be offered and sold in Saudi Arabia in accordance with the Rules on the Offer of Securities and Continuing Obligations.

The distribution of this Base Offering Circular and the offering, sale and delivery of Sukuk issued under the Programme in any jurisdiction other than the Kingdom may be restricted by law. Any Persons who come into possession of this Base Offering Circular are required by the Issuer, the Saudi Fransi Capital (the “**Sole Arranger**”) and the Dealers (each as defined below) to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Sukuk issued under the Programme and on distribution of this Base Offering Circular and other offering material relating to Sukuk issued under the Programme, see “*Subscription and Sale*”.

The transaction structure relating to the Sukuk (as described in this Base Offering Circular) has been approved by the *Shariah* Committee of BSF. Prospective investors should not rely on the approval referred to above in deciding whether to make an investment in the Sukuk and should consult their own *Shari’ah* advisers as to whether the proposed transaction described in the approval referred to above is in compliance with their individual standards of compliance with *Shari’ah* principles. None of the Issuer, the Sole Arranger, the Dealers, the Sukukholders’ Agent and the Payment Administrator make any representation as to the *Shari’ah* compliance of the Sukuk and/or any trading thereof.

***Sole Arranger and Dealer***  
***Saudi Fransi Capital***



This Base Offering Circular is dated 14 February 2024.

## IMPORTANT NOTICE

This Base Offering Circular provides certain information relating to the Issuer and the Sukuk being offered. When submitting an application to subscribe for the Sukuk issued under the Programme, investors will be treated as applying on the basis of the information contained in this Base Offering Circular.

This Base Offering Circular is submitted to a limited number of persons on a confidential basis. By receiving this Base Offering Circular and other information relating to the Programme or the offering of the Sukuk, each recipient agrees that neither it nor any of its employees or advisers shall use the information for any purpose other than for evaluating its interest in the Programme or the offering of the Sukuk or divulge such information to any other party. This Base Offering Circular shall not be photocopied, reproduced or distributed to others without the prior consent of the Issuer, the Sole Arranger and the Dealers (each as defined below). If the recipient determines not to purchase any of the Sukuk, it shall promptly return all material received in connection therewith (including this Base Offering Circular) to either the Issuer, the Sole Arranger or the Dealers without retaining any copies.

No person is or has been authorised to give any information or to make any representation about the Issuer, the Programme or the Sukuk (other than as contained in this Base Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been made or authorised by the Issuer, the Sole Arranger and the Dealers. Neither the delivery of this Base Offering Circular nor any sale of any Sukuk shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Sole Arranger, the Dealers, the Sukukholders' Agent and the Payment Administrator expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Sukuk of any information coming to their attention.

The Issuer accepts full responsibility for the accuracy of the information contained in this Base Offering Circular and the Applicable Final Terms and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, the information contained in this Base Offering Circular is in accordance with the facts and there are no other facts, the omission of which would make any statement herein misleading.

Tadawul does not take any responsibility for the contents of this Base Offering Circular, does not make any representation as to its accuracy or completeness, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Offering Circular.

The Authority does not make any representation as to the accuracy or completeness of this Base Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Offering Circular. Prospective investors of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Base Offering Circular you should consult an authorised financial adviser.

SAMA does not make any representation as to the accuracy or completeness of this Base Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Offering Circular. In particular, prospective investors of the Sukuk agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Sukuk for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event. If you do not understand the contents of this Base Offering Circular, you should consult an authorised financial adviser. See *“Risk Factors — Risks relating to the Sukuk — The circumstances triggering a Write-down are unpredictable”* and *“Risk Factors – Risks relating to the Sukuk – The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any*

*profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”.*

While the Issuer has made all reasonable enquiries as to the accuracy of the information contained in this Base Offering Circular as at the date hereof, substantial portions of the market and industry information herein are derived from external sources and, while none of the Issuer, the Sole Arranger, the Dealers nor their respective advisers have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Base Offering Circular is subject to change. In particular, the actual financial state of the Issuer and the value of any Sukuk issued under the Programme may be adversely affected by future developments in inflation, financing charges, taxation, calculation of *zakat* or other economic, political and other factors, over which the Issuer has no control. Neither the Issuer nor the directors of the Issuer intend to update or otherwise revise any information or forward-looking statements in this Base Offering Circular, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Base Offering Circular might not occur in the way they are expected, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

Neither the delivery of this Base Offering Circular nor any oral, written or printed interaction in relation to any Sukuk issued under the Programme is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

The sole purpose of this Base Offering Circular is to provide background information about the Issuer to assist each recipient of this Base Offering Circular in making an independent evaluation and appraisal of the Issuer, the offering and any investment in the Sukuk.

This Base Offering Circular should be read and construed together with any supplements hereto and, in relation to any Tranche, should be read and construed together with the Applicable Final Terms.

Neither this Base Offering Circular nor any other information supplied in connection with the Programme or any Sukuk issued under the Programme: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation on the part of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent, the Payment Administrator or any of their advisers or affiliates that any recipient of this Base Offering Circular should participate in the offering of any Sukuk issued under the Programme. Information provided herein is of a general nature and has been prepared without taking into account any prospective investor's investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Base Offering Circular and any other information supplied in connection with the Programme or the issue of any Sukuk issued under the Programme is responsible for obtaining its own independent professional advice from a financial adviser licensed by the Authority in relation to the Issuer and the offering of the relevant Sukuk and for making its own independent investigation, evaluation and appraisal of the financial condition and affairs, as well as the creditworthiness, of the Issuer, an investment in the relevant Sukuk and of the information and assumptions contained herein, using such advice, analysis and projections as it deems necessary in making any investment decision. None of the Sole Arranger, the Dealers, the Sukukholders' Agent or the Payment Administrator accepts any liability in relation to the information contained in this Base Offering Circular or any other information provided by the Issuer in connection with the Programme or for any other statement made or purported to be made by the Sole Arranger, a Dealer, the Sukukholders' Agent or the Payment Administrator or on its behalf in connection with the Issuer, the Programme or the issuance and offering of the Sukuk.



None of the Sole Arranger, the Dealers, the Sukukholders' Agent, the Payment Administrator or any of their respective affiliates accepts any liability or make any representation, warranty or undertaking, express or implied, in relation to the accuracy or completeness of the information contained in this Base Offering Circular or any other information provided by the Issuer in connection with the Issuer, the Sukuk or the Programme or for any statement made or purported to be made by the Sole Arranger, a Dealer, the Sukukholders' Agent or the Payment Administrator or on behalf of any of them in connection with the Issuer, the Sukuk or the Programme. None of the Sole Arranger or any of the Dealers or any of their respective affiliates accepts any responsibility or liability for any acts or omissions of the Issuer, or any other person in connection with the Programme, this Base Offering Circular or the issue and offering of Sukuk. Each person receiving this Base Offering Circular is deemed to not have relied on the Sole Arranger, the Dealers, the Sukukholders' Agent or the Payment Administrator in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own assessment of the Issuer and the Sukuk. To the fullest extent permitted by law, none of the Sole Arranger, the Dealers, the Sukukholders' Agent or the Payment Administrator accepts any responsibility whatsoever for the contents of this Base Offering Circular. Each of the Sole Arranger, the Dealers, the Sukukholders' Agent and the Payment Administrator accordingly disclaims all and any liability which it might otherwise have in respect of this Base Offering Circular or any such statement.

None of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent or the Payment Administrator makes any representation to any investor in the Sukuk regarding the legality of its investment under any applicable laws. Any investor in the Sukuk should be able to bear the economic risk of an investment in the Sukuk for an indefinite period of time.

Prospective investors should note that the Issuer shall not pay any additional amounts in respect of any withholding required by law to any person who holds Sukuk who is not a Qualified Person. A **"Qualified Person"** means:

- (a) a natural person who is resident in the Kingdom under the Income Tax Law issued by Royal Decree no. M/1 dated 15/01/1425H (corresponding to 6 March 2004), as amended by Royal Decree No. M/153 dated 05/11/1441H (corresponding to 26 June 2020) (the **"Income Tax Law"**); or
- (b) a legal person who is considered to be resident in the Kingdom under the Income Tax Law and (in the case of any legal person other than (i) a Saudi Arabian governmental entity or mutual fund established in the Kingdom and managed by a person authorised by the Authority or (ii) any other entity established in the Kingdom that is not required by the laws of the Kingdom to hold a commercial registration) who is holding a current commercial registration number issued by the Ministry of Commerce,

and, in each case, has a bank account with a local bank in the Kingdom.

Prospective investors are not to construe the contents of this Base Offering Circular as constituting tax, *zakat*, investment, legal, regulatory or *Shari'ah* advice. Prior to purchasing any Sukuk, a prospective investor should consult its own legal, financial, business, tax, *zakat* and *Shari'ah* advisers to determine the appropriateness and consequences of an investment in the Sukuk for such investor and arrive at an independent evaluation and appraisal of such investment.

The Sukuk may not be a suitable investment for all investors. Each prospective investor in Sukuk must determine the suitability of that investment in light of his, her or its own circumstances. In particular, each prospective investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk, the merits and risks of investing in the Sukuk and the information contained in this Base Offering Circular or any applicable supplement;

- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk and the impact the Sukuk will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk;
- (d) understand thoroughly the terms of the relevant Sukuk and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, profit rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each prospective investor should consult its legal advisers to determine whether and to what extent: (i) the Sukuk are legal investments for it; (ii) the Sukuk can be used as collateral for various types of borrowing; and (iii) other restrictions apply to their purchase or pledge of any Sukuk. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Sukuk under any applicable risk-based capital or similar rules.

The Sukuk are complex financial instruments and are of high risk and are not a suitable or appropriate investment for all investors (see “*Risk Factors — Risks relating to the Sukuk — The circumstances triggering a Write-down are unpredictable*” and “*Risk Factors — Risks relating to the Sukuk — The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*”). In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities similar to the Sukuk. There are risks inherent in the holding of the Sukuk, including the risks in relation to their subordination and the circumstances in which holders of the Sukuk may suffer loss as a result of holding the Sukuk. See “*Risk Factors*” for a discussion of certain considerations to be taken into account in connection with an investment in the Sukuk.

Institutional or qualified investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A prospective investor should not invest in Sukuk unless it has the expertise (either alone or with a financial adviser) to evaluate how the Sukuk will perform under changing conditions, the resulting effects on the value of the Sukuk and the impact this investment will have on the prospective investor’s overall investment portfolio.

The Issuer reserves the right, to the maximum extent permitted by applicable laws and regulations, to terminate at any time any further participation by any party in the evaluation process and the offering of any Sukuk and/or reject all bids without any liability or responsibility. The Issuer shall not have any obligation to inform any investor or bidder of the grounds of such termination or rejection. The cost and expenses incurred by any prospective investor or successful bidder (which includes, but is not limited to, cost of employing the services of financial, accounting, technical, legal and *Shari’ah* advisers, travelling expenses, etc.) will be for their own account and none of the Issuer, the Sole Arranger, the Dealers, the Sukukholders’ Agent or the Payment Administrator in any way would be held responsible for any such cost, regardless of, without limitation, the conduct or outcome of the bidding, evaluation and selection process.

The Issuer, the Sole Arranger, the Dealers, the Sukukholders’ Agent and the Payment Administrator are not responsible for, and take no responsibility for, the movement of funds or securities on settlement of the offering or thereafter. Settlement of the Sukuk will be through Edaa and in accordance with the procedures and funds settlement as established by Edaa. The Issuer, the Sole Arranger, the Dealers, the Sukukholders’ Agent and the

Payment Administrator do not take any responsibility for, or make any representation in connection with, such processes, which investors are expected to complete within Edaa entirely at their own risk.

All prospective investors must carefully read this Base Offering Circular, including the Conditions of the Sukuk, prior to completing an application for the purchase of the Sukuk since the execution of the Investor Application Form (as defined in “*Subscription and Sale*”) constitutes acceptance of and agreement to the Conditions.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustment, from the Group's:

- unaudited interim condensed consolidated financial statements as at and for the nine months ended 30 September 2023, which include comparative financial information for the nine months ended 30 September 2022 (the “**Interim Financial Statements**”); and
- audited consolidated financial statements as at and for the year ended 31 December 2022, which include comparative financial information as at and for the year ended 31 December 2021 (the “**2022 Financial Statements**”). The 2022 Financial Statements and the Group's audited consolidated financial statements as at and for the year ended 31 December 2021 (the “**2021 Financial Statements**” and, together with the 2022 Financial Statements and the Interim Financial Statements, the “**Financial Statements**”),

each incorporated by reference into this Base Offering Circular.

The Interim Financial Statements were prepared in accordance with International Accounting Standard-34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants (“**SOCPA**”). The Interim Financial Statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the 2022 Financial Statements.

The 2022 Financial Statements and the 2021 Financial Statements were prepared in compliance with International Financial Reporting Standards (“**IFRS**”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Banking Control Law and the Regulations for Companies in the Kingdom.

The Saudi Riyal is the functional currency of the Group and the presentation currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in Saudi Riyal.

### Independent Auditors

The Interim Financial Statements incorporated by reference into this Base Offering Circular have been jointly reviewed by KPMG Professional Services (“**KPMG**”) and Ernst & Young Professional Services (Professional LLC) (“**EY**”) in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” as endorsed in the Kingdom of Saudi Arabia.

The 2022 Financial Statements and the 2021 Financial Statements incorporated by reference into this Base Offering Circular have been jointly audited by KPMG and EY in accordance with International Standards on Auditing (“**ISAs**”) that are endorsed in the Kingdom of Saudi Arabia.

The address of KPMG is Roshn Front - Airport Road, P.O. Box 92876, Riyadh 11663, Kingdom of Saudi Arabia and the address of EY is Al Faisaliah Office Tower, 14<sup>th</sup> Floor, King Fahad Road, P.O. Box 2732, Riyadh 11461, Kingdom of Saudi Arabia.

## Sources of Financial Information

Unless otherwise indicated, the financial information included in this Base Offering Circular relating to the Group has been derived:

- in the case of the financial information as at, and for the nine months ended, 30 September 2023 and 30 September 2022, from the Interim Financial Statements; and
- in the case of the financial information as at, and for the years ended, 31 December 2022 and 31 December 2021, from the 2022 Financial Statements.

## Certain non-IFRS financial information

This Base Offering Circular includes selected consolidated ratios which have not been prepared in accordance with IFRS and which also constitute alternative performance measures for the purposes of the ESMA Guidelines on Alternative Performance Measures (“APMs”). These include provisions to non-performing loans ratio, non-performing loans to total loans ratio, loans to deposits ratio, SAMA loans to deposits ratio, CET1 capital adequacy ratio, Tier 1 capital adequacy ratio, total capital adequacy ratio, net interest margin, cost to income ratio, return on average assets ratio, return on average equity ratio, cost of risk ratio, liquidity coverage ratio and net stable funding ratio. APMs are not measures of financial performance under IFRS and should not be considered in isolation or as a substitute for net income, cash flows from operating activities or other financial measures of the Group’s results of operations or liquidity computed in accordance with IFRS. Other companies, including those in the Group’s industry, may calculate the APMs presented differently from the Group. As all companies do not calculate these APMs in the same manner, the Group’s presentation of the APMs may not be comparable to other similarly titled APMs presented by other companies. None of the APMs are subject to any audit or review by external auditors. The APMs have been included in this Base Offering Circular because the Group considers them to be an important supplemental measure of the Group’s operating performance and financial position and the Group believes that they may be used by investors and other interested parties in the evaluation of the Group’s performance in comparison with other banking groups.

See “*Summary of the Group’s Financial Information – Key Ratios*”, “*Financial Review – Key Ratios*” and “*Financial Review – Key Performance Ratios*”.

## Presentation Of Other Information

### Currencies

Unless otherwise indicated, in this Base Offering Circular, all references to:

- “**riyal**”, “**SAR**” and “**SR**” are to the lawful currency of Saudi Arabia;
- “**euro**” and “**€**” are to the currency introduced at the third stage of the European economic and monetary union pursuant to the Treaty Establishing the European Community, as amended; and
- “**U.S. dollars**” and “**U.S.\$**” are to the lawful currency of the United States.

Translations of amounts from riyal to U.S. dollars in this Base Offering Circular are solely for the convenience of the reader. The riyal has been pegged to the U.S. dollar since 1986 at a fixed rate of SR 3.75 = US\$1.00 and, unless otherwise stated, all conversions of riyal amounts to U.S. dollar amounts in this Base Offering Circular have been converted at this rate.

### Third party and market share data

This Base Offering Circular contains information regarding the Group's business and the industry in which it operates and competes, which the Group has obtained from third party sources. The Group and other institutions operating in the banking and financial services industry in Saudi Arabia make available a wide range of financial and operational information to regulatory and market bodies, including SAMA and the CMA. These bodies use certain of the data supplied to publish statistical information, amongst other matters. However, no assurance can be made that the information reported to these bodies by different market participants is, in all cases, directly comparable. Where third party information has been used in this Base Offering Circular, it has been accurately reproduced and the source of such information has been identified.

In some cases, independently determined industry data is not available. In these cases, any Group market share data included in this Base Offering Circular is referred to as having been estimated. All such estimates have been made by the Group using its own information and other market information which is publicly available. The Group believes that these estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the market within which it operates, the Group cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Saudi Arabia included in this Base Offering Circular has been derived from official public sources, including GASTAT, SAMA, the Ministry of Finance, the Ministry of Economy and Planning, the IMF and OPEC. All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased the Sukuk issued under the Programme.

Where information has not been independently sourced, it is the Group's own information.

### No incorporation of website information

BSF's website is <https://www.alfransi.com.sa/english/home>. The information on this website or any other website mentioned in this Base Offering Circular or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Base Offering Circular, and investors should not rely on it.

### Definitions

In this Base Offering Circular, references to:

- a **"billion"** are to a thousand million;
- the **"GCC"** are to the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE);
- **"Government"** are to the government of the Kingdom of Saudi Arabia;
- the **"MENA region"** are to the Middle East and North Africa region; and
- **"Saudi Arabia"** or **"the Kingdom"** are to the Kingdom of Saudi Arabia.

In this Base Offering Circular, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

## **Rounding**

The Financial Statements present the Group's results in thousands of riyal. Certain financial statement data in this Base Offering Circular has been expressed in millions of riyal and rounded to zero decimal places, with 0.50 being rounded up and 0.49 being rounded down. In addition, certain financial statement data in this Base Offering Circular has been expressed in billions of riyal and rounded to one decimal place, with 0.050 being rounded up and 0.049 being rounded down. As a result of such rounding, the totals of financial statement data presented in tables in this Base Offering Circular may vary slightly from the arithmetic totals of such data. Where used in tables, the figure "0" means that the data for the relevant item has been rounded to zero and the symbol "—" means that there is no data in respect of the relevant item.

In addition, all percentage data in this Base Offering Circular has been rounded to two decimal places, with 0.0050 being rounded up and 0.0049 being rounded down.

## **Dates**

Certain dates in this Base Offering Circular have been referred to in accordance with the Hijri ("H") calendar and the Gregorian calendar.

## **Cautionary Statement Regarding Forward-Looking Statements**

Some statements in this Base Offering Circular may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify as forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*", and "*Business Description of the Group*" and other sections of this Base Offering Circular. The Guarantor has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Guarantor believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those identified below or which the Guarantor has otherwise identified in this Base Offering Circular, or if any of the Guarantor's underlying assumptions prove to be incomplete or inaccurate, the Group's actual results of operation may vary from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections "*Risk Factors*", "*Banking Industry in the Kingdom of Saudi Arabia*" and "*Saudi Arabian Banking Regulation and Supervision*", which include a more detailed description of the factors that might have an impact on the Group's business development and on the industry sector in which the Group operates.

The risks and uncertainties referred to above include:

- macro-economic and financial market conditions (and changes thereof);
- credit risks, including the impact of a higher level of credit defaults arising from adverse economic conditions, the impact of provisions and impairments and concentration of the Guarantor's portfolio of financing and investing assets;
- the effects of, and changes in laws, regulations or governmental policy affecting the Group's business activities;
- removal or adjustment of the peg between the U.S. dollar and the Saudi riyal;

- liquidity risks, including the inability of the Group to meet its contractual and contingent cash flow obligations or the inability to fund its operations; and
- changes in interest rates and other market conditions.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”.

These forward-looking statements speak only as at the date of this Base Offering Circular. Without prejudice to any requirements under applicable laws, the Issuer and the Guarantor expressly disclaim any obligation or undertaking to disseminate after the date of this Base Offering Circular any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.



## NOTICE TO PROSPECTIVE INVESTORS

This Base Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Sukuk in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Offering Circular and the offer or sale of Sukuk may be restricted by law in certain jurisdictions. In particular, the Base Offering Circular may not be distributed in the Kingdom except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations. The Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent and the Payment Administrator require persons in possession of this Base Offering Circular to inform themselves about and to observe all such legal or regulatory restrictions in this regard.

The Sukuk have not been nor will be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), nor with any securities regulatory authority of any state or other jurisdiction of the United States and the Sukuk may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state or other jurisdiction of the United States. Each purchaser of the Sukuk is hereby notified that the offer and sale of Sukuk to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

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Kingdom of Saudi Arabia



من مجموعة تداول السعودية  
From Saudi Tadawul Group

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C L I F F O R D  
C H A N C E

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## SUMMARY OF THE PROGRAMME

*The following is a summary of the principal features of the Programme. This summary does not contain all of the information that a prospective investor should consider before investing in Sukuk and is qualified in its entirety by the remainder of this Base Offering Circular and the Applicable Final Terms. Each investor should read this entire Base Offering Circular and the Applicable Final Terms carefully, before making an investment decision. In particular, prospective investors should consider carefully the factors set forth under the heading “Risk Factors” and the section entitled “Important Notice”. Capitalised terms used but not defined in this summary have the meanings given to them in the “Terms and Conditions of the Sukuk” section of this Base Offering Circular and any reference herein to a specified “Condition” shall be construed accordingly.*

### Summary of the Issuer

Name	Banque Saudi Fransi (the “ <b>Issuer</b> ” or “ <b>BSF</b> ”, and together with its subsidiaries, the “ <b>Group</b> ”).
Description and incorporation	The Issuer is a joint stock company incorporated under the laws of the Kingdom of Saudi Arabia and was established by Royal Decree No. M/23 dated 4 June 1977, and was assigned commercial registration number 1010073368 on 5 September 1989.
Issuer’s Activities	BSF operates under a banking licence granted by SAMA (which permits it to operate as a commercial bank) and is authorised under its by-laws to conduct all types of banking activities within Saudi Arabia and abroad. Further details of the BSF’s history, strategy, business and other information can be found below under the “ <i>Description of BSF</i> ” section of this Base Offering Circular.

### Parties

Issuer	Banque Saudi Fransi.
Sole Arranger	Saudi Fransi Capital.
Dealers	Saudi Fransi Capital together with any other Dealers appointed in accordance with the Programme Agreement (together, the “ <b>Dealers</b> ”).
Sukukholders’ Agent	Saudi Fransi Capital with its registered address at 4th floor, Legend Tower, King Fahd Rd, Al Olaya, Riyadh 12313, Kingdom of Saudi Arabia.
Payment Administrator	Saudi Fransi Capital with its registered address at 4th floor, Legend Tower, King Fahd Rd Al Olaya, Riyadh 12313, Kingdom of Saudi Arabia.
Account Bank	Banque Saudi Fransi with its registered address at King Saud Road, AlMuraba’ District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.
Registrar	Edaa with its registered address at Tawuniya Towers, Unit Number: 15, King Fahd Road – Olaya 6897, Riyadh 12211 – 3388, Kingdom of Saudi Arabia.

### Summary of the terms of Sukuk of each Series and the rights of the Sukukholders

Form of the Sukuk	Each Series of Sukuk will be issued in dematerialised registered form and will be collectively represented by the Global Sakk which will be deposited as the Sukukholders’ Agent may direct in accordance with the provisions of the
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	Master Declaration of Agency. Definitive Sukuk representing holdings of the Global Sakk will not be issued. However, Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk.
Terms of each Series	The specific terms of each Series will be set out in the Applicable Final Terms.
Issuance in Series	The Sukuk will be issued in Series. Each Series may comprise one or more Tranches issued on different Issue Dates. The Sukuk of each Series will have the same terms and conditions or terms and conditions which are the same in all respects, save for the amount and date of the first payment of Periodic Distribution Amounts thereon and the date from which the Periodic Distribution Amounts start to accrue.
Programme Size	The aggregate face amount of the Sukuk from time to time outstanding under the Programme will not exceed SAR 8,000,000,000, subject to increase in accordance with the Programme Agreement and all applicable laws and regulations in the Kingdom.
Use of Proceeds	The net proceeds of the issue of each Tranche will be contributed by the Sukukholders' Agent (as Rab-al-Maal) to the Issuer (as Mudareb) as Mudaraba Capital pursuant to the terms of the Master Mudaraba Agreement and will be used by the Issuer for general corporate purposes in a <i>Shari'ah</i> -compliant manner, all in accordance with the investment plan set out in the Master Mudaraba Agreement.
Transaction Structure	A diagram of the structure of the transaction and the principal cashflows is set out under " <i>Structure Diagram and Cashflows</i> " below.
Currencies	The Sukuk will be denominated in Saudi Riyals ("SAR").
Specified Denominations	The Sukuk will be in registered form in denominations of SAR 1,000,000.
Maturities	The Sukuk of each Series are perpetual securities and accordingly do not have a mandatory fixed redemption date.
Issue Price	Sukuk may only be issued on a fully paid basis and at an issue price which is at par.
Status	The Sukuk constitute an undivided ownership interest of the Sukukholders in the Sukuk Assets of the relevant Series and shall at all times rank <i>pari passu</i> without any preference or priority among themselves.
Subordination	<p>The Sukuk and the Relevant Obligations in respect of each Series of Sukuk will each constitute direct, unsecured, conditional and subordinated obligations of the Issuer and shall, upon the occurrence of a Winding Up Proceeding rank:</p> <ol style="list-style-type: none"> <li>(1) subordinate and junior to all Senior Obligations but not further or otherwise;</li> <li>(2) <i>pari passu</i> with all other Pari Passu Obligations; and</li> <li>(3) in priority only to all Junior Obligations.</li> </ol>
Periodic Distributions	Subject to Condition 9.1 ( <i>Non-Payment Event</i> ) and Condition 9.2 ( <i>Non-Payment Election</i> ), Sukukholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the Applicable Final Terms.
Fixed/Reset Rate Sukuk	Fixed/Reset Rate Sukuk shall bear profit in respect of the period from (and including) the relevant Issue Date to (but excluding) the first Reset Date, at the

	<p>rate per annum equal to the relevant Initial Periodic Distribution Rate (as defined in the Conditions). The relevant Profit Rate (as defined in the Conditions) will then be reset on each relevant Reset Date on the basis of the aggregate of the relevant Margin and the Relevant Reset Rate on the relevant Applicable Rate Determination Date, as determined by the Payment Administrator (each as defined in the Conditions).</p>
Floating Rate Sukuk	<p>Floating Rate Sukuk shall bear profit at such floating rate per annum as may be determined on the basis of the relevant Reference Rate (as defined in the Conditions) as adjusted for any applicable margin. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Sukuk.</p> <p>Such profit will be paid on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).</p>
Limitation on Payment of Periodic Distribution Amounts	<p>If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, the Issuer shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and the Issuer shall not have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 9 (<i>Periodic Distribution Restrictions</i>).</p> <p>In such circumstances, distributions will not be cumulative and any distributions which are not paid will not accumulate or compound and the Sukukholders will have no right to receive such distributions at any time, even if other distributions are paid in the future.</p>
Dividend and Redemption Restrictions	<p>The payment of dividends by the Issuer will be subject to the payment of the relevant Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount on the relevant Sukuk of that Series being made, as more particularly described in Condition 9.4 (<i>Dividend and Redemption Restrictions</i>).</p>
Taxation	<p>All payments in respect of the Sukuk shall be made free and clear of and without withholding or deduction for any taxes imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom or any political subdivision or authority thereof or therein having the power to tax (“<b>Taxes</b>”), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay additional amounts (“<b>Additional Amounts</b>”) so that the full amount which otherwise would have been due and payable under the Sukuk is received by the parties entitled thereto provided that no such Additional Amount shall be payable to any Sukukholder that is not, or at any time ceases to be, a Qualified Person.</p>
Restrictions	<p>There are restrictions on the distribution of this Base Offering Circular and the offer or sale of Sukuk of any Series. In particular, the distribution of this Base Offering Circular and the offering, sale and delivery of the Sukuk in the Kingdom are limited solely to those persons who are permitted under the Rules on the Offer of Securities and Continuing Obligations. For a more detailed description of these and other restrictions on offers, sales and deliveries of</p>

Sukuk of any Series and on the distribution of this Base Offering Circular and any offering materials relating to the Sukuk of a relevant Series, see “*Subscription and Sale*”.

Further Issues

In respect of any Series, the Issuer shall be at liberty from time to time without the consent of the Sukukholders to create and issue additional Sukuk having the same terms and conditions as the Sukuk of such Series as are outstanding or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue and so that the same shall be consolidated and form a single Series with the Sukuk of such Series as are outstanding. See Condition 18 (*Further Issues*) for further information.

Transaction Account

On the Issue Date relating to each Tranche, the proceeds of the subscription of the Sukuk shall be deposited by the Sukukholders into a non-interest bearing account with the Account Bank in respect of the relevant Series held in the name of the Sukukholders’ Agent (for and on behalf of the Sukukholders) and administered by the Payment Administrator on its behalf (the “**Transaction Account**”).

Sukuk Assets

In relation to each Series, the Sukuk Assets shall comprise:

- (a) the cash proceeds of the issue of the Sukuk, pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of the Sukukholders’ Agent’s rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (c) all of the Sukukholders’ Agent’s rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Issuer (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Sukukholders’ Agent pursuant to the Master Declaration of Agency); and
- (d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, for and on behalf of the Sukukholders *pro rata* according to the face amount of the Sukuk held by each such holder in accordance with the Master Declaration of Agency and the Conditions.

None of the Sukukholders’ Agent, the Sole Arranger or the Dealers or (so long as it performs its obligations under the Transaction Documents) the Issuer, is responsible for the performance or the profitability of the Sukuk Assets and the Sukukholders’ Agent is not responsible for the share and amount of the distributions (if any) made to the Sukukholders.

Redemption of Sukuk

The Sukuk of each Series are perpetual securities and accordingly do not have a mandatory fixed redemption date. The Sukuk of each Series may be redeemed in whole but not in part by the Issuer only in accordance with the provisions of Condition 11 (*Redemption*).

Pursuant to Condition 11.1(b) (*Issuer’s Call Option*), the Issuer may elect to redeem all, but not some only, of the Sukuk of the relevant Series at the relevant Issuer Call Amount on: (i) in the case of Fixed/Reset Rate Sukuk, if Condition



11.1(b)(ii) (*Issuer's Call Option*) is specified as applicable in the Applicable Final Terms, any date during the period commencing (and including) the relevant First Call Date to (and including) the relevant First Reset Date or on any relevant Periodic Distribution Date thereafter; or (ii) in the case of Fixed/Reset Rate Sukuk where Condition 11.1(b)(iii) (*Issuer's Call Option*) is specified as applicable in the Applicable Final Terms, and in respect of Floating Rate Sukuk, the First Call Date or any relevant Periodic Distribution Date thereafter.

In addition, upon the occurrence of a Tax Event or a Capital Event, all, but not some only, of the Sukuk of the relevant Series may be redeemed in accordance with Conditions 11.1(c) (*Redemption due to Taxation*) and 11.1(d) (*Redemption for Capital Event*) on any Periodic Distribution Date (in the case of Floating Rate Sukuk) or on any date, whether or not a Periodic Distribution Date (in the case of Fixed/Reset Rate Sukuk). In all cases, any redemption of the Sukuk of the relevant Series is subject to the conditions described in Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption*).

Events of Default For the events and circumstances that shall constitute an Event of Default under the Sukuk of a relevant Series and a description of the consequences thereof, see Condition 13 (*Events of Default and Winding-up*).

Write-down at the Point of Non- Viability If a Non-Viability Event occurs prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Sukuk of a relevant Series, a Write-down (as defined in the Conditions) shall occur on the relevant Non-Viability Event Write-down Date (as defined in the Conditions), as more particularly described in Condition 12 (*Write-down at the Point of Non-Viability*). In such circumstances, the Sukukholders' rights to the Sukuk Assets of that Series shall automatically be deemed to be irrevocably and unconditionally Written-down in a proportion corresponding to the relevant Write-down Amount and the Sukuk of that Series shall be cancelled (in the case of a Write-down in whole) or Written-down in part on a *pro rata* basis.

Ratings BSF has been assigned long-term issuer default ratings of A- with a stable outlook by Fitch, A2 with a positive outlook by Moody's and A- with a stable outlook by S&P.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

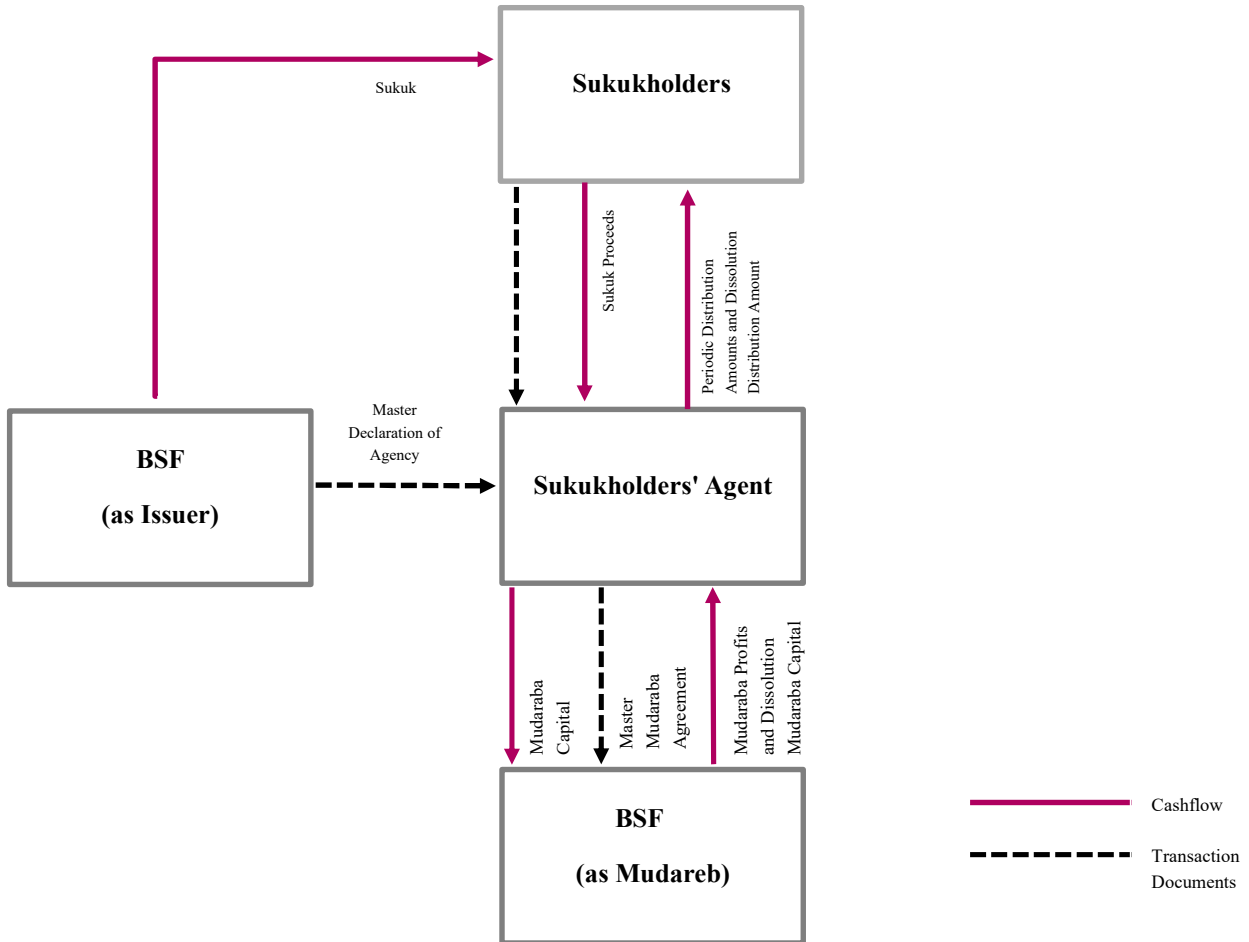
Sukukholder Meetings A summary of the provisions for convening meetings of Sukukholders of each Series of Sukuk to consider matters relating to their interests as such is set out in Condition 17 (*Meetings of Sukukholders; Modification*) and is further set out in the Master Declaration of Agency.

Sukukholders should note that the provisions contained in the Master Declaration of Agency regarding Sukukholder meetings are subject to applicable Saudi Arabian law as may be amended from time to time and as applied in practice. In the event of any inconsistency between those provisions and applicable law as applied in practice, the applicable law shall prevail.

Transfers	Subject to Condition 3.3 ( <i>Transfer Record Dates and Closed Periods</i> ) and Condition 3.4 ( <i>Regulations Concerning Transfers and Registration</i> ), the Sukuk of a relevant Series may be transferred in accordance with the regulations and procedures of the Registrar and the provisions of the Registry Agreements (as defined in the Conditions).
Transaction Documents	Each of the Master Declaration of Agency, the Payment Administration Agreement, the Master Mudaraba Agreement, the Registry Agreements, the Sukuk (including the Global Sakk) and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto.
Risk Factors	An investment in any Series of Sukuk issued under the Programme should be made only after careful consideration by a prospective investor of its individual circumstances. There are certain factors that may affect the Issuer's ability to fulfil its obligations under a Series of Sukuk issued under the Programme and the Transaction Documents. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Sukuk of such Series issued under the Programme. These are set out in the section entitled " <i>Risk Factors</i> ". A prospective investor must also carefully review the section of this Base Offering Circular entitled " <i>Important Notice</i> " before deciding to invest in the Sukuk.
Governing Law and Jurisdiction	The Transaction Documents and each Series of Sukuk are to be governed by, and are to be construed in accordance with, the laws and regulations of the Kingdom of Saudi Arabia (" <b>KSA Law</b> ") and are subject to the exclusive jurisdiction of the Kingdom's Committee for the Resolution of Securities Disputes and the Appeal Committee for Resolution of Securities Disputes (the " <b>Committees</b> ").

## STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram in respect of the Sukuk. Prospective investors are referred to the Conditions or a more detailed description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. The diagram set out below is a simplified diagram for illustration purposes only and is not intended to be (nor should it be construed as being) all inclusive. Prospective investors should note that this diagram is not a substitute for reviewing the Transaction Documents in full.



## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published shall be incorporated in, and form part of, this Base Offering Circular:

- (a) audited consolidated financial statements as at and for the year ended 31 December 2023, together with the audit report thereon (an electronic copy of which is available at [https://www.alfransi.com.sa/Library/Assets/Gallery/Documents/Financial\\_Information/2023/BSFFinancialStatementsYE-2023-English.pdf](https://www.alfransi.com.sa/Library/Assets/Gallery/Documents/Financial_Information/2023/BSFFinancialStatementsYE-2023-English.pdf));
- (b) the Interim Financial Statements, together with the review report thereon (an electronic copy of which is available at [BSF-Financial-Q3-2023-En.pdf \(alfransi.com.sa\)](#));
- (c) the 2022 Financial Statements, together with the audit report thereon (an electronic copy of which is available at [BSF-Financial-Statements-YE-2022-English.pdf \(alfransi.com.sa\)](#)); and
- (d) the 2021 Financial Statements, together with the audit report thereon (an electronic copy of which is available at [BSF Financial Statements YE - 2021 - English.pdf \(alfransi.com.sa\)](#));

(together, the “**Documents Incorporated by Reference**”).

The Documents Incorporated by Reference shall be incorporated in, and form part of, this Base Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Base Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Offering Circular. Those parts of the Documents Incorporated by Reference which are not specifically incorporated by reference in this Base Offering Circular are either not relevant for prospective investors in the Sukuk to be issued under the Programme or the relevant information is included elsewhere in this Base Offering Circular. Any documents themselves incorporated by reference in the Documents Incorporated by Reference shall not form part of this Base Offering Circular.

Copies of the Documents Incorporated by Reference may be obtained (without charge) from the registered office of the Issuer during usual business hours and will be available for viewing on the Guarantor’s website at <https://www.alfransi.com.sa/english/home>.

## SUMMARY OF BASIC INFORMATION

*The summary of basic information set out below should be read as an introduction to, and is qualified in its entirety by reference to, the more extensive information contained elsewhere in this Base Offering Circular. This summary may not contain all of the information that prospective investors should consider before deciding to invest in the Sukuk. Accordingly, any decision by a prospective investor to invest should be based on a consideration of this Base Offering Circular and the Applicable Final Terms as a whole. You should read this entire Base Offering Circular carefully, including the information set forth in the “Risk Factors” and the “Important Notice” sections of this Base Offering Circular before making any investment decision. Capitalised terms used but not defined in this summary have the meanings given to them elsewhere in this Base Offering Circular.*

### **Description of the Issuer**

The Issuer, Banque Saudi Fransi (which is the successor to Banque de l’Indochine) is a joint stock company incorporated under the laws of Saudi Arabia and was established by Royal Decree No. M/23 dated 4 June 1977 and registered under Commercial Registration Number 1010073368 on 5 September 1989. BSF has its registered office located at King Saud Road, AlMuraba’ District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Issuer’s tax identification number (TIN) is 3000002546.

Details of the Issuer’s history, strategy, business and other information can be found in the section entitled “Description of BSF” of this Base Offering Circular.

## RISK FACTORS

*The purchase of any Sukuk may involve substantial risks and is suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in any Sukuk.*

*The Issuer believes, to the best of its knowledge, that the factors described below represent the principal risks inherent in investing in Sukuk, but the inability of the Issuer to pay any amounts on or in connection with any Sukuk may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Sukuk are exhaustive. There may also be other considerations, including some which may not be presently known to the Issuer or which the Issuer currently deems immaterial, that may impact any investment in Sukuk.*

*There can be no assurance that the various structural elements described in this Base Offering Circular will be sufficient to ensure payment to Sukukholders of any Periodic Distribution Amount or the Mudaraba Capital in respect of any Sukuk on a timely basis or at all.*

*Prospective investors should also read the detailed information set out elsewhere in this Base Offering Circular and reach their own views prior to making any investment decision. The risks set out below are not presented in any assumed order of priority that can reflect the expected impact on the Issuer; importance, materiality or the likelihood of occurrence. Words and expressions defined in this Base Offering Circular shall have the same meanings in this section.*

### **Risks relating to the Group's business – factors that may affect BSF's ability to fulfil its obligations under the Sukuk and the Transaction Documents**

#### ***The Group operates in a competitive industry***

All sectors of the Saudi Arabian market for financial and banking services are highly competitive. Based on SAMA's website, there are 36 commercial banks licensed to operate in the Kingdom, of which 14 are incorporated in the Kingdom with three banks being digital banks (namely STC Bank, D360 Bank and Saudi Digital Bank) that have been recently licensed by SAMA but not yet commenced their operations. Of the remaining 22 licensed foreign banks, six are branches or subsidiaries of banks based in other GCC countries (namely Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, Bank Muscat, Qatar National Bank and First Abu Dhabi Bank), ten are international banks (namely Deutsche Bank, BNP Paribas, J.P. Morgan Chase, N.A., National Bank of Pakistan, T.C. Ziraat Bankası A.Ş., Industrial and Commercial Bank of China, MUFG Bank, Ltd., Credit Suisse Bank, Standard Chartered Bank and National Bank of Iraq) and six have been licensed but are yet to commence operations under their licences (namely Trade Bank of Iraq, Bank of China Limited, Banque Misr, National Bank of Egypt, Sohar International Bank, and Bank of Jordan). Given the growing trend towards liberalisation of the banking industry in the Kingdom, allowing the presence of both foreign banks and digital banks, and the rise of digital banking, the Group faces the prospect of a further increased competitive environment in the future.

The Saudi Arabian market is becoming increasingly competitive, and this may increase the pressure on the Group to improve the range and sophistication of the products and services it currently offers. Competition in its key areas of operation may limit the Group's ability to implement its growth strategy, increase its client base and expand its operations, and reduce or reverse its asset growth rate and profit margins on the services it provides. As a result, the Group may experience increasing margin pressure (including for example from the recently licensed digital banks who may have lower operating cost models and be capable of generating higher returns from asset growth when they commence operations) and rising operating expenses as the banking sector in the Kingdom develops, may not be able to compete effectively against its competitors or may have to incur

significant additional costs as it seeks to do so. Any of the above factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

***The Group is exposed to the credit risk of borrowers and other counterparties due to its financing and investment activities, which could give rise to material losses in future periods***

Risks arising from adverse changes in the credit quality and recoverability of loans, securities and amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its lending and investment activities. Credit risks could arise from a deterioration in the credit quality of specific borrowers, issuers, customers and other counterparties of the Group, or from a general deterioration in local economic conditions, or from systemic risks within the financial system, any or all of which could affect the recoverability and value of the Group's assets and require an increase in the Group's provisions for the impairment of loans, securities and other credit exposures.

In particular, the Group is exposed to the risk that its borrowers / customers may not meet their obligations in respect of financing advanced by the Group and that the collateral (if any) securing the financing advanced may be insufficient, each of which could:

- affect the recoverability and value of the Group's assets;
- result in an increase in non-performing loans and advances ("NPLs"); and
- require an increase in the Group's provisions for the impairment of loans, securities and other credit exposures.

Some of the Group's borrowers have historically experienced, and may continue to experience, decreased revenues, financial losses, insolvency, difficulty in obtaining access to financing and increased funding costs. Some of these companies have been unable to meet their debt service obligations or other expenses as they become due, including amounts payable to the Group.

As at 30 September 2023, the Group's total loans and advances, net, net NPLs and allowance for impairment losses amounted to SR 174,681 million, SR 3,540 million and SR 4,940 million, as compared with to SR 159,012 million, SR 4,170 million and SR 5,001 million as at 31 December 2022 and SR 147,813 million, SR 3,858 million and SR 4,733 million as at 31 December 2021. The Group's impairment charge for expected credit losses on loans and advances, net amounted to SR 1,263 million for the nine months ended 30 September 2023 and SR 889 million for the nine months ended 30 September 2022. The Group's impairment charge for expected credit losses on loans and advances, net amounted to SR 1,364 million for the year ended 31 December 2022 and SR 961 million for the year ended 31 December 2021.

In addition, financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediates, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis. The Group routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers and commercial banks, resulting in significant credit concentration. As a result, the Group is exposed to counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. Moreover, problems at certain financial institutions in the Kingdom or in other countries could cause general market concerns over the health of financial institutions. Furthermore, these problems could lead to reduced access to liquidity and funding for financial institutions and/or decline in the value of their debt or equity instruments, possibly including the Sukuk, such risk being sometimes referred to as "contagion effect". In addition, many of the hedging and other risk management strategies utilised by the Group also involve transaction counterparties that are financial institutions. The weakness of these counterparties may impair the effectiveness of the Group's hedging and other risk

management strategies. The “systemic risk” has further been exacerbated by the recent collapse of a number of banks worldwide, such as Credit Suisse in Europe and Silicon Valley Bank and Signature Bank in the United States. In addition, the Group has in the past witnessed an increase in payment delays and requests for restructuring and waivers of covenants, especially since the increase in systemic risks triggered by the COVID-19 pandemic. All of these factors could have a material adverse effect on the Group’s ability to raise new funds and have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

***Security interests provided in favour of the Group may not be sufficient to cover all losses and the Group may experience difficulty in enforcing certain types of collateral***

The practice of pledging assets (such as share portfolios and real estate assets) to obtain bank financing is subject to certain limitations and administrative restrictions under Saudi Arabian law. In particular, such security may, in some cases, not be enforced without a court order. Accordingly, the value of any such collateral may decrease over time while the Group seeks to enforce it, and the time and costs associated with enforcing the collateral may also adversely affect the Group’s ability to recover its loan losses in full.

***The Group’s loans and advances, investment portfolio and customers’ deposits are concentrated in the Kingdom***

As at 31 December 2022, 98.98 per cent. of the Group’s loans and advances, net and 86.52 per cent. of the Group’s investments, net were concentrated in the Kingdom. As at 31 December 2022, the Group’s customers’ deposits represented 81.51 per cent. of the Group’s total liabilities, with 99.89 per cent. of customers’ deposits as at 31 December 2022 concentrated in the Kingdom.

Accordingly, any deterioration in general economic conditions in the Kingdom or any failure by the Group to manage its geographical risk concentrations could have a more significant adverse effect on the Group’s business than on that of a more diversified bank. See – “*The Group is subject to economic and political risks in the Kingdom and emerging market countries in which it operates*” and “*The Kingdom’s economy is highly dependent on its oil revenue*”.

***The Group has significant customer and sector concentrations***

The Group’s financial condition is sensitive to volatility and downturns in the industry sectors in which its loans are concentrated.

The Group’s loan portfolio is concentrated in a small number of industry sectors, including “manufacturing”, “commerce” and “services”, which together accounted for 42.78 per cent. of the Group’s total loans and advances, net as at 31 December 2022. Accordingly, the Group’s significant exposure to the “manufacturing”, “commerce” and “services” sectors, combined with any downturn or adverse trends in these sectors, could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects. In addition, as at 31 December 2022, the Group’s top 20 borrowers accounted for 31.49 per cent. of the Group’s total loans and advances, net.

In addition, the Group’s exposure to the retail segment accounted for 23.30 per cent. of the Group’s total loans and advances, net as at 31 December 2022. Any deterioration in the performance of the Kingdom’s economy, stagnation or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in respect of the banking sector, as well as any overleveraging or instability in the consumer finance market and any resulting regulatory restrictions, could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects, and, in particular, may increase the proportion of NPLs and allowance for impairment thus adversely impacting the Group’s profitability and reducing its capital. If the consumer market overheats and consumers become overleveraged and start to default due to various factors discussed above, the Group could be required to create significantly greater provisions to



reflect rising credit risk and default rates on its retail finance portfolio, which could negatively affect its profit, capital generation and capital adequacy levels.

In addition, as at 31 December 2022, the Group's top 20 depositors (which comprise large Saudi Arabian corporates, Government related entities and financial institutions) accounted for 43.12 per cent. of the Group's customers' deposits. Any withdrawal or non-renewal of the Group's customers' deposits by any one or more of its material depositors could require the Group to obtain replacement funding from other sources. No assurance can be given that such funding will be available on commercially acceptable terms or at all, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See – *“The Group faces liquidity and funding risks”* and *“The COVID-19 pandemic has had, and may continue to have, a significant effect upon the economy of the Kingdom, which consequently may adversely affect the Group's business, financial condition and results of operations”*.

***The Group has significant credit-related contingent liabilities and commitments that may lead to potential losses***

As part of its normal banking business, the Group issues guarantees, letters of credit (“LCs”) and acceptances which are not accounted for on the Group's balance sheet until such time as they are actually funded or cancelled. In addition, the Group makes irrevocable commitments to advance credit to its customers. Although these commitments are contingent, they nonetheless subject the Group to both credit and liquidity risks. As at 30 September 2023, 31 December 2022 and 31 December 2021, the Group had SR 70,207 million, SR 63,847 million and SR 57,470 million, respectively, in commitments and contingencies outstanding.

Although the Group anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Group may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This could result in the Group being required to obtain additional funding, potentially at relatively short notice, which may not be readily available or may be significantly more expensive, which could reduce the Group's margins and adversely impact its operating income and profitability.

***The Group could be adversely affected by market risks***

The Group could be adversely affected by market risks that are outside its control, including, without limitation, volatility in the benchmark interest rates, prices of securities or commodities and currency exchange rates. In particular, an increase in the benchmark interest rates generally may decrease the value of the Group's fixed-rate loans and securities and may increase the Group's funding costs. In addition, fluctuations in the benchmark interest rates may result in a pricing gap between the Group's rate-sensitive assets and liabilities. The benchmark interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as SAMA and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

Changes in the interest rate levels and spreads may also affect the Group's future cash flows by adversely impacting the margin realised between the Group's lending and investment activities and its borrowing costs. Changes in debt, equity and commodity prices may also affect the values of the Group's investment and trading portfolios.

Although the Group monitors profit and cost rates with respect to its assets and liabilities and seeks to match its profit and cost rate positions, rate movements may lead to mismatches between the rates on its profit-earning assets and cost-bearing liabilities which, in turn, may adversely affect the Group's net income. The Group's funding, particularly its short-term funding (see – *“The Group faces liquidity and funding risks”*) is more exposed to changes in market conditions. If the Group's cost of funding increases and it is not able to pass the increased costs on to all or a significant portion of its existing financing customers in a timely manner or at all

due to market, competitive or other conditions, this could have a material adverse effect on its business, results of operations, financial condition or prospects.

All of the above risks may be further exacerbated by the persisting global macroeconomic challenges, including increased benchmark interest rates and elevated inflation. The U.S. Federal Reserve raised U.S. overnight interest rates by 25 basis points in March 2022, 50 basis points in May 2022, 75 basis points in each of June 2022, July 2022, September 2022 and November 2022, 50 basis points in December 2022 and 25 basis points in each of February 2023, March 2023, May 2023 and July 2023. Tracking these hikes, SAMA increased both its repo rate and its reverse repo rate by 25 basis points in March 2022, 50 basis points in each of May 2022 and June 2022, 75 basis points in each of July 2022, September 2022 and November 2022, 50 basis points in December 2022 and 25 basis points in each of February 2023, March 2023, May 2023 and July 2023. Further announcements from central banks across the world could be forthcoming and it is unclear what impact these measures will ultimately have on their respective economies. Accordingly, aggressive or unexpected monetary policy tightening by the U.S. Federal Reserve could shock the markets, adversely affecting asset prices and ultimately economic growth. Furthermore, many of the world's economies are experiencing elevated inflation, which is expected to remain as such for longer than previously forecast. According to the IMF, global headline inflation for 2023 is expected to be 6.8 per cent. and 5.2 per cent. in 2024. However, as with the growth outlook, considerable uncertainty surrounds these inflation projections. Various factors have contributed to shaping the inflation outlook, including the Russia-Ukraine conflict, which caused increases to energy prices (as discussed above) and food prices (due to disruptions in the supply of commodities such as wheat, corn and fertilisers). In addition, while demand grew rapidly in 2021, various bottlenecks held back supply, including outbreak-induced factory closures, restrictions at ports, congested shipping lanes, container shortfalls and worker shortages because of quarantines. Although supply bottlenecks are generally anticipated to ease as production responds to higher prices, the Russia-Ukraine conflict and widespread sanctions on Russian persons, entities and institutions are likely to prolong disruptions in some sectors for the remainder of 2023 and into 2024. Prolonged inflation could affect the wider global economy (by, for example, causing prompt broad-based selling in long-duration, fixed-rate debt, which could have negative implications for equity and real estate markets) and the Group's customers and counterparties (leading to lower recoverability), which, in turn, could have an adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group is also exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by SAMA. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks.

Adverse movements in interest and foreign exchange rates may also adversely impact the revenues and financial condition of the Group's depositors, borrowers / customers and other counterparties which, in turn, may impact the Group's deposit base and the quality of its credit exposures to certain borrowers / customers and other counterparties. While the Group's market risk positions are monitored using various indicators such as value at risk, stress testing and sensitivity analyses which are subject to internal and regulatory limits, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in interest rate or currency exchange rates or from a significant change in the prices of its securities.

### ***The Group faces liquidity and funding risks***

The Group, like other commercial banks in the Kingdom and elsewhere, is exposed to liquidity risk due to the maturity mismatches between its assets and liabilities. If the Group's cash flow from its operations is not

sufficient to meet its short and medium-term contractual and contingent payment obligations when they fall due, it could experience liquidity issues, even if it continues to receive new customers' deposits and proceeds from new financings or future revenue streams. Such liquidity mismatches could also arise if there is an unexpected outflow of customers' deposits, if there is a material decline in the value of the Group's liquid securities portfolio or if the Group is unable to secure short-term funding or sell assets to bridge any such funding gap. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, customers' deposits from Government institutions or short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, financial institutions have continued to experience periods of reduced liquidity.

The Group meets a significant portion of its funding requirements through short-term funding sources, primarily in the form of customers' deposits. As at 30 September 2023 and 31 December 2022, customers' deposits accounted for 79.00 per cent. and 81.51 per cent., respectively, of the Group's total liabilities. As at 30 September 2023 and 31 December 2022, demand deposits represented 52.96 per cent. and 57.86 per cent., respectively, of the Group's customers' deposits. In the event of any downturn in confidence in the Group or the banking sector in the Kingdom more generally, the Group's customers could seek to withdraw their deposits or decide not to roll over their deposits on maturity and consequently the Group may not have the necessary funds to meet its liabilities as they fall due, which will have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, the Group's deposits are geographically concentrated and the Group is reliant on deposits from a limited group of customers. See – *“The Group has significant customer and sector concentrations”* and *“The Group's loans and advances, investment portfolio and customers' deposits are concentrated in the Kingdom”*.

***The Group's risk management policies, systems and procedures may leave it exposed to unidentified or unanticipated risks***

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up to date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

Although the Group invests substantial time and effort in its risk management systems and believes it has implemented the appropriate policies, systems and procedures to control and mitigate these risks, its risk management techniques may not be consistently implemented or fully effective in mitigating its exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Investors should note that any failure by the Group to identify and/or adequately control these risks, including as a result of any failure to successfully implement new risk management policies, systems and procedures in the future, may have a material adverse effect on the Group's reputation, business, results of operations, financial condition or prospects.

### ***The Group is subject to operational risk inherent in banking activities***

The Group is subject to the risk of incurring losses or undue costs due to the inadequacy or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets. The financial services industry is exposed to the risk of misconduct by employees, which could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines, as well as serious reputational or financial harm for the Group. For instance, in November 2017, SAMA imposed a fine of SR 85,839,500 on BSF for violations of governance and supervisory regulations in connection with its employee incentive programme (the “**Incentive Programme**”) and requested, among other things, that BSF improve its internal controls systems and governance structures. Under the Incentive Programme, incentive payments were made without proper authorisation to now-former BSF employees in the period from 2012 to 2017. These payments were adequately provisioned against in the relevant financial statements of BSF. In response to SAMA’s enforcement action, BSF has significantly improved its internal controls systems and governance structures, terminated the employment of the relevant employees and taken legal action against them to recover the amounts paid to them without the prior authorisation under the Incentive Programme.

Although the management team believes the Group’s risk management policies and procedures are adequate and that the Group is currently in compliance in all material respects with all laws, standards and recommendations applicable to it, any failure of the Group’s risk management system to detect unidentified or unanticipated risks, or to correct operational risks, or any failure of third parties to adequately perform key outsourced activities, such as card processing and the transportation of cash, could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects. See – “*The Group’s risk management policies, systems and procedures may leave it exposed to unidentified or unanticipated risks*”.

### ***The Group is dependent on its ICT systems and any disruption to these systems could materially disrupt the Group’s business***

As a financial services organisation, the Group is exposed to a variety of operational risks including those arising from process error, fraud, systems failure and any failure to ensure adequate levels of security and physical protection, customer services, staff skills and performance, and product development and maintenance. The materialisation of any such risk may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

The Group depends on its ICT infrastructure to process transactions on an accurate and timely basis, and to store and process substantially all of the Group’s business and operating data. The proper functioning of the Group’s financial control, risk management, credit analysis and reporting, accounting, customer service and other ICT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group’s business and its ability to compete effectively. Further, the Group is implementing a “Core Banking System” in a phased manner to streamline its technology architecture and create contemporary technology capability for future needs. The Group’s business activities would be materially disrupted if there were to be a partial or complete failure of any of the ICT systems or communications networks or a failure to successfully implement the Core Banking System. Such failures can be caused by a variety of factors, including natural disasters, extended power outages, computer viruses and malicious acts, as well as inadequate change management processes for existing and new systems. The proper functioning of the Group’s ICT systems also depends on accurate and reliable data and other system input, which are subject to human

error. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties.

The Group has set up a disaster recovery data centre (housing back-up ICT operations and data storage systems) for use in the event of a catastrophe or failure of its primary data centre and ICT infrastructure. However, there can be no assurance that these safeguards will be fully effective in all circumstances and any failure could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***The Group's business is dependent on its ICT systems which are subject to potential cyber-attack***

Technology, information and cyber security risks continue to impact financial institutions and other businesses across the globe, with the threats increasing in both volume and sophistication. The attack surface continues to expand significantly with the increasing trend of digitalisation. The Group is working with various third parties as part of its digital transformation initiatives and as such, the Group could be adversely affected by a security breach or information breach suffered by such third parties. Additionally, remote working arrangements prompted by the pandemic, the movement of information to cloud environments and the emergence of Internet of things ("IoT") technologies has increased the need to invest in order to deal with the ever-changing cyber threat landscape whilst protecting the Group's data, information, technology and networks and ensuring the comprehensive and continuous management of cyber threats. Potential cyber risk encompasses loss of availability of banking services, disruption to business and technology services and critical data breaches including unauthorised access to personal and financial data. While the Group continuously invests in cybersecurity initiatives to stay ahead of the changing threat landscape, any failures could expose the Group to unplanned downtime and lost business, reputational risk, and financial losses including from regulatory penalties.

***The Group is subject to litigation risk***

In the ordinary course of its business, as a participant in the financial services industry, the Group may pursue litigation claims against third parties and may face litigation claims and/or regulatory proceedings filed against it. Any such litigation could result in substantial costs and diversion of management attention and resources. As at 31 December 2022, there were 102 legal proceedings outstanding against BSF, as referred to in note 21(a) to the 2022 Financial Statements. The outcome of these outstanding claims is inherently uncertain and an unfavourable resolution of one or more material claims could result in the Group's costs not being recovered or in damages being assessed against the Group, which may not be covered by insurance. Any failure by the Group to identify and adequately control any legal and/or regulatory risk may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***BSF and certain of its subsidiaries are highly regulated entities and changes to, or to the interpretation or enforcement of, applicable laws or regulations, or the failure to comply with such laws or regulations could have an adverse impact on the Group's business***

BSF and certain of its subsidiaries are subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of financial institutions, ensure their compliance with economic, social and other objectives and limit their exposure to risk. For example, the Law on the Treatment of Systemically Important Financial Institutions, issued pursuant to Royal Decree No. M/38 dated 25/04/1442H (corresponding to 10 December 2020) which came into effect in June 2021 (the "SIFI Law") provides for SAMA to determine whether a financial institution such as BSF should be deemed to be systemically important. BSF has been determined by SAMA to be a domestically systemically important bank ("D-SIB"). The objectives of the SIFI Law include the protection of the financial system and sector in the Kingdom and minimising dependence on government support by instead utilising the resources of the relevant financial institution in case of financial distress of such financial institution. The SIFI Law gives the relevant regulator (SAMA and the CMA) the right to undertake certain protective measures to safeguard the financial system, such as the ability to amend, reduce,

cancel or convert into equity the rights of bondholders or sukukholders of the relevant financial institution, which may include the Sukukholders.

The SIFI Law provides for implementing regulations to be prepared by SAMA and the Authority. On 29 August 2023, SAMA published a draft of the implementing regulations of the SIFI Law for institutions subject to the supervision of SAMA (the “**Implementing Regulations**”) for public consultation. As of the date of this Base Offering Circular, the Implementing Regulations have not yet been issued and there can be no assurance that the Implementing Regulations, once they are finalised, will be consistent with the draft version that was published on 29 August 2023. The draft Implementing Regulations include certain provisions relating to the procedure for the amendment of rights of holders of capital instruments, including in relation to the required valuation by SAMA of the relevant SIFI’s assets prior to the application of any such procedure to determine, among other things, the extent of the write down of relevant capital instruments. See “*Basel III reforms and risk of Sukuk absorbing losses*”.

These laws, regulations and other rules may limit the activities of the Group and increase its cost of doing business. Changes in these laws and regulations and the manner in which they are interpreted or enforced may affect the Group’s regulatory capital position, reserves, revenue and performance and may have a material adverse effect on the Group’s business, results of operations, financial condition or prospects. Although the Group works closely with its regulators and, in particular, continually monitors compliance with SAMA and CMA regulations and policy, future changes in regulation, fiscal or other policies cannot be predicted and are beyond its control.

In addition, in order to carry out and expand its businesses, it is necessary for the Group to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Group is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired. There is also increased international scrutiny of banks operating in all markets, including the Kingdom, in connection with sanctions, anti-money laundering (“**AML**”), anti-terrorist financing and other regulations, some of which are international in their operation. These laws and regulations require the Group, amongst other things, to adopt and enforce “know your customer” (“**KYC**”) policies and procedures and to report suspicious and large transactions as part of their AML requirements to the applicable regulatory authorities. The Group has adopted KYC and AML policies and procedures and reviews them regularly in light of regulatory and market developments. The Group’s ability to comply with all such applicable laws and rules is driven by the robustness of its information and communications technology (“**ICT**”), compliance, audit and reporting systems and procedures, as well as its ability to attract and retain qualified compliance and risk management personnel. In the event of actual or alleged compliance breaches, the Group may become subject to investigation and judicial or administrative proceedings, which could result in penalties or lawsuits (including by customers) for damages, the loss of its ability to do business in the international banking market or in specific jurisdictions, the loss of its banking licence or material damage to its reputation, each of which could have a material adverse effect on the Group’s business, results of operations, financial condition or prospects.

### ***The Group may face difficulties raising capital***

In order for the Group to fund its growth strategy and enter into new lines of business, it will be required to expand its base of operations while continuing to meet regulatory capital adequacy requirements.

As at 30 September 2023 and 31 December 2022, the Group’s tier 1 capital adequacy ratio (calculated according to Basel III standards for Pillar 1) was 18.73 per cent. and 18.90 per cent., respectively, and its total capital adequacy ratio was 19.21 per cent. and 19.92 per cent, respectively. The Group has been designated as a D-SIB with an additional common equity tier 1 D-SIB surcharge of 0.5 per cent. Accordingly, the Group’s total

minimum Pillar 1-based capital requirement as at 30 September 2023 was 11.05 per cent., which also included a capital conservation buffer of 2.5 per cent. and a countercyclical capital buffer of 0.048 per cent.

The Group is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements applicable to it. Under Basel III and Basel IV, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of the Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions which, in turn, may have a material adverse effect on the Group. In addition, a shortage of available capital might restrict the Group's opportunities for expansion.

A variety of factors affect the Group's capital adequacy levels. For example, a significant increase in lending in the remainder of 2023 and in 2024 would likely reduce the Group's capital adequacy ratios and any losses experienced by it in future periods would have a similar effect. In addition, regulatory requirements in relation to the calculation and required levels of capital adequacy may change from time to time, including as a result of new guidelines issued by the Basel Committee. The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

If the Group requires additional capital in the future, there can be no assurance that it will be able to obtain such capital on favourable terms, in a timely manner or at all. Moreover, should the Group's capital ratios fall close to regulatory minimum levels or its own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***The Group could be adversely affected if it fails to manage its growth properly***

The Group has experienced significant growth in many of its business segments in recent years. The Group intends to continue its growth in order to meet its strategic objectives, although whether this can be achieved is largely dependent on the performance of the Saudi Arabian economy and, in particular, the price of oil. See – “*The Kingdom's economy is highly dependent on its oil revenue*”. The management of the Group's growth will require, among other things, continued development of its financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency in customer services. If the Group fails to manage its growth properly, such failure may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***The Group's continued success depends on its ability to attract key management and qualified personnel***

The Group's success will depend, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel, including foreign and Saudi Arabian nationals. Although the Group attempts to structure its compensation packages appropriately in order to attract and retain experienced personnel, there is significant competition in the Saudi banking industry for personnel with relevant expertise due to the disproportionately limited number of available and/or qualified individuals relative to the high level of demand. In addition, the Group is not insured against loss that may be incurred as a result of the departure of any of its key personnel. The loss of certain members of the Group's senior management team or any significant number of its mid-level managers and skilled professionals, or their counterparts within the Group's subsidiaries and associates, may result in a loss of organisational focus, poor execution of operations and corporate strategy or an inability to identify and execute potential strategic initiatives.

In addition, the Government has introduced a number of initiatives which require private sector entities to employ a certain proportion of nationals of the Kingdom among their employees (a measure known as “**Saudisation**”). As at 30 September 2023, BSF’s Saudisation level was 91.39 per cent., and BSF strives to encourage and increase the employment of young nationals of the Kingdom. However, if further changes are implemented to the Government’s Saudisation policies, such changes may adversely affect the Group’s ability to recruit foreign employees in the future. The Group’s failure to manage its personnel needs successfully could have a material adverse effect on its business, financial condition, results of operations or prospects.

***The Group is exposed to reputational risks related to its operations and its reputation may be adversely affected if any of its Islamic finance products are deemed to be non-Shari’a compliant***

The Group depends on the trust and confidence of its customers to succeed in its business. The Group is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Group’s reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it has advanced financing or in which it has invested. For example, if one of the Group’s financing counterparties becomes associated with financial scandals or widely publicised improper behaviour, the Group’s own reputation may be affected. The Group is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Group or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Group’s reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group.

The Group currently offers a range of Islamic finance products. All of these products are reviewed and approved by BSF’s Shariah Committee. In doing so, each member of BSF’s Shariah Committee must employ his interpretative efforts in accordance with methodological rules and/or principles of Islamic jurisprudence. While various Islamic schools of thought agree on the general methodology and the basic principles of interpretation, they may disagree on particular rules. If any issues are called into question relating to the extent of the *Shari’a* compliance of Board-approved products offered by the Group, the Group’s reputation could be negatively affected which may in turn have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

***A downgrade of BSF’s credit ratings could adversely affect BSF’s ability to access the debt capital markets and may increase its borrowing costs***

BSF’s credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining BSF’s cost of borrowings. The profit rates of BSF’s borrowings are partly dependent on its credit ratings. As of the date of this Base Offering Circular, BSF’s long-term corporate ratings are “A-” with a “stable outlook” by S&P, “A-” with a “stable outlook” by Fitch and “A2” with a “positive outlook” by Moody’s.

There can be no assurance that any of BSF’s ratings will remain the same in the future. Any actual or anticipated changes in the BSF’s credit ratings may affect the market value of the Sukuk. A downgrade of BSF’s credit ratings (or a negative change of outlook) may increase its cost of borrowing and may also limit its or its subsidiaries’ or associates’ ability to raise capital and funding, each of which could adversely affect its business, results of operations, financial condition and prospects.



***The COVID-19 pandemic has had, and may continue to have, a significant effect upon the economy of the Kingdom, which consequently may adversely affect the Group's business, financial condition and results of operations***

The outbreak of the coronavirus disease ("COVID-19"), which emerged in late 2019, subsequently spread globally and, in March 2020, was declared by the World Health Organisation to be a global pandemic. The COVID-19 pandemic has since caused significant volatility in global financial markets and impacted economic activity worldwide. Since March 2020, there has been a sharp decrease in the global economic growth rate and business activities as a result of measures adopted by the governments around the world, including the Kingdom, to mitigate the impact of the COVID-19 pandemic. These measures significantly reduced economic activity in the first half of 2020 before rebounding later in the year and in 2021. With successive waves of the COVID-19 strain since then, countries have re-opened and then reintroduced many restrictions. Such restrictions may, particularly if new more transmissible and/or virulent variants are identified, be reintroduced with more severe conditions than those experienced to date and the ongoing and longer term social, economic, and political consequences of COVID-19 on global and regional economies are still largely uncertain. Any resulting decrease in business activities and a decrease in household income as a result of the COVID-19 outbreak and related restrictive measures may result in a significant decrease in demand for banking products, as well as decrease in the quality of the Group's loan portfolio.

A number of central banks and governments have announced financial stimulus packages in anticipation of a significant negative impact on local economies. The Government introduced, amongst other things, a SR 50 billion stimulus package for the private sector and support for the deferral of SME loans.

COVID-19 also adversely affected the economic and financial condition of some of the Group's customers and the quality of the Group's loan portfolio. Principally in response to the impact of COVID-19, the Group increased its impairment charge for expected credit losses, net in the year ended 31 December 2020 compared with the year ended 31 December 2019. The Group's impairment charge for expected credit losses on loans and advances, net for the years ended 31 December 2022 and 31 December 2021 amounted to SR 1,364 million and SR 961 million, respectively.

In its April 2021 World Economic Outlook Growth Projections, the IMF estimated that global real GDP in the Kingdom had declined by 3.3 per cent. in 2020 and that real GDP in the Kingdom had declined by 4.1 per cent. Under IFRS 9, GDP and other key macroeconomic factors are taken into consideration when calculating the Group's expected credit losses ("ECL"). A worsening macroeconomic environment may result in increased ECL allowances which, in turn, may have a material adverse effect on the Group's business, financial position, results of operations and prospects.

The COVID-19 pandemic and its effects may last for an extended period of time, and could, particularly if new more transmissible and/or virulent variants are identified, result in significant and continued market volatility, exchange trading suspensions and closures, declines in global financial markets, higher default rates, and a substantial economic downturn or recession. Any or all of the foregoing factors could impair the Group's ability to maintain operational standards and may disrupt the operations of the Group's clients and service providers, adversely affect the value and liquidity of the Group's investments, and negatively impact the Group's performance and any investment in the Sukuk. The extent to which COVID-19 will affect the Group's business will depend on future developments, which are highly uncertain and cannot be predicted.

Should the COVID-19 outbreak continue to cause disruption to economic activity globally going forward, there could be an adverse impact on the Group's financial assets. There could be a further adverse impact on the Group's income due to lower lending and transaction volumes and potentially higher credit losses. Other potential risks include credit rating migration which could negatively impact the Group's risk-weighted assets and capital position, and potential liquidity stress due, among other factors, to increased customer drawdowns,

notwithstanding the significant initiatives that governments and central banks have put in place to support funding and liquidity.

In the event the COVID-19 outbreak causes further disruption in the future, the Group's business, financial condition, results of operations, liquidity and prospects are likely to be negatively affected.

### **Risks relating to the Economic/Political/Regulatory Environment in the Kingdom**

#### ***The Group is subject to economic and political risks in the Kingdom and emerging market countries in which it operates***

The Group has all of its operations, and the majority of its assets, in the Kingdom, and accordingly, its business may be affected by the financial, political and general economic conditions prevailing from time to time in the Kingdom and/or the Middle East generally.

Like other countries in the Middle East, the Kingdom could be affected by political and social unrest in the region. In particular, since early 2011, there has been on-going political unrest in a range of countries in the MENA region, including Egypt, Algeria, Libya, Bahrain, Yemen, Syria, Tunisia, Kuwait, Lebanon, Jordan, Iraq and Oman.

In June 2017, a number of MENA countries, including the Kingdom, the United Arab Emirates, the Kingdom of Bahrain and Egypt, severed diplomatic relations with the State of Qatar, citing its alleged support for terrorism and accusing the State of Qatar of creating instability in the region. The termination of diplomatic relations included the withdrawal of ambassadors and the imposition of trade and travel bans. The three-year embargo came to an end in January 2021 with diplomatic relations with the State of Qatar being reinstated following the signing of the Al Ula Agreement by the United Arab Emirates, the Kingdom, the State of Qatar, the Kingdom of Bahrain, Kuwait, Oman and Egypt. As part of the Al-Ula Declaration, the parties committed to the attempt to terminate all complaints and disputes between themselves by the end of the first year from the signing of the agreement. Bahrain re-opened its airspace to Qatar as of 11 January 2021.

In addition, the Kingdom has experienced occasional terrorist attacks and other disturbances in recent years, including incidents in Jeddah, Medina and Qatif in July 2016, oil tanker sabotage and drone strikes on a crude oil pipeline in May 2019 and a major act of sabotage at its Abqaiq processing facility and the Khurais oil field in September 2019. On 23 November 2020, an explosion took place as a result of a terrorist attack by a projectile, causing a fire in a fuel tank at a Saudi Aramco petroleum products distribution terminal in the north of Jeddah. In December 2021, two people were killed in Jizan in a projectile attack blamed on Yemen's Al-Houthi rebels. In March 2022, Saudi Aramco Group's refineries in Riyadh and Yasref and petroleum products distribution terminals in Jeddah and Jizan regions were attacked. See also – "*The Kingdom's economy is highly dependent on its oil revenue*". While the political situation in the Kingdom has remained stable, the Government faces a number of challenges, arising mainly from the relatively high levels of population growth and unemployment amongst Saudi Arabian youth and the security threat posed by certain groups of extremists.

More generally, since 2011, the prospect of a nuclear Iran has been at the centre of international geopolitical discourse. The comprehensive agreement between the UN Security Council's five permanent members plus Germany and Iran that was reached on July 2015 (the "**Joint Comprehensive Plan of Action**") provides for relief from international (mainly United States and EU) economic sanctions in return for a reduction by Iran in its nuclear capabilities, and supervision by the International Atomic Energy Agency (the "**IAEA**"). After the IAEA confirmed that Iran had met the relevant requirements of the Joint Comprehensive Plan of Action, certain economic sanctions were lifted on 16 January 2016 with a view to improving Iran's standing in the international community. However, certain other sanctions remain in place and the United States imposed certain additional sanctions on Iran in July 2017 relating to Iran's ballistic missile programme, human rights matters, arms sales and Iran's Revolutionary Guard Corps. On 8 May 2018, the United States announced its withdrawal from the

Joint Comprehensive Plan of Action, reinstating U.S. sanctions on the Iranian regime. The United States also announced that it would not renew exceptional waivers for importing Iranian oil for several oil-importing countries from May 2019. Since May 2019, a number of incidents in and around the Gulf have occurred, including the alleged seizure of three oil tankers by Iran. On 2 January 2020, the United States carried out a military strike which killed a senior Iranian military commander. As a result of this military strike, Iran launched missiles at a U.S. base in Iraq. In the fourth quarter of 2020, prior to the inauguration of his presidency, U.S. President Joe Biden stated that the United States may re-join the Joint Comprehensive Plan of Action and lift the reinstated sanctions should Iran return to strict compliance with the terms of the Joint Comprehensive Plan of Action. On 3 December 2020, Iran announced that it would not accept these preconditions over its nuclear programme and that the United States must return to the position previously agreed under the Joint Comprehensive Plan of Action before further negotiation between the parties could take place. On 4 January 2021, the IAEA reported that Iran had begun retaliating against the continuing U.S. sanctions by resuming the process of enriching uranium to 20 per cent. purity, which can be used to create nuclear weapons, in breach of the Joint Comprehensive Plan of Action. Any continuation or increase in international or regional tensions regarding Iran, including further attacks on or seizures of oil tankers which disrupts international trade and any impairment of trade flow through the Strait of Hormuz, or any military conflict, could have a destabilising impact on the Gulf region, including with respect to the Kingdom and, in particular, its ability to export oil and maintain its security more generally.

If any of these risks materialise, it will have a material adverse effect on the Saudi economy which could in turn have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***The Kingdom's economy is highly dependent on its oil revenue***

The oil sector accounted for 39.6 per cent., 37.3 per cent. and 38.7 per cent. of the Kingdom's real GDP and 38.9 per cent., 28.5 per cent. and 22.4 per cent. of its nominal GDP in each of 2022, 2021 and 2020, respectively. In addition, oil exports accounted for 79.5 per cent., 73.2 per cent. and 68.7 per cent. of the Kingdom's total exports by value in 2022, 2021 and 2020, respectively. As such, the Kingdom's economy is dependent on its oil revenue.

As oil is the Kingdom's most important export, any change in oil prices affects various macroeconomic and other indicators, including, but not limited to, GDP, Government revenues, balance of payments and foreign trade. International oil prices have been volatile in the past three years, with the monthly OPEC Reference Basket price reaching U.S.\$70.78 in April 2019, decreasing sharply to U.S.\$17.66 in April 2020 amid the COVID-19 global pandemic and recovering to U.S.\$82.11 in October 2021. In March 2022, the average price of the OPEC Reference Basket price was U.S.\$113.48 per barrel. Monthly average OPEC Reference Basket prices exceeded U.S.\$100 for most of 2022 due to greater demand forecasts and geopolitical tensions around the full-scale Russia-Ukraine conflict which commenced in late February 2022. In January 2024, the average OPEC Reference Basket Price was U.S.\$80.04. The monthly price per barrel of Arabian Light Crude Oil (which is one of the five grades of crude oil produced by the Kingdom and constitutes part of the OPEC Reference Basket) has also moved in line with these trends.

On 14 September 2019, the Abqaiq processing facility and the Khurais oil field in the Kingdom were damaged in a major act of sabotage. This resulted in the temporary interruption of the Kingdom's production by an estimated 5.7 million barrels of crude oil per day, 2.0 billion cubic feet of associated gas, 1.3 billion cubic feet of dry gas, 500 million cubic feet of ethane and 0.5 million barrels of gas liquids. In March 2022, Saudi Aramco Group's refineries in Riyadh and Yasref and petroleum products distribution terminals in Jeddah and Jizan region were attacked. The attack has been reported to have increased the oil prices of Brent crude to U.S.\$120 per barrel. Such acts of sabotage (or any prolonged period of reduced production following any other incident relating to critical oil and gas infrastructure) may have a significant impact on global oil and gas prices or demand and any corresponding impact on the Kingdom's hydrocarbon exports, Government revenues and the

Kingdom's economy as a whole. See – *“The Group is subject to economic and political risks in the Kingdom and emerging market countries in which it operates”*.

On 9 April and 12 April 2020, a series of meetings took place between OPEC and non-OPEC oil producing countries participating in the Declaration of Cooperation, which culminated in an agreement to reduce their overall oil production in stages between 1 May 2020 and 30 April 2022 (the **“OPEC Agreement”**). According to the OPEC Agreement, during an initial two-month period beginning on 1 May 2020, production should have been reduced by a total of 9.70 million barrels per day, followed by a six-month period starting on 1 July 2020 when production had to be reduced by a total of 7.68 million barrels per day and followed by a subsequent 16-month period between 1 January 2021 and 30 April 2022 when production should be reduced by a total of 5.76 million barrels per day. On 18 July 2021, the 19<sup>th</sup> OPEC and non-OPEC Ministerial Meeting (the **“OPEC and non-OPEC Meeting”**) decided to extend the OPEC Agreement until 31 December 2022 and adjust upward their overall production by 0.4 mb/d on a monthly basis starting August 2021 until phasing out the 5.8 mb/d production adjustment. On 1 March 2022, the Kingdom reaffirmed its commitment to the OPEC Agreement despite widening sanctions on Russia. On 5 October 2022, the 33<sup>rd</sup> OPEC and non-OPEC Meeting decided to extend the OPEC Agreement until 31 December 2023 and adjust downward the overall production by 2 mb/d from the August 2022 required production levels, starting in November 2022. The 34<sup>th</sup> OPEC and non-OPEC Meeting in December 2022 and the 48<sup>th</sup> the Joint Ministerial Monitoring Committee of OPEC in April 2023 reaffirmed the decision of the previous OPEC and non-OPEC Meetings. In addition, a number of OPEC and non-OPEC countries announced a voluntary downward production adjustment in April 2023. The 35<sup>th</sup> OPEC and non-OPEC Meeting in June 2023 decided to adjust downward the overall production to 40.46 mb/d, starting from 1 January 2024 until 31 December 2024. The next market assessment is scheduled to take place in November 2023. There can however be no assurance that the OPEC Agreement will continue to be implemented by all relevant parties or that it will achieve its stated goals or what effect it will have on global oil prices in the short to medium term.

Further factors that may affect the price of oil include, but are not limited to:

- regional and global economic and political developments, including the Russia-Ukraine conflict and international response measures;
- maintenance of the sanctions regimes relating to Venezuela and Iran;
- general economic and political developments in oil-producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil-producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil-producing or consuming countries;
- prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels;
- the impact of COVID-19 or other pandemics; and
- global weather and environmental conditions.

Low oil prices and low demand for oil may have a material adverse effect on the Kingdom's economy and revenues, and may ultimately cause an increase in the budget deficit and a decrease in liquidity and funding in

the financial sector. The Kingdom has financed past budget deficits by borrowing and utilising its reserves and it may need to do so again. Any reduction in foreign exchange reserves and/or additional borrowing could result in foreign exchange outflows and have a tightening effect on liquidity and credit expansion which may not be mitigated by any adjustments in Government spending aimed at offsetting the adverse effects of any of the foregoing. Any such significant adverse effect on the Kingdom's economy could, in turn, have an adverse effect on the Group's business, financial condition, results of operations or prospects.

***There can be no assurance that the Government's efforts to diversify the Kingdom's economy will be successful and such efforts may have undesirable effects***

While the oil sector accounts for a significant portion of the Kingdom's economy (see – “*The Kingdom's economy is highly dependent on its oil revenue*” above), in recent years the Government has invested heavily in diversifying the Kingdom's economy to reduce its reliance on oil revenues. The Government has in recent years announced various measures aimed at, among other things, achieving increased diversification of the Kingdom's economy. Such measures include the National Transformation Program 2020, which envisages, among other things, the transformation of the Kingdom's healthcare sector, further development of the Kingdom's infrastructure, including through the construction of sea water desalination plants, expansion of digital transformation, development of the tourism sector and other initiatives aimed at achieving Saudi Vision 2030.

Through Saudi Vision 2030, the Government is seeking to implement far-reaching reforms of the Kingdom's economy and society. Some of the measures envisaged include greater participation of Saudi citizens in the private sector, a decrease in certain subsidies historically available to the fuel and energy sectors, as well as the imposition of new taxes and administrative fees. The implementation of these and other similar measures may be a lengthy and complex process, and there can be no assurance that these measures will not have unexpected or undesirable consequences in the Kingdom.

There can be no assurance that the increased contribution of the non-oil sector to the Kingdom's economy will continue in the future or that the non-oil sector will continue to grow at a sufficient extent to achieve effective and adequate diversification of the economy. Furthermore, there can be no assurance that the Government will be able to successfully implement Saudi Vision 2030, and/or the subset of Vision Realization Programs (a series of programmes which aim to achieve the strategic objectives of Saudi Vision 2030) in their current form, or that their implementation will be in line with the timelines originally set out. Any amendment to the scope or timing of the implementation of the objectives of Saudi Vision 2030 and/or the subset of Vision Realization Programs, in whole or in part, may result in the Government being unable to achieve the diversification of the economy and its sources of revenue to the required extent. Additionally, to the extent that a prolonged or further decline in oil prices has an adverse impact on the Government's revenues, this may in turn adversely impact the Government's ability to invest in the diversification of the Kingdom's economy. A failure to diversify the Kingdom's economy may result in the economy remaining susceptible to the risks associated with the oil sector. Any material deterioration in the Kingdom's economic and financial condition would be likely to also negatively affect its banking sector and could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***Investing in emerging markets generally involves a higher degree of risk***

Investors should be aware that investments in emerging markets such as the Kingdom involve a higher degree of risk than investments in more developed markets, including risks such as higher volatility, limited liquidity and changes in the legal, economic and political environment. The Kingdom's economy is susceptible to future adverse effects similar to those suffered by other emerging market countries. In addition, as a result of “contagion”, the Kingdom could be adversely affected by negative economic or financial developments in other emerging market countries, which could in turn adversely affect the trading price of the Sukuk.

Specific emerging markets country risks that may have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects include, among other things:

- political, social and economic instability, riots, insurrection or other forms of civil disturbance or violence;
- war, terrorism, invasion, rebellion, malicious acts or revolution;
- government actions or interventions, including expropriation or nationalisation of assets, increased protectionism, the introduction of tariffs or subsidies;
- changing fiscal and tax regimes;
- arbitrary or inconsistent government action, including capricious application of tax laws and selective tax audits;
- changes to laws and regulations or their interpretation or enforcement;
- difficulties and delays in obtaining requisite governmental licences, permits or approvals or renewing existing ones;
- cancellation, nullification or unenforceability of contractual rights; and
- under-developed industrial and economic infrastructure.

In addition, changes in investment policies or shifts in the prevailing political or economic climate in any of the countries in which the Group operates or seeks to operate could result in the introduction of increased government regulations with respect to, among other things:

- price controls;
- export and import controls;
- zakat, income and other taxes;
- customs and immigration;
- foreign ownership restrictions;
- foreign exchange, currency and capital controls; and
- labour and welfare benefit policies.

In addition, there can be no assurance that the market for securities bearing emerging market risk, such as the Sukuk, will not be affected negatively by events elsewhere, especially in the emerging markets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in the Sukuk is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

***A slowdown in the economies of the Kingdom's key trading partners could adversely affect the Kingdom's economy***

The Kingdom has strong trading relationships with many countries, particularly major oil-importing economies such as China, the United States, Japan, South Korea, India and a number of states of the European Union. To the extent that there is a slowdown in the economies of any of these countries, this may have a negative impact

on the Kingdom's foreign trade and balance of payments, which could have a material adverse effect on the Kingdom's economic and financial condition.

Any sustained market and economic downturn or geopolitical uncertainties in the United States, China or any of the Kingdom's other key trading partners may exacerbate the risks relating to the Kingdom's trade with those countries which, in turn, may have a negative impact on the Kingdom's foreign trade and balance of payments. In particular, demand for crude oil and, consequently, the price of crude oil may be adversely affected and this may have a material adverse effect on the Kingdom's economic and financial condition.

Any material deterioration in the Kingdom's economic and financial condition would be likely to also negatively affect its banking sector and could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***The Kingdom and other GCC legal systems continue to develop and this may create an uncertain environment for investment and business activity***

The Kingdom and many of the other GCC countries are in various stages of developing their legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently. The courts, judicial committees and adjudicatory bodies in the Kingdom (the "KSA Courts") have a wide discretion as to how laws and regulations are applied to a particular set of circumstances. There is no doctrine of binding precedent in the KSA Courts, decisions of the KSA Courts are not routinely published and there is no comprehensive up-to-date reporting of judicial decisions. Bankruptcy procedures also remain largely untested. In some circumstances, it may not be possible to obtain the legal remedies provided under KSA Law in a timely manner. As a result of these and other factors, the outcome of any legal disputes in the Kingdom may be uncertain.

As the legal environment remains subject to continuous development, investors in the Kingdom and the GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in the Kingdom and the GCC may have a material adverse effect on the rights of Sukukholders or the investments that the Group has made or may make in the future which may in turn have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

***The Kingdom's banking regulatory environment is continually evolving and may change in a manner that is adverse to the Group***

BSF falls under the supervision of SAMA, which regulates the banking sector in the Kingdom. BSF operates in compliance with SAMA rules, regulations and guidelines, which from time to time may be amended in accordance with economic and political developments in the country. SAMA operates to a standard expected of international regulators and generally follows the recommendations of the Basel Committee. The Group's business could be directly affected by future changes to the Kingdom's banking regulatory policies, laws and regulations, such as those affecting the extent to which the Group can engage in specific businesses, as well as changes to other governmental policies. The Group cannot provide any assurance that such changes will not adversely affect the Group's business, financial condition, results of operations or prospects nor that it will be able to adapt to all such changes on a timely basis. Failure to comply with the rules, regulations and guidelines of SAMA could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. See also "Basel III reforms and risk of Sukuk absorbing losses".

***There is uncertainty regarding the future development of the Kingdom's banking sector***

The growth rate of the Kingdom's banking sector may not be as high and sustainable as it has been in previous years. While it is expected that the banking sector will expand and its number of customers may increase with the growth of the Kingdom's economy, population and demographic changes and potential legal and other reforms, the impact on the Kingdom's banking sector of certain trends and events, such as the pace of economic

growth in the Kingdom, is currently not clear. The significant decline in oil prices has exerted fiscal and economic pressures on the Kingdom's economy and, in turn, the Kingdom's private sector, including the banking sector. The challenging operating environment may result in a reduction in deposits and/or a rise in the levels of non-performing loans while limiting loan growth. Lending opportunities may diminish with higher levels of sovereign debt issuance. Net income may also decrease due to the increase in total operating expenses on account of higher impairment charges. Credit conditions for the banks may deteriorate leading to increased non-performing loans, credit losses and a decline in profitability. Any slowdown in the growth and development of the banking sector will have an adverse impact on the Group's own growth and, in turn, on its business, financial condition, results of operations or prospects.

***Any alteration to, or abolition of, the foreign exchange “peg” of the Saudi Riyal or other regional currencies at a fixed exchange rate to the U.S. dollar will expose the Group to U.S. dollar foreign exchange movements against the Saudi Riyal or other such currencies***

The Group maintains its accounts and reports its results in Saudi Riyals. The Saudi Riyal has been pegged to the U.S. dollar since 1986 and remains pegged as at the date of this Base Offering Circular. In addition, the following oil-producing GCC countries have their currencies pegged to the U.S. dollar as at the date of this Base Offering Circular: the State of Qatar; the United Arab Emirates; the Sultanate of Oman; and the Kingdom of Bahrain. From time to time, oil-producing countries with currencies that have been traditionally pegged to the U.S. dollar have faced pressure to de-peg and, in certain cases, have de-pegged their currencies. For example, Kazakhstan de-pegged the Kazakhstani tenge from the U.S. dollar on 20 August 2015, which was followed on 21 December 2015 by the removal of the Azerbaijani manat peg against the U.S. dollar.

There is a risk that additional countries may choose to unwind their existing currency peg to the U.S. dollar, both in the GCC and the wider region. While the long-term impacts of such actions are uncertain, it is likely that any such de-pegged currency would face a devaluation against the U.S. dollar immediately post-removal of the peg. While it continues to be the policy of the Government and SAMA to maintain the currency peg at its existing level, there can be no assurance that future unanticipated events, including an increase in the rate of decline of the Government's reserve assets, will not lead the Government to reconsider its exchange rate policy.

Any such de-pegging or re-evaluation to the current exchange rate either in the Kingdom or across the wider region, particularly if such de-pegging or re-evaluation is accompanied by a significant depreciation of the relevant currency against the U.S. dollar or other major currencies, could contribute to higher inflation, increase the burden of servicing external debt and damage investor confidence, resulting in capital outflows and market volatility, each of which could have a material adverse effect on the Kingdom's economic and financial condition and, in turn, on the Group's business, financial condition, results of operations or prospects.

***The statistical data contained in this Base Offering Circular should be treated with caution by prospective investors***

Statistics contained in this document, including in relation to GDP, money supply, inflation and indebtedness of the Government, have been obtained from, amongst other sources, GASTAT, SAMA, the Ministry of Finance, the Ministry of Economy and Planning and OPEC. Such statistics, and the component data on which they are based, may not have been compiled in the same manner as data provided by other sources and may be different from statistics published by third parties, reflecting the fact that the underlying assumptions and methodology may vary from source to source. There may also be material variances between preliminary, estimated or projected statistics included in this Base Offering Circular and actual results, and between statistics included in this Base Offering Circular and corresponding data previously published by or on behalf of the bodies listed above. Consequently, the statistical data contained in this Base Offering Circular should be treated with caution by prospective investors.



## **Risks relating to the Sukuk**

Capitalised terms not defined in this section “*Risks relating to the Sukuk*” have the meanings given to them in “*Terms and Conditions of the Sukuk*”.

### ***The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event***

If, in respect of any Series of Sukuk, a Non-Viability Event (as defined below) occurs at any time on or after the Issue Date of the first Tranche issued under the relevant Series and prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Sukuk of that Series (the “**Effective Date**”), the prevailing face amount of the Sukuk of that Series then outstanding will be Written-down in whole or in part on a *pro rata* basis, in each case, as solely determined by the Financial Regulator (as defined in the Conditions). Pursuant to a Write-down, the rights of any Sukukholder to payment of any amounts under or in respect of the Sukuk of that Series (including, without limitation, the relevant Dissolution Distribution Amount and any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default as described in Condition 13 (*Events of Default and Winding-up*)) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto. Furthermore, a Write-down in full or in part of the Sukuk of a Series could occur prior to the Ordinary Shares of the Issuer absorbing losses in full. A Write-down shall not constitute an Event of Default. In cases in which a Write-down in part is required by the Financial Regulator, a Write-down may occur on one or more occasions as solely determined by the Financial Regulator.

As a result, Sukukholders will lose the entire amount or, as the case may be, a material amount, of their investment in the Sukuk in relation to a Series as a result of any Write-down.

A “**Non-Viability Event**” means that the Financial Regulator has notified the Issuer in writing that it has determined that the Issuer is, or will become, Non-Viable without:

- (a) a Write-down of the Sukuk (and write-down of any of the Issuer’s other capital instruments or other obligations constituting Tier 1 Capital and/or Tier 2 Capital of the Issuer that, pursuant to their terms or by operation of law, are capable of being written-down and/or converted into equity); or
- (b) a public sector injection of capital (or equivalent support), provided that such injection of capital is not made (i) by a shareholder of the Issuer or (ii) on terms that are more favourable to the Issuer than those that would be accepted by private investors in comparable transactions.

The Issuer’s current and future Junior Obligations or Pari Passu Obligations might not include write-down or similar features comparable to those of a Sukuk. As a result, it is possible that the Sukuk of a particular Series will be subject to a Write-down, while certain Junior Obligations and/or Pari Passu Obligations remain outstanding and continue to receive payments and, as such, Sukukholders may be subject to losses ahead of holders of certain Junior Obligations and/or Pari Passu Obligations.

### ***The circumstances triggering a Write-down are unpredictable***

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer’s control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator. As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of the Issuer and with which the Issuer may not agree. See “*Risk Factors – Risks relating to the Sukuk – The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*” above.

The Financial Regulator shall, in its sole discretion, determine the occurrence and scope of a Non-Viability Event and therefore the requirement for a Write-down. Accordingly, prospective investors should note that the Financial Regulator may require a Write-down, regardless of whether or not the Solvency Conditions are satisfied at such time, without also requiring the Ordinary Shares of the Issuer and/or Other Common Equity Tier 1 Instruments (as defined in the Conditions) to absorb any losses. In such circumstances, Sukukholders may suffer losses in respect of their holding of the Sukuk ahead of, or without, any losses being required to be borne by BSF's shareholders.

The exercise (or perceived likelihood of exercise) of any such power by the Financial Regulator or any suggestion of such exercise could materially adversely affect the value of the relevant Sukuk of a Series and could lead to the Sukukholders losing some or all of their investment in such Sukuk.

The financial viability of the Issuer will also depend in part on decisions made by the Issuer in relation to its business and operations, including the management of its capital position. In making such decisions, the Issuer will not necessarily have regard to the interests of Sukukholders and, in particular, the consequences for Sukukholders of any such decisions, and there can be no assurance in any such circumstances that the interests of the Issuer, its shareholders and the Financial Regulator will be aligned with those of the Sukukholders.

Prospective investors should also be aware that the application of a non-viability loss absorption feature as contained in Condition 12 (*Write-down at the Point of Non-Viability*) has not been tested in the Kingdom and therefore uncertainty exists in its application.

***The payment obligations of the Issuer under the Master Mudaraba Agreement are conditional, subordinated and unsecured obligations***

Prospective investors should note that, subject to Condition 12 (*Write-down at the Point of Non-Viability*) (see “*Risk Factors – Risks relating to the Sukuk – The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*”), except upon the occurrence and continuation of any Winding-Up Proceeding and without prejudice to Condition 9 (*Periodic Distribution Restrictions*), the Relevant Obligations are conditional (in the case of payments of profit, upon a Non-Payment Election (other than in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date in relation to a Series) or a Non-Payment Event not having occurred), are unsecured and no collateral is or will be given by the Issuer in relation thereto.

Prospective investors should note that upon the occurrence and continuation of any Winding-Up Proceeding, the Relevant Obligations will rank: (a) subordinate and junior to all Senior Obligations but not further or otherwise; (b) *pari passu* with all other *Pari Passu* Obligations; and (c) in priority only to all Junior Obligations, as more particularly described in Condition 4.2 (*Subordination*). In such case, there may not be sufficient assets to satisfy the claims of the Sukukholders in full.

The Sukukholders’ Agent may exercise its enforcement rights in relation to the Master Mudaraba Agreement only in the manner provided in Condition 13.2 (*Winding-up, dissolution or liquidation*). See also “*Risk Factors – Risks Relating to Enforceability and Taxation in Saudi Arabia*”.

***No limitation on issuing senior securities; subordination***

Other than the limitations in relation to the issue of further Additional Tier 1 Capital by the Issuer as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Additional Tier 1 Capital of the Issuer that ranks senior to each Series of Sukuk can be issued, there is no restriction in the Conditions or in the terms of the Transaction Documents on the Issuer (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank *pari passu* with or senior to each Series of Sukuk and the obligations of the Issuer under the Master Mudaraba

Agreement (the “**Senior Obligations**”). The issue or the creation of any such Senior Obligations may reduce the likelihood of the Solvency Conditions being met and/or the amount recoverable by Sukukholders on a winding-up of the Issuer. Accordingly, in the winding-up of the Issuer, there may not be a sufficient amount to satisfy the amounts owing to the Sukukholders and this may result in an investor in the Sukuk losing all or some of its investment. See also “— *The payment obligations of the Issuer under the Master Mudaraba Agreement are conditional, subordinated and unsecured obligations*”.

***Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative***

In respect of a particular Series of Sukuk, the Issuer may elect (any such election being a “**Non-Payment Election**”), in its sole discretion not to make payment of a Periodic Distribution Amount (in whole or in part) to Sukukholders on the corresponding Periodic Distribution Date as more particularly provided in Condition 9.2 (*Non-Payment Election*), except that no such election may be made in respect of the Periodic Distribution Amount payable on the date on which the Sukuk of such Series are to be redeemed in whole at the Issuer’s discretion in accordance with Condition 11 (*Redemption*).

In addition, if a Non-Payment Event (as defined in the Conditions) occurs (which includes the case where sufficient Distributable Profits are not available in order to permit the Issuer to make the relevant payment or as a result of a breach of Applicable Regulatory Capital Requirements (as defined in the Conditions)), the Issuer (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit of that Mudaraba for a Series, as applicable, on any relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Master Mudaraba Agreement, and as a result thereof the Issuer shall be prohibited from paying the relevant Periodic Distribution Amounts to the relevant Sukukholders on the corresponding Periodic Distribution Date, as more particularly provided in Condition 9.1 (*Non-Payment Event*).

In relation to the paragraph above, “**Distributable Profits**” is defined in the Conditions as the Issuer’s “consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law), after the transfer of any amounts to non-distributable reserves, all as calculated by the Issuer based on its most recent consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations”. As at 30 September 2023, the Issuer’s Distributable Profits amounted to SAR 11,855 million.

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount in respect of a Mudaraba for a Series is not paid as a consequence of a Non-Payment Election or a Non-Payment Event then, from the date of such Non-Payment Election or Non-Payment Event (the “**Dividend Stopper Date**”), the Issuer will be prohibited from declaring or paying certain distributions, dividends or other payments (other than to the extent that any such distributions, dividends or other payments are declared before such Dividend Stopper Date, and excluding securities the terms of which do not at the relevant time enable the Issuer to defer or otherwise not to make such payments) and from redeeming, purchasing, cancelling, reducing or otherwise acquiring Other Common Equity Tier 1 Instruments or securities ranking as to the right of payment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate: (i) any mandatory redemption in accordance with its terms; or (ii) any conversion into, or exchange for, ordinary shares of the Issuer), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time, in each case unless or until the next following payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Sukukholders of the relevant Series affected by such Non-Payment Election or a Non-Payment Event in accordance with the Master Mudaraba Agreement), as more particularly described in Condition 9.4 (*Dividend and Redemption Restrictions*).

In the absence of notice of a Non-Payment Election or a Non-Payment Event, as the case may be, having been given in accordance with Condition 9.3 (*Effect of Non-Payment Event or Non-Payment Election*), the fact of non-payment of the Rab-al-Maal Mudaraba Profit (or any part thereof) of a relevant Series on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date of each Mudaraba, as the case may be, shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Accordingly, the relevant Sukukholders shall have no claim in respect of Periodic Distribution Amounts (if any) not paid as a result of either a Non-Payment Election or a Non-Payment Event (irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given in accordance with Condition 9.3 (*Effect of Non-Payment Event or Non-Payment Election*)) and the consequential non-payment of Periodic Distribution Amounts (if any) in such a circumstance shall not constitute an Event of Default. Periodic Distribution Amounts (if any) not paid following either a Non-Payment Election or a Non-Payment Event will not accumulate or compound. The Issuer shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Issuer will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Sukukholders shall not receive Periodic Distribution Amounts on the corresponding Periodic Distribution Date and neither the Sukukholders' Agent nor the Sukukholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Sukuk.

***Any future regulation or reform or discontinuation of the offered rate for deposits in Saudi Riyals ("SAIBOR") may adversely affect the value of the Sukuk if the Floating Periodic Distribution Provisions are specified in the Applicable Final Terms as being applicable***

The sustainability of interbank offered rates has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. As a result, there has been recent international regulatory guidance and proposals for reform of interest rates and indices which are deemed to be "benchmarks". Some of these reforms are already effective whilst others are still to be implemented. Such reforms may cause such "benchmarks" to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. The implementation of any such reforms in relation to SAIBOR could have a material adverse effect on the value or liquidity of, and return on, any Sukuk where the Floating Periodic Distribution Provisions are applicable.

Reforms of "benchmarks" such as SAIBOR or the general increased regulatory scrutiny of such "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. It is not possible to predict with certainty whether, and to what extent, SAIBOR will continue to be supported going forwards. This may cause SAIBOR to perform differently than it has done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects: (i) discouraging market participants from continuing to administer or contribute to a "benchmark"; (ii) triggering changes in the rules or methodologies used in the "benchmark"; and/or (iii) leading to the disappearance of the "benchmark".

Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Sukuk where the Floating Periodic Distribution Provisions are applicable. Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any such reforms in making any investment decision with respect to any such Sukuk.

Investors should be aware that the Floating Periodic Distribution Provisions provide for certain fallback arrangements in the event that SAIBOR ceases to exist or be published or another SAIBOR Event (as defined in Condition 8 (*Floating Periodic Distribution Provisions*)) occurs. These fallback arrangements include the possibility that the Reference Rate could be determined by reference to a successor or replacement rate or an alternative rate and that an adjustment spread may be applied to such successor, replacement or alternative rate as a result of any such replacement of SAIBOR. Any adjustment spread that is applied may not be effective to reduce or eliminate economic prejudice to investors. The use of a successor, replacement or alternative rate (including with the application of an adjustment spread) may still result in any Sukuk where the Floating Periodic Distribution Provisions are applicable performing differently (which may include payment of a lower Periodic Distribution Amount) than such Sukuk would if SAIBOR were to continue to apply in its current form.

In certain circumstances, the ultimate fallback for the purposes of calculation of the applicable Periodic Distribution Amount may result in the Reference Rate for the last preceding Periodic Distribution Period being used. This may result in the Floating Periodic Distribution Provisions effectively providing for the application of a fixed rate based on the Reference Rate last determined in relation to the Sukuk in respect of the most recent preceding Periodic Distribution Period. In addition, due to the uncertainty concerning the availability of any successor, replacement or alternative rate and the application of any adjustment spread, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value or liquidity of and return on any such Sukuk. Moreover, any of the above matters or any other significant change to the setting or existence of SAIBOR could affect the ability of the Issuer to meet its obligations under the Sukuk where the Floating Periodic Distribution Provisions are applicable or could have a material adverse effect on the value or liquidity of, and the amount payable under such Sukuk. Investors should consider these matters when making their investment decision with respect to the relevant Sukuk.

***The Sukuk are perpetual securities, which may be subject to early redemption (subject to certain conditions)***

The Sukuk to be issued under the Programme are perpetual securities which have no fixed redemption date. The Issuer is under no obligation to redeem the Sukuk of any Series at any time and the Sukukholders have no right to call for their redemption unless an Event of Default occurs. The Events of Default and the Sukukholders' rights following an Event of Default are set out in Condition 13 (*Events of Default and Winding-up*). In certain circumstances, including: (i) in the case of Fixed/Reset Rate Sukuk, if Condition 11.1(b)(ii) (*Issuer's Call Option*) is specified as applicable in the Applicable Final Terms, on any date during the period commencing (and including) the relevant First Call Date to (and including) the relevant First Reset Date or on any relevant Periodic Distribution Date thereafter (each as defined in the Conditions); or (ii) in the case of Floating Rate Sukuk, or in the case of Fixed/Reset Rate Sukuk where Condition 11.1(b)(iii) (*Issuer's Call Option*) is specified as applicable in the Applicable Final Terms, on the First Call Date or on any relevant Periodic Distribution Date thereafter, and/or on any date on or after the Issue Date (whether or not a Periodic Distribution Date) in the case of Fixed/Reset Rate Sukuk or on any Periodic Distribution Date in the case of Floating Rate Sukuk, if a Tax Event or a Capital Event occurs, if the Issuer may elect to redeem the Sukuk of a particular Series, all as more particularly described in Condition 11 (*Redemption*), although there is no assurance that the Issuer will so elect.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Sukuk of a particular Series indefinitely, unless:

- (i) the Issuer redeems the Sukuk of such Series in accordance with Condition 11 (*Redemption*);
- (ii) the Issuer is directed by the Sukukholders following an Event of Default to redeem the Sukuk of such Series; or

(iii) they sell their Sukuk of such Series.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Sukuk of a particular Series may limit their market value, which is unlikely to rise substantially above the price at which the Sukuk of such Series can be redeemed.

If the Sukuk of a particular Series are redeemed, there can be no assurance that the Sukukholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Sukuk of such Series. Prospective investors should consider reinvestment risk in light of other investments available at that time. See also “— *Absence of a secondary market for, and limited liquidity of, the Sukuk of any Series can have an adverse effect on their market value*” for a description of the risks relating to the ability of Sukukholders to sell the Sukuk of such Series in the secondary market.

***The Sukuk will cease to accrue profit from the due date for redemption (if any)***

Prospective investors are advised that each Series of Sukuk will cease to accrue profit from the due date for redemption (if any) (following liquidation of the Mudaraba of the relevant Series). Consequently, should payments owing to the Sukukholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.7 (*Cessation of Accrual*) and Condition 8.8 (*Cessation of Accrual*).

***Basel III reforms and risk of Sukuk absorbing losses***

On 13 January 2011, the Basel Committee expanded on the Basel III capital rules with additional non-viability requirements (the “**January 13 Annex**”). The January 13 Annex requires non-common equity Tier 1 or Tier 2 instruments issued by an internationally active bank to have a provision in their terms and conditions or be included in a statutory legal framework that requires such instruments, at the option of the relevant authority, to either be written off or converted to common equity upon a “trigger event”. A “**trigger event**” is the earlier of: (1) a decision that a write-off, without which the bank would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the relevant authority. SAMA mandated all Saudi banks, including the Issuer, to implement the additional requirements imposed by the January 13 Annex from 1 January 2013. See “— *The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*”.

There can be no assurance that in the future SAMA will not amend its interpretation and implementation of the January 13 Annex described above. In addition, revisions to the January 13 Annex may be implemented in the Kingdom in a manner that is different from that which is currently envisaged, or regulations may be introduced through the introduction of an Applicable Statutory Loss Absorption Regime in the Kingdom.

In particular, the SIFI Law provides that in respect of any systemically important financial institution (which would include the Issuer), subject to certain conditions being met which include, among others, the financial institution being in distress or likely to become distressed, SAMA may, among other things, amend the rights of the holders of capital instruments.

The SIFI Law provides for implementing regulations to be prepared by SAMA and SAMA. On 29 August 2023, SAMA published a draft of the Implementing Regulations for public consultation. As of the date of this Base Offering Circular, the Implementing Regulations have not yet been issued and there can be no assurance that the Implementing Regulations, once they are finalised, will be consistent with the draft version that was published on 29 August 2023. The draft Implementing Regulations include certain provisions relating to the

procedure for the amendment of rights of holders of capital instruments, including in relation to the required valuation by SAMA of the relevant SIFI's assets prior to the application of any such procedure to determine, among other things, the extent of the write down of relevant capital instruments. The SIFI Law, together with its implementing regulations (once published), would likely constitute an Applicable Statutory Loss Absorption Regime for the purposes of the Sukuk. The Conditions provide that, on or after the date on which the Applicable Statutory Loss Absorption Regime becomes effective, the provisions of Condition 12 (*Write-down at the Point of Non-Viability*) will lapse and cease to apply, except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime or the Financial Regulator in its exercise of its powers thereunder.

If, on or after such date, an event occurs which under the Applicable Statutory Loss Absorption Regime would lead to a determination of non-viability by SAMA in respect of the Issuer, SAMA (or the Issuer following instructions from SAMA) may take such action in respect of the Sukuk of a particular Series as is required or permitted by such Applicable Statutory Loss Absorption Regime.

Whilst the SIFI Law provides that creditors whose rights are amended shall not incur greater losses than what is estimated would have been lost had the relevant financial institution been wound up, there can be no assurance that any such amendment of rights of holders or other action taken by SAMA will be similar to the loss absorption provisions set out in Condition 12 (*Write-down at the Point of Non-Viability*) or otherwise be in the interests of Sukukholders.

Accordingly, the operation of any such future legislation or implementation of an Applicable Statutory Loss Absorption Regime may result in the Sukuk absorbing losses in a manner other than as described herein, which may in turn have an adverse effect on the position of the Sukukholders.

***Due to the deeply subordinated nature of the obligations arising under the Sukuk, the Conditions contain limited Events of Default and remedies***

The Sukuk to be issued under the Programme are perpetual instruments with no fixed redemption date and there is no obligation on the Issuer to pay the prevailing face amount of the Sukuk of such Series other than in accordance with Condition 11.1(b) (*Issuer's Call Option*), Condition 11.1(c) (*Redemption due to Taxation*), Condition 11.1(d) (*Redemption for Capital Event*) or following the occurrence of an Event of Default in accordance with Condition 13.1 (*Events of Default*). In addition, the Issuer may be prohibited from making payments of Periodic Distribution Amounts on a Series of Sukuk in accordance with Condition 9 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions. See also “— *Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative*”.

The Events of Default in the Conditions are limited to: (i) a default by the Issuer for a period of 14 days or more in the payment of an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it under the Conditions (save in each case where such failure occurs solely as a result of an administrative or technical error or the occurrence of a Non-Payment Election or a Non-Payment Event); (ii) an order having been made by any competent court or the government of the Kingdom or an effective resolution having been passed for the winding-up, liquidation or dissolution of the Issuer or a similar event occurs in accordance with applicable law or the Issuer applies or petitions for a winding-up or an administration order in respect of itself (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring while the Issuer is solvent (that is, able to pay its debts as they fall due and its assets exceed its liabilities)); or (iii) any event occurs which, under KSA Law, has an analogous effect to the event referred to in (ii) above.

Moreover, pursuant to Condition 13 (*Events of Default and Winding-up*), upon the occurrence of any Event of Default, the Mudaraba of a particular Series will be liquidated in accordance with the provisions of the Master

Mudaraba Agreement and the remedies available to the Sukukholders' Agent and/or the Sukukholders (as applicable) are limited to giving notice to the Issuer that the Sukuk of the relevant Series are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at their prevailing face amount together with any Outstanding Payments (as defined in the Conditions) and thereafter: (i) instituting any steps, actions or proceedings for the winding-up of the Issuer; and/or (ii) proving in the winding-up of the Issuer; and/or (iii) instituting any steps, actions or proceedings for the bankruptcy of the Issuer; and/or (iv) claiming in the liquidation of the Issuer; and/or (v) taking such other steps, actions or proceedings which, under KSA Law, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for all amounts of the relevant Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to or to the order of the Sukukholders on termination of the Master Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the relevant Series of Sukuk when the same have become due pursuant to the Master Mudaraba Agreement and the Conditions.

Under no circumstances shall the Sukukholders' Agent or any Sukukholder have any right to cause the sale or other disposition of any of the Sukuk Assets (other than as expressly contemplated in the Transaction Documents).

Furthermore, the claims of creditors in respect of Senior Obligations will first have to be satisfied in any winding up, bankruptcy, dissolution, liquidation or analogous proceedings before the Sukukholders may expect to obtain any amounts in respect of their Sukuk and prior thereto the Sukukholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

Prospective investors should also note that any claims on a winding-up would be subject to Saudi bankruptcy and other laws. Therefore there can be no assurance that Sukukholders will receive payment of their claims in full or at all in these circumstances. See also “— *Compliance with the Kingdom's bankruptcy and other laws may affect the Issuer's ability to perform its obligations under the Transaction Documents*”.

***Resettable fixed rate instruments have a market risk***

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for any Series of Fixed/Reset Rate Sukuk with effect from each relevant Reset Date (as defined in the Conditions) if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on such Series of Sukuk is fixed until the relevant First Reset Date (with a reset of the initial profit rate on the first Reset Date and every Reset Date thereafter as determined in accordance with the Applicable Final Terms), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of a Series of Sukuk may also change, but in the opposite direction. If the market return rate increases, the market value of the Sukuk of a particular Series would typically decrease. If the market return rate falls, the market value of the Sukuk of such Series would typically increase. Sukukholders should be aware that movements in these market return rates can adversely affect the market value of the Sukuk of a particular Series and can lead to losses for the Sukukholders if they sell their Sukuk.

***Absence of a secondary market for, and limited liquidity of, the Sukuk of any Series can have an adverse effect on their market value***

There is no assurance that a secondary market for any Series of Sukuk will develop or, if it does develop, that it will provide the Sukukholders with liquidity of investment or that it will continue for the life of the Sukuk. In addition, the transfer of any Sukuk is subject to the regulations and procedures of the Registrar and the satisfaction of certain conditions as described in Condition 3 (*Transfers of Sukuk*). The Sukuk generally may have a more limited secondary market liquidity and may be subject to greater price volatility than other debt



securities as they are perpetual securities (see “— *The Sukuk are perpetual securities, which may be subject to early redemption (subject to certain conditions)*”), subordinated (see “— *The payment obligations of the Issuer under the Master Mudaraba Agreement are conditional, subordinated and unsecured obligations*”), will be Written-down (in whole or in part) upon the occurrence of a Non-Viability Event (see “— *The Sukukholders’ right to receive payment of the prevailing face amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*”) and payments of Periodic Distribution Amounts in relation thereto may be restricted in certain circumstances (see “— *Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative*”).

The market value of each Series of Sukuk may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Sukuk. Accordingly, a Sukukholder may not be able to find a buyer to buy its Sukuk readily or at prices that will enable the Sukukholder to realise a desired yield. As such, the purchase of Sukuk is suitable only for investors who can bear the risks associated with a lack of liquidity in the Sukuk and the financial and other risks associated with an investment in the Sukuk indefinitely.

***The Sukuk of each Series may be subject to early redemption and Sukukholders may not be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Sukuk***

In respect of each Series of Sukuk, upon the occurrence of a Tax Event or a Capital Event, and subject to a Non-Viability Event not having occurred (or if a Non-Viability Event has occurred, a Write-down in part having taken place in accordance with the instructions of the Financial Regulator), the Issuer may, having given the relevant prior notice to the Sukukholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable) and provided that no Non-Viability Event has occurred after the giving of such notice or prior to the redemption date specified in the notice, elect to redeem, in accordance with the Conditions, all but not some only of the Sukuk together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 11.1(c) (*Redemption due to Taxation*) in relation to a Tax Event, and Condition 11.1(d) (*Redemption for Capital Event*) in relation to a Capital Event). In all cases, any redemption of the Sukuk is subject to the requirements in Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption*), including obtaining the prior written consent of the Financial Regulator. There can be no guarantee that the consent of the Financial Regulator will be received on time or at all.

There is no assurance that the Sukukholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Sukuk. During any period in which the Issuer may redeem the Sukuk, the market value of the Sukuk generally will not rise substantially above the Tax Event Redemption Amount or, as the case may be, the Capital Event Redemption Amount payable. Prospective investors should consider re-investment risk in light of other investments available at that time.

***A change of law may affect the Issuer’s ability to perform its obligations under the Transaction Documents***

The Conditions are based on KSA Law and administrative practices in effect as at the date of this Base Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to, or change in the interpretation of, KSA Law or administrative practice after the date of this Base Offering Circular or as to whether any such change could adversely affect the ability of the Issuer to make payments under the Sukuk or of BSF to comply with its obligations under the Transaction Documents. Such changes in law may include the introduction of a variety of statutory resolution and loss-absorption tools which may affect the rights of holders of securities issued by the Issuer, including the Sukuk. Such tools may include the ability to write off sums otherwise payable on such securities at a time when the Issuer is no longer considered viable by SAMA or upon the occurrence of other trigger events. See “— *Basel III reforms and risk of Sukuk absorbing losses*”.

***Compliance with the Kingdom's bankruptcy and other laws may affect the Issuer's ability to perform its obligations under the Transaction Documents***

In the event of BSF's insolvency, bankruptcy laws in the Kingdom may adversely affect BSF's ability to perform its obligations under the Transaction Documents and the Sukuk. There is little precedent to predict how claims by or on behalf of the Sukukholders would be resolved in the event of BSF's bankruptcy and accordingly it is uncertain exactly how and to what extent the Transaction Documents would be enforced by a Saudi Arabian adjudicatory body if such Saudi Arabian adjudicatory body were to void or otherwise cause such document, or any part thereof, to be void or ineffective and therefore there can be no assurance that Sukukholders will receive repayment of their claims in full or at all in these circumstances.

The bankruptcy law issued pursuant to Royal Decree No. M/50 dated 28/05/1439H (corresponding to 14 February 2018), as amended by Royal Decree No. M/89 dated 09/07/1441H (corresponding to 4 March 2020) (the "**Bankruptcy Law**") provides various procedures with respect to protective settlement, financial restructuring, liquidation, and administrative liquidation and provides, among other things, that insolvency-related contract termination triggers are generally void with exceptions stipulated in relation to government contracts. Further exceptions in relation to finance transactions are to be determined by the SAMA and the CMA. The Bankruptcy Law also provides that a party may terminate a contract if such termination: (a) is in the interest of the majority of the relevant creditors; (b) would not harm the counterparty; and (c) is necessary to implement the relevant proposal.

The implementing regulations to the Bankruptcy Law issued pursuant to the Council of Ministers Resolution No. 622 dated 24/12/1439H (corresponding to 4 September 2018) (the "**Bankruptcy Law Implementing Regulations**") further provide for the bankruptcy rules and procedures in the Kingdom. The Bankruptcy Law Implementing Regulations provide that a debtor (in respect of a protective settlement) may request that the court terminates any contract that such debtor is a party to by submitting a report issued by a registered custodian that proves that such termination: (a) is in the interest of the majority of the relevant creditors; (b) would not harm the counterparty; and (c) will protect the business of the debtor.

A court may, after accepting a request to open any of the liquidation procedures set out in the Bankruptcy Law, take certain precautionary measures, at its own discretion or upon a request by an interested party, such as seizing the assets of the debtor whether such assets are held by the debtor or by third parties.

In addition, in case of financial distress of a financial institution, the SIFI Law is generally applicable and it remains uncertain to what extent the Bankruptcy Law will be applied once the treatment procedures set out in the SIFI Law were unsuccessful.

The Bankruptcy Law and its implementing regulations are relatively recent and hence their application, and how the Saudi Arabian courts and judicial committees will apply them, is yet to be seen in full effect in practice.

***A decrease in the value of and profit earned from the investment in the Mudaraba Assets may affect the Issuer's ability to perform its obligations under the Transaction Documents***

Pursuant to the Master Mudaraba Agreement, the proceeds of the issuance of each Series of Sukuk will be contributed by the Sukukholders' Agent (on behalf of the Sukukholders) to the Mudareb which proceeds shall form the initial Mudaraba Capital (as defined in the Conditions) of that Mudaraba. The Mudaraba Capital for that Mudaraba will be invested by the Issuer (as Mudareb), on an unrestricted co-mingling basis, in its fully *Shari'ah* compliant banking activities carried out through the General Mudaraba Pool for that Mudaraba and, following investment of such Mudaraba Capital, the Mudaraba Capital for that Mudaraba shall constitute *pro rata* undivided assets in the Business Portfolio carried out through the General Mudaraba Pool for that Mudaraba (the "**Mudaraba Assets**"). Profit earned from such investment in such Mudaraba Assets in

accordance with the Master Mudaraba Agreement will in turn be applied towards payments due to the Sukukholders in respect of the Sukuk.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of any Mudaraba will be carried out by the Issuer, and the Sukukholders shall have no ability to influence such activities. The Issuer shall be granted the express entitlement to co-mingle its own assets in the General Mudaraba Pool of a Mudaraba and, as a result, it may not be possible to identify the relevant Mudaraba Assets separately from the assets of the Issuer.

If any of the risks relating to the business of the Issuer mentioned above (see “— *Risks relating to the Group’s business – factors that may affect BSF’s ability to fulfil its obligations under the Sukuk and the Transaction Documents*”) materialise or otherwise impact the Issuer’s business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the Issuer’s ability to fulfil its payment obligations under the Master Mudaraba Agreement and, consequently, the Issuer’s ability to make payments in respect of the Sukuk.

Furthermore, whilst the Mudareb has agreed in the Master Mudaraba Agreement to ensure that the Mudaraba Capital of a Mudaraba is invested in accordance with the investment plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Master Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets for that Mudaraba. In addition, the Sukukholders’ Agent and the Mudareb have agreed in the Master Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital of that Mudaraba suffered by the Sukukholders’ Agent except to the extent such losses are caused by: (i) the Mudareb’s breach of the Master Mudaraba Agreement; or (ii) the Mudareb’s gross negligence, wilful misconduct or fraud.

Accordingly, prospective investors are advised that any claim by or on behalf of the Sukukholders for the Mudaraba Capital of that Mudaraba following any Event of Default may be reduced if and to the extent that the Mudareb is able to prove that any losses to such Mudaraba Capital were not caused by: (i) the Mudareb’s breach of the Master Mudaraba Agreement; or (ii) the Mudareb’s gross negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, the Sukukholders may lose all or some of their investment. It is not possible to state with certainty what approach any Saudi court with jurisdiction will take in such circumstances.

### ***No third-party guarantees***

Investors should be aware that no guarantee is or will be given in relation to any Series of Sukuk by the shareholders of the Issuer or any other person.

### ***There is no assurance that the Sukuk will be Shari’ah compliant***

The *Shari’ah* Committee of Banque Saudi Fransi has confirmed that the Transaction Documents are, in their view, compliant with the principles of *Shari’ah* as applicable to, and interpreted by, them. However, there can be no assurance that the Transaction Documents or the issue and trading of any Series of Sukuk will be deemed to be *Shari’ah* compliant by any other *Shari’ah* board or *Shari’ah* scholars. None of BSF, the Sole Arranger, the Dealers, the Sukukholders’ Agent or the Payment Administrator makes any representation to prospective investors as to the *Shari’ah* compliance of the Sukuk and prospective investors are reminded that, as with any *Shari’ah* views, differences in opinion are possible and different *Shari’ah* standards may be applied by different *Shari’ah* boards.

Prospective investors should obtain their own independent *Shari’ah* advice as to the compliance of the Transaction Documents and whether the Sukuk will meet their individual standards of compliance and the issue and trading of any Sukuk with *Shari’ah* principles, including the tradability of any Series of Sukuk on any secondary market. Questions as to the *Shari’ah* compliance of the Transaction Documents or the *Shari’ah*

permissibility of the issue and the trading of the Sukuk may limit the liquidity and adversely affect the market value of the Sukuk.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Transaction Documents or the Sukuk may, if in dispute, be the subject of court and judicial committee proceedings under the laws of the Kingdom. In such circumstances, the courts will interpret the respective terms of the Transaction Documents or the Sukuk (as the case may be) under the laws of the Kingdom (by which they are expressed to be governed) in determining the obligations of the parties thereunder. Although the laws and regulations of the Kingdom are based on *Shari'ah* law, different courts and judicial committees in the Kingdom (including the Committees) may form different opinions on the interpretation of *Shari'ah* principles (see “—*Risks relating to enforceability and taxation in the Kingdom*” below).

### ***Trading, clearing and settlement***

The Sukuk will only be issued in dematerialised registered global form and will be represented at all times by interests in a registered form Global Sakk. While the Sukuk are represented by the Global Sakk, investors will be able to trade their beneficial interests only through the clearing and settlement system of Edaa and the Issuer will discharge its payment obligations under the Sukuk by making payments through such clearing and settlement system. A holder of a beneficial interest in the Global Sakk must rely on the procedures of the clearing and settlement system of Edaa and its participants in relation to payments under the Sukuk.

However, there can be no assurance that there will be no interruption to, or errors in, trading, clearing or settlement of the relevant Sukuk as a result of the inexperience or lack of familiarity of the operations in regard to trading, clearing and settlement systems or of inherent inadequacies of any such trading, clearing or settlement system. The Sole Arranger and/or the Dealers are under no obligation to provide pricing on, or make a market in, any Sukuk. Any sale of a particular Series of Sukuk by Sukukholders in any secondary market that may develop may be at a lower price than the original purchase price of such Sukuk.

### ***Registry Agreements***

The Registry Agreements are required to complete registration of Sukuk issued under the Programme with Edaa and such registration is necessary to facilitate trading of the Sukuk by investors through Edaa. However, as at the Issue Date of the first Tranche of each Series to be issued under the Programme, the Registry Agreements may not have been signed and registration of such Tranche with the Registrar may not have occurred. As such, investors should be aware that trading of the Sukuk of such first Tranche may not be possible through Edaa as of the relevant Issue Date. Under the Programme Agreement, the Issuer is required to cause the Sukuk to be registered with Edaa in the name of the purchasers of the Sukuk as soon as practicable and, in any event, no later than 10 Business Days following the Issue Date.

### ***Modification, Waivers and Substitution***

The Master Declaration of Agency contains provisions for calling meetings of the Sukukholders of each Series of Sukuk to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Sukukholders, including Sukukholders who did not attend and vote at the relevant meetings and the Sukukholders who voted in a manner contrary to the majority. The meeting provisions in the Transaction Documents are subject in their entirety to the relevant provisions of the Companies Law issued pursuant to Royal Decree no. M/132 dated 01/12/1443H (corresponding to 30 June 2022) (“**Companies Law**”), as amended, in the Kingdom which will, in case of a contradiction, prevail over the meeting provisions set out in the Transaction Documents.

The Master Declaration of Agency also contains provisions permitting the Sukukholders’ Agent (acting on behalf of the Sukukholders) to agree, without the consent or sanction of the Sukukholders, to any modification (subject to certain exceptions as provided in the Master Declaration of Agency) of, or to any waiver or

authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Master Declaration of Agency or any other Transaction Document, or may determine that an Event of Default, shall not be treated as such which in any such case, in the opinion of the Sukukholders' Agent, is not materially prejudicial to the interests of the Sukukholders or to any modification of any of the Conditions or any of the provisions of the Master Declaration of Agency or any other Transaction Document which is (in the opinion of the Sukukholders' Agent) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law or the related provisions contained in the Transaction Documents.

Any such modification, waiver, authorisation or determination shall be binding on the Sukukholders and, unless the Sukukholders' Agent agrees otherwise, any such modification shall be notified to the Sukukholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

***The Issuer will rely on third parties and the interests of the Sukukholders may be adversely affected if they fail to perform their obligations***

The Issuer is party to contracts with a number of other third parties that have agreed to perform services in relation to the Programme. Pursuant to the Transaction Documents, including the Master Declaration of Agency and the Payment Administration Agreement, to which the Issuer is a party, a number of third parties, including the Sukukholders' Agent, the Payment Administrator and the Account Bank, as applicable, have agreed to provide the Issuer with, *inter alia*, certain agency and administration services, payment management services and account bank services.

The interests of the Sukukholders may be adversely affected if such third parties or any of their successors fail to perform their obligations under the respective agreements to which they are a party. In addition, Sukukholders' interests may be adversely affected if the appointment of a third party is terminated, and no replacement can be found.

**Risks relating to enforceability and taxation in the Kingdom**

***Governing law, jurisdiction and enforceability***

Each Series of Sukuk and the Transaction Documents are governed by, and are to be construed in accordance with, KSA Law, which laws are based on Islamic law, or *Shari'ah*. The relevant principles of Islamic law are generally construed and applied pursuant to the teachings of certain schools of jurisprudence. In this regard, the Saudi courts may decline to enforce any contractual or other obligations (including any provisions relating to the payment of profit) if it is their view that the enforcement thereof would be contrary to principles of *Shari'ah*.

There are a number of Saudi courts which have jurisdiction in respect of certain types of claims. Commercial disputes are subject to the jurisdiction of the Commercial Courts. Commercial disputes do not include disputes arising out of or in connection with transactions governed by the Capital Market Law and delegated legislation. Disputes arising under the Capital Market Law of the Kingdom of Saudi Arabia (issued by the Royal Decree No. (M/30) dated 02/06/1424H (corresponding to 31 July 2003), as amended by Royal Decree No. (M/16) dated 19/01/1441H (corresponding to 18 September 2019)) (the "**Capital Market Law**") and its implementing regulations are heard before a quasi-judicial body known as the Committee for the Resolution of Securities Disputes established pursuant to paragraph (a) of article 30 of the Capital Market Law and the Appeal Committee for Resolution of Securities Disputes formed pursuant to paragraph (i) of article 30 of the Capital Market Law.

In accordance with Condition 19 (*Governing Law and Jurisdiction*), the Committees shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk. Prospective investors should note that, to the best of the Issuer's knowledge, no securities of a similar nature to the Sukuk have previously been the subject of enforcement in Saudi Arabia.

Accordingly, it is uncertain exactly how and to what extent the Sukuk and the Transaction Documents (or any of them) would be enforced by the Committees or any other adjudicatory authority in Saudi Arabia.

However, prospective investors should also be aware that, generally, the Saudi courts, including the Committees, have a wide discretion as to how principles of Islamic Law or *Shari'ah* are applied to a particular set of circumstances and previous decisions of such courts and judicial committees are not considered as establishing binding precedents for deciding subsequent disputes. Accordingly, it is uncertain exactly how and to what extent the Sukuk, the Conditions and/or the Transaction Documents would be enforced by the Committees or, should circumstances dictate that they have jurisdiction, in the Saudi courts.

In some circumstances, it may not be possible to obtain the legal remedies provided under KSA Law in a timely manner. As a result of these and other factors, the outcome of any legal disputes in the Kingdom may be uncertain, which may adversely affect the value of the Sukuk.

### ***Events of default***

There is a risk that the courts and judicial committees of Saudi Arabia would not give effect to any of the Events of Default other than those Events of Default relating to the non-payment of amounts due under the Transaction Documents.

### ***Penalties and indemnities***

There is a risk that should any provision of the Transaction Documents be construed by a court or judicial committee of Saudi Arabia to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision would not be enforced in Saudi Arabia. Further, any indemnity provided by the Issuer in relation to any Sukuk or pursuant to the Transaction Documents would not be enforceable under the laws and regulations of Saudi Arabia in certain circumstances.

### ***A court may not grant an order for specific performance***

In the event that the Issuer fails to perform its obligations under any Series of Sukuk or any Transaction Document, the potential remedies available to the Sukukholders' Agent (on behalf of Sukukholders) include (i) obtaining an order for specific performance of the Issuer's obligations, or (ii) a claim for damages.

There is no assurance that a court will provide an order for specific performance, as this is generally a matter for the discretion of the relevant court. Specific performance, injunctive relief and declaratory judgments and remedies are rarely available as judicial and other adjudicative remedies in Saudi Arabia. The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors, including an obligation on the Sukukholders' Agent and the Sukukholders to mitigate any loss arising as a result of such breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Issuer to perform its obligations set out in the Sukuk and the Transaction Documents. Damages for loss of profits, consequential damages or other speculative damages are not awarded in Saudi Arabia by the courts or other adjudicatory authorities, and only actual, direct and proven damages are awarded.

### ***Tax consequences in Saudi Arabia***

Sukukholders may be subject to payment of income tax, withholding tax, *zakat* or other taxation in Saudi Arabia as a result of acquiring, holding or disposing of the Sukuk of any Series. Each prospective Sukukholder must take its own professional advice as to the tax consequences for such Sukukholder of acquiring, holding or disposing of any Sukuk. For a further discussion of taxation and *zakat* issues relating to the acquisition, holding or disposal of the Sukuk, see "*Taxation and Zakat*" of this Base Offering Circular.

## SUMMARY OF THE GROUP'S FINANCIAL INFORMATION

*The information presented below has been extracted from the Financial Statements or calculated based on information derived from the Financial Statements and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements as included in this Base Offering Circular. The information presented below should also be read in conjunction with the information set out in "Presentation of Financial Information" and "Operating and Financial Review".*

*The following information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to the 2022 Financial Statements and the notes thereto as incorporated by reference herein.*

### Consolidated Statement of financial position

The table below shows the Group's consolidated statement of financial position as at 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
	(SR '000)	
<b>ASSETS</b>		
Cash and balances with SAMA.....	11,325,586	9,795,068
Due from banks and other financial institutions, net.....	4,795,111	5,323,964
Investments, net .....	44,517,549	43,858,241
Positive fair value of derivatives .....	6,582,980	4,061,987
Loans and advances, net.....	159,011,525	147,812,759
Investment in associate, net.....	9,695	9,695
Property and equipment and right of use assets, net .....	1,739,307	1,585,763
Other real estate, net.....	342,050	384,181
Other assets, net .....	3,754,316	2,970,368
<b>Total assets</b> .....	<b>232,078,119</b>	<b>215,802,026</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Due to SAMA .....	8,004,403	10,868,499
Due to banks and other financial institutions .....	8,766,039	12,985,358
Customers' deposits .....	157,592,320	141,950,208
Negative fair value of derivatives .....	7,383,707	3,246,098
Debt securities and term loans .....	4,515,254	□
Other liabilities.....	7,071,071	7,066,193
<b>Total liabilities</b> .....	<b>193,332,794</b>	<b>176,116,356</b>

	<b>As at 31 December</b>	
<b>Equity</b>		
Share capital.....	12,053,572	12,053,572
Statutory reserve .....	12,053,572	12,053,572
General reserve .....	982,857	982,857
Other reserves .....	(2,090,067)	228,707
Retained earnings.....	9,768,005	8,398,887
Proposed dividend.....	1,079,633	1,019,956
Treasury shares.....	(102,247)	(51,881)
<b>Equity attributable to the shareholders of the Bank.....</b>	<b>33,745,325</b>	<b>34,685,670</b>
Tier 1 Sukuk.....	5,000,000	5,000,000
<b>Total equity .....</b>	<b>38,745,325</b>	<b>39,685,670</b>
<b>TOTAL LIABILITIES AND EQUITY.....</b>	<b>232,078,119</b>	<b>215,802,026</b>

### Consolidated statement of income

The table below shows the Group's consolidated statement of income for the years ended 31 December 2022 and 31 December 2021:

	<b>For the year ended 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000)</i>	
Special commission income.....	8,307,199	6,193,711
Special commission expense.....	1,880,646	495,066
<b>Net special commission income .....</b>	<b>6,426,553</b>	<b>5,698,645</b>
Fee and commission income .....	1,423,040	1,403,396
Fee and commission expense .....	526,179	515,467
<b>Net fee and commission income .....</b>	<b>896,861</b>	<b>887,929</b>
Exchange income, net .....	474,684	336,131
Trading income, net .....	201,748	171,841
Dividend income .....	13,397	1,501
Gains on FVOCI / non-trading investments, net.....	3,524	27,804
Other operating income.....	508	4,075
<b>Total operating income .....</b>	<b>8,017,275</b>	<b>7,127,926</b>
Salaries and employee-related expenses .....	1,494,960	1,397,452
Rent and premises related expenses .....	73,122	66,061



	<b>For the year ended 31 December</b>	
Depreciation and amortisation .....	221,428	224,972
Other operating general and administrative expenses .....	864,065	758,459
<b>Total operating expenses before impairment charge .....</b>	<b>2,653,575</b>	<b>2,446,944</b>
Impairment charge for expected credit losses on loans and advances, net...	1,363,944	961,430
Impairment reversal for investments, financial assets and others, net .....	(4,147)	(117,825)
<b>Total operating expenses, net .....</b>	<b>4,013,372</b>	<b>3,290,549</b>
<b>Net income for the year before Zakat .....</b>	<b>4,003,903</b>	<b>3,837,377</b>
Zakat for the year .....	428,773	387,500
<b>Net income for the year .....</b>	<b>3,575,130</b>	<b>3,449,877</b>
Basic and diluted earnings per share (SAR) .....	2.79	2.70

### Key performance ratios

The table below shows the Group's key performance ratios as at and for the years ended 31 December 2022 and 31 December 2021:

	<b>As at and for the year ended 31 December</b>	
	<b>2022</b>	<b>2021</b>
Provisions to non-performing loans <sup>(1)</sup> .....	119.92%	122.67%
Non performing loans to total loans <sup>(2)</sup> .....	2.54%	2.53%
SAMA loans to deposits <sup>(3)</sup> .....	83.3%	86.9%
Loans to deposits <sup>(4)</sup> .....	100.90%	104.13%
CET1 capital adequacy <sup>(5)</sup> .....	16.57%	17.47%
Tier 1 capital adequacy <sup>(6)</sup> .....	18.90%	19.94%
Total capital adequacy <sup>(7)</sup> .....	19.92%	21.09%
Net interest margin <sup>(8)</sup> .....	3.06%	3.02%
Cost to income <sup>(9)</sup> .....	33.10%	34.33%
Return on average assets <sup>(10)</sup> .....	1.58%	1.66%
Return on average equity <sup>(11)</sup> .....	9.24%	8.80%
Cost of risk <sup>(12)</sup> .....	0.85%	0.67%
Net stable funding ratio <sup>(13)</sup> .....	122%	118%

Notes:

(1) Calculated as allowance for impairment divided by total non performing loans and advances, net.

(2) Calculated as total non performing loans and advances, net divided by total loans and advances.

- (3) Calculated in accordance with SAMA regulations. Represents total loans and advances, net divided by total customers' deposits weighted by maturity in accordance with SAMA regulations.
- (4) Calculated as total loans and advances, net divided by total customers' deposits.
- (5) Calculated in accordance with SAMA regulations. Represents common equity tier 1 capital divided by total risk-weighted assets.
- (6) Calculated in accordance with SAMA regulations. Represents tier 1 capital divided by total risk-weighted assets.
- (7) Calculated in accordance with SAMA regulations. Represents total capital divided by total risk-weighted assets.
- (8) Calculated as net special commission income divided by the simple average of the last 13 month-end interest-earning assets. Interest-earning assets is calculated as the sum of money market placements, due from banks and other financial institutions, investments, net and loan and advances, net.
- (9) Calculated as total operating expenses before impairment charge divided by total operating income.
- (10) Calculated as net income for the period after zakat and income tax attributable to equity holders of BSF divided by average total assets. Average total assets as at 31 December 2022 is calculated as the simple average of (i) total assets as at 31 December 2022, (ii) total assets as at 30 September 2022, (iii) total assets as at 30 June 2022, (iv) total assets as at 31 March 2022 and (v) total assets as at 31 December 2021. Average total assets as at 31 December 2021 is calculated as the simple average of (i) total assets as at 31 December 2021, (ii) total assets as at 30 September 2021, (iii) total assets as at 30 June 2021, (iv) total assets as at 31 March 2021 and (v) total assets as at 31 December 2020.
- (11) Calculated as net income for the period after zakat and income tax divided by average total equity for the year. Average total equity for the year ended 31 December 2022 is calculated as the simple average of (i) total equity as at 31 December 2022, (ii) total equity as at 30 September 2022, (iii) total equity as at 30 June 2022, (iv) total equity as at 31 March 2022 and (v) total equity as at 31 December 2021. Average total equity for the year ended 31 December 2021 is calculated as the simple average of (i) total equity as at 31 December 2021, (ii) total equity as at 30 September 2021, (iii) total equity as at 30 June 2021 and (iv) total equity as at 31 March 2021 and (v) total equity as at 31 December 2020.
- (12) Calculated as impairment charge for expected credit losses on loans and advances, net divided by the average gross loan portfolio. Average gross loan portfolio as at 31 December 2022 is calculated as the simple average of (i) gross loan portfolio as at 31 December 2022, (ii) gross loan portfolio as at 30 September 2022, (iii) gross loan portfolio as at 30 June 2022, (iv) gross loan portfolio as at 31 March 2022 and (v) gross loan portfolio as at 31 December 2021. The average gross loan portfolio as at 31 December 2021 is calculated as the simple average of (i) gross loan portfolio as at 31 December 2021, (ii) gross loan portfolio as at 30 September 2021, (iii) gross loan portfolio as at 30 June 2021, (iv) gross loan portfolio as at 31 March 2021 and (v) gross loan portfolio as at 31 December 2020.
- (13) Calculated in accordance with SAMA regulations. Represents total available stable funding divided by total required stable funding.

## FINANCIAL REVIEW

*The information presented below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements which are incorporated by reference in this Base Offering Circular. The information presented below should also be read in conjunction with the information set out in “Presentation of Financial Information”, “Summary Financial Information” and “Risk Factors” and other information included elsewhere in this Base Offering Circular. For the avoidance of doubt, results for interim periods should not be read as indicative of results for a full financial year.*

The following discussion and analysis of the Group’s financial condition and results of operations covers the years ended 31 December 2022 and 31 December 2021 and the nine-month periods ended 30 September 2023 and 30 September 2022. The financial information presented in this discussion has been extracted or derived from the 2022 Financial Statements and the Interim Financial Statements.

The following discussion contains forward-looking statements that involve risks and uncertainties. BSF has based these forward-looking statements on its current projections and expectations about future events. The Group’s actual results could differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those discussed below and elsewhere in this Base Offering Circular, particularly under the headings “Forward-looking Statements” and “Risk Factors”.

See “Presentation of Financial Information” for a discussion of the source of the numbers presented in this section.

### Overview

BSF is a commercial bank operating in the Kingdom under Commercial Registration No. 1010073368 dated 5 September 1989. BSF’s head office is located at King Saud Road, AlMuraba’ District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia. The telephone number of BSF’s head office is +966 11 289 9999.

BSF is a full-service bank, whose main business lines are corporate banking, retail banking, treasury and investment banking and brokerage. The Group offers a full range of conventional and Islamic banking products and services in Saudi Arabia to the retail and corporate sectors, in addition to investment advisory services, asset management, local and international securities trading and treasury services.

According to Tadawul, BSF was the fifth largest listed commercial bank in the Kingdom as at 30 September 2023 and 31 December 2022 by total assets (based on the latest available financial statements of the banking industry), with total assets of SR 249,862 million and SR 232,078 million, respectively. As at 30 September 2023 and 31 December 2022, BSF’s total customers’ deposits amounted to SR 166,367 million and SR 157,592 million, respectively. As at 30 September 2023 and 31 December 2022, BSF’s customers’ deposits accounted for 6.77 per cent. and 6.87 per cent. of all customer deposits in the Kingdom, according to publicly available data. BSF’s net income was SR 3,575 million for the year ended 31 December 2022 and SR 3,395 million for the nine months ended 30 September 2023.

### Significant Factors Affecting Results of Operations

#### *Factors affecting net special commission income*

The Group’s net special commission income is the major contributor to its total operating income, representing 80.16 per cent. and 79.95 per cent. of the Group’s total operating income for the years ended 31 December 2022 and 31 December 2021, respectively.

Within the Group’s net special commission income:

- total income from loans and advances is the major contributor, accounting for 85.93 per cent. and 86.18 per cent. of the special commission income for the years ended 31 December 2022 and 31 December 2021, respectively. The Group's other sources of special commission income are investments held at a fair value through other comprehensive income (FVOCI), investments held at amortised cost and due from SAMA, banks and other financial institutions; and
- the expense paid on customers' deposits is the major contributor to the Group's special commission expense, representing 79.99 per cent. and 91.56 per cent. of the Group's special commission expense for the years ended 31 December 2022 and 31 December 2021, respectively.

The Group's net special commission income is affected by a number of factors. It is primarily determined by the volume of special commission-earning assets and investment assets relative to the volume of special commission-bearing liabilities, as well as the differential between the rates earned on special commission-earning assets and the rates paid on special commission-bearing liabilities.

For a discussion of the trends in the Group's net special commission income in each of the years under review, see "*Financial Review – Net special commission income*".

#### ***Movements in impairment charge for expected credit losses on loans and advances, net***

The Group's impairment charge for credit losses represents its ECL charge for impairment on loans and advances less any recoveries of previously written-off bad debts. The Group's impairment charge for expected credit losses on loans and advances, net, amounted to SR 1,364 million for the year ended 31 December 2022 and SR 961 million for the year ended 31 December 2021.

#### ***Interest rates in the Kingdom***

The table below shows the absolute level of interest rates in the Kingdom as at 31 December 2022 and 31 December 2021:

	SIBOR rate				IRS Curve	
	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
31 December 2022.....	4.73017%	5.34044%	5.59776%	5.86967%	4.80%	4.71%
31 December 2021.....	0.70429%	0.90571%	0.98286%	1.06000%	2.00%	2.28%

Source: Reuters

#### ***Market Conditions in the Kingdom***

The Group believes that its business will continue to benefit from the positive macro-economic environment in the Kingdom.

The Government has increased its investment within the Kingdom, which has resulted in sustained domestic economic growth.

Even though growth in the Saudi economy was negatively affected by the global economic crisis, the Kingdom's economy has continued to grow since 2008 (except 2017) as a result of the Government support. According to SAMA, the Saudi economy grew by 7.6 per cent. in 2022 and by 3.2 per cent. in 2021, and banks operating in the Kingdom experienced strong balance sheet growth.

According to SAMA, the Saudi financial sector increased its lending to the private sector by 12.57 per cent. in the year ended 31 December 2022 and by 15.31 per cent. in the year ended 31 December 2021.

According to GASTAT, the Kingdom's real GDP grew by 8.7 per cent. to SR 2,974.8 billion in 2022 from SR 2,736.0 billion in 2021. According to the Ministry of Finance, the Government recorded a budget surplus of SR

103.9 billion and revenues of SR 1,270 billion in 2022. Actual expenditure was estimated to have increased by 12 per cent. from SR 1,039 billion in 2021 to SR 1,160 billion in 2022.

The Government continues to place an emphasis on development projects that enhance growth sustainability and promote long-term development, including through the construction of new houses, hospitals, schools, universities and other similar facilities. This has presented and may continue to present the Group with a number of opportunities, including:

- direct financing to clients for educational activities as well as indirectly through various funds intended for investment in the educational sector in the Kingdom;
- supporting several housing projects for the Ministry of Municipal, Rural Affairs and Housing, Kingdom - wide (including in the underdeveloped area of the north of the Kingdom). These would involve off-plan site sales targeted at largely middle-income working families;
- as part of supporting the Government's initiative towards the promotion of the tourism sector (inclusive of pilgrimage), the Group is also actively partnering with developers involved in the construction of properties to provide accommodation and facilities for the tourists and pilgrims expected;
- being an active partner in Vision 2030 projects including the Red Sea, NEOM and Qiddiya projects towards promoting the tourism and entertainment sectors in the Kingdom;
- entering into a project financing collaboration agreement with the Tourism Development Fund to support the development of the tourism sector;
- actively participating in project financings of infrastructure including conventional and renewable power, water, utilities, telecom, healthcare, hospitality, housing compounds, transport and shipping, aviation and airports, logistics and education; and
- providing strong project financing support as advisers, lenders and arrangers, to the oil and gas, mineral and mining and petrochemicals sectors.

Given the Group's extensive lending and investment banking capabilities, its management believes that the Group is well-placed to benefit from these trends.

## Key Indicators and Key Ratios

The tables below show the Group's key indicators and ratios as at and for the years ended 31 December 2022 and 31 December 2021.

Key Indicators	As at and for the year ended	
	31 December	
	2022	2021
	(SR '000)	
Total assets .....	232,078,119	215,802,026
Loans and advances, net.....	159,011,525	147,812,759
Customers' deposits .....	157,592,320	141,950,208
Total equity .....	38,745,325	39,685,670
Total operating income.....	8,017,275	7,127,926

Key Indicators	As at and for the year ended 31 December	
	2022	2021
	(SR '000)	
Net income for the year.....	3,575,130	3,449,877

Key ratios	As at and for the year ended 31 December	
	2022	2021
Provisions to non performing loans <sup>(1)</sup> .....	119.92%	122.67%
Non performing loans to total loans <sup>(2)</sup> .....	2.54%	2.53%
SAMA loans to deposits <sup>(3)</sup> .....	83.3%	86.9%
Loans to deposits <sup>(4)</sup> .....	100.90%	104.13%
CET1 capital adequacy <sup>(5)</sup> .....	16.57%	17.47%
Tier 1 capital adequacy <sup>(6)</sup> .....	18.90%	19.94%
Total capital adequacy <sup>(7)</sup> .....	19.92%	21.09%
Net interest margin <sup>(8)</sup> .....	3.06%	3.02%
Cost to income <sup>(9)</sup> .....	33.10%	34.33%
Return on average assets <sup>(10)</sup> .....	1.58%	1.66%
Return on average equity <sup>(11)</sup> .....	9.24%	8.80%
Cost of risk <sup>(12)</sup> .....	0.85%	0.67%
Net stable funding ratio <sup>(13)</sup> .....	122%	118%

Notes:

- (1) Calculated as allowance for impairment divided by total non-performing loans and advances, net.
- (2) Calculated as total non-performing loans and advances, net divided by total loans and advances.
- (3) Calculated in accordance with SAMA regulations. Represents total loans and advances, net divided by total customers' deposits weighted by maturity in accordance with SAMA regulations.
- (4) Calculated as total loans and advances, net divided by total customers' deposits.
- (5) Calculated in accordance with SAMA regulations. Represents common equity tier 1 capital divided by total risk-weighted assets.
- (6) Calculated in accordance with SAMA regulations. Represents tier 1 capital divided by total risk-weighted assets.
- (7) Calculated in accordance with SAMA regulations. Represents total capital divided by total risk-weighted assets.
- (8) Calculated as net special commission income divided by the simple average of the last 13 month-end interest-earning assets. Interest-earning assets is calculated as the sum of money market placements, due from banks and other financial institutions, investments, net, and loans and advances, net.
- (9) Calculated as total operating expenses before impairment charge divided by total operating income.

- (10) Calculated as net income for the period after zakat attributable to equity holders of BSF divided by average total assets. Average total assets as at 31 December 2022 is calculated as the simple average of (i) total assets as at 31 December 2022, (ii) total assets as at 30 September 2022, (iii) total assets as at 30 June 2022, (iv) total assets as at 31 March 2022 and (v) total assets as at 31 December 2021. Average total assets as at 31 December 2021 is calculated as the simple average of (i) total assets as at 31 December 2021, (ii) total assets as at 30 September 2021, (iii) total assets as at 30 June 2021, (iv) total assets as at 31 March 2021 and (v) total assets as at 31 December 2020.
- (11) Calculated as net income for the period after zakat divided by average total equity for the year. Average total equity for the year ended 31 December 2022 is calculated as the simple average of (i) total equity as at 31 December 2022, (ii) total equity as at 30 September 2022, (iii) total equity as at 30 June 2022, (iv) total equity as at 31 March 2022 and (v) total equity as at 31 December 2021. Average total equity for the year ended 31 December 2021 is calculated as the simple average of (i) total equity as at 31 December 2021, (ii) total equity as at 30 September 2021, (iii) total equity as at 30 June 2021, (iv) total equity as at 31 March 2021 and (v) total equity as at 31 December 2020.
- (12) Calculated as impairment charge for expected credit losses on loans and advances, net, divided by the average gross loan portfolio. Average gross loan portfolio as at 31 December 2022 is calculated as the simple average of (i) gross loan portfolio as at 31 December 2022, (ii) gross loan portfolio as at 30 September 2022, (iii) gross loan portfolio as at 30 June 2022, (iv) gross loan portfolio as at 31 March 2022 and (v) gross loan portfolio as at 31 December 2021. The average gross loan portfolio as at 31 December 2021 is calculated as the simple average of (i) gross loan portfolio as at 31 December 2021, (ii) gross loan portfolio as at 30 September 2021, (iii) gross loan portfolio as at 30 June 2021, (iv) gross loan portfolio as at 31 March 2021 and (v) gross loan portfolio as at 31 December 2020.
- (13) Calculated in accordance with SAMA regulations. Represents total available stable funding divided by total required stable funding.

## **Critical Accounting Judgements, Estimates and Assumptions**

In preparing the Group's financial statements, management is required to make certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. The management is also required to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. For a description of the most critical accounting judgments, estimates and assumptions made in the preparation of the 2022 Financial Statements, see note 2(e) of the 2022 Financial Statements. These are predominantly related to ECLs, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

## **Classification of Investments**

The Group's management decides on the categorisation of its investments at the time of their acquisition. On initial recognition, a financial asset is classified into three categories: amortised cost, FVOCI (fair value through other comprehensive income) or FVTPL (fair value through profit and loss). Investments classified as FVTPL are recorded initially in the accounts at cost and periodically marked to market with any gains or losses arising on such revaluation being recorded as gains or loss in the income statement. Particularly at times of stock market volatility, this classification can have a material effect on the Group's investment income.

## **Impairment of Financial Assets**

The Group recognises loss allowances for ECL on the financial instruments that are not measured at FVTPL. No impairment loss is recognised 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 a debt security to have low credit risk when the credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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

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

For complete details of the impairment policy, see note 3 to the 2022 Financial Statements.

## Financial Position

The table below shows the Group's consolidated financial position as at 31 December 2022 and 31 December 2021:

	As at 31 December		
	2022	2021	% Var 12m 2022/2021
		(SR '000)	
<b>ASSETS</b>			
Cash and balances with SAMA.....	11,325,586	9,795,068	15.63%
Due from banks and other financial institutions, net.....	4,795,111	5,323,964	-9.93%
Investments, net .....	44,517,549	43,858,241	1.50%
Positive fair value of derivatives.....	6,582,980	4,061,987	62.06%
Loans and advances, net.....	159,011,525	147,812,759	7.58%
Investment in associate, net.....	9,695	9,695	0.00%
Property, equipment and right use of assets, net .....	1,739,307	1,585,763	9.68%
Other real estate, net.....	342,050	384,181	-10.97%
Other assets, net .....	3,754,316	2,970,368	26.39%
<b>Total assets</b> .....	<b>232,078,119</b>	<b>215,802,026</b>	<b>7.54%</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to SAMA .....	8,004,403	10,868,499	-26.35%
Due to banks and other financial institutions .....	8,766,039	12,985,358	-32.49%



	As at 31 December		
	2022	2021	% Var 12m 2022/2021
		(SR '000)	
Customers' deposits .....	157,592,320	141,950,208	11.02%
Negative fair value of derivatives .....	7,383,707	3,246,098	127.46%
Debt securities and term loans .....	4,515,254	—	—
Other liabilities.....	7,071,071	7,066,193	0.07%
<b>Total liabilities</b> .....	<b>193,332,794</b>	<b>176,116,356</b>	<b>9.78%</b>
<b>Equity</b>			
Share capital.....	12,053,572	12,053,572	0.00%
Statutory reserve .....	12,053,572	12,053,572	0.00%
General reserve .....	982,857	982,857	0.00%
Other reserves .....	(2,090,067)	228,707	-1,013.86%
Retained earnings.....	9,768,005	8,398,887	16.30%
Proposed dividend.....	1,079,633	1,019,956	5.85%
Treasury shares.....	(102,247)	(51,881)	97.08%
<b>Equity attributable to the shareholders of the Bank...</b>	<b>33,745,325</b>	<b>34,685,670</b>	<b>-2.71%</b>
Tier 1 Sukuk.....	5,000,000	5,000,000	0.00%
<b>Total equity</b> .....	<b>38,745,325</b>	<b>39,685,670</b>	<b>-2.37%</b>
<b>Total liabilities and equity</b> .....	<b>232,078,119</b>	<b>215,802,026</b>	<b>7.54%</b>

## Assets

As at 31 December 2022, the Group's total assets were SR 232,078 million, an increase of 7.54 per cent. from SR 215,802 million as at 31 December 2021. This was mainly due to a 7.58 per cent. increase in loans and advances, net, a 62.06 per cent. increase in positive fair value of derivatives and a 15.63 per cent. increase in cash and balances with SAMA.

## Cash and Interbank Positions

SAMA's regulation on banks' asset ratios requires that 20 per cent. of customers' deposits be invested in Government bonds and/or placed in short-term deposits (less than or equal to 30 days) on the interbank market or with SAMA.

The Group's cash and balances with SAMA was SR 11,326 million as at 31 December 2022, an increase of 15.63 per cent., as compared with SR 9,795 million as at 31 December 2021. This increase was primarily attributable to a 5.46 per cent. increase in statutory deposits and a 1,381.27 per cent. increase in money market placements which. The Group's due from banks and other financial institutions, net as at 31 December 2022 was SR 4,795 million, a decrease of 9.93 per cent. as compared with SR 5,324 million as at 31 December 2021. This decrease was primarily attributable to a 26.40 per cent. decrease in current accounts.

The Group's due to SAMA was SR 8,004 million as at 31 December 2022, a decrease of 26.35 per cent., as compared with SR 10,868 million as at 31 December 2021. This decrease was primarily attributable to the repayment of SR 3,555 million in the year ended 31 December 2022 of multiple profit-free deposits the Group received from SAMA in 2021 and 2020. The Group's due to banks and other financial institutions was SR 8,766 million as at 31 December 2022, a decrease of 32.49 per cent., as compared with SR 12,985 million as at 31 December 2021. This decrease was primarily attributable to a 49.41 per cent. decrease in current accounts and a 31.84 per cent. decrease in money market deposits.

The table below shows the Group's cash and the interbank positions as at 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
	(SR '000)	
Cash and balances with SAMA.....	11,325,586	9,795,068
Due from banks and other financial institutions, net.....	4,795,111	5,323,964
Due to SAMA .....	8,004,403	10,868,499
Due to banks and other financial institutions .....	8,766,039	12,985,358
Net interbank position <sup>(1)</sup> .....	(649,745)	(8,734,825)

Note:

- (1) Calculated as the difference between the sums of (x) "Due from banks and other financial institutions" and "Cash and balances with SAMA" and (y) "Due to banks and other financial institutions" and "Due to SAMA".

### ***Investments, net***

The Group maintains an investment portfolio for its own account consisting of fixed income instruments, the purpose of which is two-fold:

- to cater for the Group's liquidity risk management, ensuring a cushion of assets that the Group can liquidate easily (either by a sale or a repurchase agreement) in case of a sudden withdrawal of deposits; and
- to reduce the interest rate mismatches between assets and liabilities.

As at 31 December 2022, the Group's investments, net was SR 44,518 million, an increase of 1.50 per cent. as compared with SR 43,858 million as at 31 December 2021. The Group maintains a portfolio of investments of high credit quality. The Group's policy is to maintain only exposures rated BBB and above by S&P (or the equivalent) and the Group has had no direct or indirect exposure to collateralised debt obligations and other subprime-related issues. Investment grade investments include investments having a credit exposure equivalent to S&P's rating of AAA to BBB. Unrated investments were SR 6,791 million as at 31 December 2022 and SR 8,357 million as at 31 December 2021, including local *sukuk*, *Mudarabah* and a small proportion of legacy local and foreign equities.

The table below shows a breakdown of the Group's investment portfolio as at 31 December 2022 and 31 December 2021:

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000)</i>	
Held as FVSI.....	68,744	209,995
Held as FVOCI, net.....	18,405,668	14,942,800
Held at amortised cost, net.....	26,043,137	28,705,446
<b>Total investments, net</b> .....	<b>44,517,549</b>	<b>43,858,241</b>

The table below shows the composition of the Group's investments, net by counterparty as at 31 December 2022 and 31 December 2021:

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000)</i>	
Government and quasi government.....	30,286,351	33,112,811
Corporate.....	6,519,826	5,762,206
Banks and other financial institutions .....	7,711,372	4,983,224
<b>Total investments, net</b> .....	<b>44,517,549</b>	<b>43,858,241</b>

The Group's investments, net comprises Government bonds and treasury bills (accounting for 68.03 per cent. and 75.50 per cent. of investments, net, as at 31 December 2022 and 31 December 2021, respectively), corporate bonds, sukuk and equities (accounting for 14.65 per cent. and 13.14 per cent. of investments, net as at 31 December 2022 and 31 December 2021, respectively) and bonds, sukuk and equities of banks and other financial institutions (accounting for 17.32 per cent. and 11.36 per cent. of investments, net as at 31 December 2022 and 31 December 2021, respectively).

The Group's bond portfolio is highly liquid as all Government instruments are eligible for repurchase agreements and the high quality of the corporate bond portfolio ensures its marketability.

### ***Loans and Advances, net***

#### ***Total portfolio***

The table below shows the Group's loan portfolio as at 31 December 2022 and 31 December 2021:

	<b>As at 31 December 2022</b>			
	<b>Overdraft &amp; Commercial Loans</b>	<b>Credit Cards</b>	<b>Consumer Loans</b>	<b>Total</b>
	<i>(SR '000)</i>			
Performing loans and advances – gross .....	130,156,440	586,647	29,099,056	159,842,143
Non performing loans and advances, net .....	4,038,589	20,175	111,160	4,169,924

**As at 31 December 2022**

	<b>Overdraft &amp; Commercial Loans</b>	<b>Credit Cards</b>	<b>Consumer Loans</b>	<b>Total</b>
	<i>(SR'000)</i>			
Total loans and advances .....	134,195,029	606,822	29,210,216	164,012,067
Allowance for impairment.....	(4,696,609)	(38,798)	(265,135)	(5,000,542)
Loans and advances held at amortised cost, net .....	129,498,420	568,024	28,945,081	159,011,525

**As at 31 December 2021**

	<b>Overdraft &amp; Commercial Loans</b>	<b>Credit Cards</b>	<b>Consumer Loans</b>	<b>Total</b>
	<i>(SR'000)</i>			
Performing loans and advances – gross .....	121,282,954	527,408	26,876,972	148,687,334
Non performing loans and advances, net .....	3,685,252	34,509	138,488	3,858,249
Total loans and advances .....	124,968,206	561,917	27,015,460	152,545,583
Allowance for impairment.....	(4,380,256)	(61,999)	(290,569)	(4,732,824)
Loans and advances held at amortised cost, net .....	120,587,950	499,918	26,724,891	147,812,759

The Group's performing loans and advances, gross were SR 159,842 million as at 31 December 2022, an increase of 7.50 per cent. as compared with SR 148,687 million as at 31 December 2021. This increase was primarily attributable to growth in the Group's corporate and retail banking segments. The Group's gross performing loans and advances in the corporate banking segment (comprising overdraft and commercial loans) were SR 130,156 million as at 31 December 2022, an increase of 7.32 per cent. as compared with SR 121,283 million as at 31 December 2021. The Group's gross performing loans and advances in the retail banking segment (comprising credit cards and consumer loans) were SR 29,686 million as at 31 December 2022, an increase of 8.32 per cent. as compared with SR 27,404 million as at 31 December 2021.

The Group's non performing loans and advances, net was SR 4,170 million as at 31 December 2022, an increase of 8.08 per cent. as compared with SR 3,858 million as at 31 December 2021. This increase was primarily attributable to an increase in non performing loans and advances, net attributable to the Group's corporate banking segment which, in turn, was a result of the growth in total gross overdraft and commercial loans.

The Group's allowance for impairment was SR 5,001 million as at 31 December 2022, an increase of 5.66 per cent. as compared with SR 4,733 million as at 31 December 2021. This increase is reflective of the overall growth in the Group's loan portfolio.

The Group's loans and advances, net was SR 159,012 million as at 31 December 2022, an increase of 7.58 per cent. as compared with SR 147,813 million as at 31 December 2021. This increase was primarily attributable to the factors described above.

The Group's non performing loans to total loans ratio was 2.54 per cent. as at 31 December 2022 and 2.53 per cent. as at 31 December 2021. The Group's provisions to non performing loans was 119.92 per cent. as at 31 December 2022 and 122.67 per cent. as at 31 December 2021.

The above also includes *Shari'a*-based overdraft and commercial loans, net of SR 86,353 million and SR 79,102 million as at 31 December 2022 and 31 December 2021, respectively, and *Shari'a*-based credit cards and consumer loans, net of SR 28,855 million and SR 26,538 million as at 31 December 2022 and 31 December 2021, respectively.

#### *Loans and advances, net by sector distribution*

The table below shows a breakdown of the Group's total loans and advances, net by sector as at 31 December 2022 and 31 December 2021:

	As at 31 December 2022	% of total	As at 31 December 2021	% of total
		(SR '000)		
Government and quasi Government .....	—	0.00%	—	0.00%
Banks and other financial institutions.....	1,576,897	0.99%	1,600,974	1.08%
Agriculture and fishing .....	2,999,114	1.89%	3,243,071	2.19%
Manufacturing .....	19,333,541	12.16%	21,787,888	14.74%
Mining and quarrying .....	4,583,993	2.88%	1,722,799	1.17%
Electricity, water, gas and health services ...	13,994,859	8.80%	14,321,198	9.69%
Building and construction.....	16,780,201	10.55%	12,191,120	8.25%
Commerce.....	29,055,939	18.27%	27,076,175	18.32%
Transportation and communication .....	6,044,976	3.80%	5,686,278	3.85%
Services .....	19,643,533	12.35%	19,194,759	12.99%
Consumer loans and credit cards .....	29,513,105	18.56%	27,224,809	18.42%
Others .....	15,485,367	9.74%	13,763,688	9.31%
<b>Total</b> .....	<b>159,011,525</b>	<b>—</b>	<b>147,812,759</b>	<b>—</b>

#### *Loans and advances, net by geographical distribution*

The table below shows the geographical distribution of the Group's loans and advances, net by aggregate amount outstanding as at 31 December 2022 and 31 December 2021:

	Kingdom of Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
			(SR '000)			
31 December 2022 .....	157,381,662	1,629,863	—	—	—	159,011,525
31 December 2021 .....	146,216,873	1,595,876	—	—	10	147,812,759

The table below shows the geographical distribution of the Group's loans and advances, net by percentage as at 31 December 2022 and 31 December 2021:

	Kingdom of Saudi Arabia	Middle East	Europe	North America	Other Countries
31 December 2022	98.98%	1.02%	0.00%	0.00%	0.00%
31 December 2021	98.92%	1.08%	0.00%	0.00%	0.00%

#### *Shari'a-based loans and advances*

The Group's loans and advances portfolio contains a high proportion of *Shari'a*-based loans and advances. *Shari'a*-based loans and advances, net increased from SR 105,640 million, or 71.47 per cent. of loans and advances, net as at 31 December 2021 to SR 115,207 million, or 72.45 per cent. of loans and advances, net as at 31 December 2022.

#### *Classification Process for Non Performing Loans*

The Group's provisioning policy for consumer credit loans applies 100 per cent. provisioning after 360 days past due.

The table below shows the credit quality of the Group's loans and advances neither past due nor impaired as at 31 December 2022:

	As at 31 December 2022			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
		(SR '000)		
Very strong quality including sovereign (A+ to B) .....	29,551,867	27	—	29,551,894
Good quality (C+ to C).....	45,062,080	791,152	3,742	45,856,974
Satisfactory quality (C-to E+).....	43,579,858	5,831,672	10,592	49,422,122
Unrated (consumer loans and credit cards) ..	29,354,173	216,589	15,980	29,586,742
Special mention (E to E-) .....	476	5,346,199	77,736	5,424,411
Impaired.....	—	—	4,169,924	4,169,924
<b>Total</b> .....	<b>147,548,454</b>	<b>12,185,639</b>	<b>4,277,974</b>	<b>164,012,067</b>

Other than in the case of retail loans and advances, where such loans and advances are written off after 360 days past due, the Group writes off its doubtful loans only when all means of recovery have been exhausted. Such write-offs amounted to SR 1,281 million as at 31 December 2022 and SR 982 million as at 31 December 2021.

All of the Group's non performing loans and advances and allowance for impairment losses are concentrated in the Kingdom. The table below shows the Group's non performing loans and advances and allowance for impairment losses as at 31 December 2022 and 31 December 2021:

	As at 31 December			
	2022		2021	
	Non performing net	Allowance for impairment losses	Non performing net	Allowance for impairment losses
		(SR'000)		
<b>Total</b> .....	4,169,924	(5,000,542)	3,858,249	(4,732,824)

The table below shows the movement in the allowance for impairment losses on loans and advances as at 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
	(SR'000)	
Balance at January 01 .....	4,732,824	4,693,010
Net charge for the year .....	1,548,321	1,021,349
Write-offs .....	(1,280,603)	(981,535)
<b>Balance at the end of the year</b> .....	5,000,542	4,732,824

#### Cost of Risk

As at 31 December 2022, the Group's cost of risk ratio was 0.85 per cent., as compared with 0.67 per cent. as at 31 December 2021. The increase in the cost of risk ratio as at 31 December 2022 was primarily attributable to the increase in impairment charge for expected credit losses on loans and advances, net.

The table below shows and the calculation of the Group's cost of risk as at 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
	(SR'000)	
Gross loan portfolio as at year end (SR'000) .....	164,012,067	152,545,583
Average gross loan portfolio <sup>(1)</sup> (SR'000) .....	160,523,467	144,559,552
Impairment charge for expected credit losses on loans and advances, net (SR'000).....	1,363,944	961,430
Cost of risk <sup>(2)</sup> .....	0.85%	0.67%

#### Notes:

- (1) Average gross loan portfolio as at 31 December 2022 is calculated as the simple average of (i) gross loan portfolio as at 31 December 2022, (ii) gross loan portfolio as at 30 September 2022, (iii) gross loan portfolio as at 30 June 2022, (iv) gross loan portfolio as at 31 March 2022 and (v) gross loan portfolio as at 31 December 2021. The average gross loan portfolio as at 31 December 2021 is calculated as the simple average of (i) gross loan portfolio as at 31

December 2021, (ii) gross loan portfolio as at 30 September 2021, (iii) gross loan portfolio as at 30 June 2021, (iv) gross loan portfolio as at 31 March 2021 and (v) gross loan portfolio as at 31 December 2020.

- (2) Calculated as impairment charge for expected credit losses, net divided by the average gross loan portfolio.

#### *Provisions to Non Performing Loans Ratio*

The provisions to non performing loans ratio is calculated as allowance for impairment divided by total non performing loans and advances, net. As at 31 December 2022, the Group's provisions to non performing loans ratio was 119.92 per cent., as compared with 122.67 per cent. as at 31 December 2021.

#### *Positive fair value of derivatives*

The Group's positive fair value of derivatives was SR 6,583 million as at 31 December 2022, an increase of 62.06 per cent. as compared with SR 4,062 million as at 31 December 2021. This increase was primarily attributable to the prevailing higher interest rate environment.

### **Liabilities**

#### *Deposits*

The Group's funding remains well-diversified through its pool of customers from its different business lines. In order to mitigate liquidity risk on the liability side, the Group also maintains liquid reserves of not less than 20 per cent. of its deposit liabilities, in the form of cash, Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Group can also raise additional funds through repo facilities available with SAMA against its holding of Government securities.

The Group's total customers' deposits increased by 11.02 per cent. to SR 157,592 million as at 31 December 2022 from SR 141,950 million as at 31 December 2021.

As a result of concentrated marketing efforts by the Group's business lines through its network of branches, non interest-bearing deposits (demand deposit and other deposits) increased by SR 1,285 million (or 1.35 per cent.) to SR 96,263 million as at 31 December 2022 compared with SR 94,978 million as at 31 December 2021.

The Group's interest-bearing deposits (saving and time deposits) increased by 30.56 per cent. as at 31 December 2022 to SR 61,329 million from SR 46,972 million as at 31 December 2021. The level of interest-bearing deposits is primarily calibrated to maintain a balanced loan to deposit ratio and changes depending on the movement in the amounts of loans and non interest-bearing deposits.

The table below shows the Group's total customers' deposits as at 31 December 2022 and 31 December 2021:

	<b>As at 31 December</b>		<b>% Var 12m 2021/2022</b>
	<b>2022</b>	<b>2021</b>	
Non interest-bearing deposits (SR'000).....	96,263,225	94,977,966	1.35%
Interest-bearing deposits (SR'000).....	61,329,095	46,972,242	30.56%
<b>Total customers' deposits (SR'000).....</b>	<b>157,592,320</b>	<b>141,950,208</b>	<b>11.02%</b>
<b>Non interest-bearing deposits as a % of total customers' deposits.....</b>	<b>61.08%</b>	<b>66.91%</b>	<b>-5.83%</b>



The ratio of non interest-bearing deposits to total deposits decreased to 61.08 per cent. as at 31 December 2022 from 66.91 per cent. as at 31 December 2021. This decrease was due to an increase in interest bearing deposits.

In line with the Group's assets and liabilities statistical model, the average duration of non interest-bearing deposits (which are categorised as demand deposits) is up to 2.5 years with a stability coefficient of 85 per cent. In accordance with BSF's ALM policy, the stability coefficient is tested on a monthly basis.

#### *Loan to Deposits Ratio*

The table below shows the Group's loans to deposits ratio (calculated as the ratio of total loans and advances, net to total customers' deposits) for each of the years ended 31 December 2021 and 2022:

	As at 31 December	
	2022	2021
<b>Loans and advances, net (SR'000)</b> .....	159,011,525	147,812,759
<b>Customers' deposits (SR'000)</b> .....	157,592,320	141,950,208
<b>Loans to deposits (%)</b> .....	100.90%	104.13%

The level of concentration of customers' deposits has not changed significantly since 2017 with the top-20 depositors representing 43.12 per cent. of total deposits as at 31 December 2022. These 20 depositors are represented by large Saudi corporates and financial institutions and Government-related companies. These deposits are from large companies most of whom have been customers of the Group since their incorporation.

#### *Term Loans*

On 22 December 2022, BSF drew down U.S.\$500 million under the U.S.\$500m facility agreement with a syndicate of international banks (the "**Club Loan Facility**"). The Club Loan Facility matures on 22 December 2025 and bears interest at a rate of SOFR plus 0.70 per cent. margin, payable quarterly.

#### *Debt Securities*

On 30 March 2010, BSF issued U.S.\$650 million 4.25 per cent. notes due 2015, its first U.S. dollar bond issue in the international capital markets under its U.S.\$2,000,000,000 euro medium-term note programme.

On 15 May 2012, BSF issued a U.S.\$750 million sukuk due 2017 with a yield of 2.947 per cent. under its U.S.\$2,000,000,000 sukuk programme.

On 18 December 2012, BSF issued a privately placed SR 1,900 million floating rate unsecured subordinated sukuk due 2019. BSF redeemed the unsecured subordinated sukuk in 2017 in line with the early redemption option to repay the unsecured subordinated sukuk after 5 years, subject to the prior approval of SAMA and the terms and conditions of the agreement.

BSF issued a privately placed SR 2,000 million unsecured subordinated sukuk in June 2014 for a period of 10 years. The sukuk carries effective special commission income at three months' SIBOR plus 140 basis points. The sukuk was settled through the Tadawul depository system. BSF redeemed this sukuk in 2019. This was done in line with the early redemption option to repay the unsecured subordinated sukuk after 5 years, subject to the prior approval of SAMA and the terms and conditions of the agreement.

BSF also issued SR 5,000 million Fixed Rate Reset Additional Tier 1 Capital Sukuk on 3 November 2020 by way of private placement.

On 21 November 2022, BSF issued U.S.\$700 million 5.50 per cent. notes due 2027 under its U.S.\$4,000,000,000 medium-term note programme (the "**2027 Notes**").

The table below shows the sources of the Group's funding as at 31 December 2022 and 31 December 2021:

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000)</i>	
Due to SAMA .....	8,004,403	10,868,499
Due to banks and other financial institutions .....	8,766,039	12,985,358
Customers' deposits .....	157,592,320	141,950,208
Debt securities and term loans .....	4,515,254	—
	<u>178,878,016</u>	<u>165,804,065</u>
Share capital.....	12,053,572	12,053,572
Statutory reserve .....	12,053,572	12,053,572
General reserves.....	982,857	982,857
Other reserves .....	(2,090,067)	228,707
Retained earnings.....	9,768,005	8,398,887
Proposed dividend.....	1,079,633	1,019,956
Treasury shares.....	(102,247)	(51,881)
<b>Equity attributable to shareholders of the Bank .....</b>	<u>33,745,325</u>	<u>34,685,670</u>
Tier I Sukuk.....	5,000,000	5,000,000
<b>Total equity .....</b>	<u><u>38,745,325</u></u>	<u><u>39,685,670</u></u>

## Equity

The paid-up share capital of the Group has remained at SR 12,054 million during the periods under review.

The Group paid an interim net cash dividend of SR 0.75 net per share on 4 August 2022 amounting to SR 901 million in total.

BSF's board of directors (the "**Board of Directors**") recommended a final net cash dividend of SR 0.90 net per share on 12 December 2022 amounting to SR 1,080 million in total.

The Group's total equity decreased by 2.37 per cent. from SR 39,686 million as at 31 December 2021 to SR 38,745 million as at 31 December 2022. This decrease was primarily attributable to a 1,013.86 per cent. decrease in other reserves, which, in turn, was a result of a SR 2,328 million net movement in the marked to market value of cash flow hedges and FVOCI investments for the year ended 31 December 2022.

## Liquidity Coverage Ratio

BSF's liquidity coverage ratio (calculated in accordance with SAMA regulations and representing quarterly average high-quality liquid assets divided by quarterly average net cash outflows) was 196 per cent. and 179 per cent. as at and for the three months ended 31 December 2022 and 31 December 2021, respectively.

## Capital Adequacy

BSF maintains an actively managed capital base to cover the risks inherent in its business. The adequacy of the BSF's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee including the framework and guidance regarding the implementation of capital reforms under Basel III (the "**Basel III Accord**") which has been adopted by BSF's regulator, SAMA. These ratios measure capital adequacy by comparing BSF's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding a minimum level of regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted assets ("**RWA**") at or above the agreed minimum of 10.5 per cent. including a capital conservation buffer (2.5 per cent.).

The combined effect of the 7.58 per cent. increase in the Group's loans and advances, net from 31 December 2021 to 31 December 2022 and the 2.37 per cent. decrease in Group's total equity over the same period has resulted in a marginal decrease in BSF's capital adequacy ratios, which nevertheless remain well above the international requirement of 10.5 per cent.

The table below shows BSF's capital adequacy ratios as at 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
CET1 Capital Adequacy <sup>(1)</sup> .....	16.57%	17.47%
Tier 1 Capital Adequacy <sup>(2)</sup> .....	18.90%	19.94%
Total Capital Adequacy <sup>(3)</sup> .....	19.92%	21.09%

### Notes:

- (1) Calculated in accordance with SAMA regulations. Represents common equity tier 1 capital divided by total risk-weighted assets.
- (2) Calculated in accordance with SAMA regulations. Represents tier 1 capital divided by total risk-weighted assets.
- (3) Calculated in accordance with SAMA regulations. Represents total capital divided by total risk-weighted assets.

BSF calculates its risk asset ratio in accordance with the capital adequacy guidelines set out in the Basel III Accord. BSF has adopted the standardised approach for all its books. Since 1 January 2014, BSF has followed the new Basel III method for computing its capital adequacy ratios in line with the progressive implementation schedule set by SAMA.

## Results of operations for the years ended 31 December 2022 and 31 December 2021

### Income Statement

The table below shows the Group's consolidated statement of income for the years ended 31 December 2022 and 31 December 2021:

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000)</i>	
Special commission income.....	8,307,199	6,193,711
Special commission expense.....	1,880,646	495,066
<b>Net special commission income</b> .....	<b>6,426,553</b>	<b>5,698,645</b>
Fee and commission income .....	1,423,040	1,403,396
Fee and commission expense .....	526,179	515,467
<b>Net fee and commission income</b> .....	<b>896,861</b>	<b>887,929</b>
Exchange income, net .....	474,684	336,131
Trading income, net .....	201,748	171,841
Dividend income .....	13,397	1,501
Gains on FVOCI / non-trading investments, net.....	3,524	27,804
Other operating income.....	508	4,075
<b>Total operating income</b> .....	<b>8,017,275</b>	<b>7,127,926</b>
Salaries and employee-related expenses .....	1,494,960	1,397,452
Rent and premises related expenses .....	73,122	66,061
Depreciation and amortisation .....	221,428	224,972
Other operating and general and administrative expenses .....	864,065	758,459
<b>Total operating expenses before impairment charge</b> .....	<b>2,653,575</b>	<b>2,446,944</b>
Impairment charge for expected credit losses on loans and advances, net....	1,363,944	961,430
Impairment reversal for investments, financial assets and others, net .....	(4,147)	(117,825)
<b>Total operating expenses, net</b> .....	<b>4,013,372</b>	<b>3,290,549</b>
<b>Net income for the year before Zakat</b> .....	<b>4,003,903</b>	<b>3,837,377</b>
Zakat for the year .....	428,773	387,500
<b>Net income for the year</b> .....	<b>3,575,130</b>	<b>3,449,877</b>
Basic and diluted earnings per share (SAR).....	2.79	2.70

### **Overview**

The Group's total operating income for the year ended 31 December 2022 increased by 12.48 per cent. to SR 8,017 million, as compared with SR 7,128 million for the year ended 31 December 2021. The increase in the Group's total operating income for the year ended 31 December 2022 was primarily attributable to an increase in the Group's net special commission income and the Group's non-interest income.

The Group's non-interest income (comprised of net fee and commission income, exchange income, net, trading income, net, dividend income, gains on FVOCI / non-trading investments, net and other operating income) for the year ended 31 December 2022 increased by 11.30 per cent. to SR 1,591 million, as compared with SR 1,429 million for the year ended 31 December 2021, primarily as a result of an increase in Group's exchange income,

net and trading income, net which, in turn was a result of the factors described under “*Exchange income, net*” and “*Trading income, net*” below. The proportion of the total operating income of the Group derived from non-interest income decreased from 20.05 per cent. for the year ended 31 December 2021 to 19.84 per cent. for the year ended 31 December 2022.

The Group’s net special commission income increased by 12.77 per cent. from the year ended 31 December 2021 to the year ended 31 December 2022 as a result of the factors described under “*Net special commission income*” below. The proportion of the total operating income of the Group derived from net special commission income increased from 79.95 per cent. for the year ended 31 December 2021 to 80.16 per cent. for the year ended 31 December 2022.

The Group’s total operating expenses before impairment charge increased by 8.44 per cent. to SR 2,654 million for the year ended 31 December 2022 from SR 2,447 million for the year ended 31 December 2021. This increase was primarily the result of the factors described under “*Total Operating Expenses before Impairment Charge*” below.

The Group’s impairment charge for expected credit losses on loans and advances, net increased by 41.87 per cent. from SR 961 million for the year ended 31 December 2021 to SR 1,364 million for the year ended 31 December 2022 primarily as a result of factors described under “*Impairment Charge for Expected Credit Losses on Loans and Advances, net*” below. Impairment reversal for investments and other financial assets, net was SR 4 million for the year ended 31 December 2022 as compared with SR 118 million for the year ended 31 December 2021.

The Group’s net income for the year increased by 3.63 per cent. to SR 3,575 million for the year ended 31 December 2022 from SR 3,450 million for the year ended 31 December 2021. This increase was primarily attributable to the factors discussed above.

The Group’s cost to income ratio decreased from 34.33 per cent. for the year ended 31 December 2021 to 33.10 per cent. for the year ended 31 December 2022.

#### *Total operating income and expenses*

The table below shows the Group’s net special commission income, net fee and commission income, total operating income as well as expenses for the years ended 31 December 2022 and 31 December 2021:

	<b>For the year ended 31 December</b>		<b>% Var 12m</b>
	<b>2022</b>	<b>2021</b>	<b>2022/2021</b>
	<i>(SR '000, except percentages)</i>		
Special commission income.....	8,307,199	6,193,711	34.12%
Special commission expense.....	1,880,646	495,066	279.88%
<b>Net special commission income .....</b>	<b>6,426,553</b>	<b>5,698,645</b>	<b>12.77%</b>
<b>Non-interest income .....</b>	<b>1,590,722</b>	<b>1,429,281</b>	<b>11.30%</b>
<b>Total operating income .....</b>	<b>8,017,275</b>	<b>7,127,926</b>	<b>12.48%</b>
<b>Total operating expenses before impairment charge ..</b>	<b>2,653,575</b>	<b>2,446,944</b>	<b>8.44%</b>
<b>Impairment charges for financial assets, net .....</b>	<b>1,359,797</b>	<b>843,605</b>	<b>61.19%</b>
<b>Net income for the year before zakat.....</b>	<b>4,003,903</b>	<b>3,837,377</b>	<b>4.34%</b>

### *Special commission income*

The Group's special commission income increased by 34.12 per cent. to SR 8,307 million for the year ended 31 December 2022 from SR 6,194 million for the year ended 31 December 2021. This increase was primarily attributable to the growth in the Group's loan and investment portfolios as well as the prevailing higher interest rate environment. See "Significant Factors Affecting Results of Operations – Interest rates in the Kingdom".

### *Special commission expense*

The Group's special commission expense for the year ended 31 December 2022 increased by 279.88 per cent. to SR 1,881 million from SR 495 million in the year ended 31 December 2021. This increase was primarily attributable to the increase in expense paid on customers' deposits and debt securities and term loans. The expense paid on customers' deposits increased by SR 1,051 million (or 231.88 per cent.) for the year ended 31 December 2022 as compared with the year ended 31 December 2021, primarily as a result of an increase in interest-bearing deposits in the year ended 31 December 2022 and an increase in the rates offered by the Group on such deposits in line with the prevailing higher interest rate environment. The expense on debt securities and term loans for the year ended 31 December 2022 was SR 5.7 million, as compared with nil for the year ended 31 December 2021 as a result of the issuance of the 2027 Notes and a drawdown under the Club Loan Facility, in each case in the year ended 31 December 2022.

### *Net special commission income*

As a result of the factors described above, the Group's net special commission income increased by 12.77 per cent. in 2022 from SR 5,699 million for the year ended 31 December 2021 to SR 6,427 million for the year ended 31 December 2022.

### *Non-interest income*

The Group's non-interest income increased by 11.30 per cent. to SR 1,591 million for the year ended 31 December 2022 from SR 1,429 million for the year ended 31 December 2021.

The table below shows the Group's fees and commissions generated from activities contributing to its non-interest income for the years ended 31 December 2022 and 31 December 2021:

	<b>For the year ended 31 December</b>		<b>% Var 12m 2022/2021</b>
	<b>2022</b>	<b>2021</b>	
	<i>(SR '000, except percentages)</i>		
Net fee and commission income	896,861	887,929	1.01%
Exchange income, net	474,684	336,131	41.22%
Trading income, net	201,748	171,841	17.40%
Dividend income	13,397	1,501	792.54%
Gains on FVOCI / non-trading investments, net	3,524	27,804	-87.33%
Other operating income	508	4,075	-87.53%
<b>Total</b> .....	<b>1,590,722</b>	<b>1,429,281</b>	<b>11.30%</b>

### *Fee and commission income*

The Group's net fee and commission income increased by 1.01 per cent. for the year ended 31 December 2022 to SR 897 million from SR 888 million for the year ended 31 December 2021.

Fee and commission income is generated from the management of the following product lines and entities:

- Brokerage and asset management;
- Trade finance, project finance and advisory;
- Card products; and
- Loans processing fees.

The table below shows a breakdown of the Group's banking services fees for each of the years ended 31 December 2022 and 31 December 2021:

	For the year ended 31 December		% Var 12m 2022/2021
	2022	2021	
	(SR '000)		
Share trading, brokerage, fund management and corporate finance.....	392,843	499,046	-21.28%
Trade finance.....	417,900	378,020	10.55%
Card products.....	426,912	368,783	15.76%
Other banking services.....	185,385	157,547	17.67%
<b>Total fees and commissions income.....</b>	<b>1,423,040</b>	<b>1,403,396</b>	<b>1.40%</b>

The Group's share trading, brokerage, fund management and corporate finance fees and commissions decreased by 21.28 per cent. to SR 393 million for the year ended 31 December 2022 from SR 499 million for the year ended 31 December 2021 primarily as a result of lower brokerage volumes representative of a decline in the Saudi stock market in 2022.

The Group's trade finance income increased by 10.55 per cent. to SR 418 million for the year ended 31 December 2022 from SR 378 million for the year ended 31 December 2021, primarily as a result of the general growth in the Group's trade finance business.

The Group's income from card products increased by 15.76 per cent. to SR 427 million for the year ended 31 December 2022 from SR 369 million ended 31 December 2021 primarily as a result of an increase in volumes of point of sale and e-commerce transactions, which, in turn, was a result of the growth of consumer spending in Saudi Arabia and the growing consumer preference to pay by cards and online.

The Group's income from other banking services (which primarily comprises loan processing fees and penalty fees) increased by 17.67 per cent. to SR 185 million for the year ended 31 December 2022 from SR 158 million for year ended 31 December 2021 primarily as a result of the increase in loan commitment fees and Islamic products-related fees which, in turn, was attributable to the increase in the Group's loans and advances.

#### *Exchange income, net*

The Group's exchange income, net is income arising from foreign exchange gains. Exchange income, net increased by 41.22 per cent. for the year ended 31 December 2022 to SR 475 million from SR 336 million for the year ended 31 December 2021. This increase was primarily attributable to the increased volume of the Group's foreign currency transactions in 2022.

#### *Trading income, net*

The Group's trading income, net increased by 17.40 per cent. for the year ended 31 December 2022 to SR 202 million from SR 172 million for the year ended 31 December 2021 on the back of new structured deals.

### **Total Operating Expenses before Impairment Charge**

The Group's total operating expenses before impairment charge increased by 8.44 per cent. to SR 2,654 million for the year ended 31 December 2022 from SR 2,447 million for the year ended 31 December 2021. This increase was primarily due to increases in salaries and employee-related expenses and other operating and general administrative expenses.

The Group's salaries and employee-related expenses increased by 6.98 per cent. to SR 1,495 million for the year ended 31 December 2022 from SR 1,397 million for the year ended 31 December 2021. This increase was primarily driven by the increase in the Group's headcount.

The Group's other operating and general and administrative expenses increased by 13.92 per cent. to SR 864 million for the year ended 31 December 2022 from SR 758 million for the year ended 31 December 2021. This increase was primarily attributable to the increase in insurance costs, which, in turn, was reflective of the increase in average insurance premiums in the Saudi insurance market.

### **Impairment Charge for Expected Credit Losses on Loans and Advances, Net**

The Group's impairment charge for expected credit losses on loans and advances, net increased by 41.87 per cent. to SR 1,364 million for the year ended 31 December 2022 from SR 961 million for the year 31 December 2021. This increase was primarily attributable to loans extended by the Group to several borrowers moving from Stage 2 to Stage 3. See note 33(d) to the 2022 Financial Statements for details on classification of the Group's loans and advances.

### **Net Interest Margin and Cost to Income Ratio**

#### *Net Interest Margin*

The tables below show the calculation of the Group's net interest margin for the years ended 31 December 2022 and 31 December 2021.

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR'000, except percentage)</i>	
Average interest-earning assets <sup>(1)</sup> .....	209,682,471	188,599,419
Net special commission income .....	6,426,553	5,698,645
<b>Net interest margin</b> .....	<b>3.06%</b>	<b>3.02%</b>

Note:



- (1) Average interest-earning assets is calculated as the simple average of the last 13 month-end interest-earning assets. Interest-earning assets is calculated as the sum of money market placements, due from banks and other financial institutions, investments, net and loans and advances, net.

### *Cost to Income Ratio*

The table below shows the calculation of the Group's cost to income ratio for the years ended 31 December 2022 and 31 December 2021:

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000, except percentages)</i>	
Total operating income.....	8,017,275	7,127,926
Total operating expenses before impairment charge .....	2,653,575	2,446,944
<b>Income from operating activities .....</b>	<b>5,363,700</b>	<b>4,680,982</b>
<b>Cost to Income Ratio.....</b>	<b>33.10%</b>	<b>34.33%</b>

### **Performance – Business Segments**

To report its published financial performance by business activities, the Group uses the format (the “**SAMA Format**”) imposed by SAMA. The SAMA Format applies unilaterally across the financial sector in the Kingdom for comparison purposes. The word “segment” refers to regulatory disclosure while “business line” designates an activity run by a business unit or a separate legal entity specific to the Group's own organisation. The business segments below are described in a manner consistent with the disclosure within the notes to the 2022 Financial Statements. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are distinct from those other business segments.

The description of the business segments set out under “*Business Description of the Group – Operations*” reflects the SAMA Format of the business segments described therein. Accordingly, the classification in the table below is used to provide financial reporting in relation to operations of each business line within the Group.

The table below shows the Group's internal organisation and the way the performance of each of its business line's performance is reported in the SAMA Format (corresponding to the Group's internal organisation and business segments as dictated by the SAMA Format):

<b>Business Model and Bank's Internal Organisation</b>		<b>Business Segment as per the SAMA Format</b>
<b>Business Segment</b>	<b>Group / Entity</b>	<b>Reported in</b>
<b>Corporate Banking</b>	Wholesale Banking	Corporate Banking
<b>Treasury Activities</b>	Money Market & Funding, Market Making & Trading, Investments, Foreign Exchange, Risk Solutions and Structured Products and Treasury Sales	Treasury Banking

<b>Retail Banking</b>	Retail Banking Group	Retail Banking
	Wealth Management Group and High Net Worth Group	
	Bank Assurance (via Allianz Saudi Fransi, an investment of BSF)	Retail Banking
	Consumer Finance and Leasing (via Saudi Fransi for Finance Leasing)	Retail Banking
<b>Investment Banking and Brokerage</b>	Saudi Fransi Capital (Equity Brokerage, Asset Management, Corporate Finance)	Investment Banking and Brokerage

The table below shows the Group's net income for the year before zakat by business segment following the reporting format published in the 2022 Financial Statements:

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000)</i>	
Retail banking .....	803,269	529,163
Corporate banking.....	1,500,169	1,461,870
Treasury banking.....	1,464,265	1,588,463
Investment banking and brokerage .....	236,200	257,881
<b>Total</b> .....	<b>4,003,903</b>	<b>3,837,377</b>

The following is a summary explanation of the Group's net income for the year before zakat per business segment:

*Retail banking* – this segment includes retail banking group and the wealth management group. Retail banking's net income before zakat for the year ended 31 December 2022 was SR 803 million, an increase of 51.80 per cent. as compared with SR 529 million for the year ended 31 December 2021. This increase was primarily attributable to an increase in retail loans and advances.

*Corporate banking* – this segment includes the corporate banking group (large corporate and financial institutions clients) and the commercial banking division (small and medium size establishments). The corporate banking segment's net income before zakat was SR 1,500 million for the year ended 31 December 2022, an increase of 2.62 per cent. as compared with SR 1,462 million for the year ended 31 December 2021. This increase was primarily attributable to an increase in corporate loans and advances and the prevailing higher interest rate environment.

*Treasury* – this segment includes the capital market activities of the Group and the performance of its investment portfolio. The treasury segment's net income before zakat was SR 1,464 million for the year ended 31 December 2022, a decrease of 7.82 per cent. as compared with SR 1,588 million for the year ended 31 December 2021. This decrease was primarily a result of higher transfer cost brought about by the higher interest rate environment which, in turn, was partially offset by the increase in trading and exchange income.

*Investment banking and brokerage* – this segment includes the Group’s asset management, brokerage and investment banking activities. The Group’s investment banking and brokerage segment’s net income before zakat was SR 236 million for the year ended 31 December 2022, a decrease of 8.41 per cent. as compared with SR 258 million for the year ended 31 December 2021. This decrease was primarily as a result of lower brokerage volumes representative of a decline in the Saudi stock market in 2022.

## Credit Ratings

BSF is rated by S&P, Moody’s and Fitch. The table below shows BSF’s credit ratings as at the date of this Base Offering Circular:

	Long-Term Rating	Short-Term Bank	Outlook/Review
<b>S&amp;P</b>	A-	A-2	Stable
	Long-Term Rating	Short-Term Bank	Outlook Review
<b>Moody’s</b>	A2	P-1	Positive
	Long-Term Rating	Short-Term Bank	Outlook Review
<b>Fitch</b>	A-	F2	Stable

## Credit-related Commitments and Contingencies

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group’s customers. The tables below set out the Group’s credit-related commitments as at 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
	(SR '000)	
Letters of credit .....	9,794,419	11,183,710
Letters of guarantee .....	40,195,932	36,677,538
Acceptances .....	2,412,633	2,021,025
Irrevocable commitments to extend credit .....	11,443,665	7,587,489
Total .....	63,846,649	57,469,762

	As at 31 December 2022				
	(SR '000)				
	Within 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Letters of credit .....	6,287,304	2,838,840	608,680	59,595	9,794,419
Letters of guarantee .....	12,876,001	16,557,457	10,579,734	182,740	40,195,932
Acceptances .....	1,311,216	996,810	104,607	□	2,412,633

**As at 31 December 2022**

	<i>(SR '000)</i>				
	<b>Within 3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Irrevocable commitments to extend credit .....	2,536,884	476,324	5,415,064	3,015,393	11,443,665
<b>Total</b> .....	<u>23,011,405</u>	<u>20,869,431</u>	<u>16,708,085</u>	<u>3,257,728</u>	<u>63,846,649</u>

**As at 31 December 2021**

	<i>(SR '000)</i>				
	<b>Within 3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Letters of credit .....	7,870,612	2,230,834	1,082,264	—	11,183,710
Letters of guarantee .....	11,085,736	17,226,429	7,945,081	420,292	36,677,538
Acceptances .....	1,540,238	439,632	41,155	—	2,021,025
Irrevocable commitments to extend credit .....	1,500,000	1,909,855	3,118,384	1,059,250	7,587,489
<b>Total</b> .....	<u>21,996,586</u>	<u>21,806,750</u>	<u>12,186,884</u>	<u>1,479,542</u>	<u>57,469,762</u>

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

Letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment as the Group does not generally expect the third party to draw funds under the agreement. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers. Commitments to extend credit represent an unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded. The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Group as at 31 December 2022 was SR 63,570 million compared with SR 73,355 million as at 31 December 2021.

## Related Parties

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the Group's management and the Board of Directors, the related party transactions are carried out in accordance with the Group's internal pricing framework. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at 31 December 2022 and 31 December 2021 resulting from such transactions included in the consolidated financial statements are as follows:

	<b>As at 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<i>(SR '000)</i>	
<b>Associates</b>		
Investments .....	9,695	9,695
Due to banks and other financial institutions .....	8,204	8,171
<b>Directors, senior management, shari'a members and major shareholders and their affiliates</b>		
Loans and advances .....	11,813,189	12,586,365
Investments .....	957,941	1,004,953
Due from banks and other financial institutions .....	—	—
Other assets .....	17,783	—
Customers' deposits .....	12,112,335	4,799,882
Due to banks and other financial institutions .....	900,000	2,050,000
Other liabilities .....	6,542	7,172
Derivatives at fair value, net .....	(45,733)	(66,289)
Commitments and contingencies .....	3,224,229	2,096,059

## Recent Developments

### *Interim Condensed Consolidated Statement of Income*

The following table sets out the Group's interim condensed consolidated statement of income for the nine months ended 30 September 2023 and 30 September 2022:

	<b>30 September</b>	
	<b>2023</b>	<b>2022</b>
	<i>(SR '000)</i>	
Special commission income .....	9,711,622	5,657,767
Special commission expense .....	3,744,165	1,009,775
<b>Net special commission income .....</b>	<b>5,967,457</b>	<b>4,647,992</b>
Fee and commission income .....	1,083,329	1,045,085

	30 September	
	2023	2022
	(SR '000)	
Fee and commission expense .....	405,970	394,957
<b>Net fee and commission income .....</b>	<b>677,359</b>	<b>650,128</b>
Exchange income, net .....	337,297	333,866
Trading income, net .....	151,691	127,489
Dividend income .....	10,512	10,372
(Losses) / gains on FVOCI / non-trading investments, net .....	(16,494)	3,600
Other operating income.....	5,229	1,001
<b>Total operating income .....</b>	<b>7,133,051</b>	<b>5,774,448</b>
Salaries and employee related expenses.....	1,284,645	1,081,905
Rent and premises related expenses .....	50,382	49,629
Depreciation and amortization .....	170,745	170,955
Other operating and general and administrative expenses .....	670,041	627,986
<b>Total operating expenses before impairment charge .....</b>	<b>2,175,813</b>	<b>1,930,475</b>
Impairment charge for expected credit losses on loans and advances, net....	1,262,845	889,215
Impairment reversal for investments, financial assets and others, net .....	(81,657)	(5,489)
<b>Total operating expenses, net .....</b>	<b>3,357,001</b>	<b>2,814,201</b>
<b>Net income for the period before Zakat .....</b>	<b>3,776,050</b>	<b>2,960,247</b>
Zakat for the period.....	380,801	287,794
<b>Net income for the period .....</b>	<b>3,395,249</b>	<b>2,672,453</b>
Basic and diluted earnings per share (SAR).....	<b>2.69</b>	<b>2.08</b>

For the nine months ended 30 September 2023, the Group's total operating income increased by 23.53 per cent. to SR 7,133 million, as compared with SR 5,774 million for the nine months ended 30 September 2022. This increase was primarily attributable to an increase in net special commission income.

For the nine months ended 30 September 2023, the Group's net special commission income increased by 28.39 per cent. to SR 5,967 million from SR 4,648 million for the nine months ended 30 September 2022. This increase was attributable to an increase in special commission income and was partially offset by an increase in special commission expense.

For the nine months ended 30 September 2023, the Group's special commission income increased by 71.65 per cent. to SR 9,712 million from SR 5,658 million for the nine months ended 30 September 2022. This increase was primarily attributable to the growth in the Group's loan and investment portfolios as well as the prevailing higher interest rate environment. The Group's special commission expense for the nine months ended 30 September 2023 increased by 270.79 per cent. to SR 3,744 million from SR 1,010 million for the nine months ended 30 September 2022, primarily as a result of an increase in commission bearing deposits, as well as issuance by BSF of debt securities and drawings by BSF on term loans since 30 September 2022. See note 13 to the Interim Financial Statements for further detail on BSF's debt securities and terms loans.

For the nine months ended 30 September 2023, the Group's total operating expenses before impairment charges increased by 12.71 per cent. to SR 2,176 million, as compared with SR 1,930 million for the nine months ended 30 September 2022. This increase was primarily attributable to an increase in the Group's salaries and employee related expenses.

The Group's salaries and employee related expenses for the nine months ended 30 September 2023 increased by 18.74 per cent. to SR 1,285 million from SR 1,082 million for the nine months ended 30 September 2022. This increase was primarily driven by an increase in the Group's headcount.

For the nine months ended 30 September 2023, the Group's impairment charge for expected credit losses on loans and advances, net increased by 42.02 per cent. to SR 1,263 million, as compared with SR 889 million for the nine months ended 30 September 2022. This increase was primarily as a result of loans extended by the Group to certain borrowers moving from Stage 2 to Stage 3.

For the nine months ended 30 September 2023, BSF's net income for the period increased by 27.05 per cent. to SR 3,395 million, as compared with SR 2,672 million for the nine months ended 30 September 2022. This increase was mainly attributable to the factors described above.

### ***Interim Condensed Consolidated Statement of Financial Position***

The following table sets out the Group's interim condensed consolidated statement of financial position as at 30 September 2023 and 31 December 2022:

	<b>30 September 2023</b>	<b>31 December 2022</b>
	<u>(SR '000)</u>	<u></u>
<b>ASSETS</b>		
Cash and balances with SAMA.....	10,482,660	11,325,586
Due from banks and other financial institutions, net.....	5,126,833	4,795,111
Investments, net .....	46,389,673	44,517,549
Positive fair value of derivatives.....	7,346,045	6,582,980
Loans and advances, net.....	174,680,785	159,011,525
Investment in associate, net.....	9,695	9,695
Property, equipment and right of use assets, net .....	1,940,512	1,739,307
Other real estate, net.....	343,359	342,050
Other assets, net .....	3,542,677	3,754,316
<b>Total assets .....</b>	<b><u>249,862,239</u></b>	<b><u>232,078,119</u></b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Due to SAMA .....	10,502,718	8,004,403
Due to banks and other financial institutions .....	10,037,630	8,766,039
Customers' deposits .....	166,366,883	157,592,320
Negative fair value of derivatives .....	8,618,430	7,383,707

	<b>30 September 2023</b>	<b>31 December 2022</b>
	<u>(SR '000)</u>	
Debt securities and term loans .....	8,175,207	4,515,254
Other liabilities .....	6,878,704	7,071,071
<b>Total liabilities .....</b>	<b>210,579,572</b>	<b>193,332,794</b>
<b>Equity</b>		
Share capital .....	12,053,572	12,053,572
Statutory reserve .....	12,053,572	12,053,572
General reserve .....	982,857	982,857
Other reserves .....	(2,505,650)	(2,090,067)
Retained earnings .....	11,854,549	9,768,005
Proposed dividend .....	-	1,079,633
Treasury shares .....	(156,233)	(102,247)
<b>Equity attributable to the shareholders of the Bank .....</b>	<b>34,282,667</b>	<b>33,745,325</b>
Tier 1 Sukuk .....	5,000,000	5,000,000
<b>Total equity .....</b>	<b>39,282,667</b>	<b>38,745,325</b>
<b>Total liabilities and equity .....</b>	<b>249,862,239</b>	<b>232,078,119</b>

### ***Key Performance Ratios***

The following table sets out the Group's key performance ratios as at and for the nine months ended 30 September 2023 and 30 September 2022:

	<b>30 September</b>	
	<b>2023</b>	<b>2022</b>
Provisions to non-performing loans <sup>(1)</sup> .....	139.52%	116.81%
Non-performing loans to total loans <sup>(2)</sup> .....	1.97%	2.73%
SAMA loans to deposits <sup>(3)</sup> .....	84.07%	83.41%
Loans to deposits <sup>(4)</sup> .....	105.00%	100.42%
CET1 capital adequacy <sup>(5)</sup> .....	16.45%	16.32%
Tier 1 capital adequacy <sup>(6)</sup> .....	18.73%	18.68%
Total capital adequacy <sup>(7)</sup> .....	19.21%	19.76%
Net interest margin <sup>(8)</sup> .....	3.63%	2.99%
Cost to income <sup>(9)</sup> .....	30.50%	33.43%
Return on average assets <sup>(10)</sup> .....	1.87%	1.58%
Return on average equity <sup>(11)</sup> .....	11.49%	9.22%



	30 September	
	2023	2022
Cost of risk <sup>(12)</sup> .....	0.98%	0.74%
Liquidity coverage ratio <sup>(13)</sup> .....	170.66%	185.28%
Net stable funding ratio <sup>(14)</sup> .....	115.95%	112.89%

Notes:

- (1) Calculated as allowance for impairment divided by total non performing loans and advances, net.
- (2) Calculated as total non performing loans and advances, net divided by total loans and advances.
- (3) Calculated in accordance with SAMA regulations. Represents total loans and advances, net divided by total customers' deposits weighted by maturity in accordance with SAMA regulations.
- (4) Calculated as total loans and advances, net divided by total customers' deposits.
- (5) Calculated in accordance with SAMA regulations. Represents common equity tier 1 capital divided by total risk-weighted assets.
- (6) Calculated in accordance with SAMA regulations. Represents tier 1 capital divided by total risk-weighted assets.
- (7) Calculated in accordance with SAMA regulations. Represents total capital divided by total risk-weighted assets.
- (8) Calculated as net special commission income divided by the average of the last four month-end interest earning assets, multiplied by an annualization factor which divides the number of total interest earning days in the relevant year by the number of interest earning days in the relevant quarter. Interest earning assets is calculated as the sum of money market placements, due from banks and other financial institutions, investments, net and loan and advances, net
- (9) Total operating expenses before impairment charge divided by total operating income.
- (10) Net income for the period after zakat divided by average total assets. Average total assets as at 30 September 2023 is calculated as the simple average of (i) total assets as at 30 September 2023, (ii) total assets as at 30 June 2023, (iii) total assets as at 31 March 2023, (iv) total assets as at 31 December 2022 and (v) total assets as at 30 September 2022. Average total assets as at 30 September 2022 is calculated as the simple average of (i) total assets as at 30 September 2022, (ii) total assets as at 30 June 2022, (iii) total assets as at 31 March 2022, (iv) total assets as at 31 December 2021 and (v) total assets as at 30 September 2021.
- (11) Net income for the period after zakat divided by average total equity for the period. Average total equity for the nine months ended 30 September 2023 is calculated as the simple average of (i) total equity as at 30 September 2023, (ii) total equity as at 30 June 2023, (iii) total equity as at 31 March 2023, (iv) total equity as at 31 December 2022 and total equity as at 30 September 2022. Average total equity for the nine months ended 30 September 2022 is calculated as the simple average of (i) total equity as at 30 September 2022, (ii) total equity as at 30 June 2022, (iii) total equity as at 31 March 2022, (iv) total equity as at 31 December 2021 and (v) total equity as at 30 September 2021.
- (12) Calculated as annualised impairment charge for expected credit losses, net divided by the average gross loan portfolio. The average gross loan portfolio as at 30 September 2023 is calculated as the simple average of (i) gross loan portfolio as at 30 September 2023, (ii) gross loan portfolio as at 30 June 2023, (iii) gross loan portfolio as at 31 March 2023, (iv) gross loan portfolio as at 31 December 2022 and (v) gross loan portfolio as at 30 September 2022. The average gross loan portfolio as 30 September 2022 is calculated as the simple average of (i) gross loan portfolio as at 30 September 2022, (ii) gross loan portfolio as at 30 June 2022, (iii) gross loan portfolio as at 31 March 2022, (iv) gross loan portfolio as at 31 December 2021 and (v) gross loan portfolio as at 30 September 2021.
- (13) Calculated in accordance with SAMA regulations. Represents quarterly average high-quality liquid assets divided by quarterly average net cash outflows.
- (14) Calculated in accordance with SAMA regulations. Represents total available stable funding divided by total required stable funding.

***Debt Securities***

On 31 May 2023, BSF Sukuk Company Limited issued U.S.\$900,000,000 Trust Certificates due 2028 under BSF's and BSF Sukuk Company Limited's U.S.\$4,000,000,000 Trust Certificate Issuance Programme.

On 18 July 2023, BSF Sukuk Company Limited issued U.S.\$100,000,000 Trust Certificates due 2027 under BSF and BSF Sukuk Company Limited's U.S.\$4,000,000,000 Trust Certificate Issuance Programme.

On 25 January 2024, BSF issued U.S.\$700,000,000 Trust Certificates due 2029 under BSF and BSF Sukuk Company Limited's U.S.\$4,000,000,000 Trust Certificate Issuance Programme.

## BUSINESS DESCRIPTION OF THE GROUP

### Overview

BSF is a commercial bank operating in the Kingdom under Commercial Registration No. 1010073368 dated 5 September 1989. BSF's head office is located at King Saud Road, AlMuraba' District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia. The telephone number of BSF's head office is +966 11 289 9999.

BSF is a full-service bank, whose main business lines are corporate banking, retail banking, treasury and investment banking and brokerage. The Group offers a full range of conventional and Islamic banking products and services in Saudi Arabia to the retail and corporate sectors, in addition to investment advisory services, asset management, local and international securities trading and treasury services.

According to Tadawul, BSF was the fifth largest listed commercial bank in the Kingdom as at 30 September 2023 and 31 December 2022 by total assets (based on the latest available financial statements of the banking industry), with total assets of SR 249,862 million and SR 232,078 million, respectively. As at 30 September 2023 and 31 December 2022, BSF's total customers' deposits amounted to SR 166,367 million and SR 157,592 million, respectively. As at 30 September 2023 and 31 December 2022, BSF's customers' deposits accounted for 6.77 per cent. and 6.87 per cent. of all customer deposits in the Kingdom, according to publicly available data. BSF's net income was SR 3,575 million for the year ended 31 December 2022 and SR 3,395 million for the nine months ended 30 September 2023.

As at 30 September 2023, BSF had a network of 82 branches. As at 30 September 2023, BSF had 452 automated teller machines ("ATMs"), 81 cash acceptance machines ("CAMs"), 26,448 point of sale ("POS") terminals and an increasing range of internet banking services.

Through a combination of active marketing and investment in its distribution channels, as at 30 September 2023, BSF has built a customer base of approximately 1.2 million individuals, 60,034 micro-, small- and medium-sized enterprises ("MSMEs"), 3,476 large and international corporates, 899 financial institutions and 142 Government and public sector entities.

### History

BSF is the successor to Banque de l'Indochine, which established a branch in Jeddah in 1949. BSF was formed in accordance with regulations adopted by the Kingdom in the mid-1970s, under which foreign companies were required to sell majority equity interests to Saudi Arabian nationals. As a result, Banque Indosuez, the entity that succeeded Banque de l'Indochine in 1975, formed a new company with local partners in 1977. Royal Decree No. M/23 dated 4 June 1977 established BSF as a Saudi Arabian joint stock company.

Prior to 2017, CA-CIB, the corporate and investment banking arm of Crédit Agricole S.A., held 31.1 per cent. in the share capital of BSF. CA-CIB divested of 16.2 per cent. in the share capital of BSF to Kingdom Holding in September 2017 and divested of a further 9.0 per cent. and 1.9 per cent. in the share capital of BSF to RAM Holdings and Olayan Saudi Investment Company, respectively, in 2019. On 27 September 2020, CA-CIB divested of a further 2.88 per cent. and 1.13 per cent. in the share capital of BSF to Al Raidah Investment Company and the Public Pension Agency, respectively. See "*Share Capital and Ownership Structure*".

### Competitive Strengths

BSF's management believes that BSF benefits from the following competitive strengths:

**Experienced management:** BSF has a senior management team with considerable and diverse experience in the banking industry and strong skills in operating financial institutions in the local, regional and international markets.

**Leading corporate franchise:** BSF has deep institutional knowledge and relationships in the corporate segment and is one of the Kingdom's leading providers of banking services to large corporates and MSMEs, in addition to financial institutions, semi-Government and Government clients. According to BSF's estimates based on publicly available information, as at 30 September 2023 and 31 December 2022, BSF ranked as the fifth largest bank in the Kingdom in the corporate segment by total loans and advances, net, with total loans and advances, net attributable to its corporate banking segment of SR 132,812 million and SR 120,540 million, respectively.

**Fully-owned investment bank providing complementary products and distribution:** Saudi Fransi Capital ("SFC"), a wholly-owned investment banking subsidiary of BSF, provides BSF with a wide distribution and placement network and an extensive complementary product range for BSF's corporate (wholesale) and high net worth customers.

**Recognised product expertise:** BSF is a recognised leader in complex products such as interest rate derivatives and structured finance and has a strong track record of finding innovative solutions to meet its customers' requirements.

**Strong high net worth business:** According to BSF's estimates based on publicly available information, BSF has a market-leading position in affluent, high net worth and ultra-high net worth banking and is a partner of choice for customers in these segments.

**Robust capital position:** BSF benefits from a robust capital base enabling it to pursue its growth plans. As at 30 September 2023 and 31 December 2022, BSF's total capital ratio was 19.21 per cent. and 19.92 per cent., respectively, in each case significantly exceeding the statutory minimum total capital ratio of 10.5 per cent. (including a capital conservation buffer of 2.5 per cent.).

**Effective cost management:** BSF has historically maintained a low cost to income ratio compared with the banking sector in the Kingdom as a whole by following a stringent approach to cost control. For the nine months ended 30 September 2023, the year ended 31 December 2022 and the year ended 31 December 2021, BSF's cost-to-income ratio remained relatively low at 30.50 per cent., 33.10 per cent. and 34.33 per cent., respectively, notwithstanding the growth in BSF's loan portfolio.

## Strategy

BSF's strategic objective is to achieve balanced growth and maintain consistent and sustainable profitability while strictly adhering to prudent risk management. BSF endeavours to achieve this strategic objective through the implementation of the following key initiatives which BSF expects will drive its growth and enhance its position in the banking market:

**Technology Infrastructure Upgrade:** BSF is continuously investing in advanced technologies to ensure BSF remains at the forefront of the digital banking revolution;

**Expand coverage of financial institutions, Government and Multi-National Companies:** BSF aims to broaden its reach and service a wider segment of financial institutions, Government and multi-national companies;

**Expand Product Suite:** BSF expects to offer new and innovative products catering to the diverse needs of its customers;

**Rebranding:** BSF is working on a fresh and contemporary brand identity resonating with BSF's evolving customer base and market dynamics;

**Revamp Global Transaction Services:** BSF's Global Transaction Services group is expected to undergo a comprehensive enhancement aimed at streamlining its operations including through the reduction of the turnaround times and automatization and digitalisation of the customer journey;

**Experience Centric Rewards:** BSF is focused on elevating customer experience through tailored rewards and recognition programmes;

**Scale up Financing and Leasing:** BSF intends to expand its offering in this segment, capitalising on market opportunities;

**Scale up High Net Worth Banking:** BSF intends to introduce new tailored services and products in its high net worth banking segment;

**Provide Superior Daily Banking:** BSF intends to ensure that everyday banking is more efficient, responsive and customer- centric; and

**Leverage Opportunities in Capital Markets:** BSF aims to maximise its presence and opportunities in capital markets with a view to ensuring sustainable growth.

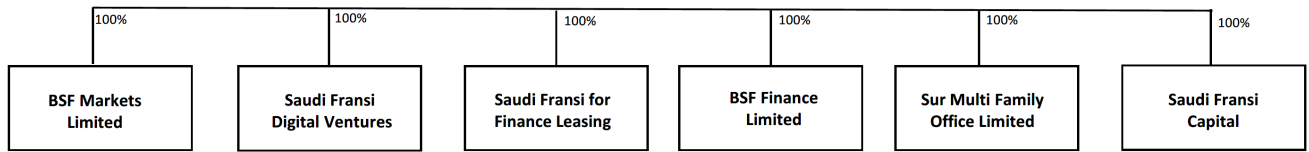
## Competition

According to SAMA's website, there are 36 commercial banks licensed to operate in the Kingdom, of which 11 are incorporated in the Kingdom. Of the remaining 25 licensed banks, six are branches of banks based in countries of the GCC other than the Kingdom (namely Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, First Abu Dhabi Bank, Bank Muscat and Qatar National Bank), ten are international banks (namely J.P. Morgan Chase, N.A., BNP Paribas, Deutsche Bank, T.C. Ziraat Bankası A.Ş., MUFG Bank Ltd, National Bank of Pakistan, Industrial and Commercial Bank of China, Credit Suisse, Standard Chartered Bank and National Bank of Iraq) and seven have been licensed but are yet to commence operations under their licences (namely Trade Bank of Iraq, Bank of China Limited, Banque Misr, Sohar International Bank, National Bank of Egypt and Bank of Jordan). In addition, three digital banks, STC Bank, D360 Bank and Saudi Digital Bank, have been licensed recently by SAMA but have not yet commenced their operations. A digital bank does not operate through physical branches but only provides remote banking services (i.e. through online banking). STC Bank will be converted from STC Digital Payments which is a digital payments company, founded in 2018, which has become the largest digital wallet provider in the MENA region. STC Bank will have a paid-up capital of U.S.\$666.7 million. Saudi Digital Bank is being established by a consortium led by Abdul Rahman bin-Saad al-Rashed and Sons Company and will have a paid-up capital of around U.S.\$400 million. D360 Bank will be established through a consortium of investors with the Public Investment Fund as one of its key investors and will be led by Derayah Financial Company. It will have a paid-up of capital of around U.S.\$440 million. Apart from Gulf International Bank Saudi Arabia, all of the 11 Saudi operating banks are publicly listed joint stock companies and their shares are traded on the Tadawul.

All segments of the financial services market in the Kingdom are highly competitive. BSF's primary competitors in the retail and wholesale banking sectors are the Arab National Bank, Riyadh Bank, the Saudi British Bank and Saudi National Bank. BSF also faces competition from Emirates NBD and Gulf International Bank in the retail sector. In addition, there are a number of "fintech" start-ups in the Kingdom providing limited banking services such as e-wallets enabling merchant payment, remittance and inter-bank transfer.

## Group Structure

The following structure chart sets out the operating subsidiaries of BSF as at 30 September 2023:



## Share Capital and Ownership Structure

The table below shows BSF's shareholders holding more than 5.0 per cent. in the share capital of BSF as at 30 September 2023.

Name	Basic Information	Percentage Shareholding
Kingdom Holding Company	The Kingdom Holding Company is a Saudi conglomerate holding company.	16.2 per cent.
Rashed Abdulrahman Al-Rashed & Sons Co	Saudi General partnership owned by the heirs of Rashed Abdul Rahman Al Rashed.	9.8 per cent.

## Operations

The Group has four principal reporting segments which correspond to its core business lines. These are:

- Retail banking, which provides banking services to general retail, affluent, high net worth and ultra-high net worth customers as well as predominantly non-lending banking services to MSMEs;
- Corporate (wholesale) banking, which provides banking services to large local and international corporates, the Government and public sector entities as well as predominantly lending services to MSMEs;
- Treasury, which manages the Group's liquidity, ensures BSF is in compliance with liquidity ratios prescribed by SAMA and offers derivative and other structured products to the Group's customers; and
- Investment banking and brokerage, which provides securities brokerage, asset management and corporate finance services to the Group's customers.

## Retail Banking

### Overview

BSF's retail banking segment is the largest business line of BSF in terms of the number of customers and number of employees. Retail banking's net income before zakat was SR 1,514 million for the nine months ended 30 September 2023, SR 803 million for the year ended 31 December 2022 and SR 529 million for the year ended 31 December 2021. Total assets of the retail banking segment amounted to SR 42,984 million as at 30 September 2023, SR 38,411 million as at 31 December 2022 and SR 34,195 million as at 31 December 2021. Loans and advances, net to retail customers amounted to SR 40,443 million as at 30 September 2023, SR 37,048

million as at 31 December 2022 and SR 33,005 million as at 31 December 2021. Customers' deposits within the retail banking segment amounted to SR 75,467 million as at 30 September 2023, SR 77,321 million as at 31 December 2022 and SR 80,467 million as at 31 December 2021.

As at 30 September 2023, BSF had approximately 1.2 million retail customers, most of whom are Saudi Arabian nationals. BSF's retail banking segment also provides predominantly non-lending banking services to MSMEs. See "*MSME Banking*".

BSF's retail banking services include retail lending products, such as housing loans, consumer loans, credit and debit cards, deposit solutions, payments and transfers, foreign exchange transactions, education and retirement plans, brokerage services and portfolio and investment advisory services.

BSF's retail banking business comprises the following segments:

- general retail banking, which provides a full suite of retail lending and deposit products to BSF's retail customers; and
- high net worth banking, which provides tailored financial planning, portfolio management and investment advisory solutions to BSF's affluent, high net worth and ultra-high net worth customers.

BSF's management believes that BSF's retail segment has significant growth potential which BSF intends to exploit. In particular, BSF is looking to increase its retail customer base by leveraging its corporate banking relationships and offering general retail banking and high net worth banking products to employees of its corporate banking customers.

#### *General retail banking:*

BSF offers a wide range of general retail banking products through its branches and alternative distribution channels. See – "*Distribution Channels*" below. The key products offered are as follows:

#### Home Finance

BSF offers a full range of residential finance products, which includes Murabaha, construction finance, land finance, financing of incomplete property and off-plan finance. As at 30 September 2023, 31 December 2022 and 31 December 2021, outstanding home finance loans extended by BSF amounted to SR 15,370 million, SR 14,911 million and SR 13,496 million, respectively.

#### Auto Finance

SFL, a wholly-owned subsidiary of BSF, offers auto finance solutions in the form of leasing, which is an Ijara-based facility provided to individuals buying passenger vehicles. Under the Ijara structure, SFL, at the request of its customer, acquires a vehicle of the customer's choice and leases it to the customer for a period of up to five years. SFL has representatives in most of the automobile showrooms in the Kingdom. As at 30 September 2023 and 31 December 2022, SFL's auto finance portfolio amounted to SR 4,630 million and SR 4,202 million, respectively.

#### Deposit Solutions

BSF offers a wide range of deposit solutions, including savings accounts, time deposits and structured deposits. As at 30 September 2023 and 31 December 2022, BSF's individual deposits amounted to SR 75,467 million and SR 77,321 million, respectively.

#### Bank Cards

As at 30 September 2023, the number of issued credit cards, debit cards and prepaid cards was 138,666, 961,151 and 19,574 respectively. As at 31 December 2022, the number of issued credit cards, debit cards and prepaid

cards was 128,627, 800,378 and 16,513, respectively. BSF offers its customers Visa and Mastercard debit and credit cards, which include both conventional and *Shari'a*-compliant cards.

#### Education and Retirement Plans

BSF provides its retail customers with access to education and retirement plans. These plans are long-term saving tools that build cash value over time while protecting the policy holder from unforeseen circumstances such as death, disability or serious illness. Educational plans help to cover the cost of education of children when they reach college whilst retirement plans support in sustaining oneself financially after retiring. The number of participating customers in BSF's retirement and education plans reached 1,900 customers with 3,338 contracts as at 30 September 2023.

#### Brokerage and Investment funds

BSF provides its retail customers with access to both international and Saudi securities markets through its subsidiary, Saudi Fransi Capital. In addition, SFC offers a wide range of managed investment solutions such as mutual funds and managed portfolios for BSF's retail customers. See – "*Investment Banking and Brokerage*".

#### *High Net Worth Banking*

BSF's high net worth customers include affluent customers (those with personal financial assets of between SR 3 million and SR 7.5 million), high net worth customers (those with personal financial assets of greater than SR 7.5 million) and ultra-high net worth customers (those with personal financial assets of greater than SR 150 million). As at 30 September 2023, BSF had 330, 660 and 93 affluent, high net worth and ultra-high net worth customers, respectively.

BSF's high net worth banking offers a wide range of tailored financial planning, portfolio management and investment advisory solutions.

Customers of BSF's high net worth banking also have access to the general retail banking products.

#### *Distribution Channels*

##### Branches

The following table shows the number of branches operated by BSF as at 30 September 2023, 31 December 2021 and 31 December 2022:

<b>Period</b>	<b>Branches</b>
30 September 2023.....	82
31 December 2022 .....	82
31 December 2021 .....	85

BSF's branches are spread across the Kingdom and are divided into three regional management groups for operational purposes, which reflect the administrative zoning of the Kingdom, and comprise:

- Western Region (Jeddah): 28 branches
- Central Region (Riyadh): 32 branches
- Eastern Region (Dammam – Al Khobar): 22 branches

BSF is focused on modernising its branch network to make the older branches more user-friendly for customers and to improve BSF's retail product distribution.



All branches are equipped with state-of-the-art ATMs and CAMs, which allow banking operations to be processed directly by customers. In addition, as at 30 September 2023, BSF had three fully automated self-service branches which operate 24 hours a day.

#### ATMs

BSF had a network of 452 ATMs as at 30 September 2023, 460 ATMs as at 31 December 2022 and 466 ATMs as at 31 December 2021.

#### E-banking

BSF uses e-banking technologies in order to enhance its distribution channels and give it a competitive advantage. These include:

- “*FransiPlus*”, which enables retail customers to make online payments, obtain cash advances and make money transfers;
- “*FransiTadawul*”, an online local share trading system;
- “*FransiPhone*”, which enables customers to execute a selection of banking transactions by telephone and is coupled with BSF’s 24-hour call centre located in Riyadh; and
- “*FransiMobile*”, which enables customers to perform various transactions using their mobile phones, such as on the spot account information and bill payments.

### **Corporate (Wholesale) Banking**

#### *Overview*

Based on its analysis of publicly available information, BSF estimates that it is one of the largest providers of corporate banking services in the Kingdom and is ranked among the top five banks in the Kingdom by both total assets and income. According to BSF’s estimates based on publicly available information, as at 30 September 2023 and 31 December 2022, the market share of BSF’s corporate (wholesale) banking segment was 10.7 per cent. and 11.4 per cent., respectively, in terms of loans and advances, net, 11 per cent. and 14 per cent., respectively, in terms of issued letters of credit and bank guarantees and 16 per cent. and 6 per cent., respectively, in terms of net income before zakat.

BSF provides a wide range of corporate banking services to large local and international corporates, the Government and public sector entities, as well as to MSMEs. Operating under the banner “One Client, One Bank”, BSF provides its corporate banking customers with integrated lending, payments, deposits, cash management and cash collection solutions. BSF’s corporate banking product offering is complemented by SFC, which provides BSF’s corporate clients with a wide range of investments and brokerage solutions. See – “*Investment Banking and Brokerage*”.

As at 30 September 2023, BSF’s corporate (wholesale) banking segment had more than 5,750 active corporate customers, which included approximately 4,476 large and international corporates, 142 Government and public entities, 899 financial institutions and 1,233 MSMEs.

For the nine months ended 30 September 2023, the year ended 31 December 2022 and the year ended 31 December 2021, the corporate banking segment’s net income before zakat was SR 1,386 million, SR 1,500 million and SR 1,462 million respectively. Total assets of the corporate banking segment amounted to SR 134,142 million as at 30 September 2023, SR 122,841 million as at 31 December 2022 and SR 114,226 million as at 31 December 2021. Loans and advances, net, to BSF’s corporate customers amounted to SR 132,812 million as at 30 September 2023, SR 120,540 million as at 31 December 2022 and SR 113,041 million as at 31

December 2021. Customers' deposits attributable to the corporate banking segment amounted to SR 90,900 million as at 30 September 2023, SR 80,271 million as at 31 December 2022 and SR 61,483 million as at 31 December 2021.

BSF diversifies its corporate customer base into the following categories:

- Large corporates, being companies with annual sales exceeding SR 200 million;
- Financial institutions, being banks and non-banking financial institutions within and outside of the Kingdom;
- Government and public entities, being entities wholly owned by the Government and Government agencies and departments; and
- MSMEs, being companies with annual sales of SR 200 million or lower.

#### *Large corporates*

BSF offers a wide range of banking services and solutions to large corporates including lending, deposit and cash management solutions. As at 30 September 2023 and 31 December 2022, BSF's total loans and advances, net to large corporates accounted for 76.03 per cent. and 76.0 per cent., respectively, of BSF's total loans and advances, net.

#### Lending Solutions

Lending solutions offered by BSF to its large corporate customers include term loans, working capital loans, overdraft facilities, project finance, trade finance, syndicated finance and real estate finance (both conventional and *Shari'a*-compliant).

- Project and Structured Finance

BSF has been involved in more than 100 project / structured finance transactions in the Kingdom and the wider GCC region covering key industries including: oil and gas, petrochemicals, metals and mining, power and water, infrastructure, telecommunications, transport, real estate, hospitality, construction and cement. BSF has provided a comprehensive product range in financing these sectors either through limited / non-recourse cashflow based financing or asset-backed, acquisition / leverage financing.

For the first nine months ended 30 September 2023, BSF arranged and participated in deals with an aggregate value of more than SR 13 billion across different sectors, including infrastructure, real estate, tourism, power, water and mining. These deals included debt refinancing deals for, amongst others, Red Sea Gateway Terminal Company, a Ma'aden subsidiary and Zain KSA.

BSF's Project & Structured Finance Team has been recognised for its experience and achievements in arranging debt transactions including refinancing, project financing and syndicated transactions for large corporates across various industries. Some of BSF's deal experience credentials for 2022 and 2023 are as follows:

- EMEA Utility Deal of the Year: The Red Sea Multi-utilities Project by Project Finance International;
- EMEA Special Award Green Deal of Year: NEOM Green Hydrogen by PFI;
- Deal of the year – Petrochemicals: Advanced Polyolefins Industry Company by IJ Global;
- Deal of the year – Utilities: Red Sea Multi-Utilities Project by IJ Global;

- Deal of the year – Refinancing Petrochemicals: Chemanol Refinancing & Expansion by IJ Global;
- Project Finance Loan Deal of the Year: Advanced Polyolefins Industry Company (APOC) by Capital Markets and ESG Finance;
- Water & Utilities Deal of the Year: Marafiq Red Sea for Energy Company by Capital Market and ESG Finance;
- Project Finance Deal of the Year for Jazan Integrated Gasification Power Company by GFC Media Group;
- Project Finance Deal of Year for the Red Sea Development Company’s Green Financing by GFC Media Group;
- Hybrid Energy Deal of the Year for Jazan Integrated Gasification Power Company by IJ Global;
- Petrochemicals Deal of the Year for Sadara Chemical Project Restructuring by IJ Global;
- Social Infrastructure Deal of the Year for Schools Wave 1 by IJ Global;
- Refinancing Deal of the Year for Riyadh PP11 by IJ Global.

- Trade Finance Solutions

BSF provides a comprehensive suite of documentary operations and trade finance instruments for its large corporate customers. Such instruments include revolving documentary letters of credit, transferable documentary letters of credit and standby letters of credit which are used by BSF’s large corporate customers in their import and export operations. BSF also provides a wide range of guarantee services which include bid bonds, performance bonds, advance payments, payment guarantees, retention bonds, zakat and income tax bonds, shipping guarantees and counter guarantees. In addition, BSF’s trade finance solutions product offering includes import / export documentary collection services, such as post finance letters of credit, avalization and bills discounting.

BSF’s trade finance business has developed a firm footing in the market and has received the KSA Best Export Finance Bank Award and KSA Hall of Fame Trade Finance Bank Award at the 10<sup>th</sup> Annual Saudi Trade Finance Awards in November 2022 and KSA Best Export Growth Bank Award at the Riyadh Global Trade Review in May 2023.

### Deposits and Accounts

BSF provides a full range of current and term accounts (both conventional and *Shari’a* compliant) to large corporate customers and seeks to develop new products to meet customer requirements. In addition, BSF offers time, demand, savings and other types of deposits. As at 30 September 2023 and 31 December 2022, customer deposits attributable to large corporates represented 54.64 per cent. and 51.0 per cent., respectively, of BSF’s customers’ deposits.

### *Financial Institutions*

Since its establishment, BSF has maintained strong relationships with financial institutions both regionally and globally. BSF’s Financial Institutions business acts as a gateway into the Kingdom by providing foreign banks and their clients access to the Saudi market and connects BSF customers to the rest of the world. It offers a full suite of corresponding banking services, including cash management, treasury and trade services. In 2022, it received the Banking Operational Excellence Award from Citibank and Euro Operational Excellence Award from Commerzbank.

### *Government and Public Entities*

BSF provides a full suite of solution-driven general banking services to the Government and public entities including account management, investment and commercial banking services.

In addition to general banking services, BSF participates in several joint lending programmes with Saudi Government funds and agencies, including:

- a collaboration programme with the Agricultural Development Fund (the “**ADF**”) which aims to provide short-term working capital financing to agriculture companies in the Kingdom (the “**ADF Programme**”). Through the ADF Programme, banks offering finance to customers will receive a guarantee from ADF, covering a certain percentage of the financing amount.
- a co-operation programme with the Tourism Development Fund (the “**TDF**”) which aims to provide funding to companies operating in the tourism sector, including large corporates and small and medium-sized enterprises (the “**TDF Programme**”). Through the TDF Programme, customers will receive a guarantee from TDF, covering a certain percentage of the financing amount;
- a co-operation memorandum of understanding with the Cultural Development Fund (the “**CDF**”) which aims to provide funding to companies operating in the cultural sector, including large corporates and small and medium-sized enterprises (the “**CDF Programme**”). Through the CDF Programme, customers will receive a guarantee from CDF/KAFALAH, covering a certain percentage of the financing amount;
- a co-operation programme with the Saudi industrial Development Fund (the “**SIDF**”) which aims to provide funding to companies operating in the industrial sector, including large corporates and small and medium-sized enterprises (the “**SIDF Programme**”). Through the SIDF Programme, customers will receive a guarantee from SIDF, covering a certain percentage of the financing amount;
- a co-operation programme with the Real Estate Development Fund (the “**REDF**”) which aims to provide funding to real estate developers operating in the housing sector, including large corporates and small and medium-sized enterprises (the “**REDF Programme**”). Through the REDF Programme, customers will receive a guarantee from REDF, covering a certain percentage of the financing amount;
- a co-operation programme with National Development Fund (“**NDF**”) which aims to support private infrastructure companies that are facing temporary financial situations (the “**SSP Programme**”). Through the SSP Programme, banks are offering finance to customers with a guarantee from the National Infrastructure Fund (one of NDF’s funds) under the SSP Programme.

BSF is also an active contributor to the Government’s Vision 2030 megaprojects, including:

- the Red Sea project, which involves the development of resorts across the Red Sea coastline;
- the NEOM project, which involves the development of a transnational “smart city” and economic zone located in Tabuk by the north-western border of the Kingdom;
- the Qiddiya project, which involves the development of an entertainment city located approximately 40 kilometres west of Riyadh; and
- ROSHN Real Estate, supported by the Public Investment Fund, is one of the largest national master developers specialising in the field of real estate and community building, which aims to increase the rate of home ownership among Saudi citizens to 70 per cent.

### *Distribution Channels*

Corporate banking customers of BSF benefit from dedicated teams of relationship managers who are assigned on the basis of the size and geographical location of the customer. BSF's relationship managers are based in the head office in Riyadh and each of BSF's three regional offices. Operational banking requirements are met through e-channels, the branch network and designated corporate lounges. BSF also offers its corporate customers access to specialist e-banking systems such as "Fransi Global" in addition to B2B, MACUG which provides cash management services and "Fransi Trade" through which customers can obtain trade finance services such as letters of credit. Certain large corporate customers also have access to bespoke electronic banking systems dedicated to their specific requirements.

### **MSME Banking**

BSF provides lending services to MSMEs primarily through its corporate (wholesale) banking segment, whilst non-lending services are provided to MSMEs by BSF's retail segment. As at 30 September 2023, BSF's corporate and retail banking segments serviced over 60,034 MSMEs. BSF offers MSMEs the same lending and deposit solutions as are offered to its large corporates (see – *"Corporate (Wholesale) Banking – Large Corporates – Lending Solutions"* and see – *"Corporate (Wholesale) Banking – Large Corporates – Deposits and Accounts"*). In addition, BSF offers a number of packaged programme-based lending products which are tailor-made for MSMEs as well as cash management solutions.

### Liquidity and Cash Management

Liquidity and Cash Management ("LCM") provides BSF customers with the ability to manage their cash flow and transaction banking requirements through innovative and cost-effective solutions delivered through state-of-the-art digital channels and a robust network of teams distributed across the country. LCM offers BSF's customers a wide variety of solutions to facilitate (i) the making of payments, (ii) managing collections and liquidity digitally with solutions such as FransiGlobal, FransiTrade, B2B, MACUG, e-Dividend, e-Payroll, Payroll Cards, Ejar and (iii) acquiring business (POS and E-commerce). Expansion in this area is part of BSF's long-term strategy.

### Distribution Channels

BSF's products are distributed to its MSME customers through a combination of BSF's retail and corporate (wholesale) banking segments' distribution channels. See – *"Corporate (Wholesale) Banking – Distribution Channels"* and *"Retail Banking – Distribution Channels"*.

### **Treasury**

The Group's treasury functions are carried out by the Treasury Investment Group, whose objective is to maximize returns on the Group's assets and liabilities whilst adhering to clear limits and parameters set according to BSF's risk appetite. The Treasury Investment Group is primarily responsible for managing BSF's liquidity and ensuring BSF is in compliance with liquidity ratios prescribed by SAMA. In addition, the Treasury Investment Group is tasked with developing BSF's investment strategy in line with BSF's risk appetite and maximizing its returns through the proper and efficient deployment of capital and liquidity. The Treasury Investment Group is also a major participant in the local inter-bank market and plays a prominent role in market-making activities in the SR market for derivatives and interest-rate products.

In addition, the Treasury Investment Group offers a wide range of derivatives products which are structured with a primary focus on assisting the Group's customers in managing their foreign currency, interest rate, commodity and other risks. Such derivative products include interest rate swaps, profit rate swaps, foreign

exchange swaps, foreign exchange forwards, forward rate agreements, foreign exchange spot transactions, interest rate and foreign currency options and structured products.

The treasury segment's net income before zakat was SR 705 million, SR 1,464 million and SR 1,588 million for the nine months ended 30 September 2023, the year ended 31 December 2022 and the year ended 31 December 2021, respectively. As at 30 September 2023, 31 December 2022 and 31 December 2021, total assets of the treasury segment amounted to SR 70,594 million, SR 68,635 million and SR 65,296 million, respectively.

## **Investment Banking and Brokerage**

The Group conducts its investment banking and brokerage business through SFC which offers securities brokerage, asset management and corporate finance services. SFC is licensed as a "Capital Market Institution" by the CMA.

The Group's investment banking and brokerage segment's net income before zakat was SR 171 million, SR 236 million and SR 258 million for the nine months ended 30 September 2023, the year ended 31 December 2022 and the year ended 31 December 2021, respectively. As at 30 September 2023, 31 December 2022 and 31 December 2021, total assets of the investment banking and brokerage segment amounted to SR 2,143 million, SR 2,191 million and SR 2,084 million, respectively.

### Securities Brokerage

As at 30 September 2023 and 31 December 2022, SFC was the 10<sup>th</sup> and 7<sup>th</sup> largest equity broker by total traded volume, respectively. SFC's market share in the Saudi local brokerage market (by total value traded) was 3.67 per cent. as at 30 September 2023 and 4.76 per cent. as at 31 December 2022, according to Tadawul.

SFC offers its customers an extensive trading and price dissemination network through its proprietary trading platform, SFC Tadawul, which provides SFC's customers access to the Saudi and international securities markets.

### Asset Management

BSF has operated an asset management division since 1985. Currently, SFC's asset management business offers a variety of managed investment solutions such as mutual funds, managed portfolios and private placements for all categories of customers including retail, affluent, high net worth and ultra-high net worth individuals, corporate and government clients.

As at the date of this Base Offering Circular, SFC offers eleven mutual funds, seven of which are *Shari'a*-compliant. All funds are managed locally, of which six are Saudi and GCC equity funds, four are money market and murabaha funds and one is a diversified fixed income fund. In addition, SFC manages two real estate investment traded funds ("REITs"), Bonyan REIT and Taleem REIT, which are listed on the Main Market of Tadawul. As at 30 September 2023 and 31 December 2022, total assets under management of mutual funds listed on Tadawul amounted to SR 3,059 million (U.S.\$816 million) and SR 2,755 million (U.S.\$735 million), respectively, and the two REITs listed on Tadawul had a combined market capitalisation of SR 2,052 million (U.S.\$547 million) and SR 2,094 million (U.S.\$558 million), respectively. According to the CMA, SFC's share in "Assets under Management (Public, Private Funds and Discretionary Portfolio Management)" was 3.07 per cent. and 3.29 per cent. as at 30 June 2023 and 31 December 2022, respectively.

In addition, SFC currently offers its customers access to more than 100 global product offerings covering all major asset classes and geographies. In 2023, SFC launched several private placement offerings of global private credit, real estate and absolute return funds. Such new offerings complement the existing product portfolio and are a part of BSF's cross-selling strategy targeting affluent, high net worth and ultra-high net worth customers, as well as key clients of the corporate banking group.

## Investment Banking

SFC offers a full range of investment banking services in the Kingdom covering equity capital markets, debt capital markets, mergers and acquisitions (“**M&A**”) and advisory services.

In 2023, SFC advised a number of companies on their initial public offerings in the Kingdom, including Jamjoom Pharmaceuticals Factory Company, Lumi Rental Company, ADES Holding Company, Professional Medical Expertise Company and Armah Sports Company. Furthermore, SFC acted as a buy-side advisor for IoT squared (a joint venture of the Kingdom’s Public Investment Fund and STC Group) on the acquisition of Machinestalk, and as a buy-side advisor for “Solutions” by STC on its acquisition of Devoteam. Furthermore, SFC acted as joint lead manager and bookrunner on Saudi Electricity Company’s U.S.\$2 billion sukuk offering and also acted as joint lead manager and bookrunner in connection with BSF Sukuk Company Limited’s U.S.\$900,000,000 Trust Certificates due 2028 issued under BSF’s and BSF Sukuk Company Limited’s U.S.\$4,000,000,000 Trust Certificate Issuance Programme.

In 2022, SFC advised on a number of initial public offerings and rights issues for some of the most reputable companies in the Kingdom, including Perfect Presentation, AlSaif Gallery, Jahez and Petro Rabigh. In addition, SFC advised Seera Group and its shareholders on the demerger of Lumi Rental Company, acted as a buy-side adviser for “Solutions” by STC on the acquisition of Contact Center Company, and as a sell-side adviser to SABB Takaful on the merger of SABB Takaful and Walaa Cooperative Insurance Co. Furthermore, SFC acted as a joint lead manager and bookrunner on Public Investment Fund’s inaugural U.S.\$3 billion green bond offering, the issuance of the 2027 Notes and SR 2.0 billion sukuk of Arabian Drilling Company.

In 2022, SFC was recognised as “Best Investment Bank” in Saudi Arabia by MEA Finance, “Best Investment Banking Company” in Saudi Arabia by the International Business Magazine and “M&A House of the Year” in Saudi Arabia by GFC Capital Markets. In 2022, the issuance of the 2027 Notes on which SFC acted was named the “Bank / Financial Institutions Bond Deal of the Year” by GFC Capital Markets. In addition, in 2022, Saudi Real Estate Refinance Company’s sukuk transaction on which SFC advised was named the “Local Currency Bond/Sukuk Deal of the Year” and the “Public Sector Deal of the Year” awards by Capital Markets Saudi Arabia Awards.

## *Distribution*

As at 30 September 2023, SFC had its own distribution team of approximately 20 employees who are responsible for marketing its asset management, securities brokerage and investment banking products and solutions.

## **Shari’a Affairs Division**

In 2002, with a mandate to organise Islamic banking activities and in order to establish market credibility, BSF’s Islamic banking division engaged one of the leading and internationally renowned Islamic banking scholars, Dr. Mohammed Elgari as BSF’s *Shari’a* adviser. Dr. Elgari has assisted BSF in laying down the foundation for Islamic banking governance and the development of *Shari’a*-compliant products and services.

In 2003, BSF appointed well-known *Shari’a* scholars to its Shariah Committee to ensure that BSF’s Islamic products comply with *Shari’a* requirements, both in terms of product specifications and documentation. Each new Islamic product requires the approval of BSF’s Shariah *Committee*, which is formalised by the issuance of a “Fatwa” before launch.

BSF continues to expand its Islamic banking business and to develop new products and services to meet the increasing demand of its customers, many of whom are gradually moving from conventional finance to *Shari’a*-compliant products.

BSF continues to grow its Islamic products portfolio, including through providing Islamic banking products to retail customers through all of its branches. In the corporate and investment banking sector, BSF offers a comprehensive range of *Shari'a* compliant innovative and tailor-made solutions (including Islamic capital markets products) which are designed to meet all types of financial requirements of BSF's corporate and institutional customers. Gross loans and advances (both retail and corporate) provided by BSF under *Shari'a*-compliant structures amounted to SR 128,590 million as at 30 September 2023, SR 115,207 million as at 31 December 2022 and SR 105,640 million as at 31 December 2021. The Group's *Shari'a*-based investments amounted to SR 32,215 million as at 30 September 2023, SR 29,818 million as at 31 December 2022 and SR 31,502 million as at 31 December 2021. The volume of the BSF's *Shari'a*-compliant time deposits was SR 35,914 million as at 30 September 2023, SR 28,648 million as at 31 December 2022 and SR 16,656 million as at 31 December 2021.

## **Subsidiaries and Associates**

In addition to SFC and SFL, BSF has a number of other operating subsidiaries and associates, including:

### *BSF Finance Limited*

BSF Finance Limited is a special purpose vehicle established to raise capital for BSF through issuance of debt instruments. As at 30 September 2023, BSF owned 100.0 per cent. of the share capital of BSF Finance Limited.

### *BSF Markets Limited*

BSF Markets Limited is engaged in derivative trading and repo activities. As at 30 September 2023, BSF owned 100 per cent. of the share capital of BSF Markets Limited.

### *Saudi Fransi Digital Ventures*

Saudi Fransi Digital Ventures provides a wide range of digital solutions to BSF. As at 30 September 2023, BSF owned 100 per cent. of the share capital of Saudi Fransi Digital Ventures.

### *Sur Multi Family Office*

Sur Multi Family Office provides a wide range of wealth management services to customers of BSF's high net worth banking segment and their families. As at 30 September 2023, BSF owned 100 per cent. of the share capital of Sur Multi Family Office.

### *Banque Bemo Saudi Fransi Syria*

As at 30 September 2023, BSF owned a 27.0 per cent. stake in Banque Bemo Saudi Fransi Syria ("**BBSF**"), which as at 31 December 2022 operated a retail banking network of 30 branches in the Syrian Arab Republic ("**Syria**"). BSF also holds a 10.33 per cent. stake in Bemo Lebanon S.A. ("**Bemo Lebanon**"), which in turn owns a 22 per cent. stake in BBSF. On 26 November 2011, the board of directors of BSF took the unanimous decision to withdraw from the board of directors of BBSF and Bemo Lebanon, terminate any operational or managerial relationship with BBSF and Bemo Lebanon, and to sell BSF's 27 per cent. share in BBSF and 10.33 per cent. participation in Bemo Lebanon. The decision was made on the basis that operational risks in Syria as well as sanctions risks do not permit BSF to continue its operations in the Syrian market. BSF approached a reputable auditing firm to value its shares in BBSF and Bemo Lebanon and is currently looking for buyers for those shares. However, the current political situation in Syria has prevented the consummation of the sale and any such sale process shall remain subject to the approval of the Central Banks of Syria and Lebanon as applicable. BBSF is accounted for in BSF's financial statements in accordance with the equity method and adequate provisioning is maintained through regular impairment testing.



## Insurance

In order to protect itself against various risks that might affect its business, BSF has taken out the following insurance policies covering the following risks:

<b>Name of Insurance Provider</b>	<b>Nature of Insurance</b>	<b>Interest Insured</b>	<b>Cover</b>
Allianz	Property policy (all risks policy).	Building contents, furniture, micro computers, mainframe equipment, ATM, POS, software, professional fees, loss of rent.	All risks covered (unless specifically excluded): fire and lightning, earthquake impact, flooding, water damage, weather perils (storm, tempest, rain, hail), breakage of windows, explosion, burglary, accidental damage, rental expenses, temporary removal, professional.
Allianz	Electronic equipment (all risks policy).	Microcomputers, mainframe equipment, POS, ATM, communications equipment, software, increased working costs.	Material damage cover (computers), data and media, debris removal.
Allianz	Public Liability.	Third party liability.	Accidental bodily injury (including death / disease), accidental loss or damage to material property.
Allianz	Terrorism policy.	All BSF buildings and infrastructures.	Riots, strikes and civil commotion, vandalism, sabotage, terrorism.
MedGulf	Banker blanket bond, including electronic computer crime.	Theft – counterfeiting – fraud.	Fraud by employees, forged cheques and alteration, forged securities, counterfeit currency, damage to offices and contents, computer system fraud, computer crime, internet banking cover.

MedGulf	D&O	Directors and officers liability	-
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## Environmental, Social and Governance (“ESG”)

In 2022, BSF published its first ESG policy framework (the “**ESG Framework**”), which applies to all groups and business units of BSF. The ESG Framework is focused on the following five pillars, which align with BSF’s corporate mission and values: (i) exemplifying the highest ethical and governance standards, (ii) protecting our communities, (iii) accelerating sustainable economic growth, (iv) serving our clients and (v) creating a thriving workplace. Furthermore, in 2022, BSF established the environmental, social and governance committee of the Board of Directors (the “**ESG Board Committee**”) and the ESG management committee. See “*Senior Management and Employees – Governance – The ESG Board Committee*”. In addition, BSF has published annual ESG reports since 2021.

## RISK MANAGEMENT

Pro-active and efficient management of the risks involved in BSF's activities is critical to its long-term financial strategy, profitability, assets and stakeholders' confidence. BSF established a risk management framework (the "**Risk Management Framework**") to ensure strong risk management awareness and culture, and to instil these practices into day-to-day business activities and responsibilities. The Risk Management Framework entails proactive identification, measurement, monitoring and mitigation/control of key risks and strong risk governance and organisation.

### *Risk governance*

BSF's approach is to identify, analyse and respond appropriately to all risks. The approved risk appetites and tolerances for each type of risk will determine the appropriate risk response. Risk management at BSF is governed as follows:

The Board of Directors has ultimate responsibility for BSF's business, strategy and financial soundness, as well as its management and compliance obligations. The Risk Committee of the Board of Directors ("**BRC**") is responsible for advising the Board of Directors on BSF's overall current and future risk appetite, overseeing senior management's implementation of the Risk Appetite Statement, reporting on the state of risk culture, interacting with the Chief Risk Officer ("**CRO**"), and overseeing the adequate functioning of the risk management function.

The Board Level Committees (mainly the BRC, Audit Committee and the Executive Committee ("**EC**")) are supported by BSF's Management Committees and respective senior management. In addition, in the spirit of enhanced risk culture throughout BSF, three lines of defence are in operation:

- As the first line of defence, the business units have ownership, responsibility and accountability for assessing, controlling and mitigating risks.
- As the second line of defence, the Risk Management function and Compliance and Legal facilitate and monitor the implementation of effective risk management practices by business and operational management and assist the risk owners with reporting appropriate risk-related information to the relevant stakeholders. The risk management process includes Risk Identification/Recognition, Risk Assessment (Validation, Measurement and Prioritisation), Risk Monitoring and Risk Mitigation (Controls).
- As the third line of defence, the internal audit function (the "**Internal Audit Function**"), through a risk-based audit approach, provides independent assurance to the Board of Directors and senior management on the effectiveness of the risk management process in BSF and its assessment and management of its risks (including the manner in which the first and second lines of defence operate).

### *Risk organisation*

BSF has a well-defined risk taxonomy (within the overall framework of credit, market and operational Risks) following the Basel Committee on Banking Supervision ("**BCBS**") classification and best practice guidelines for newer risk types. The CRO heads the Risk Management Group ("**RMG**") and is responsible for overall implementation of the risk objectives of BSF.

### *Risk strategy*

RMG has a dedicated Risk Strategy Division responsible for:

*Analytics:* Fit for purpose models for Rating, Macroeconomic Models, IFRS 9 Methodology and execution. These models, which are mainly in the credit space, ensure accurate estimation of risk components for assessment of provisions, capital planning and stress tests.

*Capital Planning:* Annual Internal Capital Adequacy Assessment Process (“ICAAP”) over a three-year horizon in co-ordination with the Finance Division under base and stressed conditions to ensure BSF’s growth strategy and franchise in line with SAMA guidelines and facilitate its integration with risk-based deal pricing and structuring.

*Stress Testing:* Semi-annual SAMA stress tests and ad-hoc integrated stress testing and scenario definition including the development of a robust recovery plan for BSF.

*Risk Appetite:* An enterprise-wide perspective on risks for the purpose of setting risk appetite (with approval of the Board of Directors), risk tolerance for expected losses, capital and liquidity adequacy and their impact on business lines for the purposes of setting prudential risk thresholds, all in the context of BSF’s business strategy and plans.

*SAMA Regulatory Reporting:* SAMA capital reporting in line with BCBS and other reporting related to IFRS 9, assessment of provisions and planning.

*Portfolio Management:* Independent review and reporting of the Corporate Banking book exposures, individually and from a portfolio perspective for internal and SAMA reporting.

### ***Credit administration, control and monitoring***

The Credit Administration, Control and Monitoring Division is responsible for post-approval credit controls. Its role includes:

- ensuring that documentation and securities are obtained and comply with the terms of approval prior to limit activation;
- monitoring limit excesses and credit exceptions; and
- escalating exceptions and reporting on the credit portfolio.

Risk Projects, a function managed by the division, is responsible for the integrated management of all software implementation projects (whether analytical or operational) primarily related to credit risk.

### ***Special assets management***

Special Assets Management (“SAM”) is responsible for the management of non-performing credit exposures for the institutional banking business (all businesses except consumer credit, which is managed by a separate collections division). SAM is organised into a Debt Restructuring Unit and a Recovery Unit to manage remediation and hard collection strategies, respectively.

BSF regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

### ***Assets and Liabilities Management***

BSF’s assets and liabilities management (“ALM”) policy provides the framework for the management and control of liquidity and interest rate risk. Day to day operational responsibility resides with the ALM department, reporting to the Chief Treasury and Investment Officer (“CTIO”), with governance oversight provided by the ALCO.

*Liquidity:* BSF has a low tolerance to liquidity risks and has delegated the management of liquidity to the Treasury department. BSF aims to hold sufficient liquidity to meet the minimum regulatory requirements set by SAMA as well as its own internal liquidity requirements. The Treasury Investment Group (“TIG”), together with internal stakeholders, is responsible for the preparation of BSF’s internal liquidity adequacy assessment

plan (“**ILAAP**”) which seeks to ensure that BSF remains sufficiently liquid for its current and forecasted business under both normal and distressed market conditions.

*Interest rate risk:* BSF has a low tolerance to interest rate risk that arises from its banking book activities. It is BSF’s policy to transfer interest rate risk positions from all business lines for central management by the TIG. Exposures are managed in accordance with ALCO-approved risk tolerance and pre-defined limits. Stress testing and sensitivity analyses are also performed on a regular basis, with results reported to ALCO.

*Capital adequacy:* BSF seeks to hold sufficient capital in both quality and quantity to meet the regulatory minimum requirement set by SAMA as well as its own internal assessment of its capital requirements. The RMG, together with internal stakeholders, is responsible for the preparation of BSF’s ICAAP. This plan seeks to ensure that BSF retains sufficient capital for its current and forecasted business under both normal and distressed market conditions.

### ***Litigation***

As at 31 December 2022, BSF had outstanding claims as referred to in note 21(a) to the 2022 Financial Statements, for which adequate provision has been made. The legal advice provided in relation to these claims indicates that it is unlikely that any significant loss will arise. Progress on these claims has been slow due to the delay in the courts of the Kingdom; however, all major cases are typically resolved through compromises and amicable settlements. No significant new claim has been made against BSF since 31 December 2022.

## **Quantitative and Qualitative Disclosures About Risk**

Like other financial institutions, BSF faces a range of risks in its business and operations including: (i) credit risk; (ii) market risk; (iii) liquidity risk; and (iv) operational risk.

### ***Credit risk***

BSF manages its exposure to credit risk (i.e. the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss). Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The BRC responsible for monitoring the overall risk process within BSF.

BSF’s credit policy provides detailed guidelines to manage credit risk effectively. It is reviewed and updated from time to time based on experience, emerging issues, best market practices and directives from regulatory authorities. The credit policy is designed to ensure clear recognition of credit risk management strategies and objectives. BSF’s credit exposure to each client is reviewed annually with high-risk exposures reviewed on a more frequent basis.

BSF attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and by continually assessing the creditworthiness of its counterparties. BSF’s risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to these limits.

Actual exposures against limits are monitored daily. In addition to monitoring credit limits, BSF manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, BSF may also close out transactions or assign them to other counterparties to mitigate credit risk. BSF’s credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail

to fulfil their obligations, and to control the level of credit risk taken. BSF assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of BSF's performance to developments affecting a particular industry or geographical location.

BSF assesses the probability of default of counterparties using internal rating tools and credit assessment, where necessary. Where available, BSF also uses the external ratings of the major rating agencies. BSF has a 14-point unified master scale that links the ratings of all counterparties to the probability of default.

BSF seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or industries. It also takes collateral / security when appropriate. BSF also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the allowance for impairment losses.

### ***Market Risk***

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, FX rates and equity prices. BSF classifies market risk exposures into trading, non-trading or banking book.

Market risk within the trading and banking book is managed and monitored using various indicators such as VAR, stress testing and sensitivity analyses.

#### ***Market risk – trading book***

The Board of Directors has set limits for the acceptable levels of risk in managing the trading book. In order to manage the market risk in the trading book, BSF applies, on a daily basis, a VAR methodology based on historical rate changes observed in the market. BSF also performs daily stress testing in order to estimate the potential economic loss based on a defined set of significant changes in market conditions.

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

VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results may differ from the VAR calculations. The calculation also does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, BSF also carries out stress tests on a daily basis of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to BSF's ALM and Market Risk committees for their review.

### *Market risk – non-trading book*

Market risk on BSF's non-trading book mainly arises as a result of exposure to interest rate, foreign currency and equity price changes.

### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect either the fair values or the future cash flows of financial instruments. The Board of Directors (acting through the EC) has established interest rate sensitivity limits for stipulated periods.

BSF is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and derivative instruments that mature or re-price in a given period. BSF monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

This policy is in line with the liquidity risk management policy (see – “*Liquidity Risk*”) insofar as the liquidity created by the excess from deposits and working capital over core assets is invested in instruments, the liquidity of which then remains within BSF.

### *Currency Risk*

Currency risk represents the risk of change in the value of financial instruments due to changes in FX rates. The Board of Directors (acting through the EC) has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The two tables below show the currencies to which BSF had a significant exposure as at 31 December 2022 and 31 December 2021 on its non-trading monetary assets and liabilities and forecast cash flows. The analysis calculates the effect of a reasonable, possible movement of the currency rate against SR, with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to changes in the fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

Currency Exposures	31 December					
	2022			2021		
	Change in	Effect on	Effect on	Change in	Effect on	Effect on
	Currency Rate in %	Net Income	Equity	Currency Rate in %	Net Income	Equity
			(SR '000)			
USD.....	5	(1,874)	—	5	38,166	—
EUR.....	(3)	(84)	—	(3)	(122)	—

In addition, BSF manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors (acting through the EC) sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily by BSF's market risk department. As at 31 December 2022 and 31 December 2021, BSF had the following significant net exposures denominated in foreign currencies:

	31 December	
	2022	2021
	Long (short)	Long (short)
	(SR '000)	
US Dollar .....	(56,250)	780,584
Euro.....	2,813	4,083
Pound Sterling.....	20,721	(590)
Other .....	32,774	18,949
<b>Total</b> .....	<b>(392)</b>	<b>803,026</b>

Within the Kingdom's economic context, where most exports and imports are settled in U.S. dollars, the largest foreign exchange exposures created by the business flows are in U.S. dollars. These U.S. dollar exposures have a very limited daily variation risk as they benefit from the 3.75 fixed exchange rate between U.S. dollars and SR handled by SAMA through daily transactions with Saudi banks.

While BSF is not aware of any planned de-pegging of the U.S. dollar and Saudi Riyal, specific stress scenarios linked to a potential USD/SR de-peg (both revaluation and devaluation) are monitored on a daily basis in order to estimate the potential associated risk.

#### *Currency position*

BSF manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors (acting through the EC) sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily.

#### *Management of market risk*

The primary focus of the market risk department is to assess, measure and follow up on the risks that are taken within the trading books managed by the treasury department.

Market risk activity is governed by BSF's Market Risk Committee, which meets regularly, and is closely monitored by a dedicated and independent Market Risk Department that reports ultimately to the CRO.

BSF has clearly defined policies and procedures related to market risk activity, as well as a comprehensive set of market risk indicators and their associated limits which are reviewed at least annually, monitored independently and reported on a daily basis to senior management.

The market risk department has access to sophisticated systems with real time data to calculate the daily profit and loss of BSF Treasury and monitor market risk exposures.

#### ***Liquidity Risk***

Liquidity risk is the risk that BSF will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become immediately unavailable. To mitigate this risk, BSF's management has diversified funding sources and manages its assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

BSF has delegated the management of liquidity to the TIG.



In accordance with the Banking Control Law and the Regulations issued by SAMA, BSF maintains a statutory deposit with SAMA of no less than 7 per cent. of total customer demand deposits and 4 per cent. of balances due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), savings, time deposits, margins of letters of credit and guarantee, excluding all types of repo deposits. In addition to the statutory deposit, BSF also maintains liquid reserves of not less than 20 per cent. of its deposit liabilities in the form of cash, Government securities or assets which can be converted into cash within a period not exceeding 30 days. BSF can also raise additional funds through repo facilities available with SAMA against its holding of Government securities up to 100 per cent. of the nominal value of the securities. In addition, BSF has repo agreements in place with 21 banks in order to get liquidity (if needed) from its corporate bond portfolio.

The following table shows the maturity profile of assets, liabilities and shareholders' equity as at 31 December 2022 and 31 December 2021:

	Within 3 months	3-12 months	1-5 years	Over 5 years	No Fixed Maturity	Total
	(SR '000)					
<b>2022</b>						
<b>Assets</b>						
<b>Cash and balances with SAMA</b>						
Cash in hand .....	—	—	—	—	973,736	973,736
Balances with SAMA .....	1,185,000	¾	¾	¾	9,166,850	10,351,850
<b>Due from banks and other financial institutions</b>						
Current account.....	—	—	—	—	2,793,569	2,793,569
Money market placements .....	836,950	308,514	856,078	—	—	2,001,542
<b>Investments, net</b>						
Held as FVSI.....	3,800	¾	¾	60,459	4,485	68,744
Held as FVOCI, net.....	717,073	870,618	13,519,627	2,977,957	320,393	18,405,668
Held at amortised cost, net.....	1,749,354	5,333,861	12,523,937	6,435,985	—	26,043,137
<b>Investment in associate .....</b>	—	¾	¾	¾	9,695	9,695
<b>Positive fair value of derivatives</b>						
Held for trading.....	111,404	364,288	3,241,926	2,814,352	¾	6,531,970
Held as fair value hedges .....	¾	¾	7,825	12,813	—	20,638
Held as cash flow hedges .....	25,331	¾	5,041	¾	—	30,372
<b>Loans and advances, net</b>						
Credit cards and consumer loans.....	241,054	699,551	13,182,776	15,022,058	367,666	29,513,105
Overdraft and commercial loans .....	21,299,145	29,163,057	42,155,354	35,946,710	934,154	129,498,420
<b>Property, equipment and right of use assets, net .....</b>	—	—	—	—	1,739,307	1,739,307
<b>Other assets and other real estate .....</b>	—	—	—	—	4,096,366	4,096,366
<b>Total assets .....</b>	<u>26,169,111</u>	<u>36,739,889</u>	<u>85,492,564</u>	<u>63,270,334</u>	<u>20,406,221</u>	<u>232,078,119</u>
<b>Liabilities and equity</b>						
<b>Due to SAMA, banks and other financial institutions</b>						
Current accounts .....	—	—	—	—	262,687	262,687
Money market deposits .....	5,472,651	6,225,457	4,809,647	—	—	16,507,755
<b>Customers' deposits</b>						

	Within 3 months	3-12 months	1-5 years	Over 5 years	No Fixed Maturity	Total
			(SR '000)			
Demand.....	—	—	—	—	91,181,332	91,181,332
Saving.....	—	—	—	—	1,053,846	1,053,846
Time.....	48,572,004	8,550,894	3,152,351	—	—	60,275,249
Other.....	—	—	—	—	5,081,893	5,081,893
<b>Negative fair value of derivatives</b>						
Held for trading.....	89,159	354,096	3,109,251	2,675,146	—	6,227,652
Held as fair value hedges .....	—	—	27,240	15,906	—	43,146
Held as cash flow hedges .....	—	15,924	1,096,985	—	—	1,112,909
<b>Debt securities and term loans .....</b>	—	—	4,515,254	—	—	4,515,254
<b>Other liabilities.....</b>	34,577	293,980	268,228	395,500	6,078,786	7,071,071
<b>Total equity .....</b>	—	—	—	—	38,745,325	38,745,325
<b>Total liabilities and equity.....</b>	<u>54,168,391</u>	<u>15,440,351</u>	<u>16,978,956</u>	<u>3,086,552</u>	<u>142,403,869</u>	<u>232,078,119</u>
<b>2021</b>						
<b>Assets</b>						
<b>Cash and balances with SAMA</b>						
Cash in hand .....	—	—	—	—	1,023,141	1,023,141
Balances with SAMA .....	79,999	—	—	—	8,691,928	8,771,927
<b>Due from banks and other financial institutions</b>						
Current account.....	—	—	—	—	3,798,380	3,798,380
Money market placements .....	1,325,295	200,289	—	—	—	1,525,584
<b>Investments, net</b>						
Held as FVSI.....	7,155	59,476	3,877	139,487	—	209,995
Held as FVOCI, net.....	38,116	669,834	11,480,285	2,416,258	338,307	14,942,800
Held at amortised cost, net.....	2,060,623	4,444,596	17,964,725	4,235,502	—	28,705,446
<b>Investment in associate .....</b>	—	—	—	—	9,695	9,695
<b>Positive fair value of derivatives</b>						
Held for trading.....	98,238	211,110	1,926,297	1,192,156	—	3,427,801
Held as fair value hedges .....	—	91	1,178	—	—	1,269
Held as cash flow hedges .....	103,847	168,282	360,788	—	—	632,917
<b>Loans and advances, net</b>						
Credit cards and consumer loans.....	212,560	583,648	12,441,931	13,577,000	409,670	27,224,809
Overdraft and commercial loans .....	15,198,689	30,187,471	37,842,018	36,489,202	870,570	120,587,950
<b>Property, equipment and right of use assets, net .....</b>	—	—	—	—	1,585,763	1,585,763
<b>Other assets and other real estate .....</b>	—	—	—	—	3,354,549	3,354,549
<b>Total assets .....</b>	<u>19,124,522</u>	<u>36,524,797</u>	<u>82,021,099</u>	<u>58,049,605</u>	<u>20,082,003</u>	<u>215,802,026</u>
<b>Liabilities and equity</b>						
<b>Due to SAMA, banks and other financial institutions</b>						
Current accounts .....	—	—	—	—	494,471	494,471
Money market deposits .....	13,103,851	5,828,850	4,426,685	—	—	23,359,386

	Within 3 months	3-12 months	1-5 years	Over 5 years	No Fixed Maturity	Total
	(SR '000)					
<b>Customers' deposits</b>						
Demand.....	—	—	—	—	88,999,785	88,999,785
Saving.....	—	—	—	—	905,762	905,762
Time.....	35,737,606	4,236,790	6,092,084	—	—	46,066,480
Other.....	—	—	—	—	5,978,181	5,978,181
<b>Negative fair value of derivatives</b>						
Held for trading	63,207	190,714	1,782,829	1,114,090	—	3,150,840
Held as fair value hedges	—	—	—	6	—	6
Held as cash flow hedges	—	—	95,252	—	—	95,252
<b>Other liabilities.....</b>	274,784	317,798	616,571	271,837	5,585,203	7,066,193
<b>Total equity .....</b>	—	—	—	—	39,685,670	39,685,670
<b>Total liabilities and equity.....</b>	<u>49,179,448</u>	<u>10,574,152</u>	<u>13,013,421</u>	<u>1,385,933</u>	<u>141,649,072</u>	<u>215,802,026</u>

In all cases, the expected maturities of assets and liabilities have been determined on the basis of the remaining period at the relevant balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by BSF's deposit retention history. BSF's management monitors the maturity profile to ensure that adequate liquidity is maintained.

The following table sets out the loans to deposits ratio and SAMA loans to deposits ratio for the years ended 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
SAMA Loans to Deposits Ratio <sup>(1)</sup> .....	83.33%	86.9%
Loans to Deposits Ratio <sup>(2)</sup> .....	100.90%	104.13%

Notes:

- (1) Calculated in accordance with SAMA regulations. Represents total loans and advances, net divided by total customers' deposits weighted by maturity in accordance with SAMA regulations.
- (2) Calculated as total loans and advances, net divided by total customers' deposits.

### **Investment Portfolio**

The key objective of maintaining the investment portfolio is to have sufficient high-quality liquid assets ("HQLA") to meet regulatory ratios and BSF's obligations in times of stress. The vast majority of the investment portfolio is made up of HQLA assets that enhance BSF's regulatory ratios. Moreover, the USD portfolio is composed predominantly of high investment grade paper that enhances BSF's Net special commission Income whilst providing liquidity through the repo market when needed.

As of 31 December 2022, BSF's investments, net amounted to SR 44,518 million.

The following table sets out the credit risk exposure of the Group's investments as at 31 December 2022 and 31 December 2021:

	As at 31 December	
	2022	2021
	(SR '000)	
Saudi government bonds .....	28,358,050	29,163,809
Investment grade .....	9,053,833	6,003,729
Non-investment grade .....	—	—
Unrated .....	7,105,666	8,690,703
<b>Total</b> .....	<b>44,517,549</b>	<b>43,858,241</b>

The vast majority of the portfolio is comprised of Saudi government development bonds and Sukuks rated A by Standard & Poor's Financial Services LLC, A+ by Fitch Ratings Inc. and A1 by Moody's Investor Service. Foreign investments are primarily investment grade securities with credit exposure equivalent to a S&P rating of AAA to BBB-. In order to enhance the portfolio yield, a small limit also exists for high-yield regional sovereigns.

### ***Capital Adequacy Management***

The RMG is responsible for ensuring that BSF's capital adequacy ratios comply with international standards, internal policies and SAMA requirements. The adequacy of BSF's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by SAMA in supervising BSF. These ratios measure capital adequacy by comparing BSF's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

RMG is responsible for ensuring that BSF's capital plan takes into consideration all key risks and makes a comprehensive assessment of its capital requirements considering its strategies, business plans and dividend policies. This ensures that the risk metrics remain within its appetite and that BSF's capital adequacy ratios remain above the thresholds prescribed by SAMA, typically over a medium-term horizon (three years), under normal and stressed operating conditions.

BSF has adopted a standardised approach for its Pillar I capital requirements, while Pillar II capital comprehensively covers risks specific to BSF's portfolio and environment (such as concentration risk, interest rate risk on the banking book, strategic risk and macroeconomic risk). BSF also conducts stress tests across all risk types to ensure that its strategy and brand franchise remain robust over a medium-term planning horizon.

BSF's ICAAP is in line with SAMA requirements, international standards and internal policies in terms of risk coverage. There is an annual supervisory review process through which SAMA provides BSF feedback on the risk coverage and strategic insights into new areas of focus.

The ICAAP is prepared under the leadership of the CRO in co-ordination with the CFO. The BRC is tasked with review and approval of the ICAAP and its recommendation to the Board of Directors. Once validated, the ICAAP is officially submitted to SAMA.

The ICAAP carefully considers business plans along with capital projections over a forward-looking horizon which are assessed under stress conditions to determine the adequacy of capital to meet business plans and potential stresses.

### ***Operational risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Where controls are not designed adequately or fail to perform, operational risks can materialise into incidents and cause damage to reputation, business disruption, have legal or regulatory implications and/or lead to financial loss. While BSF cannot eliminate all operational risks, BSF aims to manage such risks through a dynamic operational risk identification and management framework which includes identification, assessment, monitoring, treatment, reporting, control/mitigation and staff awareness of operational risks. BSF has put in place a comprehensive bank-wide risk and control assessment for operational risk management. Operational risk, including technology risk, is primarily managed by prescribing controls and mitigation measures, which are reviewed, tested and updated on a regular basis. The operational risk division presents the status of control implementation, areas of risk and required actions for various business entities to the internal control committees. BSF has also implemented a robust business continuity plan to ensure the continuity of its critical operations. All new products and services, along with outsourcing contracts are assessed by Operational Risk and associated parties prior to implementation/initiation. Operational risk policies are approved by BSF's board risk management committee. BSF has recently adopted a revised standardised approach for operational risk capital assessment as part of the Basel III enhancements.

### ***Use of Derivatives***

In the ordinary course of business, BSF utilises derivative financial instruments for both trading and hedging purposes.

#### ***Held for trading purposes***

Most of BSF's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, banks and other financial institutions 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 rates. Arbitrage involves identifying, with the expectation of profiting from, price differentials between markets or products.

#### ***Held for hedging purposes***

BSF has adopted a comprehensive system for risk measurements and management of derivative exposures risk. Part of the risk management process involves managing BSF's exposure to fluctuations in foreign exchange and commission rates to manage currency and interest rate risks at an acceptable level as determined by the Board of Directors. Positions and interest rate exposures are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of interest rate risk by setting interest rate gap limits.

As part of its asset and liability management, BSF uses derivatives for hedging purposes in order to adjust its own exposure to currency and interest rate risks. This is generally achieved by hedging specific transactions (as and when required) against the overall consolidated statement of financial position exposures. Strategic hedging qualifies for cashflow hedge accounting.

BSF uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, BSF uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified fixed commission rate exposures. BSF also uses interest rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instruments are formally documented and the transactions are accounted for as fair value or cash flow hedges.

### ***Related Party Exposure***

BSF enters into transactions with major shareholders, directors, executive management and their related persons (referred to as “**Related Parties**” of BSF) in the ordinary course of its business. These consist of both banking and non-banking transactions and are governed by regulations promulgated by SAMA and other regulatory bodies. In terms of the Related Party Transactions Regulations, BSF is required to (i) adhere to certain maximum exposure/transaction limits to bank and non-bank Related Parties, (ii) maintain arm’s-length dealings in all transactions, (iii) obtain tangible Collateral covering a minimum of 100 per cent. of the credit limits as defined in Article 9 of the Banking Control Law; and (iv) obtain approval from its governing bodies for Related Parties transactions.

There are multiple divisions within BSF which are involved in the identification, managing and reporting of transactions with Related Parties. BSF’s internal policies and processes are aligned with these regulations, detailing the roles and responsibilities of each stakeholder to ensure that the transactions with Related Parties are conducted in strict compliance with the regulatory requirements. The maximum exposure (depending on type of entity) to a Related Party is defined by SAMA Regulations as a percentage of the Tier 1 capital of BSF.

### ***Business Continuity Plan***

With the continuing growth in BSF’s banking activities, BSF recognises its obligation to clients, shareholders and staff to ensure the continuity of its business, in line with its commitment to safety, quality and commercial best practices. BSF’s business continuity management team (“**BCM**”) reports to the CRO. BCM also works closely with other divisions in BSF who are responsible for the technology, business, and control groups.

BCM works to ensure that the internal BSF business groups are able to continue operations through any type of disruption, working across different BSF sites throughout the Kingdom to develop, test, and maintain business continuity.

In addition to its main data centre in Riyadh, BSF has established a disaster recovery data centre in its western region (Jeddah) with an active and live data centre for the main Bank’s critical systems, applications and network infrastructure. BSF has also established business recovery sites in Riyadh, Jeddah and Al Khobar to which BSF’s staff can be relocated in order to ensure the continuity of BSF’s services. BSF’s disaster readiness is tested regularly and results are shared with internal stakeholders for remediation and also reported to SAMA.

### ***Internal Audit***

BSF has an independent Internal Audit Function as a third line of defence which is mandated to add value to BSF’s operations by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the BSF’s governance, risk management and internal controls in line with the approved strategic plan.

The Internal Audit Function is established and authorised by the Audit Committee with defined responsibilities as part of the Audit Committee’s oversight role. The Audit Committee Charter defines the role of the Audit Committee which is recommended by Board of Directors and approved by BSF’s shareholders at the General Assembly.

The Internal Audit Function is headed by the Group Chief Audit Executive (“**CAE**”) who is approved by the Board of Directors as well as SAMA. The CAE functionally reports to the Audit Committee and administratively to the CEO. The CAE communicates and interacts directly with the Audit Committee to provide updates on internal audit activities on a quarterly basis. The roles, responsibilities and authority of the Internal Audit Function is governed by the Internal Audit Charter which is approved by the Board of Directors. The Internal Audit Charter is updated annually.

BSF’s Internal Audit Function has an updated and comprehensive internal audit Framework which sets out detailed methodology and procedures for executing internal audit responsibilities on a continual basis.

BSF's Internal Audit Function develops a four-year strategic plan and an annual audit plan that is based on a risk-based audit methodology which is approved by the Audit Committee. The Audit Committee also monitors its execution and compliance with the Institute of Internal Audit ("IIA") standards as well as SAMA regulatory requirements.

The Internal Audit Function performs cyclical, regulatory and ad-hoc audit assignments with the aim of providing an independent objective assurance on the audited entities within BSF to both the senior management and the Audit Committee, in line with the approved annual internal audit plan. Each audit assignment leads to a detailed report containing an assessment of the objectives and processes and effectiveness of controls as well as recommendations for a stronger and more robust controlled operating environment and enhanced process efficiency. The Internal Audit Function follows up on the implementation of the proposed corrective action plans according to the agreed target dates. The Internal Audit Function also validates the closure of issues reported by SAMA in thematic, targeted or self-assessment reviews and regular reports are presented to SAMA and the Audit Committee on the implementation status of the agreed action plans.

In line with SAMA's regulatory requirement and best practices, the Internal Audit Function has a dedicated Quality Assurance and Improvement Program that covers and evaluates all aspects of the internal audit activities and their conformance with the Internal Auditing standards, code of ethics, code of conduct, and overall assesses the efficiency and effectiveness of the Internal Audit activity through an annual self-assessment process. The CAE also communicates to the Audit Committee all internal audit activities relating to the quality assurance and improvement program, including results of ongoing internal assessments in accordance with SAMA requirements, IIA standards and best practices.

### ***Compliance Group***

With regulatory compliance and the combating of financial crimes being an area of focus for many international, regional and local legislative and supervisory bodies, the prominence and pertinence of the compliance function has been recognised by various internal and external stakeholders such as, shareholders, the Board of Directors, senior management, employees as well as customers. The objective of the compliance function is to enhance transparency and reduce non-compliance risks which ultimately benefits customers and protects the reputation of BSF.

The Compliance Group is an independent control function headed by the Chief Compliance Officer. The Compliance Group supports BSF's pursuit of its strategy. The Compliance Group supports all business lines and support and control functions by: (i) communicating and advising on regulatory rules; (ii) monitoring, reviewing, identifying and reporting non-compliance risks; and (iii) developing training and awareness campaigns.

As a second line of defence function, the Compliance Group plays a key role in achieving the strategic mission and objectives of BSF. Significant emphasis has been placed on adopting financial technologies for banking operations and enhancing the overall compliance program (i.e. compliance framework, processes, tools and skill set) in order to give effect to the guidelines, regulations and rules promulgated by relevant regulatory bodies. This is achieved by the close monitoring of BSF's business activities and its adherence to the regulations and internal controls requirements.

Among others, one of the focus areas of the Compliance Group is to continuously develop an effective and efficient internal control framework within BSF. Integrity, accuracy and transparency are fundamental pillars of BSF's framework which aims to not only reduce financial crimes and fraud risks but also to meet and exceed the level of compliance required by the principles and initiatives of SAMA and regulatory bodies in the Kingdom.

### *Anti-money laundering, terrorist financing and suspicious transactions*

BSF has implemented a program to combat money laundering and terrorist financing which aims to prevent the use of BSF's branches, trade finance centres, products in general and its affiliates as channels of illegal activities. The program has been developed to ensure compliance with global requirements (including, but not limited to the Financial Action Task Force (FATF) recommendations), local laws as well as SAMA and other regulatory requirements which are all aimed at preventing illegal transactions or activities.

Apart from this program, BSF has established other anti-money laundering and anti-terrorism financing policies and procedures grounded on local and global practices in order to combat and prevent criminal activities. Such policies and procedures cover Know Your Customer (KYC) requirements, monitoring customer transactions and suspicious activities, adhering to sanctions requirements, training and awareness of employees, establishing reporting procedures and conducting independent stress-testing.

The Chief Compliance Officer participates in meetings of the Board of Directors, Audit Committee and various management committees and regularly updates the Board of Directors and Audit Committee on the status of compliance in BSF and the measures required to ensure a high level of compliance with applicable laws, rules and regulations.

### ***Legal and Governance Group***

The Legal and Governance Group is responsible for providing legal advice and consultation on all general and corporate legal matters and managing all corporate governance affairs. It is also responsible for reviewing, negotiating and drafting facility agreements, for both conventional and Islamic facilities, treasury documents, workouts, trade finance documents, commercial agreements between BSF and third parties and any other agreement that BSF may enter into from time to time. It also provides advice on regulatory matters and manages any litigation to which BSF is a party. BSF also uses external legal advisers where appropriate.

The Corporate Governance Division is responsible for ensuring that governance structures and practices are in accordance with regulatory requirements and best practices.

## **Decision making**

### ***Overview***

BSF's governance structure is headed by the Board of Directors, which has overall responsibility for risk management. BSF has a number of board committees and management committees which oversee and monitor day-to-day risk management. These committees are responsible for the overall approval and implementation of BSF's risk management policies, while the formulation, monitoring and reporting of such policies, any exceptions thereto and any required corrective actions is the responsibility of the Risk Management Group (headed by the CRO).

Risk management is undertaken independently from the business units of BSF. BSF aims to enforce a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor, report, mitigate and control risk exposures.

The Board of Directors evaluates risk in co-ordination with BSF's board committees and management committees. For further information regarding BSF's board committees and management committees (see – *"The Executive Committee"*, *"The Board Risk Committee"*, *"The Risk Management Group"*, *"The General Management Forum"* and *"The Asset and Liability Committee"*).

The BRC and the specialised risk management committees (including the general management forum and the ALCO) are responsible for overseeing BSF's risk management procedures. The credit risk division is



responsible for drawing up credit policies, establishing limits, credit approval authorities and setting concentration limits.

A brief description of the committees is set out below:

#### ***The Executive Committee***

The EC is formed by the Board of Directors and includes five members of the Board of Directors. The EC's main responsibilities include but are not limited to the following:

- reviewing periodic management reports and reports on the execution and completion of BSF's major projects;
- approving loans and credit facilities to BSF's clients, as per BSF's "Delegation of Authority" manual ("DOA") and in line with SAMA rules and regulations for granting loans and credit facilities;
- reviewing the annual budgets, plans and investigating material differences in the budget and deviations from the approved plans (if any) before submitting its recommendations to the Board of Directors; and
- approving related party transactions as per the DOA.

The EC meets at least 6 times a year. However, for specific matters requiring an urgent decision, the EC will meet on an *ad hoc* basis.

#### ***The Board Risk Committee***

The BRC represents and assists the Board of Directors in fulfilling its oversight responsibility to ensure that all risks are managed in accordance with the Risk Management Framework, policies, procedures, and regulatory obligations (through the provision of governance oversight and strategic direction).

The CRO is linked to the Board of Directors through the BRC. The BRC raises its recommendations on RMG reports to the Board of Directors.

The committee is formed by the Board of Directors and includes three non-executive members of the Board of Directors but may also include members from outside the Board of Directors. It is presided over by a non-executive member of the Board of Directors.

The key duties and responsibilities of the BRC include but are not limited to the following:

- requiring and reviewing development strategies, objectives and comprehensive risk management policies to ensure that they are consistent with the nature and volume of BSF's activities, risk profile, risk appetite and risk tolerance taking into account cyber and technology risks and ensuring the operation of these policies, and regularly reviewing and updating them based on BSF's internal and external changing factors;
- reviewing the adequacy of (i) BSF's risk management system; and (ii) management's assessment of the effectiveness of the systems and mechanisms used to determine and monitor the risks that threaten BSF, in order to determine areas of inadequacy therein, maintain the risk register and recommend appropriate changes; and
- requiring establishment of bank-wide risk measurement methodologies for quantifying risks.

#### ***The General Management Forum***

The General Management Forum (the "GMF") consists of the senior executives representing all business lines, control and support functions of BSF. The GMF is chaired by the CEO and meets fortnightly.

The GMF tracks external developments and key internal matters requiring attention and sets appropriate guidance to be implemented by functional areas in BSF. Under BSF's governance framework, management level committees are responsible for governance and decisions on matters of credit risk, market risk, investments, operational risk, fraud, compliance, cyber security and business continuity.

### ***The Asset and Liability Committee***

The ALCO is responsible for reviewing and approving BSF's asset and liability management policy. The responsibilities of the ALCO include identifying, managing, and controlling BSF group's balance sheet risks and capital management in executing its chosen business strategy.

The CEO chairs the ALCO which meets monthly and is facilitated by the CTIO.

The key duties and responsibilities of the ALCO include but are not limited to the following:

- reviewing the risk appetite of individual business lines for financial risks before seeking approval of the BRC and subsequently monitoring exposure against limits i.e. volume against approved budget;
- monitoring market risk approved investment limits, parameters, capital and liquidity;
- exercising overall oversight of the ICAAP which includes preparation and review before submission for Board of Directors' approval as per the DoA;
- exercising overall oversight of the ILAAP which includes preparation and review of its key assumptions and methodologies as well as approval of the same for onward submission to the Board of Directors;
- monitoring long-term risk-weighted asset trends and overseeing actions to optimise RWA levels;
- overseeing business line performance with respect to their portfolio risk-adjusted return on capital.
- reviewing market risk positions and limiting breaches;
- taking strategic decisions on liquidity e.g. providing incentives to promote products to improve balance sheet structure;
- establishing liquidity risk and setting appropriate business limits (where measurable) and targets; and
- reviewing principle positions and hedging strategies and approving access as required.

### ***Risk Management Group***

The risk management activities are carried out by nine main departments, namely the:

- Credit Risk Department;
- Retail Risk Department
- Treasury and Financial Market Risk Department;
- Operational Risk Department;
- Special Assets Management Department;
- Risk Strategy Department;
- Credit Administration and Credit Control Department;
- Corporate Information (Cyber) Security Division;
- Business Continuity Management Department; and

- RMG Governance and Control.

Each department works independently from the business units of BSF to identify, measure and mitigate risks on a pre-emptive basis.

BSF regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

## **Credit Approval Procedures**

### ***Overview***

Credit decisions are delegated to various committees depending on the amount of the proposed credit and the risk rating of borrowers. For every credit request, a credit committee is convened before a credit decision is finalised.

BSF requires credit approvals to be in compliance with SAMA regulations and the credit procedures approved by the Board of Directors for both consumer and wholesale products. BSF applies different credit limits and approval criteria depending on the types of products, customers and industry sectors.

### ***Retail credit approval procedures***

BSF has developed a comprehensive retail credit policy and procedures manual, which establishes the retail banking segment's overall risk management framework. The manual establishes operating policies and procedures relating to credit approval and verification, collections, risk mitigation, repossession and foreclosure management and fraud. The policy acts as a guideline for the formulation of individual product credit policy and procedures manuals.

For retail loans, the Board of Directors has delegated authority to (i) the credit risk division; and (ii) the retail banking group (who rely on the retail credit risk manager under the risk policy approved by credit risk division). This division applies a tiered hierarchy of delegated approval authorities based on the value of the credit commitment sought. Such authorities are set out in authority matrices that must be approved by appropriate internal committees. Credit parameters for retail lending include the following steps:

- identification of the potential client "Know Your Customer" through access to the Saudi Ministry of Interior individual identification cards database ("Yaqeen");
- verification of the potential client's credit history through the Saudi Credit Bureau ("Simah") which is a database of all Saudi banks retail customers; and
- salary certificate and salary assignment, to ensure that the potential client has a fixed source of income which is credited to that client's BSF account on a monthly basis.

New retail borrowers are sourced through BSF's sales channels, including direct sales agents and BSF's retail branch network. The time required for the approval of consumer credit applications is dependent on the size of the exposure, type of product and the credit profile of the applicant. The performance and the monitoring of the retail loan portfolio is reviewed once every month through the retail credit risk committee which includes the retail credit risk manager, the CRO, the head of retail banking, and the head of collection.

Most retail consumer lending is tied to electronic salary assignments.

### ***Corporate credit approval procedures***

BSF has adopted a committee approach to decision-making on credit granting and review. There are four credit committees within BSF that are responsible for credit decisions, namely (i) the EC; (ii) the General Management Forum; (iii) the Head Office Credit Committee; and (iv) the Regional Credit Committee. The committees'

decisions are taken either at sitting meetings or through circulation process and the process of submission of credit requests and the quorum for approvals are stipulated in the credit policy of BSF.

Each credit proposal is originated by the relevant business line and submitted to the Credit Risk Department for an independent assessment and risk opinion, after which the proposal is submitted for decision to the respective delegated credit committee, as per the DOA of BSF.

The credit delegations are designed based on certain parameters such as the originating business line, amount, tenor of the facility and the risk rating of the borrower. Every borrowing entity is assigned a risk rating based on BSF's credit policy and rating models.

BSF applies specific standards of review for each category of credit commitment, which enables BSF to examine both the credit risk of the borrower as well as BSF's overall lending exposure per product category. The credit risk department also complies with product specific policy manuals.

New corporate borrowers are sourced through BSF's relationship managers in the corporate banking segment as well as through BSF's local branch network. Once a new corporate customer has been identified, the relationship manager prepares a credit report based on a review of all relevant information, which generally includes: (i) borrower information (including legal constitution, ownership structure, organisational structure and financial strength); (ii) management (including a list of directors, key officers and their qualifications and affiliations); (iii) industry sector and market information; (iv) relationship with other banks; (v) financial analysis of the borrower (turnover and profitability, earnings before interest, taxes, depreciation and amortisation, return on equity and other financial ratios); (vi) sources of repayment; and (vii) appropriateness of certain collateral, terms and covenants to be included in loan documents. BSF also reviews the borrower's payment history with BSF or other banks, competitive strengths, levels of collateral and other factors to reach its credit decision. This due diligence report is then reviewed independently by the credit risk department, which prepares a risk opinion on the request for submission to the relevant deciding credit authority.

The wholesale credit process also uses a risk rating system to assess and monitor the risk profile of new and existing borrowers. In accordance with BSF's ratings matrix, corporate banking clients are assigned risk ratings based on various qualitative and quantitative factors including the financial strength of the borrower, industry risk factors, management quality, operational efficiency and company standing. These risk ratings are one of the factors used to determine the maximum lending limits per single borrower or a group of borrowers as detailed in the DOA. The risk grading system attempts to grade a borrower based solely on the borrower's characteristics, the business model and the financial status and therefore does not take into consideration any security provided by the borrower. In addition to facilitating loan approval decision making, credit scores are also used by BSF to set credit facility limits and to determine whether tangible collateral is to be requested from specific clients. The credit quality of the client and the guarantor, the fair value of security interests and other relevant factors are all considered prior to setting the terms of the facility agreement (including the payment period, processing fee and interest rate).

All credit facilities are reviewed at least once every year by the Credit Risk Department.

## **Collection Procedures**

### ***Retail banking collection procedures***

If a retail banking loan is in arrears, it is processed in accordance with standard operating procedures whereby the loan is considered to be past due one day after payments under the loan were due to be made.

A loan account becomes non-performing when no payment or instalment is made for 90 days. The collection unit pursues all available avenues, in adherence to collection regulation, to collect the outstanding amount from a debtor including, amongst other methods, filing a claim with the court and starting a court proceeding in

relation to personal and home loans, making claims on order notes and foreclosing on any relevant collateral as per the enforcement law.

A remedial loan is written off after 360 days past-due, however recovery activities remain in action until the dues are collected.

### ***Corporate banking collection procedures***

Borrowers who display weaknesses in the timely repayment of their obligations due to financial constraints are managed as per SAMA's guidelines on Managing Problem Loans and Rules on Classification and Provisioning. These borrowing accounts are categorised as Special Mention or Stressed Accounts and periodic discussions are conducted between the senior management, Risk Management and the Business Lines to identify the issues involved and find suitable action plans to contain the situation. BSF has implemented the IFRS 9 Provisioning Standards according to which the borrowers are categorised into Stage 1, Stage 2 and Stage 3. The borrowers who are in default for over 90 days are considered 'Non-Performing' unless there is evidence suggesting potential, imminent repayment despite the period of time elapsed.

The SAM manages the non-performing loan portfolio. SAM conducts diagnostic review and analysis for newly transferred cases, discusses and negotiates with clients for their outstanding payments (including using measures for rescheduling or restructuring repayments).

As part of such repayment restructurings, SAM may request additional collateral or modification of the other terms and conditions (including the pricing). Restructuring plans negotiated by SAM are submitted to the relevant Credit Committee within BSF for decision, as per the DOA.

If negotiations are not successful and both parties are unable to reach a settlement, the Recovery Department takes over and provides a more assertive approach by initiating legal proceedings to recover BSF's money through legal channels.

SAM is responsible for the overall management of the non-performing loans including drawing up work-out plans, realising collateral and instituting legal action (where necessary) through BSF's Legal Department.

## **Technology and Operations Group**

### ***Organisation***

The Technology and Operations Group (the "TOG") runs technology and operations related decision-making, collaboration, operations and information sharing in formalised committees such as the Investment Projects Committee which is led by the Chief Strategy and Financial Officer that addresses investments and the IT steering committee which is led by the CEO, Chief Operation Officer and the control function heads. The Governance and Control Division oversees the control and financial activities and conducts the self-assessments in the TOG.

The TOG has five sub-divisions, collaborated to provide, manage and support business functions and requirements.

- Governance and Control Division;
- Corporate Operations Division;
- Consumer Asset Collection Division;
- Properties Management Division; and
- Information Technology Division.

### ***Technology Production***

The TOG operates two data centres on a 24/7 basis. The main data centre is in Riyadh and the data recovery centre is located in Jeddah.

The TOG also operates three business recovery centres with the necessary number of ready-to-operate workstations covering the main critical functions in case of disaster.

Centres, branches and offices are connected through a high-bandwidth backbone. Every location has a second line using different service providers, to ensure the availability of uninterrupted services. BSF has adopted a multi-vendor policy of communication services to ensure competitiveness in maintaining service levels and to reduce the risk of failure.

### ***Technology Security***

Since the introduction of online banking in 2001, BSF has dedicated a considerable amount of investment and effort towards the development and improvement of the security of its systems. TOG works in co-ordination with the Corporate Information Security Division to formulate and regulate information security, following best practice and local and international standards. These efforts were recognised in 2009 when BSF achieved the ISO 27001/2005 certification. ISO represents the only auditable, internationally recognised standard regarding the requirements for information security management systems. BSF is the second bank in the Kingdom and one of the few in the region to have obtained this certification.

BSF has put in place several security controls to ensure that only authorised individuals obtain access to its systems. BSF is the first bank in the Kingdom to have implemented a biometric single sign-on solution that provides both strong authentication and ease of use. BSF is also the first bank in the Kingdom to have set up a password auto repository system to prevent the sharing of administrative passwords. BSF has put in place a users' identity management system to ensure that requests to systems resources undergo an adequate approval process. To ensure that suspicious behaviour is monitored, detected and acted upon in a timely manner, BSF has implemented numerous monitoring and detection controls.

To measure and improve security effectiveness and minimise security breaches, BSF has established a corporate security incident forum. BSF has also laid the foundations for a proactive 24/7 incident management system and established a dedicated security operations centre that takes a proactive approach to security.

BSF has established a dedicated ongoing awareness programme to ensure that its staff remains vigilant when it comes to protecting BSF's information assets.

To ensure continuous and thorough verification of systems security, BSF has advanced security monitoring and protective capabilities, including an application risk assessment system to ensure the early identification and mitigation of system risks. BSF has dedicated considerable efforts towards remaining in compliance with the industry's standards and best practices regarding security, for instance, the deployment of automated firewall rule analysers that enables early detection of security issues.

### ***Core Banking System Implementation***

BSF is managing ICT services with the help of over 250 applications including customised third-party applications and in-house applications. In 2019, the Board of Directors approved a multi-year core banking program to consolidate and modernise the technology landscape. The centralisation and modernisation of its core applications will enhance BSF's time to market and improve overall efficiencies.

## SENIOR MANAGEMENT AND EMPLOYEES

### Board of Directors

Without prejudice to the powers of the General Assembly, the Board of Directors is the ultimate decision-making forum of the Group. The members of the Board of Directors are under a duty to provide effective governance and supervise the senior management on behalf of BSF's shareholders and to balance the interest of its diverse constituencies, including its customers, employees, suppliers and local communities.

The Board of Directors meets at least four times a year and at least once every quarter. The committees of the Board of Directors meet from once a year to six times a year or more depending on each committee.

In accordance with the companies law issued pursuant to Royal Decree No. M/132 dated 1/12/1443H (corresponding to 30 June 2022) (the “**Companies Law**”) and BSF's articles of association (the “**Articles of Association**”), the Board of Directors comprises ten members.

The Board of Directors is responsible for taking all the decisions of BSF other than those matters reserved to the shareholders pursuant to the Articles of Association or the law.

Matters reserved to the Board of Directors comprise agreements on strategy and budgets, review and follow up on BSF's financial performance, approval of major capital expenditures, policies covering treasury and finance and acknowledgement of the conclusions rendered by the audit committee.

Members of the Board of Directors are elected for a three-year term.

The table below sets out the current members of the Board of Directors:

Name	Title
Mazin Al Romaih	Chairman of the Board of Directors, Chairman of Executive Committee.
Talal Al Maiman	Vice Chairman of the Board of Directors, member of Executive Committee, Nomination & Remuneration Committee, Chairman of Board Strategy Committee.
Abdulrahman Al Rashed	Member of the Board of Directors, Executive Committee and Nomination & Remuneration Committee.
Bader Al Issa	Member of the Board of Directors, ESG Board Committee, Board Strategy Committee and Chairman of Audit Committee.
Abdullatif Al Othman	Member of the Board of Directors, Chairman of Board Risk Committee and Chairman of ESG Board Committee.
Ghazi Al Rawi	Member of the Board of Directors, Chairman of Nomination & Remuneration Committee and member of Audit Committee.
Khalid Al Omran	Member of the Board of Directors, Board Risk Committee, Board Strategy Committee and Nomination & Remuneration Committee.
Abdulaziz M. Al Gudaimi	Member of the Board of Directors and member of Board Strategy Committee.

Rayan Fayez

Member of the Board of Directors, member of Executive Committee, member of ESG Board Committee and Board Strategy Committee.

Khalid Al Sharif

Member of the Board of Directors, Executive Committee and Board Risk Committee.

***Mazin Al Romaih – Chairman of the Board of Directors***

Mazin was elected as a member of the Board of Directors on 2 February 2015. He was appointed as a Chairman of the Board of Directors on 1 January 2022. Mr. Al Romaih currently holds various senior positions outside BSF including the chief executive officer of Future Generation Investment Company, director at Dr. Sulaiman Al Habib Medical Group, director at Sada Company for Investment, director at Real Estate Development Fund, director at Saudi Tourism Authority and director at Saudi Arabian Airlines. Mr. Al Romaih graduated from the University of Buckingham with a bachelor's degree in accounting and financial management. Prior to joining BSF, Mr. Al Romaih served on the board of the Capital Market Authority and held the position of chief executive officer at Samba Capital & Investment Group Company.

***Talal Al Maiman – Vice Chairman of the Board of Directors***

Talal was elected as a member of the Board of Directors on 28 February 2018. He was appointed as Vice Chairman of the Board of Directors on 1 January 2022. Mr. Al Maiman holds the following senior positions outside BSF: chief executive officer and board member of Kingdom Holding Co., chairman at Kingdom Real Estate Development Company, director at Tasnee Company, director at NAS Holding Company, chairman at Trade Centre Company Limited, chairman at Real Estate Investment Company, chairman at Kingdom School Company Limited, chairman at Kingdom Investment and Development Company, director at Jeddah Economic Company and chairman at SFC. Mr. Al Maiman holds a bachelor's degree of science in electrical engineering from the University of Evansville and an MBA from the University of Liverpool. He also completed the executive management programme at Harvard University and holds a diploma in computer science from computer sciences corporation. Previously, Mr. Al Maiman was the director of operations and maintenance at the Ministry of Interior, director of the computer department at Saudi Central Bank and chairman of the board and chief executive officer of Kingdom Real Estate Development.

***Abdulrahman Al Rashed***

Abdulrahman was elected as a member of the Board of Directors on 1 January 2022. Mr. Al Rashed is also, an executive partner at Rashed Abdul Rahman Al Rashed & Sons Company, chairman of the board of directors of Dammam Hotels Company and chairman of the board of directors of UNICOIL Universal Metal Coating Company. Mr. Al Rashed holds a bachelor's degree in Business Administration, Department of Finance from the University of Seattle.

***Bader Al Issa***

Bader was elected as a member of the Board of Directors on 1 January 2022. Mr. Al Issa is a board member of Al Marai Company and as chief executive officer at Assila Investment Company. Mr. Al Issa graduated with a bachelor's degree in economics from the University of Virginia and an MBA from Rice University. Prior to joining BSF, Bader served as chief financial officer of Assila Investment Company, an investment portfolio manager at HSBC Saudi Arabia Limited, a financial and marketing analyst at SABIC America and a financial analyst at JP Morgan-London.



### ***Abdullatif Al Othman***

Abdullatif was elected as a member of the Board of Directors on 1 January 2022. He is also the owner and chief executive officer of Al-Othman Engineering Consultants. Mr. Al Othman holds a bachelor's degree of civil engineering from King Fahad University of Petroleum and Minerals and an MBA, Sloan Fellows program from the Massachusetts Institute of Technology (MIT). Prior to joining BSF, Mr. Al Othman spent more than 35 years in the field of planning and managing oil and gas projects, financial management, investment, business and international relations development and served as governor and chairman of the board of directors of the General Authority for Investment.

### ***Ghazi Al Rawi***

Ghazi was elected as a member of the Board of Directors on 1 January 2022. In addition to that, Mr. Al Rawi is the founder and chairman of Valuegate Investments Company. Mr. Al Rawi holds a bachelor's degree in electrical engineering, communications from King Abdulaziz University, a master's degree in electrical engineering (EE) – communication, a master's degree in management science and engineering – finance & investment as well as a Ph.D. in electrical engineering from Stanford University. Previously, Mr. Al Rawi held positions of associate at McKinsey & Company, assistant professor at King Abdulaziz University and managing partner of Eastgate Capital Group.

### ***Khalid Al Omran***

Khalid was elected as a member of the Board of Directors on 1 January 2022. Mr. Al Omran also holds a position of general manager of Daily Food Company. He graduated from King Fahad University of Petroleum and Minerals with a bachelor's degree in finance and from IESE Business School with a master's degree in business administration. Prior to joining BSF, Mr. Al Omran spent 13 years in retail and two years in management consulting.

### ***Abdulaziz M. Al Gudaimi***

Abdulaziz was appointed as a member of the Board of Directors on 31 January 2023. Mr. Al Gudaimi is a well-rounded executive with over 35 years' experience in energy and chemicals industries, managing businesses and member of multiple companies' boards. Prior to joining BSF, Mr. Al Gudaimi served as a vice president of Corporate Development in Saudi Arabian Oil Company (Saudi Aramco). Mr. Al Gudaimi holds a master's degree in business administration, Sloan School of Management Fellow from Massachusetts Institute of Technology CAMBRIDGE, in addition to a bachelor's degree.

### ***Rayan Fayeze***

Rayan was elected as a member of the Board of Directors on 1 January 2022. From February 2018 to May 2022, Mr. Fayeze also served as managing director and CEO of BSF. Prior to assuming the leadership of BSF, Mr. Fayeze held the role of chief executive officer of Savola Group from 2016 to 2018. Mr. Fayeze was previously the managing director and Saudi Arabia senior regional officer at J.P. Morgan. Prior to that, he held senior positions at Goldman Sachs' Saudi and London offices. Mr. Fayeze started his career at J.P. Morgan's natural resources investment banking team in New York. Mr. Fayeze is a member of the boards of Gulf Coast Development Company and the Human Resource Development Fund and has previously served on the boards of the Saudi Exchange, Saudi Agricultural and Livestock Investment Company and Almarai. Mr. Fayeze is also a member of the World Economic Forum's Young Global Leaders. Mr. Fayeze graduated from the Massachusetts Institute of Technology (MIT) with a B.Sc. in mechanical engineering.

### ***Khalid Al Sharif***

Khalid was elected as a member of the Board of Directors on 1 January 2022. Mr. Al Sharif is also a member of the boards of directors of Rua Almadinah Holding, Arabian Petroleum Supply and Family Office Investment Company. Prior to joining BSF, Mr. Al Sharif held various leadership positions in the Saudi banking sector for

more than 34 years, including serving as senior executive vice president, head of corporate and retail banking group and senior credit officer at the Saudi National Bank. Mr. AL Sharif holds master's and bachelor's degrees in business administration from the College of Notre Dame.

As at the date of this Base Offering Circular, the members of the Board of Directors referred to above have no potential or actual conflicts of interest between their duties to BSF and their private interests or any other duties.

The business address of each of the members of the Board of Directors and the senior management is King Saud Road, AlMuraba' District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

## **Governance**

The Board of Directors has six board level committees:

### ***The Executive Committee***

For an overview of the Executive Committee, see – “*Decision making – The Executive Committee*”.

### ***The Board Risk Committee***

For an overview of the Board Risk Committee, see – “*Decision making – The Board Risk Committee*”.

### ***The Audit Committee***

The audit committee of BSF (the “**Audit Committee**”) is appointed upon the recommendation of the Board of Directors and the approval from SAMA and the General Assembly. The Chairman of the Audit Committee is an independent member of the Board of Directors who is joined by four independent members. The CAE is the secretary of the Audit Committee and the Chief Compliance Officer is a permanent guest in the Audit Committee.

The Audit Committee meets at least four times a year and assists the Board of Directors. Some of the key responsibilities of Audit Committee are to:

- review and approve the Internal Audit four-year Strategic Plan and Annual Audit Plan including scope and allocated budget, prepared based on the risk assessment and aligned to BSF's overall strategy and objectives and all major changes to the plan;
- ensure that BSF operates ethically and complies with laws and regulations;
- review the effectiveness of the internal and financial control system and risk management system set-up within BSF;
- review related party transactions and ensure that these are recorded and disclosed appropriately;
- recommend to the Board of Directors annually the appointment or dismissal of external auditors determine their fees and evaluate their performance after verifying their independence and reviewing the scope of their work and the terms of their contracts in line with all applicable regulations and guidelines;
- ensure, through the quarterly compliance activities report, BSF's compliance status with the relevant laws, regulations, policies and instructions including any issues and corrective actions; and
- review external auditor's reports and comments on the financial statements, and follow-up on the procedures taken in connection therewith.

### ***The Nomination and Remuneration Committee***

The nomination and remuneration committee (the “**Nomination & Remuneration Committee**”) is appointed by the Board of Directors and chaired by an independent member of the Board of Directors. The duties and responsibilities of this committee include the following:

- providing recommendation to the Board for the nomination or re-nomination of the Board of Directors members, and nominees for serving on the committees of the Board of Directors;
- assessing the strengths and weaknesses of the Board of Directors and the committees of the Board of Directors through performance assessments and making recommendations for improvement that align with BSF’s strategy;
- reviewing the structure of the Board of Directors and Executive Management and recommend changes as and when required;
- ensuring the independence of the independent members of the Board of Directors and absence of any conflict of interest if a Board member also acts as a member of the board of directors of another company, in each case, annually;
- approving the succession plan for executive management; and
- determining an incentives system and approving compensation in accordance with the regulatory requirements and instruction.

### ***The Board Strategy Committee***

The board strategy committee (the “**Board Strategy Committee**”) is formed by the Board of Directors and includes five members of the Board of Directors. The chair of the Board Strategy Committee is appointed by the Board of Directors.

The key duties and responsibilities of the Board Strategy Committee include but are not limited to the following:

- reviewing and evaluating material recommendations from the strategy steering committee prior to the Board of Directors’ review of BSF’s strategy;
- evaluating these recommendations to ensure they fit with the strategic direction of the Board of Directors;
- reviewing and making recommendations to the Board of Directors with respect to BSF’s overall strategy and business plan and all strategy related matters; and
- monitoring and suggesting remedial action during the implementation of all strategy related matters including BSF’s 5-year strategy.

### ***The ESG Board Committee***

The ESG Board Committee is formed by the Board of Directors and shall include not less than three and not more than five members. The ESG Board Committee is chaired by an independent member of the Board of Directors. The key responsibilities of the ESG Board Committee include:

- review and approval of ESG key performance indicators and targets;
- ensuring the development and maintenance of ESG trackers that feed into the Global Sustainability Index;
- oversight and monitoring of ESG-related risks and opportunities; and

- review of the annual report related to ESG prior to the approval of the same by the Board of Directors and approving any other disclosures made in regard to ESG.

### ***Senior Management***

BSF's senior management comprises the following individuals:

<b>Name</b>	<b>Title</b>
Bader Alsallloom	Chief Executive Officer
Mohammed Alsheikh	Head of Personal Banking Group
Ramzy Darwish	Chief Strategy and Finance Officer
Turki AlMehaid	Head of Customer Care Group
Sander Ardoom	Deputy Chief Financial Officer
Thamer M. Youssef	Chief Operations Officer
May Alhoshan	Chief Human Capital Officer
Mutasim Mufti	Chief Risk Officer
Abdulaziz Al-Molhem	Regional General Manager – Eastern Region
Abdallah Alshaikh	Head of Legal & Governance, Corporate Secretary
Abdulmohsen Alrayes	Chief Audit Officer
Yasser Al Ansari	Chief Compliance Officer
Zuhair Mardam	Chief Treasury and Investment Officer
Majed Abdulrahman Al Sadhan	Head of Wholesale Banking Group
Mazen Al-Shehri	Head of Enterprise Project Management

### ***Bader Alsallloom – Chief Executive Officer***

Bader Alsallloom was appointed as Chief Executive Officer of BSF in September 2022. Bader joined BSF in April 2021 and has a diverse experience within the banking sector and a successful track record in wholesale banking in prominent Saudi Banks. After graduating from King Fahad University for Petroleum and Minerals with a Bachelor of Science degree in finance, Bader started his banking career with Saudi British Bank in 2004 where he spent 15 years between corporate banking and global markets with his last role as deputy general manager of commercial banking. In 2019, Bader moved to the Saudi Investment Bank as deputy general manager of corporate banking where he held the post until he took over his position with BSF.

### ***Mohammed Alsheikh – Head of Personal Banking Group***

Mohammed Alsheikh joined BSF as Head of Retail Banking Group in July 2018. He is an accomplished banker with a wealth of experience in various well-known banks in Saudi Arabia. Mohammed started his career as an executive trainee in Saudi British Bank and became the Islamic banking specialist, before being appointed corporate banking manager between 2005 to 2008. He moved to ANB as manager of Islamic banking product development and in 2011 became head of the consumer credit administration and then head of branch network, deputy general manager – retail banking. In 2017, he worked as the head of branch banking assistant general manager – retail banking at AlRajhi Bank before joining BSF. Mohammed's experience runs across Kingdom sales, consumer product development, Islamic banking, retail operations/compliance and customer servicing/experience.

***Ramzy Darwish – Chief Strategy and Finance Officer***

Ramzy Darwish was appointed Chief Strategy and Finance Officer of BSF in December 2022. Mr. Darwish held various positions with the Saudi National Bank, including the head of treasury, head of principal strategies and investment and head of assets and liabilities management. Mr. Darwish graduated from Cornell University with a B.S. in Industrial and Labour Relations.

***Turki AlMehaid – Head of Customer Care Group***

Turki AlMehaid joined BSF in 2005 and prior to his current position has worked in a number of roles including in the Corporate Banking Group, Private Banking Group, Compliance Group and the Consumer Protection and Customer Complaints Division. Turki holds a bachelor's degree in business administration from King Saud University and an MBA from AlYamamah University where he was placed on the "Dean's list of honour". He has a diploma in international leadership from Washington State University and is also a certified compliance officer. Throughout his career, he has attended over 80 courses spanning across corporate banking, compliance, anti-money laundering, credit advisory, personal banking, customer service and management.

***Sander Ardoom – Deputy Chief Financial Officer***

Sander Ardoom was appointed Deputy Chief Financial Officer of BSF in February 2022. Sander is a Dutch national, chartered accountant, with 30 years of experience gained in audit and financial services. Sander started his career with EY where he was trained in auditing and consulting, and then moved to ING Group where he worked in the context of diverse cultural environments and various banking business models. Since 2004 he has held CFO roles at ING's corporate banking units in Czechia and Slovakia, universal bank in Romania, retail bank in Australia and at ING Group in the Netherlands as global CFO for transformation, technology & operations. His last role was CFO and Board Member of a leasing company with operations in the Netherlands and the Central & Eastern European region.

***Thamer M. Youssef – Chief Operations Officer***

Thamer Youssef is currently Chief Operating Officer & Head-Information Systems at BSF, prior to which he was Chief Information Officer. Mr. Thamer Youssef has a history of working in the banking industry and is experienced in financial risk, banking, portfolio management and ICT management. Before working at BSF, he was head of information systems department at Saudi British Bank. He also worked as information technology manager at Samba Financial Group for ten years. Mr. Thamer Youssef holds a bachelor's degree in computing engineering from King Saud University.

***May Alhoshan – Chief Human Capital Officer***

May Alhoshan joined BSF in August 2018 as Chief Human Capital Officer. Previously, she was at Alawwal bank as the human resources general manager responsible for leading BSF's HR transformation. With extensive experience in the HR field, she has led various change and transformation tracks covering organisational development, performance management and leadership development. Prior to joining Alawwal bank, May was the head of human capital management at NCB Capital and was part of the founding management team dating back to the inception of NCB's investment arm. Her previous roles include managing leadership development, high potential programmes, and organisational/human capital strategy. May serves as a board and NRC member at Care. May holds a bachelor's degree in business administration and organisational behaviour from Boston University of Management and a master's in engineering management and knowledge management from George Washington University.

***Mutasim Mufti – Chief Risk Officer***

Mutasim Mufti has twenty-six years of experience in Saudi banking, primarily covering the corporate (wholesale) banking sector. Mutasim joined BSF's risk management group in April 2018 as Deputy Chief Risk Officer where he focused on shaping a sustainable loan portfolio while working closely with the CRO to deliver

on the wider mandates under the risk group. Most recently, Mutasim was promoted, in January 2021, to the position of Acting Chief Risk Officer where he oversees a wide risk mandate.

***Abdulaziz Al-Molhem – Regional General Manager – Eastern Region***

Abdulaziz Al-Molhem has held the position of Regional General Manager in Eastern Region at BSF for more than ten years and has 35 years of diverse experience in the banking industry with a focus on banking operations and management. Abdulaziz started his career in BSF under the professional training programme in the Al Khobar Branch and held various positions in BSF, including retail and commercial credit officer, corporate relations officer, human resources manager-eastern province, branch manager and network manager. In 1995, he worked for Saudi Hollandi Bank/AlAwwal Bank, where he was in charge of marketing and remote delivery channels and held various senior positions and committee memberships, including head of personal banking group, regional manager, chairman of the consumer banking committee, acting in-charge for the marketing department, member of the new core banking system steering committee, member of the strategic change programme committee, stream leader of the strategic change program and member of the maximum growth strategy committee.

***Abdallah Alshaikh – Head of Legal & Governance, Corporate Secretary***

Abdallah Alshaikh was appointed Head of Legal & Governance in 2018. With more than 15 years of relevant experience, he has worked in the legal division of BSF's regulators (SAMA and CMA) and has enjoyed international experience through working overseas with both Dentons LLP and NASDAQ OMX Group. Before joining BSF, Abdallah has served as the head of legal & corporate secretary of both Samba Capital and Samba Financial Group. Abdallah holds a bachelor's degree in law from King Saud University, Saudi Arabia, and a master of law from Harvard Law School.

***Abdalmohsen Alrayes – Chief Audit Officer***

Abdalmohsen Alrayes was appointed Chief Audit Officer in BSF in August 2017. With 34 years of experience in the banking industry, his career has developed from the position of branch Manager to his current position. Abdalmohsen started his career at Saudi British Bank as a branch manager in 1982 and in 1989, he then worked for two years as the senior retail manager of the central region. After that, he moved to the Saudi Industrial Development Fund as the head of international recruitment for five years. He spent nearly 20 years at Arab National Bank, where he held the positions of regional manager of the central region (1998 – 2001), head of retail operations (2001 – 2003) and head of internal audit division. Through these roles, Abdalmohsen developed his expertise in business development and banking operations. He has experience in audit, banking operations, banking regulations, retail banking, risk management, compliance and has extensive knowledge of international standards and best practices of internal auditing.

***Yasser Al Ansari – Chief Compliance Officer***

Yasser Al Ansari is well-known in the financial industry and has over 20 years of banking experience, in particular, in the international retail banking industry. Yasser specialises in product management and development, with wide knowledge of both conventional and Islamic banking products, technology and services and associated industry regulations. He has an extensive compliance / FCC background in several aspects of banking.

***Zuhair Mardam – Chief Treasury and Investment Officer***

Zuhair Mardam was appointed as Chief Treasury and Investment Officer of BSF in October 2022. Prior to his current position, Mr. Mardam served as BSF's Head of Global Markets Group and managed BSF's interbank activities, which included trading, funding and investments. He joined BSF in 2004 as a fixed income and derivatives trader. Zuhair has 18 years of markets experience in the Saudi banking sector. Zuhair holds a B.Sc. in finance from Prince Sultan University in Riyadh and has attended several professional development programs

including IMD's advanced management program, INSEAD's leadership program, and the University of Michigan's senior executive leadership program.

***Majed Abdulrahman Al Sadhan – Head of Wholesale Banking Group***

Majed Abdulrahman Al Sadhan was appointed as Head of BSF's Wholesale Banking Group in November 2022. Prior to his current position, Mr. Al Sadhan served as BSF's Head of Corporate Banking and Regional Head for Corporate Banking. Prior to joining BSF, Mr. Al Sadhan was the head of institutional banking of Gulf International Bank and a team leader in corporate and commercial banking division of Saudi British Bank. Mr. Al Sadhan holds a master's degree in accounting and finance from the University of Southampton and a bachelor's degree in accounting from the King Faisal University.

***Mazen Al-Shehri – Head of Enterprise Project Management***

Mazen Al-Shehri joined the Retail Banking Group of BSF in 2017 and has extensive expertise in banking transformation and change management. Mazen established and currently runs the Enterprise Project Management Office of BSF which provides independent oversight and the ongoing execution of BSF's key strategic initiatives. Prior to his current position, Mazen led a number of strategic programmes in the Retail Banking Group and assumed the role of Retail Banking Group Champion since its inception until the end of 2022. Mazen holds a bachelor's degree in information technology and computer science. Prior to joining BSF, Mazen held numerous roles at Saudi British Bank, Riyad Bank and Emirates NBD Bank PJSC where he led the execution of a number of strategic initiatives to enable digital transformation and enhance operational efficiencies.

**Employees**

As at 30 September 2023, BSF had around 3,072 employees. BSF has an increasingly young and diverse workforce, with individuals under the age of 40 comprising 87.30 per cent. of joiners during 2023.

## BANKING INDUSTRY IN THE KINGDOM OF SAUDI ARABIA

### General

According to SAMA's website, there are 36 commercial banks licensed to operate in the Kingdom, of which 14 are incorporated in the Kingdom with three banks being digital banks (namely STC Bank, D360 Bank and Saudi Digital Bank) that have been recently licensed by SAMA but not yet commenced their operations. Of the remaining 22 licensed foreign banks, six are branches or subsidiaries of banks based in other GCC countries (namely Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, First Abu Dhabi Bank, Bank Muscat and Qatar National Bank), ten are international banks (namely J.P. Morgan Chase, N.A., BNP Paribas, Deutsche Bank, T.C. Ziraat Bankası A.Ş., MUFG Bank, Ltd., National Bank of Pakistan, Industrial and Commercial Bank of China, Credit Suisse Bank, Standard Chartered Bank and National Bank of Iraq) and six have been licensed but are yet to commence operations under their licences (namely Trade Bank of Iraq, Bank of China Limited, Banque Misr, Sohar International Bank, National Bank of Egypt and Bank of Jordan).

All 11 Saudi (non-digital) banks provide a broad range of retail and wholesale banking products and services. Al Rajhi Bank, Bank Albilad, Bank AlJazira and Alinma Bank provide *Shari'a*-compliant products and services only. The remaining seven banks provide a combination of *Shari'a*-compliant and conventional banking products and services. Apart from Gulf International Bank Saudi Arabia, all of the 11 Saudi operating banks are publicly listed with their shares traded on the Saudi Exchange.

In addition to the commercial banks, there are a number of state-run credit institutions, including the Saudi Industrial Development Fund, the Islamic Development Bank, the Real Estate Development Fund, the Saudi Arabian Agricultural Bank, and the Saudi Credit & Saving Bank, which provide funds for targeted sectors. In addition, the Public Investment Fund ("**PIF**"), the investment arm of the Government, and Hassana Investment Company, the investment arm of the General Organisation of Social Insurance, fund and support local projects and companies with their investments in the Kingdom ranging across sectors, geographies and asset classes. SAMA does not regulate any of these entities.

As at 30 September 2023, there were 1,896 bank branches, 16,052 ATMs and 1,658,030 points of sale terminals in the Kingdom (source: SAMA September 2023 Monthly Statistics).

Key highlights of the trends and outlook for the banking industry in the Kingdom are as follows:

- liquidity and funding are expected to remain solid against a backdrop of limited growth;
- a move towards digitisation with the rising sophistication and education of an increasingly young Saudi population, simultaneously driving demand for retail banking services in the Kingdom;
- fee-based services and products for retail markets are proliferating, the focus being turned to non-funded business volumes and cross-selling opportunities; and
- Islamic banking continues to be an area of growth.

### History

Prior to 1976, a number of wholly foreign-owned banks operated branches and subsidiaries in the Kingdom.

In 1976, the Government issued a directive requiring all banks operating within the Kingdom to convert to entities incorporated locally with at least 60 per cent. of the shares held by Saudi nationals.

In 2000, the first branch of a foreign bank was authorised to open in the Kingdom in over 40 years, in connection with changes in GCC countries' policies concerning cross-border banking. The new entrant was Gulf



Investment Bank (“**GIB**”), an offshore bank based in Bahrain and owned by the six GCC states. GIB had been active in the Kingdom for many years, but having a branch in the Kingdom allowed it to compete at close hand. SAMA has since granted a number of banking licences to foreign banks. In May 2020, GIB converted its branch into a locally incorporated bank jointly owned by the PIF and GIB. In April 2021, The National Commercial Bank (“**NCB**”) and Samba National Bank merged, with NCB being the surviving entity. NCB was renamed into The Saudi National Bank. In March 2022, Alawwal Bank and Saudi British Bank (“**SABB**”) merged, with SABB being the surviving entity.

There are also non-bank competitors in brokerage and personal finance. The Kingdom’s banking sector has seen an accelerating competitive convergence focused on Islamic banking, private and affluent segments and brokerage and investment banking, as well as significant investments in new distribution, marketing and technology.

Following the licence granted to GIB in 2000, SAMA granted licences to the following foreign banks, all of which have set up branches or subsidiaries that are currently operating in the Kingdom: Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, Bank Muscat, J.P. Morgan Chase, N.A., BNP Paribas, Deutsche Bank, National Bank of Pakistan, T.C. Ziraat Bankası A.Ş., Industrial and Commercial Bank of China, Qatar National Bank, First Abu Dhabi Bank, MUFG Bank, Ltd., Credit Suisse Bank, Standard Chartered Bank and National Bank of Iraq. The Government also developed the capital markets sector in the Kingdom with the enactment of the Capital Market Law (issued by Royal Decree No. M/30 dated 02/06/1424H (corresponding to 31 July 2003), as amended by Royal Decree No. M/16 dated 19/01/1441H (corresponding to 18 September 2019)) which also established the CMA. In line with the Government’s overall desire to develop and boost the capital markets in the Kingdom, the CMA has encouraged the participation of foreign investment banks. According to its website, the CMA has licensed 163 entities to conduct various types of securities business in the Kingdom as at September 2023, although a number of those licensed entities have not yet commenced business.

## **Corporate Banking Segment**

The majority of commercial banking assets in the Kingdom are loans to businesses and, as at 30 September 2023, banks’ claims on the private sector constituted SR 2,476 billion equal to 63.47 per cent. of total commercial banks’ assets (source: SAMA, September 2023 Monthly Statistics). This has been driven by the strong economic growth and increased investment within the Kingdom in various sectors such as electricity, water and health services, building and construction, commercial and Government projects in oil and gas, infrastructure and education. Government stimulus to the economy has contributed to the growth in corporate assets.

Commercial mortgages are a lucrative business in developed countries but have historically faced legal and operational hurdles in the Kingdom. However, with the introduction of the Commercial Mortgage Law in 2018 (issued by Royal Decree No. M/86 dated 08/08/1439H (corresponding to 24 April 2018)), some of these legal hurdles have been addressed, now permitting floating charges and codifying the order of priority of security. Banks in the Kingdom have thus become more active in providing commercial mortgages. However, financing provided for real estate development purposes remains a more common and widespread product.

Investment banking activities have been growing rapidly in the Kingdom. Project finance has also been a strong growth area with several projects being financed in recent years and new investments in infrastructure and industry being planned, in line with the reform and stabilisation programmes being implemented to reduce the dependency of the Kingdom’s economy on oil-related revenues.

## **Personal Banking Segment**

Consumer lending increased from SR 428.4 billion as at 31 December 2021 to SR 444.4 billion as at 30 September 2023 (source: SAMA, September 2023 Monthly Statistics). Historically, growth in consumer finance has been driven by several factors, including:

- economic growth coupled with favourable consumer demographics;
- growth of the credit card market;
- product innovation and a rapidly expanding range of product and service offerings; and
- the creation of SIMAH (as defined below).

The value of the credit card loans market was SR 26.5 billion as at 30 September 2023, up from SR 19.5 billion as at 31 December 2021 (source: SAMA, September 2023 Monthly Statistics). The credit card loan market is expected to grow as a result of the increasing use of electronic forms of payment within the Kingdom. The majority of personal lending is tied to electronic salary assignment, thereby enhancing asset quality and effectively reducing the risk associated with personal lending which, coupled with higher margins than in corporate lending, has made personal finance a particularly attractive segment for banks in the Kingdom.

Residential mortgage lending decreased from SR 152.5 billion as at 31 December 2021 to SR 120.3 billion as at 31 December 2022, with SR 18.4 billion provided for the three months ended 30 September 2023, according to SAMA's September 2023 Monthly Statistics.

## **The Saudi Credit Bureau**

In 1998, SAMA and the domestic banks operating in the Kingdom conducted a study with regard to establishing a centre or a company to provide credit information. As a result, the Saudi Credit Bureau ("SIMAH") was established in 2002 and began operating in 2004. In 2008, the Council of Ministers issued a decision approving the Credit Information Law (issued pursuant to Royal Decree No. M/37 dated 05/07/1429H (corresponding to 8 July 2008)), which sets out general principles and controls for the collection, exchange and protection of credit information of consumers as further detailed by the Credit Information Implementing Regulations (issued pursuant to Administrative Decision No. AQ/13709 dated 22/09/1432H (corresponding to 22 August 2011)). SIMAH, which is supervised by SAMA, was the first credit information company to be established in the Kingdom and offers consumer credit information services to its members in the Kingdom. SIMAH aggregates credit-related information among participating members to provide credit providers with credit risk information. In 2014, SIMAH was transformed from a limited liability company into a closed joint stock company with the major Saudi domestic banks as shareholders. A number of SIMAH's projects were acknowledged by the G-20 based on an initiative of the Financial Stability Board (of which SAMA is a member), aimed at helping financial institutions to evaluate risks in a systematic and effective manner and put regulatory and operational requirements in place, and develop products and services, to ensure stability and efficiency of the financial sector.

## **Bayan Credit Bureau**

Bayan Credit Bureau was established as a closed joint stock company and began operating in 2015. It is supervised by SAMA, provides banks and other companies in the Kingdom with trade credit information, financial statements, commercial registration information and management information on over one million companies in the Kingdom.

## **Islamic Finance**

Islamic finance has been a growth area for the Saudi financial economy.

In the banking industry in the Kingdom, there is no differentiation between conventional and Islamic banking as all banks generally have to comply with the underlying *Shari'a* law in the Kingdom. Hence, none of the banks is called an 'Islamic bank' and all laws and regulations issued by SAMA apply to all banks licensed in the Kingdom equally. In particular, all banks in the Kingdom are required to have *Shari'a* committees (or external *Shari'a* counsel if outsourced) which provide independent opinions on the extent of compliance with *Shari'a* principles. Currently, a wide range of *Shari'a*-compliant products are available in the market for the corporate and personal banking segments covering credit, deposit, investment and treasury offerings.

The personal banking segment has experienced the strongest demand for Islamic banking products and services with consumer Islamic assets forming the bulk of total consumer assets. In addition to deposit products, Islamic financing solutions include personal finance, home finance and Islamic credit cards. With growing business activity in the real estate sector and a growing population, *Shari'a*-compliant home financing is expected to be a major driver of Islamic personal banking asset growth in the future.

Credit demand from the corporate banking segment is rapidly growing following the launch of infrastructure projects and increasing interest in manufacturing. The main product offerings include *Ijara* and *Murabaha* and are offered as bilateral facilities, as well as through syndications. To cater to this market segment, domestic banks have also introduced innovative *Shari'a*-compliant solutions. In recent years, there have been several large size Islamic project finance transactions attracting the participation from a large number of banks.

The Islamic banking segment is expected to continue to grow with credit demand anticipated from corporate and consumer segments. It is also expected to be accompanied by an increase in innovative Islamic product offerings and growing awareness and demand within the general public for sophisticated *Shari'a*-compliant solutions.

## **Treasury**

The treasury activities of banks in the Kingdom have increased over the past few years as the financial markets have become more sophisticated with the increased use of financial instruments. Capable banks in the Kingdom are able to offer their customers structured products that make use of derivatives and that are also *Shari'a*-compliant.

## **Investment Banking and Asset Management**

Brokerage services activity flourished between 2003 and 2006, when the Saudi Exchange peaked to all-time highs. The level of the Tadawul All Share Index was 8,689 as at 31 December 2020, 11,281.71 as at 31 December 2021, 10,478.46 as at 31 December 2022 and 11,040.17 as at 1 October 2023.

As a response to the Government's drive to develop an efficient capital markets platform, a number of banks, including BSF, embarked on providing corporate finance and equity and debt capital markets advisory services to companies. Since 2003, a number of IPOs have been effected, several of which were Government initiatives.

A number of banks in the Kingdom have established separate subsidiaries that were consequently licensed by the CMA to engage as principal or agent in equity lead arrangements, equity management arrangements and/or advisory and securities custody services.

Foreign financial institutions have been permitted to buy and sell shares directly in companies listed on the Saudi Exchange since 2015. Restrictions for Qualified Foreign Investors (QFIs) have also been relaxed in May 2023 by the Saudi Capital Market Authority which revised the applicable regulations, allowing QFIs to invest in securities and face fewer investment limits. With these improvements, the number of registered QFIs on the Saudi Exchange surged from 118 at the end of 2017 to 3,151 by the end of 2022. As a percentage of trading,

QFIs accounted for 19.6 per cent. of the trading value on the Saudi Exchange's Main Market at the end of 2022, up from 10.5 per cent. in 2021.

In March 2019, the Kingdom was included in the FTSE Russel Emerging Index and S&P Dow Jones Market Indices and in August 2020, the Saudi Exchange launched a new derivatives market as part of its strategy to diversify its product offering and provide more investment opportunities for market participants. Investors are able to trade the Saudi Futures 30, based on the MSCI Tadawul 30 Index, from 30 August 2020.

Furthermore, the Saudi Exchange has established formal links with Euroclear and Clearstream, Luxembourg in June 2021, giving investors greater access to trade sukuk and conventional bonds. In 2022, towards the realisation of Vision 2030, the Saudi Exchange implemented the most extensive bundle of post-trade enhancements in its history and a new single stock futures product offering on the derivatives market. The same year, it also saw its first dual listing of Americana Restaurants, with the Abu Dhabi Securities Exchange ("**ADX**"). This followed a 2019 agreement with ADX to encourage cross listings. New agreements have also been signed with the Muscat Stock Exchange to allow companies to list on both markets and, since July 2021, with the Swiss Stock Exchange to collaborate on cross-listings, ESG standards, and other areas of innovation. In addition, in April 2022, sukuk and bonds saw their first inclusion in a global index, when the Saudi sukuk market joined the FTSE Russell Emerging Market Government Bond Index.

## SAUDI ARABIAN BANKING REGULATION AND SUPERVISION

### SAMA

SAMA is the regulator and supervisor of licensed financial institutions, including banks, finance companies (including real estate finance companies), money exchange companies, payment service providers and credit information companies in the Kingdom.

SAMA was established pursuant to Royal Decree No. 30/4/1/1046 dated 25/07/1371H (corresponding to 20 April 1952) and renamed by the Royal Decree No. M/36 dated 11/04/1442H (corresponding to 26 November 2020) to “Saudi Central Bank” while maintaining the acronym “SAMA”. SAMA’s principal functions include:

- issuing the national currency;
- issuing regulations and instructions related to financial institutions;
- managing the Kingdom’s foreign exchange reserves;
- managing monetary policy for maintaining price and exchange rate stability;
- promoting the growth of the financial system and ensuring its soundness;
- supervising commercial banks and exchange dealers;
- supervising finance companies (leasing and real estate); and
- supervising credit information companies.

### Banking Control Law

The Banking Control Law was issued by Royal Decree No. M/5 dated 22/02/1386H (corresponding to 11 June 1966) (the “**Banking Control Law**”) with the aim of protecting banks, customers’ deposits and shareholders and securing adequate liquidity levels. The Banking Control Law prohibits banks from undertaking certain activities that might cause damage to their shareholders and customers. In addition, the law prohibits individuals and companies from using the word “bank” or its synonyms in their names or conducting any banking activities without obtaining a licence from SAMA. The Banking Control Law sets out the framework within which banks must operate in the Kingdom and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars and directives are generally not made publicly available outside the banking sector.

### Consumer Protection

SAMA has been a strong advocate of consumer protection since the issuance of its charter in 1952 and the Banking Control Law. Consequently, SAMA has played an important role in ensuring that financial institutions under its supervision deal with consumers fairly and honestly.

As the Kingdom’s financial sector evolves and grows, SAMA continues to review these developments and decides on appropriate regulatory and organisational changes to provide the level of consumer protection expected from a country that is a member of the world’s main economic and financial organisations. SAMA’s current objective is to ensure that all consumers dealing with licensed financial institutions in the Kingdom receive the expected level of consumer protection including fair treatment, honesty and ease of access to financial products and services at a reasonable cost.

SAMA has set out the conduct expected from such financial institutions through various regulations, policies and issued instructions including the ‘Banking Consumer Protection Principles’ (the “**Principles**”) issued in

June 2013, which are based on the ‘General Principles for Financial Consumer Protection’ developed by the Organisation for Economic Co-operation and Development (the “OECD”) in 2011.

The Principles set out key guidelines to enable licensed banking institutions to deliver the required level of fair treatment, honesty and financial inclusiveness thereby meeting SAMA’s strategic objective for financial consumer protection in the Kingdom. The Principles apply to the activities of banks operating by way of a licence, under the supervision of SAMA and dealing with persons who are, or may become consumers. They also apply to the activities of any third party engaged by such banks to undertake any outsourced activities. The Principles are binding on all such banks, complementary to the instructions and internal regulations issued by any such bank and applicable to all transactions that are made with individual consumers.

The Principles are further underpinned by the Responsible Lending Principles for Individual Consumers (issued by SAMA under Circular No. 46538/99 dated 02/09/1439H (corresponding to 17 May 2018), as amended by SAMA’s Circular No. 40694/1 dated 09/09/1439H (corresponding to 24 May 2018)) which aim to:

- (iv) encourage responsible lending that meets the actual needs of consumers, especially those related to owning housing and assets rather than consumer purposes;
- (v) enhance financial inclusion by providing adequate financing for all segments of society, taking into account reasonable deductible ratios that the consumer can afford; and
- (vi) focus on ensuring fairness and competitiveness among creditors to make sure that their procedures and mechanisms are effective and efficient.

The Responsible Lending Principles for Individual Consumers apply to all creditors and finance activities directed at consumers, encompassing all credit products and programmes designed for individuals, including, among others, personal finance, vehicle finance, credit cards and real estate finance.

In April 2018, SAMA issued the Debt Collection Regulations and Procedures for Individual Consumers applying to banks and finance companies under SAMA’s supervision which set out debt collection procedures in relation to consumers and procedures for dealing with defaulting retail consumers, as well as controls governing the communication with retail consumers and their guarantors in order to enable creditors to follow clear and specific procedures while protecting the rights of all relevant parties.

Further consumer protection legislation which supplements the Principles issued by SAMA (the Regulations for Issuance and Operations of Credit and Charge Cards) relates to the issuance and operation of credit and charge cards issued by banks, finance companies and other card issuers supervised by SAMA.

In September 2022, SAMA published updated Financial Consumer Protection Principles and Rules (the “**Consumer Finance Regulations**”). The Consumer Finance Regulations contain a number of provisions relating to the protection of consumer rights, including:

- in relation to the fees, commissions and administrative service charges levied across all banks in the Kingdom;
- requiring financial institutions in the Kingdom to develop appropriate data protection and information privacy policies;
- providing customers with summaries of their financings, which include basic details of the financing and also reference key provisions of the financing;
- prescribing rules and standards in relation to how banks deal with customers; and
- emphasising the principles of transparency and disclosure in consumer finance contracts.

The Consumer Finance Regulations are aimed at ensuring that consumer finance contracts have enhanced levels of disclosure and transparency and are aimed at, among other things, enabling customers to be better informed of their rights and obligations under their financings.

## **Real Estate Financing and Finance Leasing**

In August 2012, the Saudi Council of Ministers issued a package of legislation in relation to the finance industry including real estate financing issued by Royal Decree No. M/50 dated 13/08/1433H (corresponding to 3 July 2012) (the “**Real Estate Finance Law**”), leasing financing issued by Royal Decree No. M/48 dated 13/08/1433H (corresponding to 3 July 2012) (the “**Finance Lease Law**”) and supervision of financial companies issued by Royal Decree No. M/51 dated 13/08/1433H (corresponding to 3 July 2012) (the “**Law on Supervision of Finance Companies**”), in each case, as further described below. In February 2013, SAMA issued the implementing regulations of these laws.

In June 2020, SAMA issued guidelines on the provision of real-estate financing products to individuals. These guidelines set out the minimum requirements on the financier providing real-estate financing products to individuals.

### ***Real Estate Finance Law***

This law provides the regulatory architecture in relation to the authorisation and licensing of banks and finance companies to enter the real estate financing market. In particular:

- banks may own real estate for the purposes of real estate finance – a key feature of Islamic financing products;
- the Government publicises real estate market activity and financiers are granted access to courts and notary registers; and
- a credit check must be conducted against borrowers through one of the authorised credit bureaus.

The Implementing Regulations of the Real Estate Finance Law define the role of finance companies and set out the requirements for entering into and registering a real estate finance lease. The Implementing Regulations of the Real Estate Finance Law also set out the SAMA’s requirements for licensing refinance companies as well as the rules governing the activities of refinance companies.

### ***Finance Lease Law***

This law prescribes the rules relating to finance leasing, the finance leasing contract, register, violations and disputes. It specifically provides that:

- the responsibilities of the lessor and lessee must be carried out in a *Sharia*-compliant manner (placing asset risk on the lessor during the lease term but making the lessee responsible for the relevant use);
- the transfer of leased assets is permitted to the lessee upon maturity of the lease term; and
- the lessor is permitted to request payments of future rentals if the lessee is in payment default, provided the number of such payments is not greater than the number of late payments.

### ***Finance Companies Control Law***

This law provides a regulatory and supervisory framework for *Sharia* compliant finance companies to provide SAMA approved forms of financing, including real estate financing. It sets out the licensing procedure for finance companies, permitted activities of finance companies, requirements in relation to its management and the violations and limits of penalties that can be imposed.

However, regulations surrounding items such as capital adequacy, loan to value ratios, transaction costs and consumer rights have yet to be announced.

*The Implementing Regulations of the Law on Supervision of Finance Companies Control Law* were issued by H.E. the Minister of Finance's Resolution No. 2/MCS 14/04/1434H (corresponding to 24 February 2013). These implementing regulations set out the SAMA's rules and requirements for licensing finance companies. Furthermore, the Implementing Regulations of the Law on Supervision of Finance Companies Control Law contain corporate governance requirements, internal auditing requirements and other rules which the finance companies must comply with in order to maintain their licence.

#### *Implementing Regulations of the Finance Lease Law*

The Implementing Regulations of the Finance Lease Law were issued by H.E. the Governor of the SAMA (with the agreement of H.E. the Minister of Justice) pursuant to Governor's Resolution No. 1/MCS on 14/04/1434H (corresponding to 24 February 2013). The Implementing Regulations of the Finance Lease Law set out the rights and obligations of the lessor and lessee in a finance lease. These implementing regulations also outline rules relating to assignment of rights, instalment payments and ownership rights of the relevant parties. Furthermore, these implementing regulations specify the requirements for establishing a company that registers finance leases and the requirements for such companies to register finance leases.

### **Capital Market Authority**

The Capital Market Authority (the "CMA") was established by the Capital Market Law, issued by Royal Decree No. M/30 dated 02/06/1424H (corresponding to 31 July 2003) as amended by Royal Decree No. M/16 dated 19 January 1441H (corresponding to 18 September 2019) (the "CML"). The CMA is a governmental organisation with financial, legal and administrative independence.

The CMA regulates the Kingdom's capital markets. It issues the required rules and regulations for the implementation of the provisions of the CML aimed at creating an appropriate investment environment. Some of the CMA's major objectives are to:

- regulate and develop the capital market;
- protect investors and the general public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading;
- achieve fairness, efficiency and transparency in securities transactions;
- develop measures to reduce the risks pertaining to securities transactions;
- develop, regulate and monitor the issuance of, and trading in, securities;
- regulate and monitor the activities of entities subject to the control of the CMA;
- regulate and monitor the full disclosure of information related to securities and their issuers; and
- regulate proxy and purchase requests and public share offerings.

In addition, the CML established the Committee for the Resolution of Securities Disputes and the Appeal Committee for the Resolution of Securities Disputes. Both of these committees are quasi-judicial bodies authorised to adjudicate disputes and violations in respect of the Capital Market Law or the rules and regulations of the CMA and/or Tadawul.



## **The Saudi Exchange (Tadawul)**

On 19 March 2007, the Saudi Council of Ministers approved the formation of the Saudi Stock Exchange (Tadawul) Company (now called the Saudi Exchange which is a wholly-owned subsidiary of the Saudi Tadawul Group). This was in accordance with Article 20 of the CML establishing the Saudi Exchange as a joint stock company for the purposes of issuing and managing mechanisms for listing and trading securities and disclosure of information related to it. The Saudi Exchange is responsible for the executive and operational functions in the market. It is the only authorized body to manage the stock market and it aims to provide efficiency and justice in trading as well as transparency in listing requirements, technical trading systems, securities information systems in the market in addition to providing systems with high levels of efficiency for settlements and clearing and applying the professional standards for brokers and their agents in the market.

In the early 1980s, the Government embarked on forming a regulated market for trading. In 1984, a Ministerial Committee composed of the Ministry of Finance and National Economy, the Ministry of Commerce and SAMA was formed to regulate and develop the market. SAMA was the government body charged with regulating and monitoring market activities until the establishment of the CMA in July 2003. As the sole regulator and supervisor of the capital markets, the CMA issues the required rules and regulations to protect investors and ensure fairness and efficiency in the market.

In April 2021, a holding company called Saudi Tadawul Group was established in anticipation of an initial public offering of its shares later that year. Four subsidiaries were established under the holding company: the Saudi Exchange, the Securities Clearing Center Company (Muqassa), the Securities Depository Center Company (Edaa) and Wamid, a new technology services business. The Saudi Exchange was established in March 2021. As the Kingdom's dedicated stock exchange and the largest stock exchange in the Middle East, the Saudi Exchange carries out listing and trading in securities for local and international investors. As the official source of all market information, the Saudi Exchange is instrumental to achieving long-term growth plans for the Saudi Tadawul Group and providing market participants with attractive and diversified investment opportunities.

The Saudi Exchange is the 9<sup>th</sup> largest stock market among the 67 members of the World Federation of Exchanges and is the dominant market in the GCC. It is the 3<sup>rd</sup> largest stock market amongst its emerging market peers, an affiliate member of the International Organization of Securities Commissions, the World Federation of Exchanges, and the Arab Federation of Exchanges.

The legal status, duties, and responsibilities of the Saudi Exchange and the Securities Depository Centre are defined in the CML.

## **Management of Liquidity and Credit Risk**

Under the Banking Control Law, each bank shall at all times maintain a liquidity reserve of at least 15 per cent. of its total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding 30 days in order to comply with the requirements of the Banking Control Law. In addition, SAMA requires banks to maintain a statutory deposit of no less than 15 per cent. of its deposit liabilities. Moreover, SAMA may modify the statutory deposit for banks if SAMA deems it to be in the public interest provided that the statutory deposit is at least 10 per cent. and not more than 17.5 per cent. (whereby SAMA may exceed these thresholds with prior approval of the Minister of Finance).

Under SAMA Rules on Large Exposures for Banks, as updated in August 2019, a bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding:

- in the case of banks, 25 per cent. of its total eligible capital; however; if the lending bank and/or the counter party bank are/is classified as a “Domestically Systematically Important Bank” or a “Globally Systematically Important Bank”, then the sum of all exposures of the lending bank to its counter party bank cannot exceed 15 per cent. of the lending bank’s available eligible capital base at all times;
- in the case of companies, 15 per cent. of its total eligible capital;
- in the case of individuals, sole proprietors and partnerships, 5 per cent. of its total eligible capital; and
- in the case of a group of connected parties, 15 per cent. of a bank’s eligible capital base at all times.

SAMA also has the power to regulate the liquidity and the credit risk of a bank by restricting, among other things, the maximum amount of money which may be loaned by a bank, the level of a bank’s exposure to single customer and the categories of loans which a bank can make. These restrictions may vary from bank to bank depending on the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided for in the Banking Control Law.

SAMA carries out a review of the operations of each bank every three years. SAMA has also intervened to support banks that have found themselves in difficulties. Similarly, it allowed distressed banks to benefit from low cost of funding in the 1980s.

## **Reporting Requirements**

Banks are required to submit monthly statements of the consolidated financial position of their domestic and foreign branches. Banks also have to submit quarterly, semi-annual and annual reports to SAMA. These reports are comprehensive and deal with matters like the maturity schedule of credit facilities, risk concentrations, large exposures, foreign exchange exposure, analysis of specific loan loss reserves and a calculation of the relevant bank’s risk asset-based capital adequacy.

Banks are required to submit their audited consolidated annual financial statements to SAMA within six months of each financial year-end and listed banks are required to report within three months in accordance with the CMA Rules on the Offer of Securities and Continuing Obligations. Annual consolidated financial statements have to be audited by at least two independent joint auditors. The published audited consolidated financial statements of Saudi banks are required to be compliant with IFRS as endorsed in the Kingdom and other standards and pronouncements issued by SOCPA. The consolidated financial statements are also required to be in compliance with the provisions of the Banking Control Law, the Companies Law and the by-laws of the bank. Listed joint stock companies are required to publish quarterly financial statements as their stocks are listed on Tadawul. However, quarterly financial statements are reviewed by the auditors in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and are limited in terms of the scope of procedures performed.

Since SAMA introduced mandatory disclosure standards, there has been an improvement in the level of disclosure by Saudi banks. Banks now publish a breakdown of loans by sector and geography, in addition to loans to the Government and related parties. Banks also report doubtful loans, loan loss reserves and write-offs.

## **Anti-Money Laundering and Counter-Terrorist Financing**

The Kingdom is a signatory to, and has implemented measures required by, the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the “**1988 Vienna Convention**”), the International Convention for the Suppression of the Financing of Terrorism and various other international conventions and agreements relating to money laundering and terrorist financing.

Money laundering is considered an offence under the Kingdom's laws. Over the past 10 years, the Kingdom has put into place a comprehensive legislative and regulatory framework that deals with preventing money laundering and terrorist financing. The Kingdom implemented its first customer identification procedure in 1975. Beginning in the mid-1990s, the Kingdom began to put in place a more expansive anti-money laundering regime with the issuance of the 1995 anti-money laundering manual and several other circulars from SAMA and other government agencies.

In April 2003, SAMA issued updated Rules Governing the Opening of Bank Accounts and General Operational Guidelines (SAMA No. 3222/BCI/60: dated 8 April 2003) (the “**Account Opening Rules**”). The Account Opening Rules contain comprehensive requirements governing customer identification, the opening and maintenance and operations of bank accounts. Furthermore, the Account Opening Rules were updated multiple times, and lastly in February 2022. These changes added additional requirements and provided guidelines on dealing with non-resident individuals, entities and multi-lateral organisations, and made certain additions to the list of legal entities subject to KYC requirements and account operating controls and increased the KYC required information for corporate clients, and lastly, amended the requirements to open bank accounts for e-commerce firms and resident companies and introduced new rules on the timeframe for opening bank accounts.

In October 2017, the anti-money laundering law and implementing rules were replaced by the Anti-Money Laundering Law and its Implementing Regulations issued pursuant to Royal Decree No. M/20 dated 05/02/1439H (corresponding to 25 October 2017) and the Combating-Terrorism Crimes and its Financing Law issued pursuant to Royal Decree No. M/21 dated 12/02/1439H (corresponding to 1 November 2017) and its Implementing Regulations issued pursuant to Ministerial Decision No.228 dated 02/05/1440H (corresponding to 8 January 2019) (together, the “**AML Law**”) which provides an up-to-date legal framework for money laundering and terrorist financing offences.

In November 2019, SAMA issued the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Guide setting out the requirements of the updated AML Law for financial institutions and requiring all financial institutions operating in the Kingdom and supervised by SAMA to strictly comply with such requirements as well as requesting financial institutions to put in place additional appropriate measures as required by the result of their internal risk assessment.

Similarly, the CMA required capital market institutions to comply with the AML Law under the Capital Market Institutions Regulations issued by the Board of the CMA pursuant to its resolution number 1-83-2005, dated 21/05/1426H (corresponding to 28 June 2005), as last amended by the Board of the CMA pursuant to its resolution number 1-94-2022 dated 24/01/1444H (corresponding to 22 August 2022).

In August 2020, SAMA issued guidelines to combat financial fraud in banks operating in the Kingdom. The guidelines aim to institutionally tackle fraud, bribery and corruption by requiring all banks operating in the Kingdom to implement and comply with specified controls as minimum standards.

In April 2021, the Kingdom issued the Law on Combating Financial Fraud and Deceit, which set out certain penalties (including fines and imprisonment) for fraudulent and deceitful activities. The Kingdom's public prosecution body has authority to institute lawsuits in relation to acts that constitute a violation of this law.

The Kingdom has been a member of the Financial Action Task Force (the “**FATF**”) since June 2019. The Kingdom is also a founding member of the Middle East and North Africa Financial Action Task Force (the “**MENA-FATF**”) which was created in November 2004. As a member of the GCC, the Kingdom has issued laws and regulations designed to comply with the “Forty Recommendations on Money Laundering” issued by the FATF and is largely compliant with these recommendations.

In September 2003, the FATF carried out, in conjunction with the GCC, the mutual evaluation of the Kingdom and it was approved in February 2004. The Kingdom underwent a joint assessment conducted by the MENA-

FATF in participation with FATF in 2010. In 2015, the Kingdom received an invitation from the FATF to join the group as an observer. The invitation was made in recognition of the Kingdom's international and regional status, its efforts and measures in the field of combating money laundering and financing of terrorism and proliferation, its compliance with international standards and requirements and its commitment to international and bilateral conventions. The Kingdom obtained FATF observer status in June 2015. Moreover, in November 2017, the FATF carried out on-site visit to come with the Mutual Evaluation Report issued in September 2018 and in 2020 FATF issued a follow up report and technical compliance re-rating. In brief, Kingdom's very recently updated legal framework for international co-operation is comprehensive, and includes all the required elements, though minor gaps remain with respect to building systems and processes for managing cases, and to provide feedback to foreign counterparts.

## Independent Auditors

As a measure of prudence, SAMA requires all banks in the Kingdom to be audited jointly by two independent auditors.

## Financial Requirements

SAMA has introduced regulations to ensure that banks do not have disproportionate concentrations of risk in any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities. The most significant regulations are summarised below:

### *Doubtful and Past Due Loans/Loan Loss Reserves*

In 2004, SAMA issued regulations regarding the classification of assets, as well as provisioning norms. The table below shows the classifications and the reserves required for prudential regulation purposes:

Classification	Defined as	Reserve Required
Current	No problems	1 per cent. of outstanding
IA (Special mention)	Potential weakness	1 per cent. of outstanding
II (Substandard)	Inadequate capacity to pay and/or profit or principal overdue by more than 90 days	25 per cent. of outstanding
III (Doubtful)	Full collection questionable and/or overdue by more than 180 days	50 per cent. of outstanding
IV (Loss)	Uncollectible and/or overdue by more than 360 days	100 per cent. of outstanding

With effect from 1 January 2018, all Saudi banks have adopted IFRS 9 "Financial Instruments". Among other things, IFRS 9 provides a new model for the calculation of impairment provisions based on a forward-looking "Expected Credit Loss" model. The impairment assessment is based on forward-looking elements, including an economic forecast covering key macroeconomic factors such as unemployment, GDP growth, inflation, special commission rates and other market related variables, obtained through internal and external sources. This approach resulted in an increase in the total level of impairment allowances over the previously applicable International Account Standard 39 (Financial Instruments: Recognition and Measurement) determined levels, although SAMA has permitted the impact that this would have otherwise immediately on bank's capital ratios to be recognised over a five-year period.

## **Basel III Framework**

In response to the global financial crisis which commenced in 2007, the Basel Committee enhanced its capital measurement and capital standards by issuing a new capital framework (the “**Basel III Framework**”). The Basel III Framework focuses on strengthening the quality of regulatory capital, raising the minimum capital requirements, enhancing risk coverage and reducing cyclicality of regulatory capital. It introduces new leverage ratio, liquidity coverage ratio and net stable funding ratio requirements and capital buffers to promote the build-up of capital. Regulatory guidance around the standardized approach for measuring counterparty credit risk and capital requirements for bank exposures to central counterparties was also issued. These enhancements were implemented by means of a staggered approach up to 2020.

The final pillar of the Basel III reforms changed the methodology for calculating risk-weighted assets for credit, operational and market risk. On 28 December 2022, SAMA issued its final guidelines on these changes, which became effective from 1 January 2023. The Basel III Framework requires banks’ exposures to be backed by a high-quality capital base. To this end, the predominant form of Tier 1 capital must be common shares and retained earnings. The Basel Committee principles adopted by SAMA ensure that banks hold high-quality Tier 1 capital that represents “Pure Capital” which is highly “Loss Absorbent” through the following measures:

- deductions from capital and prudential filters to be generally applied at the level of common equity or its equivalent;
- subordinated debt of high quality;
- fully discretionary non-cumulative dividends or coupons;
- neither a maturity date nor an incentive to redeem;
- innovative hybrid capital instruments with an incentive to redeem through features such as step-up clauses, currently limited to 15 per cent. of the Tier 1 capital base, will be phased out;
- Tier 3 capital instruments to cover market risks are eliminated; and
- to improve market discipline, the transparency of the capital base will be improved, with all elements of capital required to be disclosed along with a detailed reconciliation to the reported accounts.

Following the implementation of Basel III standards related to capital, the minimum requirements for regulatory capital, excluding capital buffers, in the Kingdom are:

- common equity tier 1 must be at least 4.5 per cent. of risk-weighted assets at all times;
- Tier 1 Capital must be at least 6.0 per cent. of risk-weighted assets at all times; and
- Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0 per cent. of risk-weighted assets at all times.

## **SIFI Law**

### **The Law on Treatment of Systematically Important Financial Institutions**

The **SIFI Law** relates to the treatment of systemically important financial institutions. As at the date of this Base Offering Circular, the implementing regulations to the SIFI Law which will contain more detailed provisions have not yet been issued. The SIFI Law gives the relevant regulator (SAMA and the CMA) the authority to determine, from time to time, whether a financial institution should be deemed to be systemically important. BSF has been determined by SAMA to be a domestically systemically important bank (“**D-SIB**”).

Among other things, the SIFI Law provides that:

- the management of the relevant financial institution shall be required to notify SAMA when the financial institution is distressed or likely to become distressed;
- within 180 days of being requested by SAMA, the relevant financial institution shall submit, for review by SAMA, a recovery plan detailing the steps and procedures to be taken for the restoration of the financial institution's financial position;
- any application for bankruptcy procedures in respect of the relevant financial institution is subject to approval by SAMA, such that SAMA may instead commence a Treatment Plan (as defined below); and
- subject to the Treatment Conditions (as defined below) being met, SAMA may prepare a treatment plan ("**Treatment Plan**") for the relevant financial institution group which, subject to (i) review and input from the financial institution, (ii) an assessment by an accredited valuer and (iii) approval by the Council of Economic and Development Affairs, may provide for:
  - (a) the sale of all or part of the shares, stocks, assets and/or liabilities of the Financial Institution to a third party;
  - (b) incorporation of a bridge institution, to which all or part of the shares, stocks, assets and/or liabilities of the financial institution or bridge institution are transferred;
  - (c) establishment of an asset management institution to whom the assets or liabilities of the financial institution are transferred; and/or
  - (d) an amendment of the rights of creditors and/or holders of capital instruments of the financial institution, including, without limitation, the reduction or cancellation thereof or the conversion of the debts of such financial institution into capital instruments (and vice versa).

The SIFI Law also provides that in implementing the relevant Treatment Plan, shareholders and creditors shall not receive less, or shall not incur greater losses, than what is estimated would have been received or lost, had the relevant financial institution been wound up at the time of the Treatment Plan.

The "**Treatment Conditions**" are:

- the financial institution is in distress (as further explained below), or is likely to become in distressed in a way that affects its continuity and ability to fulfil its obligations;
- the financial institution is unable to fulfil its obligations, affecting its ability to continue in due course, if a Treatment Plan is not undertaken;
- the treatment plan achieves any of the objectives of the SIFI Law (such as continuing the necessary activities of the financial institution and minimising future reliance on government support); and
- implementing a Treatment Plan for the financial institution is better than it being wound-up.

Pursuant to the SIFI Law, in this context, "**distress**" includes:

- a lack of financial and administrative resources necessary to achieve the requirements of financial adequacy, liquidity, risk management or institution management in general, and to meet the continuing obligations of licensing which, if not met, justify licensing revocation;
- where the value of the financial institution's assets fall below, or is expected to fall below, the value of its liabilities in near future;
- where the financial institution is unable, or is expected to become unable, to pay its debts when due; and

- a need for exceptional government support.

## **USE OF PROCEEDS**

The net proceeds of the issue of each Tranche will be contributed by the Sukukholders' Agent (as Rab-al-Maal) to the Issuer (as Mudareb) as Mudaraba Capital pursuant to the terms of the Master Mudaraba Agreement and will be used by the Issuer for general corporate purposes in a *Shari'ah*-compliant manner, all in accordance with the investment plan set out in the Master Mudaraba Agreement.



## **GENERAL INFORMATION**

### **Litigation**

The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Offering Circular which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

### **Significant or Material Change**

There has been no significant change in the financial performance or position of the Issuer or of the Group since 30 September 2023 and there has been no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2022.

### **Authorisation of Sukuk**

The establishment of the Programme, the issue of Sukuk thereunder and the entry into the Transaction Documents have been duly authorised by the Issuer by a resolution of the board of directors of the Issuer dated 22 January 2024.

### **Sole Arranger and the Dealers transacting with the Issuer**

The Sole Arranger, certain of the Dealers and each of their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its affiliates in the ordinary course of business for which they may receive fees.

In particular, in the ordinary course of their business activities, the Sole Arranger, the Dealers and each of their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates (including the Sukuk). The Sole Arranger, the Dealers and each of their respective affiliates that have a financing relationship with the Issuer and its affiliates routinely hedge their credit exposure to the Issuer and its affiliates consistent with their customary risk management policies. Typically, the Sole Arranger, such Dealers and each of their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Sukuk. Any such short positions could adversely affect future trading prices of the Sukuk.

The Sole Arranger, the Dealers and each of their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with any offering of Sukuk, the Sole Arranger, the Dealers and each of their respective affiliates may act as an investor for its own account and may take up Sukuk in the offering and in that capacity may retain, purchase or sell for its own account such Sukuk and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with an offering. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### **Independent Auditors**

The 2022 Financial Statements and the 2021 Financial Statements, incorporated by reference in this Base Offering Circular, have been jointly audited by the EY and KPMG as stated in their joint audit reports incorporated by reference in this Base Offering Circular.

With respect to the Interim Financial Statements, incorporated by reference in this Base Offering Circular, EY and KPMG have jointly reported that they have applied limited procedures in accordance with the International Standard on Review Engagements 2410: *Review of Financial Information Performed by the Independent Auditor of the Entity* as endorsed in the Kingdom of Saudi Arabia, as stated in their joint review report incorporated by reference in this Base Offering Circular. Their joint review report dated 30 October 2023, incorporated by reference in this Base Offering Circular, states that they did not audit and they do not express any audit opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

## TERMS AND CONDITIONS OF THE SUKUK

*The following is the text of the Terms and Conditions of the Sukuk which (subject to modification and except for the text in italics) will be attached and (subject to the provisions thereof) apply to each Global Sakk (the “Conditions”):*

*The Saudi Central Bank (“SAMA”) does not make any representation as to the accuracy or completeness of this Base Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Offering Circular. In particular, prospective investors of the Sukuk agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of Sukuk for any loss arising from, or incurred, as a result of, the occurrence of a Non-Viability Event (as defined in these Conditions).*

Banque Saudi Fransi (the “**Issuer**”) has established a programme (the “**Programme**”) for the issuance of additional tier 1 capital sukuk (each, a “**Sakk**” and, together, the “**Sukuk**”) from time to time up to SAR 8,000,000,000 in an aggregate face amount of Sukuk as are outstanding (subject to increase in accordance with the terms of the Programme Agreement (as defined below)). In these Terms and Conditions (the “**Conditions**”, and any reference herein to a numbered Condition is to the corresponding numbered provision hereof), references to “Sukuk” shall be references to the sukuk which are the subject of a final terms document (the “**Applicable Final Terms**”) and references to the Applicable Final Terms are to the final terms (or the relevant provisions thereof) of that Tranche (as defined below) as completed by the Issuer at the time of issue of the relevant Tranche.

The Applicable Final Terms supplement these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of each Global Sakk issued in respect of a Tranche under the Programme.

Each Sakk will represent an undivided ownership interest in the relevant Sukuk Assets (as defined below) and will at all times rank *pari passu* among themselves.

Pursuant to a master declaration of agency (the “**Master Declaration of Agency**”) dated 14 February 2024 between the Issuer and Saudi Fransi Capital (in its capacity as agent on behalf of the Sukukholders, the “**Sukukholders’ Agent**”, which expression includes any successor Sukukholders’ Agent in relation to the Sukuk), as supplemented by a supplemental declaration of agency between the same parties in relation to the relevant Tranche of Sukuk (each a “**Supplemental Declaration of Agency**” and together with the Master Declaration of Agency, each a “**Declaration of Agency**”), the Sukukholders’ Agent will be appointed to act as agent for and on behalf of the Sukukholders in respect of the relevant Tranche of Sukuk. The appointment of the Sukukholders’ Agent may be revoked or terminated (and the Sukukholders’ Agent may resign its appointment) in accordance with the provisions of the Master Declaration of Agency.

Payments relating to the Sukuk will be made pursuant to a payment administration agreement dated 14 February 2024 (the “**Payment Administration Agreement**”) made between the Sukukholders’ Agent, the Issuer and Saudi Fransi Capital as payment administrator (in such capacity, the “**Payment Administrator**”). The Payment Administrator and the Registrar (as defined herein) are together referred to in these Conditions as the “**Agents**”. References to the “Agents” or any of them shall include their successors.

The Sukuk of each Series (as defined below) shall form a separate series and these Conditions shall apply *mutatis mutandis* separately and independently to the Sukuk of each Series and, in these Conditions, the expressions “**Sukuk**”, “**Sukukholders**” and related expressions shall be construed accordingly.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for

inspection and/or collection during normal business hours at the specified offices of the Issuer and the Sukukholders' Agent. The Sukukholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Master Declaration of Agency and all the provisions of the other Transaction Documents applicable to them.

Each initial Sukukholder, by its acquisition and holding of its interest in a Sakk, shall be deemed to authorise and direct the Sukukholders' Agent, on behalf of the Sukukholders: (i) to contribute the sums paid by it in respect of its Sakk to the Mudareb (as defined in Condition 5 (*The Sukuk Assets*)) in accordance with the Master Mudaraba Agreement (as defined in Condition 5 (*The Sukuk Assets*)); (ii) to act as Sukukholders' Agent pursuant to the Master Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title); and (iii) to enter into each Transaction Document, subject to the provisions of the Master Declaration of Agency and these Conditions.

## 1 Interpretation

Words and expressions defined in the Applicable Final Terms, the Master Declaration of Agency and the Payment Administration Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such documents and the Applicable Final Terms, the Applicable Final Terms will prevail. In addition, in these Conditions the following expressions have the following meanings:

**"Additional Amounts"** has the meaning given to it in Condition 14 (*Taxation*);

**"Additional Tier 1 Capital"** means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, additional tier 1 capital in accordance with the Capital Regulations;

**"Applicable Rate Determination Date"** means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

**"Applicable Regulatory Capital Requirements"** means the requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Issuer, on a consolidated or non-consolidated basis, including transitional rules and waivers granted in respect of the foregoing;

**"Applicable Statutory Loss Absorption Regime"** means a Statutory Loss Absorption Regime that is applicable to the Sukuk and which, alone or together with any other law(s) or regulation(s), has the effect that Conditions 12.2 (*Non-Viability Event*) and 12.3 (*Non-Viability Notice*) could cease to apply to the Sukuk without giving rise to a Capital Event;

**"Assets"** means the total assets of the Issuer as shown (if required by any relevant party) in the latest audited or (as the case may be) auditor reviewed consolidated statement of financial position of the Issuer, but adjusted for subsequent events in such manner as the directors of BSF, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Issuer) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

**"Auditors"** means, at any time, the statutory independent auditors to the Issuer at the relevant time or such other auditor as may be appointed for the purpose of the Transaction Documents;

**"Authorised Holding Amount"** has the meaning given to it in the Applicable Final Terms;

**"Authorised Signatory"** means the person or persons duly authorised by the Issuer to sign documents and to do other acts and things on behalf the Issuer or any other person or persons duly notified by the Issuer to the Sukukholders' Agent as being an authorised signatory pursuant to the Master Declaration of Agency;

“**Authority**” means the Capital Market Authority of the KSA;

“**Basel III**” means the set of reforms to the international regulatory capital framework for banks issued by the Basel Committee (including, but not limited to, the Basel III Documents) as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments);

“**Basel III Documents**” means the Basel Committee document “*A global regulatory framework for more resilient banks and banking systems*” released by the Basel Committee on 16 December 2010 and revised in June 2011 and the Annex contained in its document “*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*” released on 13 January 2011;

“**Basel Committee**” means the Basel Committee on Banking Supervision;

“**Business Day**” means a day on which registered banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the KSA;

“**Capital Event**” is deemed to have occurred if the Issuer is notified in writing by the Financial Regulator to the effect that the outstanding face amount (or, if some amount of the Sukuk outstanding are held by the Issuer or whose purchase is funded by the Issuer, the amount that qualifies as regulatory capital) of the Sukuk is excluded (in full or, to the extent not prohibited by relevant regulatory criteria for Tier 1 Capital, in part) from the consolidated, or as the case may be, non-consolidated Tier 1 Capital of the Issuer (save where such non-qualification is only as a result of either (a) any applicable limitation on the amount of such capital; or (b) such capital ceasing to count towards the Issuer’s capital base through any amortisation or similar process or any changes thereto (including any amortisation or similar process imposed through any grandfathering arrangement));

“**Capital Event Redemption Amount**” in relation to a Sakk, means its Prevailing Face Amount together with any Outstanding Payments;

“**Capital Market Law**” means the capital market law issued pursuant to Royal Decree No. M/30 dated 02/06/1424H (corresponding to 31 July 2003) and amended by Royal Decree No. M/16 dated 19/01/1441H (corresponding to 18 September 2019);

“**Capital Regulations**” means, at any time, the regulations, standards, requirements, guidelines, guidance and policies relating to the maintenance of capital and/or capital adequacy then in effect in the KSA, including those of the Financial Regulator;

“**Closed Period**” has the meaning given to it in Condition 3.3 (*Transfer Record Dates and Closed Periods*);

“**Common Equity Tier 1 Capital**” means capital of the Issuer qualifying as, and approved by the Financial Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as, common equity tier 1 capital in accordance with the Applicable Regulatory Capital Requirements at such time;

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (from and including the first day of such period to but excluding the last) (the “**Calculation Period**”):

- (a) if “**30/360 Standard**” is specified in the Applicable Final Terms, the fixed number of 30 days in a month multiplied by the number of months in such Calculation Period and, in the case of an incomplete month, the number of days elapsed of the month in which the Calculation Period falls (including the first day but excluding the last);

- (b) if “**30/360**” or “**360/360**” is specified in the Applicable Final Terms, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (c) if “**30E/360**” or “**30/360 ICMA**” is specified in the Applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (d) if “**30E/360 (ISDA)**” is specified in the Applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless: (1) that day is the last day of February; or (2) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (1) that day is the last day of February but not the date for payment of the relevant Dissolution Distribution Amount; or (2) such number would be 31, in which case D<sub>2</sub> will be 30;

- (e) if “**Actual/360**” is specified in the Applicable Final Terms: the actual number of days in the Calculation Period divided by 360;
- (f) if “**Actual/365 (Fixed)**” is specified in the Applicable Final Terms: the actual number of days in the Calculation Period divided by 365;
- (g) if “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified in the Applicable Final Terms: the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year), the sum of:
  - (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and
  - (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365;
- (h) if “**Actual/Actual – ICMA**” is specified in the Applicable Final Terms:
  - (i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year; and
  - (ii) if the Calculation Period is longer than one Determination Period, the sum of:
    - (1) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of: (A) the number of days in such Determination Period; and (B) the number of Determination Periods normally ending in any year; and
    - (2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of: (A) the number of days in such Determination Period; and (B) the number of Determination Periods normally ending in any year,

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means an Applicable Rate Determination Date or a Periodic Distribution Determination Date, as the context may require; or

such other day count formula as may be specified in the Applicable Final Terms;

**“Dissolution Distribution Amount”** means the Issuer Call Amount, the Capital Event Redemption Amount or the Tax Event Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

**“Dissolution Notice”** has the meaning given to it in Condition 13.1 (*Events of Default*);

**“Dissolution Request”** has the meaning given to it in Condition 13.1 (*Events of Default*);

**“Distributable Profits”** means the amount of the Issuer’s consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law), after the transfer of any amounts to non-distributable reserves, all as calculated by the Issuer based on its most recent consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations;

**“Edaa”** means the Securities Depository Center Company;

**“Effective Date”** has the meaning given to it in Condition 12.1 (*Effectiveness of this Condition 12*);

**“Event of Default”** means:

- (a) **Non-payment:** the Issuer fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to these Conditions and the failure continues for a period of 14 days (save in each case where such failure occurs solely as a result of an administrative or technical error or the occurrence of a Non-Payment Election or a Non-Payment Event);
- (b) **Winding-up:** a Winding Up Proceeding has occurred; or
- (c) **Analogous Event:** any event occurs which, under the KSA Law, has an analogous effect to the event referred in paragraph (b) of this definition;

**“Extraordinary Resolution”** has the meaning given to it in the Master Declaration of Agency;

**“Final Mudaraba Profit”** has the meaning given to it in the Master Mudaraba Agreement;

**“Financial Regulator”** means SAMA or such other governmental authority which assumes or performs the functions of SAMA, as at the Issue Date, or such other successor authority exercising primary banking supervision, in each case with respect to prudential matters in relation to the Issuer;

**“First Call Date”** has the meaning given to it in the Applicable Final Terms;

**“First Periodic Distribution Date”** has the meaning given to it in the Applicable Final Terms;

**“First Reset Date”** has the meaning given to it in the Applicable Final Terms;

**“Fixed/Reset Rate Sukuk”** means a Series in respect of which Fixed/Reset Periodic Distribution Provisions is specified as applicable in the Applicable Final Terms;

**“Floating Profit Rate”** has the meaning given to it in Condition 8.2 (*Periodic Distribution Amount*);

**“Floating Rate Sukuk”** means a Series in respect of which Floating Periodic Distribution Provisions is specified as applicable in the Applicable Final Terms;

**“General Mudaraba Pool”** has the meaning given to it in the Master Mudaraba Agreement;

**“Global Sakk”** has the meaning given to it in Condition 2 (*Form and Denomination*);

**“Independent Adviser”** means an independent financial institution of repute or other independent financial adviser experienced in the capital markets, in each case appointed by the Issuer at its own expense;



**“Initial Period”** means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

**“Initial Periodic Distribution Amount”** has the meaning given to it in the Applicable Final Terms;

**“Initial Periodic Distribution Rate”** has the meaning given to it in the Applicable Final Terms;

**“Issue Date”** has the meaning given to it in the Applicable Final Terms;

**“Issuer Call Amount”** in relation to a Sakk, means its Prevailing Face Amount together with any Outstanding Payments;

**“Issuer Call Redemption Notice”** has the meaning given to it in Condition 11.1(b)(i) (*Issuer’s Call Option*);

**“Junior Obligations”** means all claims of the holders of Ordinary Shares and all payment obligations of the Issuer in respect of its Other Common Equity Tier 1 Instruments and any other subordinated payment obligations of the Issuer which rank, or are expressed to rank, junior to the Relevant Obligations;

**“KSA”** means the Kingdom of Saudi Arabia;

**“KSA Law”** means the laws and regulations of the KSA;

**“Liabilities”** means the total liabilities of the Issuer as shown (if required by any relevant party) in the latest audited or (as the case may be) auditor reviewed consolidated statement of financial position of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the directors of BSF, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Issuer) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

**“Margin”** has the meaning given to it in the Applicable Final Terms;

**“Master Mudaraba Agreement”** has the meaning given to it in Condition 5 (*The Sukuk Assets*);

**“Mid-Swap Maturity”** has the meaning given to it in the Applicable Final Terms;

**“Mid-Swap Pages”** has the meaning given to it in the Applicable Final Terms;

**“Mudaraba”** has the meaning given to it in Condition 5 (*The Sukuk Assets*);

**“Mudaraba Assets”** has the meaning given to it in Condition 5 (*The Sukuk Assets*);

**“Mudaraba Capital”** has the meaning given to it in the Applicable Final Terms and the Master Mudaraba Agreement;

**“Mudaraba End Date”** has the meaning given to it in the Master Mudaraba Agreement;

**“Mudaraba Profit”** has the meaning given to it in the Master Mudaraba Agreement;

**“Mudaraba Profit Distribution Date”** has the meaning given to it in the Applicable Final Terms;

**“Mudaraba Profit Rate Reset Date”** has the meaning given to it in the Master Mudaraba Agreement;

**“Mudaraba Reserve”** has the meaning given to it in the Master Mudaraba Agreement;

**“Mudareb”** has the meaning given to it in Condition 5 (*The Sukuk Assets*);

**“Non-Payment Election”** has the meaning given to it in Condition 9.2 (*Non-Payment Election*);

**“Non-Payment Event”** has the meaning given to it in Condition 9.1 (*Non-Payment Event*);

**“Non-Viability Event”** means that the Financial Regulator has notified the Issuer in writing that it has determined that the Issuer is, or will become, Non-Viable without:

- (a) a Write-down of the Sukuk (and write-down of any of the Issuer's other capital instruments or other obligations constituting Tier 1 Capital and/or Tier 2 Capital of the Issuer that, pursuant to their terms or by operation of law, are capable of being written-down and/or converted into equity); or
- (b) a public sector injection of capital (or equivalent support);

For the purposes of these Conditions, such Non-Viability Event shall be deemed to have occurred on the day on which the Issuer has delivered the Non-Viability Notice to the Sukukholders in accordance with Condition 12 (*Write-down at the Point of Non-Viability*) or any earlier date specified in writing to the Issuer by the Financial Regulator;

**"Non-Viability Event Write-down Date"** means the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than ten Business Days after the date of the Non-Viability Notice (or such earlier date as determined by the Financial Regulator);

**"Non-Viability Notice"** has the meaning given to it in Condition 12.3 (*Non-Viability Notice*);

**"Non-Viable"** means: (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business; or (b) any other event or circumstance which is specified as constituting non-viability by the Financial Regulator or in applicable Capital Regulations or any Applicable Statutory Loss Absorption Regime;

**"Ordinary Shares"** means the ordinary shares of the Issuer;

**"Other Common Equity Tier 1 Instruments"** means securities issued by the Issuer that qualify as Common Equity Tier 1 Capital other than Ordinary Shares;

**"Outstanding Payments"** means, in relation to any amounts payable on redemption or repayment of the Sukuk, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption or repayment occurs to the date of redemption or repayment plus Additional Amounts thereon, if any;

**"Pari Passu Obligations"** means all subordinated payment obligations of the Issuer which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

**"Periodic Distribution Amount"** means the amount expected to be paid by the Issuer as further described in Condition 7 (*Fixed/Reset Periodic Distribution Provisions*) and Condition 8 (*Floating Periodic Distribution Provisions*), as the context so requires;

**"Periodic Distribution Date"** has the meaning given to it in the Applicable Final Terms;

**"Periodic Distribution Determination Date"** means the date specified as such in the Applicable Final Terms;

**"Periodic Distribution Period"** means the period beginning on (and including) the Issue Date and ending on (but excluding) the First Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date, unless otherwise specified in the Applicable Final Terms;

**"Prevailing Face Amount"** means, in respect of a Sakk, the initial face amount of such Sakk as reduced by a Write-down of such Sakk (on one or more occasions) at or prior to such time pursuant to Condition 12 (*Write-down at the Point of Non-Viability*);

**"Profit Rate"** means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4 (*Periodic Distribution Rate*);

**“Qualified Person”** means:

- (a) a natural person who is resident in the KSA under the Income Tax Law issued by Royal Decree no. M/1 dated 15/01/1425H (corresponding to 6 March 2004), as amended by Royal Decree No. M/153 dated 05/11/1441H (corresponding to 26 June 2020) (the **“Income Tax Law”**); or
- (b) a legal person who is considered to be resident in the KSA under the Income Tax Law and (in the case of any legal person other than a Saudi Arabian governmental entity or mutual fund established in the KSA and managed by a person authorised by the Authority or any other entity established in the KSA that is not required by the laws of the KSA to hold a commercial registration) who is holding a current commercial registration number issued by the Ministry of Commerce,

and, in each case, has a bank account with a local bank in the KSA;

**“Rab-al-Maal”** has the meaning given to it in Condition 5 (*The Sukuk Assets*);

**“Rab-al-Maal Final Mudaraba Profit”** has the meaning given to it in the Master Mudaraba Agreement;

**“Rab-al-Maal Mudaraba Profit”** has the meaning given to it in the Master Mudaraba Agreement;

**“Record Date”** means, in the case of the payment of a Periodic Distribution Amount, the date falling on the 15<sup>th</sup> day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

**“Reference Banks”** means each of three banks licensed by the SAMA and engaged in the Saudi interbank market selected by or on behalf of the Issuer;

**“Reference Rate”** has the meaning given to it in Condition 8.2 (*Periodic Distribution Amount*);

**“Register”** means the registry system administered by the Registrar or any successor entity;

**“Registered Account”** has the meaning given to it in Condition 10.1 (*Payments in respect of the Sukuk*);

**“Registrar”** means Edaa (and includes any successor or other registrar appointed from time to time in respect of the Sukuk);

**“Registry Agreements”** means the registry and data services agreements to be entered into between the Issuer and the Registrar in relation to the Sukuk on or about the Issue Date of the first Tranche of each Series;

**“Relevant Obligations”** means the payment obligations of the Issuer under these Conditions and the Master Mudaraba Agreement (including all payments which are the equivalent of principal (being capital amounts, including the Dissolution Mudaraba Capital, payable in accordance with the provisions of the Master Mudaraba Agreement) and profit);

**“Relevant Reset Rate”** means the average of the two ‘close’ mid-swap rate for Saudi Riyal swap transactions with the Mid-Swap Maturity displayed on the Mid-Swap Pages, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates, in each case as provided to the Payment Administrator by the Issuer’s treasury team at or around 11.00 a.m. (Riyadh time) three Business Days prior to the Applicable Rate Determination Date and thereafter agreed as between the Payment Administrator and the Issuer. In the event that one of the two Mid-Swap Pages is not available, the remaining Mid-Swap Page ‘close’ swap will be used. If neither of the correct mid swap rates appear on that page, the Saudi Riyal mid swap rate shall instead be determined by the Issuer on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the Saudi Riyal swap market of the rates at which swaps in Saudi Riyal are offered by it at approximately 11.00 a.m. (Riyadh time) on the Applicable Rate Determination Date to participants in the Saudi Riyal swap market for a period

equal to the Mid-Swap Maturity, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards). If on any Applicable Rate Determination Date fewer than four, or none, of the four major banks in the Saudi Riyal swap market provides the Issuer with the quotations referred to in the foregoing sentence, the Relevant Reset Rate shall be determined to be the Relevant Reset Rate as at the last preceding Reset Date or, in the case of the first Applicable Rate Determination Date, as at the Issue Date;

“**Relevant Screen Page**” has the meaning given to it in the Applicable Final Terms;

“**Reset Date**” has the meaning given to it in the Applicable Final Terms;

“**Reset Period**” means the period from (and including) the First Reset Date to (but excluding) the earlier of (a) the Mudaraba End Date; and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of: (x) the Mudaraba End Date; and (y) the next succeeding Reset Date;

“**SAMA**” means the Saudi Central Bank and/or any of its successors or assigns;

“**Secondary Market Regulatory Requirements**” means the regulations on the trading of the Sukuk restricting secondary market activity in the KSA which require an Investor (a “**transferor**”) who has acquired the Sukuk pursuant to a private placement not to offer or sell such Sukuk or part thereof to any person (a “**transferee**”) unless such offer or sale is made through a capital market institution duly licensed by the Authority and satisfying one of the following requirements:

- (a) the price to be paid by the transferee for such Sukuk in any one transaction does not exceed SAR 200,000;
- (b) the Sukuk are offered or sold to an Institutional Investor or Qualified Investor (each as defined under the Authority’s Glossary of Defined Terms); or
- (c) the Sukuk are being offered or sold in such other circumstances as the Authority may prescribe;
- (d) if the requirement in paragraph (a) above cannot be fulfilled because the price of the Sukuk being offered or sold to the transferee has increased since the date of the original private placement, the transferor may offer or sell the Sukuk to the transferee if their purchase price during the period of the original private placement did not exceed SAR 200,000 or an equivalent amount;
- (e) if the requirements in paragraph (b) cannot be fulfilled, the transferor may offer or sell the Sukuk if the transferor sells its entire holding of the Sukuk to one transferee; and
- (f) the provisions of paragraphs (a) to (e) shall apply to all subsequent transferees of the Sukuk;

“**Senior Obligations**” means all unsubordinated payment obligations of the Issuer (including payment obligations of the Issuer to its depositors (in respect of their due claims)) and all subordinated payment obligations (if any) of the Issuer except *Pari Passu Obligations* and *Junior Obligations*;

“**Series**” means a Tranche of Sukuk together with any additional Tranche or Tranches of Sukuk which: (a) are expressed to be consolidated and form a single series; and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of Periodic Distribution Amount thereon and the date from which Periodic Distribution Amounts start to accrue;

“**Solvency Conditions**” has the meaning given to it in Condition 4.2.1 (*Subordination*);

“**Solvent**” means that: (a) the Issuer is able to pay its debts as they fall due and (b) the Issuer’s Assets exceed its Liabilities;

“**Specified Denomination**” means SAR 1,000,000;

**“Statutory Loss Absorption Regime”** means any statutory regime implemented in the KSA which provides the Financial Regulator with the powers to implement loss absorption measures in respect of capital instruments (such as the Sukuk), including, but not limited to, any such regime which is implemented pursuant to Basel III and/or the Law on the Treatment of Systemically Important Financial Institutions issued by Royal Decree number M/38 dated 25/04/1442H (corresponding to 11 December 2020);

**“Subsidiary”** means any entity whose financial statements at any time are required by law or in accordance with provisions of generally accepted accounting principles to be fully consolidated with those of the Issuer;

**“Sukukholders”** means the person or entity in whose name the Sakk is registered in the Register (or, in the case of joint Sukukholders, the first named thereof) and the expressions **“holders”** and **“holders of Sukuk”** and related expressions shall (where appropriate) be construed accordingly;

**“Sukuk Assets”** has the meaning given to it in Condition 5 (*The Sukuk Assets*);

**“Tax Event”** means that the Issuer would, as a result of a Tax Law Change, in making any payments under the Master Mudaraba Agreement (in its capacity as Mudareb) or the Sukuk (in its capacity as Issuer), on the next due date for a payment of Mudaraba Profit or Periodic Distribution Amount, respectively (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts (and such requirement cannot be avoided by the Issuer (in its capacity as Mudareb or Issuer, as the case may be) taking reasonable measures available to it);

**“Tax Law Change”** means any change in, or amendment to, the laws, published practice or regulations of the KSA in respect of taxation, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of the KSA);

**“Tax Event Redemption Amount”** in relation to a Sakk, means its Prevailing Face Amount together with any Outstanding Payments;

**“Taxes”** has the meaning given to it in Condition 14 (*Taxation*);

**“Tier 1 Capital”** means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

**“Tier 2 Capital”** means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations;

**“Tranche”** means Sukuk which are identical in all respects;

**“Transaction Account”** has the meaning given to it in Condition 5 (*The Sukuk Assets*);

**“Transaction Documents”** means the Declaration of Agency, the Payment Administration Agreement, the Master Mudaraba Agreement, the Registry Agreements, the Sukuk (including each Global Sakk) and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

**“Transfer Record Date”** has the meaning given to it in Condition 3.3 (*Transfer Record Dates and Closed Periods*);

**“Winding Up Proceeding”** means an administrator is appointed, an order is made by any competent court or the government of the KSA or an effective resolution is passed for the administration, winding-up, liquidation, dissolution or similar event of the Issuer in accordance with applicable law or the Issuer applies or petitions for a winding-up or an administration order in respect of itself (except, in any such case, a solvent winding-up

solely than for the purposes of a reorganisation, reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority);

“**Write-down**” means:

- (i) in the case of the relevant Write-down Amount corresponding to the full proportion of the Prevailing Face Amount of the Sukuk then outstanding, the Sukuk shall be cancelled;
- (ii) in the case of the relevant Write-down Amount corresponding to less than the full proportion of the Prevailing Face Amount of the Sukuk then outstanding, the Prevailing Face Amount of each such Sakk shall be written-down in part on a *pro rata* basis in a proportion corresponding to the Write-down Amount;
- (iii) the Sukukholders’ rights under or in respect of the Sukuk Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally Written-down (if applicable, on a *pro rata* basis) in a proportion corresponding to the relevant Write-down Amount;
- (iv) the Sukukholders’ rights under the Mudaraba Assets or, in the case of the relevant Write-down Amount corresponding to less than the full proportion of the Prevailing Face Amount of the Sukuk of the relevant Series then outstanding, the Sukukholders’ rights under the Mudaraba Assets that relate to the proportion of the Mudaraba Capital of that Series that has been reduced, shall be assigned to the Mudareb such that the value of the Mudaraba Assets is zero; and
- (v) subject to payment of accrued and unpaid Periodic Distribution Amounts if and only to the extent that such Periodic Distribution Amounts became due and payable to the Sukukholders prior to the date of the Non-Viability Notice (and provided that payment of such amounts are not prohibited by the Financial Regulator or the Capital Regulations at such time), all rights of any Sukukholder for payment of any amounts under or in respect of the Sukuk (including, without limitation, the Dissolution Distribution Amount and any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date,

and all references to “**Written-down**” will be construed accordingly; and

“**Write-down Amount**” means, on any Non-Viability Event Write-down Date, the amount as determined by the Financial Regulator by which the Prevailing Face Amount of the Sukuk then outstanding is to be Written-down (and shall be specified in the Non-Viability Notice).

All references in these Conditions to “**Saudi Riyal**” and “**SAR**” are to the lawful currency of the KSA.

## **2 Form, Denomination and Title**

### **2.1 Form and Denomination**

Each Series of Sukuk will be issued in dematerialised registered form in the Specified Denomination. The Sukuk may be Floating Rate Sukuk or Fixed/Reset Rate Sukuk, depending upon the Profit Basis specified in the Applicable Final Terms. Each Series of Sukuk will be collectively represented by a global sakk, without coupons attached (the “**Global Sakk**”), which will be deposited as the Sukukholders’ Agent may direct in accordance with the provisions of the Master Declaration of Agency. Individual Sukuk representing holdings of the Global Sakk will not be issued but Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk.

### **2.2 Title**

- (e) The Global Sakk will represent all of the Sukuk that are current in respect of the relevant Series and the ownership by the Sukukholders of an undivided beneficial ownership interest in the

Sukuk Assets and an undivided interest in the Relevant Obligations. Each Sukukholder shall (except as otherwise required by law) be treated as the absolute owner of such Sukuk for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Global Sakk) and no person will be liable for so treating the holder of any Sukuk. Each Sukukholder will be recognised by the Issuer as entitled to such Sukuk free from any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of the Global Sakk.

- (f) The Issuer will cause the Registrar to maintain the Register. The Registrar will maintain the Register in respect of each Series of Sukuk in accordance with the provisions of the Registry Agreements.

### **3 Transfers of Sukuk**

#### **3.1 Transfer Restrictions**

Subject to Condition 3.3 (*Transfer Record Dates and Closed Periods*) and Condition 3.4 (*Regulations concerning Transfers and Registrations*) below, the Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar by delivering to the Registrar such information as such regulations and procedures shall require. The Sukuk may not be transferred unless:

- (a) the aggregate face amount of the Sukuk to be transferred together with any existing holding of Sukuk by the party acquiring the Sukuk to be transferred is not less than the Authorised Holding Amount;
- (b) where not all the Sukuk held by a Sukukholder are being transferred, the proportion of the aggregate face amount of the Sukuk held by the relevant Sukukholder not transferred is not less than the Authorised Holding Amount; and
- (c) all relevant Secondary Market Regulatory Requirements are complied with.

#### **3.2 Transfer Charges**

The transfer of Sukuk may be subject to a charge by the Registrar and all such charges shall be borne solely by the transferring Sukukholder and the transferee in accordance with the Registrar's practice. For the avoidance of doubt, none of the Issuer, the Sukukholders' Agent or the Payment Administrator shall be liable to pay any such charges imposed by the Registrar.

#### **3.3 Transfer Record Dates and Closed Periods**

No Sukukholder may require the transfer of any Sukuk to be effected during the period starting at the opening of business no less than seven Business Days prior to a due date for payment of any Periodic Distribution Amount, or any other principal or distribution in respect of the Sukuk or, if such a day is not a Business Day, on the next following Business Day (a "**Transfer Record Date**"), and ending on (and including) the applicable due date itself (each such period being a "**Closed Period**"). However, notwithstanding such registration, all payments shall continue to be paid to such persons as are registered as Sukukholders of the Sukuk at the opening of business on the relevant Transfer Record Date. The Registrar may after each Issue Date modify these Conditions insofar as they relate to the registration of transfers effected during Closed Periods by notice to the Issuer, the Sukukholders' Agent and the Sukukholders.

#### **3.4 Regulations Concerning Transfers and Registration**

All transfers of Sukuk and entries on the Register are subject to the regulations and procedures of the Registrar and the provisions of the Registry Agreements. The regulations and procedures may be changed by the Registrar at any time when necessary.

## 4 Status and Subordination

### 4.1 Status

The Sukuk represent an undivided ownership interest in the Sukuk Assets and an undivided interest in the Relevant Obligations and shall at all times rank *pari passu* without any preference or priority among themselves. The rights and claims of the Sukukholders against the Issuer in respect of the Relevant Obligations are not secured by any assets or security or guaranteed by a third party and are subordinated as described in Condition 4.2 (*Subordination*).

### 4.2 Subordination

4.2.1 Except upon the occurrence and continuation of any Winding Up Proceeding and without prejudice to Condition 9 (*Periodic Distribution Restrictions*), the Relevant Obligations are conditional upon the following (together, the “**Solvency Conditions**”):

- (i) the Issuer (in its capacity as Mudareb or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable;
- (ii) the Issuer (in its capacity as Mudareb or otherwise) being capable of making payment of the Relevant Obligations and any other payment that is due to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter; and
- (iii) the total share capital (including, without limitation, retained earnings) of the Issuer being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable.

4.2.2 Upon the occurrence and continuation of any Winding Up Proceeding, the Relevant Obligations will (a) constitute Additional Tier 1 Capital of the Issuer, (b) constitute direct, unsecured, conditional and subordinated obligations of the Issuer, (c) rank subordinate and junior to all Senior Obligations but not further or otherwise, (d) rank *pari passu* with all other Pari Passu Obligations and (e) rank in priority only to all Junior Obligations.

4.2.3 The Sukukholders and the Sukukholders’ Agent (acting on behalf of the Sukukholders) irrevocably waive their rights to the extent necessary to give effect to the subordination provisions of this Condition 4.2 (*Subordination*). In order to give effect to such subordination provisions, the Issuer and the Sukukholders’ Agent (acting on behalf of the Sukukholders) agree, and each Sukukholder by virtue of its holding of the Sukuk of any Series shall be deemed to have agreed, that if a Winding Up Proceeding shall have occurred and be continuing, any amounts that would be due and payable to them (including any amounts standing to the credit of the Mudaraba Reserve) will be applied:

- (i) first, to the payment in full of each claim in respect of a Senior Obligation (including any amount in respect of a claim accruing after the date of commencement of such Winding Up Proceeding); and
- (ii) thereafter, to the payment, equally and rateably, of each amount owing in respect of the Relevant Obligations and all Pari Passu Obligations.

4.2.4 Neither the Sukukholders’ Agent nor any Sukukholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Relevant Obligations and the Sukukholders’ Agent and, by virtue of its holding of the Sukuk of any Series, each Sukukholder, shall be deemed to have waived all such rights of set-off to the fullest extent permitted by law.



As a consequence of these subordination provisions, if a Winding Up Proceeding should occur, the Sukukholders may recover less rateably than the holders of deposit liabilities, the holders of other unsubordinated liabilities or the holders of subordinated liabilities ranking senior to the Relevant Obligations, in each case, of the Issuer.

- 4.2.5 The Sukukholders' Agent may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Master Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 13.2 (*Winding-up, dissolution or liquidation*).
- 4.2.6 The provisions of this Condition 4.2 (*Subordination*) apply only to the Relevant Obligations in respect of the Sukuk and nothing in this Condition 4.2 (*Subordination*) shall affect or prejudice the payment of the costs, charges, expenses, liabilities, indemnities or remuneration of the Sukukholders' Agent or the rights and remedies of the Sukukholders' Agent in respect thereof and in such capacity the Sukukholders' Agent shall rank as an unsubordinated creditor of the Issuer.

### 4.3 Other Issues

So long as any of the Sukuk remain outstanding, the Issuer (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Additional Tier 1 Capital of the Issuer if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Sukukholders and/or the Sukukholders' Agent (on behalf of the Sukukholders) obtain, and/or (b) the Relevant Obligations have, in each case, the benefit of such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

## 5 The Sukuk Assets

### 5.1 Management of the Sukuk Assets

The Sukukholders' Agent has entered into a master mudaraba agreement (the "**Master Mudaraba Agreement**") dated 14 February 2024 with the Issuer (in such capacity, the "**Mudareb**"). Pursuant to the Master Mudaraba Agreement, the Sukukholders' Agent (in its capacity as rab-al-maal, "**Rab-al-Maal**") will contribute the proceeds of the issue of each Series of Sukuk to the Mudareb on the relevant Issue Date, which proceeds will form the initial Mudaraba Capital. The Mudareb will invest the Mudaraba Capital in its general *Shari'ah*-compliant banking activities (the "**Business Portfolio**") carried out through the General Mudaraba Pool and, following such investment, the Mudaraba Capital shall constitute *pro rata* undivided assets in the Business Portfolio carried out through the General Mudaraba Pool (the "**Mudaraba Assets**") in accordance with the Master Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the "**Mudaraba**").

The Sukukholders' Agent has opened a transaction account (the "**Transaction Account**") in its own name which shall be operated by the Payment Administrator on behalf of the Sukukholders' Agent and

for the benefit of the Sukukholders and into which the Mudareb will pay all amounts due to or to the order of the Sukukholders under the Master Mudaraba Agreement.

Pursuant to the Master Declaration of Agency, the Sukukholders' Agent holds:

- (a) the cash proceeds of the issue of the Sukuk, pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of its rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (c) all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Issuer (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Sukukholders' Agent pursuant to clauses 6.1 and 7 of the Master Declaration of Agency); and
- (d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the “**Sukuk Assets**”) for and on behalf of the Sukukholders *pro rata* according to the face amount of Sukuk held by each such holder in accordance with the Master Declaration of Agency and these Conditions.

None of the Sukukholders' Agent or the relevant dealer(s) or (so long as it performs its obligations under the Transaction Documents) the Issuer, is responsible for the performance or the profitability of the Sukuk Assets and the Sukukholders' Agent is not responsible for the share and amount of the distributions (if any) made to the Sukukholders.

## 5.2 Priority of Payments

On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, as applicable, the Payment Administrator shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

- (a) first (to the extent not previously paid), to the Sukukholders' Agent in respect of all amounts owing to it under the Transaction Documents in its capacity as Sukukholders' Agent in accordance with the Master Declaration of Agency;
- (b) second, only if such payment is made on a Periodic Distribution Date, and subject to Condition 9 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;
- (c) third, only if such payment is made on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and
- (d) fourth, only after all amounts required to be paid in respect of the Sukuk have been discharged in full, in payment of any residual amount to the Issuer.

Any such residual amount shall be credited to the Mudaraba Reserve and the balance of amounts standing to the credit of the Mudaraba Reserve, after paying all amounts due pursuant to the Master Mudaraba Agreement, shall be paid to the Issuer as an incentive fee.

## 6 Covenants

The Issuer has covenanted in the Master Declaration of Agency that, *inter alia*, for so long as any Sukuk are outstanding, it shall not:

- (a) use the proceeds of the issue of the Sukuk for any purpose other than as stated in the Transaction Documents; or
- (b) except as provided in Condition 17 (*Meetings of Sukukholders; Modification*) or in the Master Declaration of Agency, amend or agree to any amendment of any Transaction Document (other than in accordance with the terms thereof).

## 7 Fixed/Reset Periodic Distribution Provisions

### 7.1 Application

This Condition 7 (*Fixed/Reset Periodic Distribution Provisions*) is applicable to the Sukuk only if the Fixed/Reset Periodic Distribution Provisions are specified in the Applicable Final Terms as being applicable.

### 7.2 Periodic Distribution Amount

Subject to Conditions 4.2 (*Subordination*), 5.2 (*Priority of Payments*), 9 (*Periodic Distribution Restrictions*), 10 (*Payments*) and 12 (*Write-down at the Point of Non-Viability*), the Issuer shall distribute to the Sukukholders on each Periodic Distribution Date *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Sukuk equal to the applicable Periodic Distribution Amount.

In this Condition 7 (*Fixed/Reset Periodic Distribution Provisions*), the “**Periodic Distribution Amount**” payable on each Periodic Distribution Date:

- (a) for the Initial Period shall be an amount equal to the Initial Periodic Distribution Amount as specified in the Applicable Final Terms; and
- (b) during each Reset Period (if any) shall be the relevant amount calculated in accordance with the provisions of Condition 7.3 (*Periodic Distributions*).

### 7.3 Periodic Distributions

- (a) Subject to Condition 9 (*Periodic Distribution Restrictions*), the Sukuk bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Fixed/Reset Periodic Distribution Provisions*), such profit being payable in arrear on each Periodic Distribution Date in respect of the Periodic Distribution Period ending on such date, commencing on the First Periodic Distribution Date, in each case as provided in this Condition 7 (*Fixed/Reset Periodic Distribution Provisions*).
- (b) Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Sukukholders will have no claim in respect of such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.
- (c) If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, any Periodic Distribution Amount which is not paid to the Sukukholders shall be credited by the Issuer to the Mudaraba Reserve and re-invested by the Issuer in the same manner as it invested the Mudaraba Capital in accordance with the investment plan set out in the Master Mudaraba Agreement.
- (d) If a Periodic Distribution Amount is required to be calculated in respect of any period (the “**Relevant Period**”), it shall be calculated as an amount equal to the product of: (i) the applicable Profit Rate; (ii) the Prevailing Face Amount of the Sukuk then outstanding; and (iii) the applicable Day Count Fraction for the Relevant Period, rounding the resultant figure to the nearest halala (half a halala being rounded upwards).

#### **7.4 Periodic Distribution Rate**

- (a) For the Initial Period, the Profit Rate shall be the Initial Periodic Distribution Rate.
- (b) The Profit Rate will be reset on each Reset Date. For each Periodic Distribution Period falling within the relevant Reset Period, the Profit Rate shall be a rate per annum equal to the Relevant Reset Rate plus the applicable Margin corresponding to such Reset Period, as determined by the Payment Administrator in accordance with Condition 7.5 (*Determination of Profit Rate and Periodic Distribution Amount*).

#### **7.5 Determination of Profit Rate and Periodic Distribution Amount**

The Payment Administrator will, as soon as practicable after 11.00 a.m. (Riyadh time) on each Applicable Rate Determination Date, determine the Profit Rate in respect of the relevant Reset Period and cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to the Issuer, the Sukukholders' Agent and the Sukukholders in accordance with the Master Declaration of Agency and Condition 16 (*Notices*), respectively, as soon as possible after their determination but in no event later than the second Business Day thereafter.

#### **7.6 Notifications**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Fixed/Reset Periodic Distribution Provisions*) by the Payment Administrator shall (in the absence of manifest error) be binding on the Issuer, the Sukukholders' Agent and all Sukukholders and (subject as aforesaid) no liability to any such person shall attach to the Payment Administrator in connection with the exercise or non-exercise by it of any of its powers, duties and discretions under this Condition 7 (*Fixed/Reset Periodic Distribution Provisions*).

#### **7.7 Cessation of Accrual**

Subject to Conditions 4.2 (*Subordination*), 9 (*Periodic Distribution Restrictions*) and 12 (*Write-down at the Point of Non-Viability*), each Sakk will cease to bear profit from (and including) the due date for redemption thereof pursuant to Condition 11.1 (*Redemption*), following liquidation of the Mudaraba in accordance with these Conditions and the Master Mudaraba Agreement.

### **8 Floating Periodic Distribution Provisions**

#### **8.1 Application**

This Condition 8 (*Floating Periodic Distribution Provisions*) is applicable to the Sukuk only if the Floating Periodic Distribution Provisions are specified in the Applicable Final Terms as being applicable.

#### **8.2 Periodic Distribution Amount**

Subject to Conditions 4.2 (*Subordination*), 5.2 (*Priority of Payments*), 9 (*Periodic Distribution Restrictions*), 10 (*Payments*) and 12 (*Write-down at the Point of Non-Viability*), the Issuer shall distribute to the Sukukholders on each Periodic Distribution Date *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Sukuk equal to the applicable Periodic Distribution Amount.

In this Condition 8 (*Floating Periodic Distribution Provisions*), “**Periodic Distribution Amount**” means, for each Periodic Distribution Period, an amount calculated by the Payment Administrator by multiplying the Prevailing Face Amount of the Sukuk then outstanding on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period by the sum of the reference rate for such Periodic Distribution Period calculated in accordance with Condition 8.5 (*Reference Rate*) (the

“**Reference Rate**”) and the Margin (together, the “**Floating Profit Rate**”) and multiplying such product by the relevant Day Count Fraction specified in the Applicable Final Terms.

### 8.3 Business Day Convention

If any Periodic Distribution Date that is specified to be subject to adjustment in accordance with a “**Business Day Convention**” would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (a) the “Following Business Day Convention”, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or (b) the “Modified Following Business Day Convention”, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or (c) the “Preceding Business Day Convention”, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

### 8.4 Periodic Distributions

- (a) Subject to Condition 9 (*Periodic Distribution Restrictions*), the Sukuk bear profit at the applicable Floating Profit Rate from (and including) the relevant Issue Date in accordance with the provisions of this Condition 8 (*Floating Periodic Distribution Provisions*), such profit being payable in arrear on each Periodic Distribution Date in respect of the Periodic Distribution Period ending on such date, commencing on the First Periodic Distribution Date.
- (b) Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Sukukholders will have no claim in respect of such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.
- (c) If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, any Periodic Distribution Amount which is not paid to the Sukukholders shall be credited by the Issuer to the Mudaraba Reserve and re-invested by the Issuer in the same manner as it invested the Mudaraba Capital in accordance with the investment plan set out in the Master Mudaraba Agreement.
- (d) If a Periodic Distribution Amount is required to be calculated in respect of any period (the “**Relevant Period**”), it shall be calculated by the Payment Administrator as an amount equal to the product of: (i) the applicable Floating Profit Rate; (ii) the Prevailing Face Amount of the Sukuk then outstanding; and (iii) the applicable Day Count Fraction for the Relevant Period, rounding the resultant figure to the nearest halala (half a halala being rounded upwards).

### 8.5 Reference Rate

The Reference Rate for each Periodic Distribution Period shall be determined by or on behalf of the Payment Administrator on the following basis:

- (a) the Payment Administrator will determine the offered rate for deposits in Saudi Riyals (“**SAIBOR**”) for a period equal to the relevant Periodic Distribution Period which appears on the Relevant Screen Page (or such other page as may replace that page on that service, or such other service as may be nominated by the Payment Administrator as the information vendor for the purpose of displaying comparable rates) as of approximately 11.00 a.m. (Riyadh time) on the Periodic Distribution Determination Date; or
- (b) if such rate does not appear on that page, the Payment Administrator will:
  - (i) request each of the Reference Banks to provide the Payment Administrator with its quotation at which deposits in Saudi Riyals are offered by such Reference Bank to prime banks in the Saudi interbank market at approximately 11.00 a.m. (Riyadh time) on the Periodic Distribution Determination Date for a period equal to the relevant Periodic

Distribution Period and in an amount that is representative for a single transaction in that market at that time; and

- (ii) determine the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) for such quotations described in (i) above where two or more such quotations are available,

and the Reference Rate shall be the rate or (as the case may be) the arithmetic mean so determined; and

- (c) notwithstanding the provisions of paragraphs (a) and (b) above, upon the occurrence of a SAIBOR Event (as defined below), the Payment Administrator shall notify the Issuer accordingly and the Issuer shall (at its sole discretion) either (i) appoint an Independent Adviser as soon as reasonably practicable to determine, or (ii) consult with the Reference Banks to determine whether there is, a successor or replacement rate or alternative rate to SAIBOR in customary market usage (including any spread, which may be positive, negative or zero (or formula or methodology for calculating such spread) which is to be applied to such successor, replacement or alternative rate, as formally recommended or provided for or in customary market usage, in relation to the replacement of SAIBOR with such successor, replacement or alternative rate), in which case such successor, replacement or alternative rate, after the application of any such spread (if applicable), shall be the Reference Rate for the purposes of determining the Periodic Distribution Amount pursuant to this Condition 8.5 (*Reference Rate*) and the Issuer shall notify the Payment Administrator promptly in writing of such successor, replacement or alternative rate and any requirement to apply any such spread (if applicable), and the Payment Administrator shall determine the Reference Rate applicable to the Sukuk on each Periodic Distribution Determination Date following it being so notified,

*provided however*, that if (i) the Independent Adviser (or the Issuer in consultation with the Reference Banks) fails to determine such successor, replacement or alternative rate, or (ii) the Payment Administrator is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the provisions of paragraph (b) above, in relation to any Periodic Distribution Period, the Reference Rate applicable to the Sukuk during such Periodic Distribution Period will be the Reference Rate or (as the case may be) arithmetic mean last so determined in relation to the Sukuk in respect of the most recent preceding Periodic Distribution Period. If there has not been a first Periodic Distribution Date, the Reference Rate shall be the original Reference Rate. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Periodic Distribution Period only and any subsequent Periodic Distribution Periods are subject to the subsequent operation of, and to adjustment as provided in, paragraph (c) of this Condition 8.5 (*Reference Rate*).

In this Condition 8.5 (*Reference Rate*):

**“SAIBOR Event”** means the occurrence of any of the following events:

- (a) SAIBOR ceases to (i) be published for a period of at least five Business Days; or (ii) exist or be administered; or
- (b) the supervisor or the administrator of SAIBOR announces that SAIBOR will cease to be published or has been or is to be discontinued, prohibited from use or has ceased or will cease to be representative, or that its use is or will be subject to restrictions or adverse consequences, and such cessation, discontinuation, prohibition, restrictions or adverse consequences has or have already occurred or will occur on or before the next Periodic Distribution Determination Date,

in each case, such that the Payment Administrator is or will be no longer able to determine SAIBOR in accordance with Condition 8.5(a) for the purposes of the determination of the Reference Rate on such Periodic Distribution Determination Date.

## 8.6 Determination of Floating Profit Rate and Periodic Distribution Amount

The Payment Administrator shall, as soon as practicable after 11.00 a.m. (Riyadh time) on each Periodic Distribution Determination Date, determine the Floating Profit Rate and the Periodic Distribution Amount in respect of the relevant Periodic Distribution Period in accordance with Conditions 8.2 (*Periodic Distribution Amount*) and 8.5 (*Reference Rate*), and shall cause such rate and amount determined by it, together with the relevant Periodic Distribution Date, to be notified to the Issuer and the Sukukholders' Agent as soon as practicable after such determination but in any event not later than one Business Day prior to the first day of the relevant Periodic Distribution Period. Notice thereof shall also promptly be provided by the Payment Administrator to the Registrar. The Payment Administrator shall recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) in the event of an extension to or shortening of the relevant Periodic Distribution Period and shall cause the recalculated Periodic Distribution Amount determined by it to be notified to the Issuer, the Sukukholders' Agent and the Registrar as soon as practicable after such determination.

## 8.7 Notifications

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 (*Floating Periodic Distribution Provisions*) by the Payment Administrator shall (in the absence of manifest error) be binding on the Issuer, the Sukukholders' Agent and all Sukukholders and (subject as foresaid) no liability to any such person shall attach to the Payment Administrator in connection with the exercise or non-exercise by it of any of its powers, duties and discretions under this Condition 8 (*Floating Periodic Distribution Provisions*).

## 8.8 Cessation of Accrual

Subject to Conditions 4.2 (*Subordination*), 9 (*Periodic Distribution Restrictions*) and 12 (*Write-down at the Point of Non-Viability*), each Sakk will cease to bear profit from (and including) the due date for redemption thereof pursuant to Condition 11.1 (*Redemption*), following liquidation of the Mudaraba in accordance with these Conditions and the Master Mudaraba Agreement.

# 9 Periodic Distribution Restrictions

## 9.1 Non-Payment Event

Notwithstanding Condition 7 (*Fixed/Reset Periodic Distribution Provisions*) or Condition 8 (*Floating Periodic Distribution Provisions*), if any of the following events occurs (each, a “**Non-Payment Event**”), the Issuer (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Issuer shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

- (a) the amount equal to the then applicable Periodic Distribution Amount (which for the purposes of these Conditions includes Additional Amounts as referred to in Condition 14 (*Taxation*)) to be paid by the Issuer out of the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit, as applicable (the “**Relevant Rab-al-Maal Mudaraba Profit Amounts**”), when aggregated with any distributions or amounts payable by the Issuer (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations and Junior Obligations, exceeds, on the relevant date for payment of such Relevant Rab-al-Maal Mudaraba Profit Amount or Periodic Distribution Amount, the Distributable Profits; or
- (b) the Issuer (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital

Requirements (including any payment restrictions due to a breach of any capital buffers imposed on the Issuer by the Financial Regulator) or payment of the Relevant Rab-al-Maal Mudaraba Profit Amount or the Periodic Distribution Amount would cause it to be in breach thereof; or

- (c) the Financial Regulator requires the Issuer (i) not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (ii) not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date, in each case, on account of the Issuer making a net loss during the relevant financial period or for any other reason as it may deem necessary; or
- (d) the Solvency Conditions are not satisfied (or would no longer be satisfied if the Relevant Rab-al-Maal Mudaraba Profit Amount was paid).

## 9.2 Non-Payment Election

Notwithstanding Condition 7 (*Fixed/Reset Periodic Distribution Provisions*) or Condition 8 (*Floating Periodic Distribution Provisions*), the Issuer may in its sole discretion elect that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid on any Mudaraba Profit Distribution Date, and, in each such case, the Issuer shall not make payment of a Periodic Distribution Amount (in whole or in part) to the Sukukholders on the corresponding Periodic Distribution Date, provided that the foregoing in this Condition 9.2 (*Non-Payment Election*) shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date (any such election being a “**Non-Payment Election**”). The Issuer may not make a Non-Payment Election once it has given notice to Sukukholders in accordance with Condition 16 (*Notices*) that the Sukuk will be redeemed in whole in accordance with Condition 11 (*Redemption*).

## 9.3 Effect of Non-Payment Event or Non-Payment Election

If a Non-Payment Election or a Non-Payment Event occurs, then the Issuer shall (a) in the case of a Non-Payment Election, no later than seven calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case (except where the relevant Non-Payment Event occurs during such period) no later than five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Sukukholders’ Agent in accordance with the Master Mudaraba Agreement and to the Sukukholders in accordance with Condition 16 (*Notices*) in each case providing details of such Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event, as the case may be. However, any failure to provide such notice will not invalidate the cancellation of the relevant payment of the Periodic Distribution Amount.

In the absence of notice of such Non-Payment Event or Non-Payment Election, as the case may be, having been given in accordance with this Condition 9.3 (*Effect of Non-Payment Event or Non-Payment Election*), the fact of non-payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (or any part thereof) on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or Periodic Distribution Amount on the relevant Periodic Distribution Date shall be evidence of the occurrence of a Non-Payment Election or Non-Payment Event, as the case may be. Sukukholders shall have no claim in respect of any Periodic Distribution Amount (or any part thereof, as applicable) not paid as a result of either a Non-Payment Election or a Non-Payment Event (in each case, irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given in accordance with this Condition 9.3 (*Effect of Non-Payment Event or Non-Payment Election*)) and any such non-payment (in whole or in part, as applicable) of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute an Event of Default. The Issuer shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as



applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise), which shall be credited by the Issuer to the Mudaraba Reserve in accordance with the terms of the Master Mudaraba Agreement.

#### 9.4 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 9.1 (*Non-Payment Event*) or 9.2 (*Non-Payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the “**Dividend Stopper Date**”), the Issuer will not, for so long as any of the Sukuk are outstanding:

- (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or
- (b) declare or pay profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities, ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Issuer to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or
- (c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares; or
- (d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by the Issuer ranking, as to the right of repayment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate (i) any mandatory redemption in accordance with its terms or (ii) any conversion into, or exchange for, Ordinary Shares), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until (i) the next following payment of Rab-al-Maal Mudaraba Profit or the Periodic Distribution Amount or (ii) (as the case may be) payment of the Rab-al-Maal Final Mudaraba Profit or the final Periodic Distribution Amount, in each case following the Dividend Stopper Date, has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Sukukholders in accordance with the Master Mudaraba Agreement).

## 10 Payments

### 10.1 Payments in respect of the Sukuk

- (a) Subject to Condition 10.2 (*Payments subject to Applicable Laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Issuer in SAR by wire transfer in same day funds to the Registered Account (as defined below) of the Sukukholder. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Sukukholder shown on the Register at the close of business on the relevant Record Date.
- (b) All payments made by the Issuer into the Transaction Account pursuant to the Master Mudaraba Agreement shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the Issuer’s liability for monies payable by it to or to the order of the Sukukholders pursuant to the Master Mudaraba Agreement and these Conditions.

- (c) For the purposes of this Condition 10 (*Payments*), a Sukukholder's "Registered Account" means the SAR account maintained by or on behalf of such Sukukholder with a bank in the KSA, details of which appear on the Register at the close of business on the relevant Record Date or as otherwise notified in writing to the Issuer not later than the relevant Record Date.

## **10.2 Payments subject to Applicable Laws**

Payments in respect of the Sukuk are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*).

## **10.3 Payment only on a Business Day**

- (a) Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date or, if such day is not a Business Day, for value the first following day which is a Business Day provided however, that if any such day is not a Business Day that falls in the same month as the due date, the holder shall be entitled to payment on the immediately preceding Business Day in that month) will be initiated by the Issuer on the due date for payment.
- (b) The Sukukholders will not be entitled to any distribution or other payment in respect of any delay in payment resulting from the due date for a payment not being a Business Day.

## **10.4 Transfer Record Date**

Each payment in respect of the Sukuk shall be made to the person shown as the Sukukholder in the Register at the opening of business in the place of the Registrar's specified office on the Transfer Record Date.

## **10.5 Payment Administrator**

- (a) With effect from the Issue Date, and for so long as any Sukuk remain outstanding thereafter, the Issuer will maintain a Payment Administrator.
- (b) The Issuer may, following consultation with the Sukukholders' Agent, from time to time replace the Payment Administrator with another leading investment, merchant or commercial bank or financial institution in the KSA. If the Payment Administrator is unable or unwilling to continue to act as the Payment Administrator or fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4 (*Periodic Distribution Rate*) or the Reference Rate in respect of any Periodic Distribution Period as provided in Condition 8.2 (*Periodic Distribution Amount*) (as the case may be), the Issuer shall, following consultation with the Sukukholders' Agent, forthwith appoint another leading investment, merchant or commercial bank or financial institution in the KSA to act as such in its place. The Payment Administrator may not resign its duties or be removed without a successor having been appointed as aforesaid.

## **10.6 Agents**

Subject to Condition 10.4 (*Payment Administrator*), the Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will at all times maintain a Payment Administrator and a Registrar. Notice of any termination or appointment will be given to Sukukholders promptly by the Issuer in accordance with Condition 16 (*Notices*).

# **11 Redemption**

## **11.1 Redemption**

- (a) **No Fixed Redemption Date and Conditions for Redemption**

The Sukuk are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 4.2 (*Subordination*), Condition 12 (*Write-down at the Point of Non-Viability*) and Condition 13.2 (*Winding-up, dissolution or liquidation*))

only have the right to redeem the Sukuk in accordance with the following provisions of this Condition 11 (*Redemption*).

The redemption of the Sukuk pursuant to this Condition 11 (*Redemption*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 11.1 (*Redemption*)):

- (i) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) the Issuer having obtained the prior consent of the Financial Regulator;
- (ii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) at the time when the relevant notice of redemption is given, the Issuer being in compliance with the Applicable Regulatory Capital Requirements;
- (iii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) immediately following such redemption, the Issuer being in compliance with the Applicable Regulatory Capital Requirements;
- (iv) the Solvency Conditions being satisfied; and
- (v) (in the case of a redemption pursuant to Conditions 11.1(c) (*Redemption due to Taxation*) or 11.1(d) (*Redemption for Capital Event*) only) the Tax Law Change or Capital Event, as the case may be, having become, or becoming, effective on or after the relevant Issue Date.

(b) **Issuer's Call Option**

- (i) Subject to Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption*), this Condition 11.1(b) (*Issuer's Call Option*) and Condition 11.1(e) (*No redemption following delivery of a Non-Viability Notice*), the Issuer may, by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders in accordance with Condition 16 (*Notices*) (the "**Issuer Call Redemption Notice**"), which notice shall, subject to Condition 11.1(e) (*No redemption following delivery of a Non-Viability Notice*), be irrevocable, and prior notice to the Sukukholders' Agent in accordance with the Master Mudaraba Agreement, redeem all, but not some only, of the Sukuk at the Issuer Call Amount.
- (ii) In the case of Fixed/Reset Rate Sukuk only, if this Condition 11.1(b)(ii) is specified as applicable in the Applicable Final Terms, redemption of the Sukuk pursuant to this Condition 11.1(b) (*Issuer's Call Option*) may only occur on any date during the period commencing (and including) the First Call Date to (and including) the First Reset Date or any Periodic Distribution Date thereafter (each a "**Call Date**") such Call Date to be specified in the Issuer Call Redemption Notice.
- (iii) In the case of Floating Rate Sukuk and, in the case of Fixed/Reset Rate Sukuk only, if this Condition 11.1(b)(iii) is specified as applicable in the Applicable Final Terms, redemption of the Sukuk pursuant to this Condition 11.1(b) (*Issuer's Call Option*) may only occur on the First Call Date or any Periodic Distribution Date thereafter (each a "**Call Date**") such Call Date to be specified in the Issuer Call Redemption Notice.
- (iv) Prior to the publication of any Issuer Call Redemption Notice pursuant to this Condition 11.1(b) (*Issuer's Call Option*), the Issuer shall give to the Sukukholders' Agent a certificate signed by two Authorised Signatories stating that all conditions precedent to the redemption of the Sukuk pursuant to this Condition 11.1(b) (*Issuer's Call Option*) (other than the notice to Sukukholders described in this Condition 11.1(b) (*Issuer's Call Option*)) have been satisfied (upon which the Sukukholders' Agent may rely without further enquiry and without liability to any person), and the Sukukholders' Agent shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the

conditions precedent set out above, in which event it shall be conclusive and binding on the Sukukholders.

**(c) Redemption due to Taxation**

- (i) Subject to Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption*) and the provisions of this Condition 11.1(c) (*Redemption due to Taxation*) and Condition 11.1(e) (*No redemption following delivery of a Non-Viability Notice*), if a Tax Event occurs, the Issuer may, by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders in accordance with Condition 16 (*Notices*), which notice shall be irrevocable, and prior notice to the Sukukholders' Agent in accordance with the Master Mudaraba Agreement, without any requirement for consent or approval of the Sukukholders, elect to redeem all, but not some only, of the Sukuk at the Tax Event Redemption Amount. No such notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay Additional Amounts or additional amounts under clause 6.10 of the Master Mudaraba Agreement. If the Issuer does not redeem in accordance with this Condition 11.1(c) (*Redemption due to Taxation*) in respect of such Tax Event then the Sukuk shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Issuer shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 12 (Write-down at the Point of Non-Viability) and Condition 13.2 (*Winding-up, dissolution or liquidation*)) redeem the Sukuk in accordance with the provisions of this Condition 11 (*Redemption*).
- (ii) Redemption of the Sukuk pursuant to this Condition 11.1(c) (*Redemption due to Taxation*) may occur (in the case of Fixed/Reset Rate Sukuk) on any date on or after the Issue Date (whether or not a Periodic Distribution Date) or (in the case of Floating Rate Sukuk) on any Periodic Distribution Date.
- (iii) Prior to the delivery of any notice of redemption pursuant to this Condition 11.1(c) (*Redemption due to Taxation*), the Issuer shall give to the Sukukholders' Agent (i) a certificate signed by two Authorised Signatories of the Issuer (upon which the Sukukholders' Agent may rely without liability to any person) stating that (A) the conditions set out in Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption*) have been satisfied; and (B) a Tax Event has occurred; (ii) an opinion of an independent tax adviser of recognised standing to the effect that the Issuer would, as a result of the Tax Law Change, be required to pay Additional Amounts; and (iii) a copy of the Financial Regulator's written approval for redemption of the Sukuk. Such certificate and opinion shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 11.1(c) (*Redemption due to Taxation*) and the Sukukholders' Agent shall be entitled to accept and rely on such certificate and opinion without any further inquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Issuer shall redeem the Sukuk.

**(d) Redemption for Capital Event**

- (i) Subject to Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption*), this Condition 11.1(d) (*Redemption for Capital Event*) and Condition 11.1(e) (*No redemption following delivery of a Non-Viability Notice*), if a Capital Event occurs and is continuing, the Issuer may, by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders in accordance with Condition 16 (*Notices*), which notice shall be irrevocable, and prior notice to the Sukukholders' Agent in accordance with the Master Mudaraba Agreement, without any requirement for consent or approval of the Sukukholders, elect to redeem all, but not some only, of the Sukuk at the Capital Event Redemption Amount. If the Issuer does not redeem in accordance with this Condition 11.1(d) (*Redemption for Capital Event*) in respect of such Capital Event then the Sukuk

shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Issuer shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 12 (Write-down at the Point of Non-Viability) and Condition 13.2 (*Winding-up, dissolution or liquidation*)) redeem the Sukuk in accordance with the provisions of this Condition 11 (*Redemption*).

- (ii) Redemption of the Sukuk pursuant to this Condition 11.1(d) (*Redemption for Capital Event*) may occur (in the case of Fixed/Reset Rate Sukuk) on any date on or after the Issue Date (whether or not a Periodic Distribution Date) or (in the case of Floating Rate Sukuk) on any Periodic Distribution Date.
- (iii) Prior to the delivery of any notice of redemption pursuant to this Condition 11.1(d) (*Redemption for Capital Event*), the Issuer shall give to the Sukukholders' Agent (i) a certificate signed by two Authorised Signatories of the Issuer (upon which the Sukukholders' Agent may rely without liability to any person) stating that (A) the conditions set out in Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption*) have been satisfied; (B) a Capital Event has occurred and is continuing; and (ii) if applicable, a copy of the notice received from the Financial Regulator to the effect that a Capital Event has occurred and is continuing and approving the redemption of the Sukuk. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 11.1(d) (*Redemption for Capital Event*) and the Sukukholders' Agent shall be entitled to accept and rely on such certificate without any further enquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice the Issuer shall redeem the Sukuk.

(e) **No redemption following delivery of a Non-Viability Notice**

If the Issuer gives a notice of redemption in accordance with this Condition 11 (*Redemption*) and, after giving such notice but prior to the relevant redemption date specified in such notice, a Non-Viability Event occurs, the relevant notice of redemption shall be automatically rescinded and shall be of no force and effect, the Sukuk will not be redeemed on the scheduled date of redemption and instead a Write-down shall occur in accordance with Condition 12 (*Write-down at the Point of Non-Viability*).

## **11.2 Purchase**

Subject to the Issuer (a) obtaining the prior written consent of the Financial Regulator (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires), (b) being in compliance with the Applicable Regulatory Capital Requirements, and (c) satisfying the Solvency Conditions at the time of purchase, the Issuer or any of its Subsidiaries, may purchase Sukuk at such price(s) and upon such other conditions as may be agreed upon between the Issuer or the relevant Subsidiary (as the case may be) and the relevant Sukukholders(s). Upon any such purchase, the Issuer shall deliver such Sukuk to the Registrar for cancellation and, upon such cancellation, the Mudaraba Capital and the Dissolution Distribution Amount shall be reduced by the face amount of the Sukuk so cancelled.

## **11.3 Cancellation**

All Sukuk that are purchased pursuant to Condition 11.2 (*Purchase*) and which the Issuer delivers for cancellation in accordance with Condition 11.2 (*Purchase*), and all Sukuk that are redeemed, shall forthwith be cancelled and accordingly may not be held, reissued or resold.

## 12 Write-down at the Point of Non-Viability

### 12.1 Effectiveness of this Condition 12

The provisions of this Condition 12 (*Write-down at the Point of Non-Viability*) will lapse and cease to apply with effect from (and including) the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Sukuk (the “**Effective Date**”), except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime or the Financial Regulator in its exercise of its powers thereunder. Forthwith following the occurrence of the Effective Date, the Issuer shall give notice of such occurrence to the Sukukholders’ Agent in accordance with the Master Mudaraba Agreement and to the Sukukholders in accordance with Condition 16 (*Notices*). If the Issuer becomes Non-Viable on or after the Effective Date, the Financial Regulator (or the Issuer on instructions from the Financial Regulator) may take such action in respect of the Sukuk as is required or permitted by such Applicable Statutory Loss Absorption Regime.

### 12.2 Non-Viability Event

If a Non-Viability Event occurs at any time on or after the Issue Date and prior to the Effective Date, a Write-down (in whole or in part, as applicable) will take place in accordance with Condition 12.3 (*Non-Viability Notice*).

### 12.3 Non-Viability Notice

- (a) On the third Business Day following the date on which such Non-Viability Event occurs (or on such earlier date as determined by the Financial Regulator), the Issuer will notify the Sukukholders’ Agent and the Sukukholders thereof in accordance with the Master Mudaraba Agreement and Condition 16 (*Notices*), respectively (a “**Non-Viability Notice**”). Such Non-Viability Notice shall:
  - (i) state that a Non-Viability Event has occurred;
  - (ii) state that a Write-down will take place and, following guidance from the Financial Regulator, whether such Write-down will be a full or partial Write-down;
  - (iii) specify, in the case of a partial Write-down, the amount as determined by the Financial Regulator and notified to the Issuer by which the Prevailing Face Amount of the Sukuk then outstanding is to be Written-down;
  - (iv) specify, in the case of a full Write-down, that the Issuer has received written confirmation from the Financial Regulator that the Financial Regulator has determined the principal notional amount of the Sukuk Assets to be zero; and
  - (v) specify the Non-Viability Event Write-down Date.
- (b) A Write-down will occur on the Non-Viability Event Write-down Date.
- (c) In the case of a Write-down in full of the Sukuk of all Series then outstanding, the Master Mudaraba Agreement will be automatically terminated with effect from the Non-Viability Event Write-down Date and neither the Sukukholders nor the Sukukholders’ Agent shall be entitled to any claim for any amounts in connection with the Mudaraba Assets.
- (d) In the case of a Write-down of any Series in part only, the relevant Mudaraba Capital shall be reduced in proportion to the Prevailing Face Amount of the Sukuk to be Written-down with effect from the Non-Viability Event Write-down Date and neither the Sukukholders nor the Sukukholders’ Agent shall be entitled to any claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

## 13 Events of Default and Winding-up

### 13.1 Events of Default

If an Event of Default occurs and is continuing, the Sukukholders' Agent (provided it shall have been given notice thereof by the Issuer or otherwise upon becoming aware of the Event of Default) shall promptly give notice of the occurrence of such Event of Default to the Sukukholders in accordance with Condition 16 (*Notices*) with a request to the Sukukholders to indicate to the Sukukholders' Agent in writing if they wish the Sukuk to be redeemed (a "**Dissolution Request**"). The Sukukholders' Agent may and, if so requested: (i) by an Extraordinary Resolution; or (ii) in writing by Sukukholders who hold at least one-fourth of the Prevailing Face Amount of Sukuk then outstanding, shall subject to being indemnified, and/or secured, and/or prefunded to its satisfaction (but in each case subject to Condition 13.2(e)(iii) (*Realisation of Sukuk Assets*)) (or, if permitted to do so in accordance with Condition 13.2(e)(iii) (*Realisation of Sukuk Assets*)), the relevant Sukukholder(s) may, give notice (a "**Dissolution Notice**") to the Issuer that the Sukuk are immediately due and payable at the Prevailing Face Amount of the outstanding Sukuk together with any Outstanding Payments, whereupon the Prevailing Face Amount of the outstanding Sukuk together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind. A Dissolution Notice may be given whether or not a Dissolution Request has been given to the Sukukholders.

### 13.2 Winding-up, dissolution or liquidation

#### (a) Proceedings for Winding-up

If, in respect of any Series, an Event of Default occurs and a Dissolution Notice is delivered pursuant to Condition 13.1 (*Events of Default*), the Mudaraba will be liquidated in accordance with the provisions of the Master Mudaraba Agreement, and the Sukukholders' Agent may at its discretion, and shall, subject to being indemnified, and/or secured, and/or prefunded to its satisfaction in each case subject to Condition 13.2(e)(i) (*Realisation of Sukuk Assets*), if so requested by an Extraordinary Resolution or in writing by Sukukholders who hold at least one-fourth of the Prevailing Face Amount of Sukuk then outstanding: (i) institute any steps, actions or proceedings for the winding-up of the Issuer and/or (ii) prove in the winding-up of the Issuer and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Issuer and/or (iv) claim in the liquidation of the Issuer and/or (v) take such other steps, actions or proceedings which, under KSA Law, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to or to the order of the Sukukholders on termination of the relevant Mudaraba in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Sukukholders' Agent, or the relevant Sukukholder(s), as applicable, may only take any such steps, actions or proceedings as described in this Condition 13.2(a) (*Proceedings for Winding-up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that the Sukukholders' Agent may not take any steps, actions or proceedings against the Issuer with respect to any sum that the Issuer has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Payment Administrator has failed to pay that amount to Sukukholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by the Issuer as a result of any steps, actions or proceedings taken pursuant to Condition 13.1 (*Events of Default*), nor will the Sukukholders accept the same, otherwise than during or after a winding-up (or analogous event) of the Issuer, unless the Issuer has given prior written notice (with a copy to the Sukukholders' Agent) to, and

received no objection from, the Financial Regulator (which the Issuer shall confirm in writing to the Sukukholders' Agent).

**(b) Enforcement**

Without prejudice to Condition 13.1 (*Events of Default*) and the remaining provisions of this Condition 13.2 (*Winding-up, dissolution or liquidation*), the Sukukholders' Agent may, at its discretion, and shall, subject to being indemnified, and/or secured, and/or prefunded to its satisfaction in each case subject to Condition 13.2(e)(i) (*Realisation of Sukuk Assets*), if so requested by an Extraordinary Resolution or in writing by Sukukholders who hold at least one-fourth of the Prevailing Face Amount of the Sukuk then outstanding and without further notice, institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Sukuk or the Transaction Documents (other than any payment obligation of the Issuer under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations). However, in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 13.2 (*Winding-up, dissolution or liquidation*) shall, however, prevent the Sukukholders' Agent, or the relevant Sukukholder(s), as applicable, from taking such steps, actions or proceedings as described in Condition 13.2(a) (*Proceedings for Winding-up*) in respect of any payment obligations of the Issuer arising from the Master Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

**(c) Non-Viability Conditions**

All claims by the Sukukholders' Agent (for and on behalf of the Sukukholders) and/or the Sukukholders against the Issuer under the Sukuk and the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Issuer under the Sukuk or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by the provisions of Condition 12 (*Write-down at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim (except to the extent set out in paragraph (v) of the definition of Write-down).

**(d) Extent of Sukukholder remedy**

No remedy against the Issuer, other than as referred to in this Condition 13 (*Events of Default and Winding-up*), shall be available to the Sukukholders' Agent or the Sukukholders, whether for the recovery of amounts owing in respect of these Conditions or the Transaction Documents or in respect of any breach by the Issuer of any of its other obligations under or in respect of these Conditions or the Transaction Documents.

**(e) Realisation of Sukuk Assets**

- (i) The Sukukholders' Agent may at any time at its absolute discretion and without notice, take such actions, steps or proceedings as it may think fit to enforce the provisions of the Sukuk but it shall not be bound to take any steps, actions or proceedings to enforce or to realise the Sukuk Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Issuer to enforce the terms of the Sukuk or the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this



Condition 13 (*Events of Default and Winding-up*)), unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by Sukukholders who hold at least one-fourth of the Prevailing Face Amount of the Sukuk then outstanding, and in either case, then only if it shall have been indemnified and/or secured and/or pre-funded to its satisfaction and the Sukukholders' Agent shall not be liable for the consequences of exercising its discretion or taking such steps, actions or proceedings and may do so without having regard to the effect of such action on individual Sukukholders.

- (ii) No Sukukholder shall be entitled to proceed directly against the Issuer or to take the actions, steps or proceedings referred to in Conditions 13.2(a) (*Proceedings for Winding-up*) and 13.2(b) (*Enforcement*) above, unless (i) the Sukukholders' Agent, having become bound so to proceed, fails to do so within 60 days of being so directed in accordance with this Condition 13 (*Events of Default and Winding-up*) and such failure is continuing or is unable to do so by reason of an order of a court having competent jurisdiction and (ii) the relevant Sukukholder (or such Sukukholder together with the other Sukukholders who propose to proceed directly against any of the Sukukholders' Agent or the Issuer, as the case may be) holds at least one-fourth of the Prevailing Face Amount of the Sukuk then outstanding, in which case the Sukukholders shall have only such rights against the Issuer as those which the Sukukholders' Agent is entitled to exercise as set out in Condition 13.1 (*Events of Default*) and this Condition 13.2 (*Winding-up, dissolution or liquidation*).
- (iii) Under no circumstances shall the Sukukholders' Agent or any Sukukholder have any right to cause the sale or other disposition of any of the Sukuk Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Sukukholders' Agent and the Sukukholders against the Issuer shall be to enforce or demand the enforcement of the obligations of the Issuer to pay the amounts due to or to the order of the Sukukholders under the Transaction Documents.

## 14 Taxation

All payments in respect of the Sukuk shall be made free and clear of and without withholding or deduction for any taxes imposed, levied, collected, withheld or assessed by or on behalf of the KSA or any political subdivision or authority thereof or therein having the power to tax ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay additional amounts ("**Additional Amounts**") so that the full amount which otherwise would have been due and payable under the Sukuk is received by the parties entitled thereto, provided that no such Additional Amount shall be payable to any Sukukholder that is not, or at any time ceases to be, a Qualified Person.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions including, without limitation, the "**face amount**" of the Sukuk, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and "**Outstanding Payments**") shall be deemed to include any Additional Amounts payable under this Condition 14 (*Taxation*) or any undertaking given in addition to or in substitution for it under the Master Declaration of Agency.

## 15 Indemnification and Liability of the Sukukholders' Agent

- 15.1 The Master Declaration of Agency contains provisions for the indemnification of the Sukukholders' Agent for incurred costs and expenses in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Sukuk Assets or any other right it may have pursuant to the Master Declaration of Agency or the other Transaction Documents, the Sukukholders' Agent shall in no circumstances be bound to take any action, step or proceeding unless so directed in accordance with

Condition 13 (*Events of Default and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction.

- 15.2 Nothing in the Master Declaration of Agency shall, in any case in which the Sukukholders' Agent has failed to show the degree of care and diligence required of it as sukukholders' agent, having regard to the provisions of the Master Declaration of Agency conferring on it any rights, powers, authorities or discretions, exempt the Sukukholders' Agent from or indemnify it against any Liability which by virtue of any rule of law would otherwise attach to it in respect of any gross negligence, wilful default or actual fraud which it may be guilty in relation to its duties under the Master Declaration of Agency.
- 15.3 The Sukukholders' Agent makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer under the Transaction Documents to which the Issuer is a party and shall not under any circumstances have any liability or be obliged to account to the Sukukholders in respect of any payments which should have been made by or on behalf of the Issuer but are not so made and shall not in any circumstances have any liability arising from the Sukuk Assets other than as expressly provided in these Conditions or in the Master Declaration of Agency.
- 15.4 The Sukukholders' Agent shall not in any event be liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to lost profits, goodwill, reputation, business opportunity or anticipated saving), whether or not foreseeable, even if the Sukukholders' Agent has been advised of the likelihood of such loss or damage and regardless of whether the claim for loss or damage is made in negligence, for breach of contract or otherwise.

## 16 Notices

All notices to the Sukukholders shall be valid if sent to the Sukukholders by registered mail to their respective addresses in the Register. Any such notice shall be deemed to have been given on the fifth day after the date of mailing.

## 17 Meetings of Sukukholders; Modification

### 17.1 Meetings of Sukukholders

The Master Declaration of Agency contains provisions for convening meetings of Sukukholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of these Conditions or any provision of the Master Declaration of Agency or any other Transaction Document, subject to also obtaining the Issuer's approval. Such a meeting may be convened by the Issuer or the Sukukholders' Agent and, upon the request in writing of Sukukholders holding not less than one-twentieth of the Prevailing Face Amount of the Sukuk then outstanding, shall be convened by the Sukukholders' Agent (subject to it being indemnified, secured and/or prefunded to its satisfaction). The quorum for any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing in aggregate at least one-half of the Prevailing Face Amount of the Sukuk then outstanding or, at any adjourned meeting, one or more persons holding or representing at least one-fourth of the Prevailing Face Amount of the Sukuk then outstanding, except that at any meeting the business of which includes the consideration of proposals, *inter alia*, (a) to reduce or cancel any Periodic Distribution Amount or the Mudaraba Capital payable in respect of the Sukuk, (b) to alter the currency in which a Periodic Distribution Amount or the Mudaraba Capital in respect of the Sukuk are to be made, (c) to alter the quorum required at any meeting or the majority required to pass an Extraordinary Resolution (each defined in the Master Declaration of Agency as a "**Basic Terms Modification**"), in which case the quorum shall be one or more persons holding or representing not less than two-thirds in Prevailing Face Amount of the Sukuk then outstanding, or at any adjourned meeting, not less than one-third in Prevailing Face Amount of the Sukuk then outstanding. Any Extraordinary Resolution passed at any such meeting shall be binding on all Sukukholders, whether or not they were

present at the meeting at which such Extraordinary Resolution was passed and whether or not they voted. The Master Declaration of Agency provides that any resolution in writing signed by or on behalf of the holders of at least three-fourths of the Prevailing Face Amount of the Sukuk then outstanding (a “**Written Resolution**”) shall for all purposes be as valid and effective as a duly passed Extraordinary Resolution. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Sukukholders and will be binding on all Sukukholders whether or not they participated in such Written Resolution. Notwithstanding the foregoing, the provisions contained in the Master Declaration of Agency described above shall be subject to applicable laws and regulations as in effect in KSA from time to time and shall, in the event of any inconsistency between such provisions and such laws and regulations, be deemed to be amended to the extent necessary at the relevant time in order to comply with such laws and regulations.

## **17.2 Modification**

The Master Declaration of Agency provides that that the Sukukholders’ Agent (acting on behalf of the Sukukholders) may agree, without the consent or sanction of the Sukukholders, to any modification (other than in respect of a Basic Terms Modification) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Master Declaration of Agency or any other Transaction Document, or may determine that an Event of Default, shall not be treated as such which in any such case in the opinion of the Sukukholders’ Agent, is not materially prejudicial to the interests of the Sukukholders or to any modification of any of these Conditions or any of the provisions of the Master Declaration of Agency or any other Transaction Document which is (in the opinion of the Sukukholders’ Agent) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Sukukholders and, unless the Sukukholders’ Agent agrees otherwise, any such modification shall be notified to the Sukukholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

In connection with the exercise by it of any of its powers, authorities or discretions (including, but without limitation, any modification, waiver or authorisation), the Sukukholders’ Agent shall have regard to the interests of the Sukukholders of each Series as a class but shall not have regard to any interests arising from circumstances particular to individual Sukukholders or the Sukukholders of another Series (whatever their number) and, in particular but without limitation, need not have regard to the consequences of such exercise for individual Sukukholders or the Sukukholders of another Series (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Sukukholders’ Agent shall not be entitled to require, nor shall any Sukukholder be entitled to claim, from the Issuer, the Sukukholders’ Agent or any other Person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Sukukholders.

## **18 Further Issues**

In respect of any Series, the Issuer shall be at liberty from time to time without the consent of the Sukukholders to create and issue additional Sukuk having the same terms and conditions as the Sukuk of such Series as are outstanding or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue and so that the same shall be consolidated and form a single Series with the Sukuk of such Series as are outstanding. Any additional Sukuk which are to form a single Series with the Sukuk as are outstanding previously constituted by the Master Declaration of Agency as supplemented by each relevant Supplemental Declaration of Agency shall be constituted by a declaration supplemental to the Master Declaration of Agency

as supplemented by each relevant Supplemental Declaration of Agency. References in these Conditions to the Sukuk include (unless the context requires otherwise) any other Sukuk issued pursuant to this Condition and forming a single Series with the Sukuk.

## **19 Governing Law and Jurisdiction**

### **19.1 Governing Law**

The Transaction Documents and the Sukuk are governed by, and are to be construed in accordance with, KSA Law.

### **19.2 Jurisdiction**

- (a) Subject to Condition 19.2(c) (*Jurisdiction*), the Committee for the Resolution of Securities Disputes and the Appeal Committee for Resolution of Securities Disputes (the “**Committees**”) shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk or the Transaction Documents and, for such purposes, the Issuer, the Sukukholders’ Agent and the Sukukholders irrevocably submit to the exclusive jurisdiction of the Committees. No suit, action or proceedings which may arise out of or in connection with the Sukuk or the Transaction Documents may be filed or brought outside the KSA and no court or any judicial authority outside the KSA shall have jurisdiction to hear any such claim.
- (b) Subject to Condition 19.2(a) (*Jurisdiction*), the Issuer agrees for the benefit of the Sukukholders’ Agent and the Sukukholders that the Committees shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Sukuk or the Transaction Documents.
- (c) Condition 19.2(a) (*Jurisdiction*) is for the benefit of the Sukukholders’ Agent and the Sukukholders only. As a result, each of the Sukukholders’ Agent and the Sukukholders may take any suit, action or proceeding (together with any suit, action or proceedings taken pursuant to Condition 19.2(a) (*Jurisdiction*), “**Proceedings**”) arising out of or in connection with the Sukuk or the Transaction Documents, against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **19.3 Waiver of Usurious Interest**

If any Proceedings are brought by or on behalf of the Sukukholders’ Agent or any Sukukholder under these Conditions, each of the Sukukholders’ Agent and the Sukukholders agree that it will:

- (a) not claim any judgment interest under, or in connection with, such Proceedings; and
- (b) to the fullest extent permitted by law, waive all and any entitlement it may have to judgment interest awarded in its favour by any court or other judicial authority as a result of such Proceedings.

For the avoidance of doubt, nothing in this Condition 19.3 (*Waiver of Usurious Interest*) shall be construed as a waiver of rights in respect of any Mudaraba Profit, Final Mudaraba Profit, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Issuer (acting in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterised by any court or other judicial authority.

## APPLICABLE FINAL TERMS

Set out below is the form of Applicable Final Terms which will be completed for each Tranche issued under the Programme.

[Date]

**Banque Saudi Fransi**

Issue of [Title of Sukuk]

**under the**

### **Additional Tier 1 Capital Sukuk Programme**

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the “**Conditions**”) set forth in the Base Offering Circular dated 14 February 2024 [and the supplement to the Base Offering Circular dated [●] which [together] constitute[s] a Base Offering Circular] ([together, ]the “**Base Offering Circular**”). This document constitutes the Applicable Final Terms of the Sukuk described herein and must be read in conjunction with the Base Offering Circular. Full information on the Issuer and the offer of the Sukuk is only available on the basis of a combination of these Applicable Final Terms and the Base Offering Circular. The Base Offering Circular is available for viewing during normal business hours at the registered office of the Issuer located at King Saud Road, AlMuraba’ District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia and copies may be obtained from this office.

*[Include whichever of the following apply or specify as “Not Applicable” Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Applicable Final Terms.]*

- |     |   |   |
|-----|---|---|
| (1) | Issuer  | Banque Saudi Fransi   |
| (2) | Sukukholders’ Agent   | Saudi Fransi Capital  |
| (3) | Series Number   | [●]   |
|     | (a) Tranche Number:   | [●]   |
|     | (b) Date on which the Sukuk will be consolidated and from a single Series | [The Sukuk will be consolidated and form a single Series with [ <i>identify earlier Tranche(s)</i> ] on [ <i>insert date</i> ]/the Issue Date]] [Not applicable]  |
| (4) | Specified Currency  | Saudi Arabian Riyals (“ <b>SAR</b> ”)   |
| (5) | Aggregate Face Amount   |   |
|     | (a) Series:   | SAR [●]   |
|     | (b) Tranche:  | SAR [●]   |
| (6) | Issue Price   | [100] per cent. of the Aggregate Face Amount [plus SAR [●] in respect of [●] days of accrued Periodic Distribution Amounts from (and including) the issue date of the original Sukuk to (but excluding) the Issue Date] |
| (7) | Calculation Amount  | [●]   |
| (8) | Issue Date  | [●]   |
| (9) | Profit Basis  | [Fixed/Reset Rate Sukuk/Floating Rate Sukuk] (further particulars specified at paragraph [11]/[12] below)   |

- (10) Date of Issuer board approval for issuance of Sukuk obtained [●]

**PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS**

- (11) Fixed/Reset Periodic Distribution Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Initial Periodic Distribution Rate [●] per cent. per annum payable [annually/semi-annually/quarterly/ monthly/[●]] in arrear on each Periodic Distribution Date
  - (b) Initial Periodic Distribution Amount [●] per Calculation Amount
  - (c) Margin [●] per cent. per annum
  - (d) Periodic Distribution Date(s) [●] [and [●]] in each year, subject to Condition 7.7 *(Cessation of Accrual)*
  - (e) First Periodic Distribution Date [●]
  - (f) First Reset Date [●]
  - (g) Reset Date(s) First Reset Date and every [●] anniversary thereafter
  - (h) Mid-Swap Maturity [●] years
  - (i) Mid-Swap Pages [Thomson Reuters Eikon SARAM3L5Y and Bloomberg SRSW5]
- (12) Floating Periodic Distribution Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Margin [●] per cent. per annum
  - (b) Day Count Fraction [Actual/Actual]  
[Actual/Actual – ICMA]  
[Actual/Actual – ISDA]  
[Actual/365 (Fixed)]  
[Actual/360]  
[30/360 Standard]  
[360/360]  
[30E/360]  
[30E/360 (ISDA)]
  - (c) Periodic Distribution Date(s) [●] [[●],[●] and [●]] in each year, subject to [adjustment in accordance with the Business Day Convention specified in paragraph (e) below/, not subject to any adjustment, and to] Condition 8.8 *(Cessation of Accrual)*
  - (d) First Periodic Distribution Date [●]
  - (e) Screen Rate Determination
    - (i) Periodic Distribution Determination Date [Second Business Day before the first day of the relevant Periodic Distribution Period/specify other]

- |                             |   |
|-----------------------------|---|
| (ii) Relevant Screen Page   | [Refinitiv Screen SUAA/ <i>specify other</i> ]  |
| (f) Business Day Convention | [Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / <i>specify other</i> /Not Applicable] |

#### PROVISIONS RELATING TO REDEMPTION

- |                             |  |
|-----------------------------|--|
| (13) Condition 11.1(b)(ii)  | [Applicable/Not Applicable]<br><br><i>(Only mark as “Not Applicable” in respect of a Series of Floating Rate Sukuk or, in respect of a Series of Fixed/Reset Rate Sukuk if Condition 11.1(b)(iii) is specified as being applicable for the relevant Series of Sukuk)</i> |
| First Call Date:            | [●]  |
| (14) Condition 11.1(b)(iii) | [Applicable/Not Applicable]<br><br><i>(Only mark as “Not Applicable” if Condition 11.1(b)(ii) is specified as being applicable for the relevant Series of Sukuk)</i>   |
| First Call Date:            | [First Reset Date/[●]]<br><br><i>(The First Call Date in respect of a Series of Fixed/Reset Rate Sukuk where Condition 11.1(b)(iii) is specified as applicable can only be the First Reset Date)</i>   |

#### PROVISIONS IN RESPECT OF THE SUKUK ASSETS

- |   |  |
|---|--|
| (15) Mudaraba Capital                   | [●] per cent. of the Aggregate Face Amount   |
| (16) Applicable Rate                    | [Initial Periodic Distribution Rate in respect of the period from (and including) the Issue Date to (but excluding) the first Mudaraba Profit Rate Reset Date]/[●] month SAIBOR plus Margin] |
| (17) Mudaraba Profit Distribution Date  | [●]  |
| (18) Mudaraba Profit Rate Reset Date(s) | [First Reset Date and every [●] anniversary thereafter]/[Not Applicable]<br><br><i>(Only mark as “Not Applicable” in respect of a Series of Floating Rate Sukuk)</i>                         |
| (19) Details of the Transaction Account | Banque Saudi Fransi Account No: [●] with [●] for Series No.: [●]   |

#### OTHER FINAL TERMS

- |                        |  |
|------------------------|--|
| (20) Ratings           | [The Issuer has been assigned long-term issuer default ratings of “[●]” with a “[negative/positive/stable]” outlook by Fitch Ratings Ltd and “[●]” with a “[negative/positive/stable]” outlook by Moody’s Investors Service Limited] |
| (21) Other final terms | [Not Applicable/give details]<br><br>(When adding any other final terms consideration should be given as to whether such terms constitute “significant new   |

factors” and consequently trigger the need for a supplement to the Base Offering Circular)

## **DISTRIBUTION**

- (22) Dealer[s]/distributor[s] [●]  
(Include name and address of Dealer(s)/distributor[s])
- (23) Authorised Holding Amount: [●]

## **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Applicable Final Terms. To the best of the knowledge and belief of the Issuer (having taken reasonable care to ensure that such is the case), the information contained in these Applicable Final Terms is in accordance with the facts and there are no other facts, the omission of which would make any statement herein misleading.

## **APPOINTMENT OF THE MUDAREB**

By executing these Applicable Final Terms, the Issuer (in its capacity as Mudareb) acknowledges and agrees that the Sukukholders’ Agent in its capacity as Rab-al-Maal has contributed the Mudaraba Capital for investment in accordance with the Master Mudaraba Agreement and accordingly a Mudaraba has been constituted in respect of the Sukuk that are the subject of these Applicable Final Terms, in accordance with the terms of the Master Mudaraba Agreement as supplemented by these Applicable Final Terms.

**Signed on behalf of Banque Saudi Fransi**

By:

Duly authorised



## SUMMARY OF PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents. This summary is for information purposes only and is not intended to be (nor should it be construed as being) all inclusive. Prospective investors should note that this summary is not a substitute for reviewing the relevant Transaction Documents in full, which are available for inspection during normal business hours at the registered offices of the Issuer located at 7206 Prince Abdulaziz Bin Musaad Bin Jalawi Street (Dabaab), 4065 Al Murabba District, Riyadh 12613, Kingdom of Saudi Arabia. Prospective investors are reminded that pursuant to the Conditions, all Sukukholders are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents. Words and expressions defined in this Base Offering Circular shall have the same meanings in this section.*

### MASTER MUDARABA AGREEMENT

The Master Mudaraba Agreement will be entered into on 14 February 2024 between the Issuer (as Mudareb) and the Sukukholders' Agent (as Rab-al-Maal) and will be governed by the laws and regulations of the Kingdom of Saudi Arabia.

Under the Master Mudaraba Agreement, the Sukukholders' Agent (acting as Rab-al-Maal on behalf of the Sukukholders) will irrevocably appoint the Issuer as Mudareb in respect of each Series.

In respect of each Tranche, the Sukukholders' Agent shall pay, or procure to be paid to the Mudareb, on the relevant Issue Date, an amount equal to the Mudaraba Capital relating to such Tranche to apply as the capital of the Mudaraba of the relevant Series in accordance with the terms of the Master Mudaraba Agreement.

The Mudaraba of each Series will commence on the date of payment of the Mudaraba Capital of the first Tranche of such Series by the Sukukholders' Agent (on behalf of the Sukukholders) to the Mudareb and will end: (i) on the date (being the “**Mudaraba End Date**”) on which the Sukuk of that Series are redeemed in whole but not in part in accordance with the Conditions, following the constructive liquidation of the Mudaraba of that Series in accordance with the terms of the Master Mudaraba Agreement; or (ii) (if earlier) in the case of a Write-down of that Series resulting in the reduction of the Prevailing Face Amount of the Sukuk of that Series then outstanding to nil, on the Non-Viability Event Write-down Date.

In accordance with the terms of the Master Mudaraba Agreement, on the Issue Date of each Tranche, the Mudaraba Capital relating to such Tranche will be invested by the Mudareb on an unrestricted co-mingling basis in the *Shari'ah* compliant banking activities of the Mudareb (the “**Business Portfolio**”) carried out through the general Mudaraba pool of the Issuer comprising (a) the Issuer's shareholders' equity; (b) proceeds of all current, savings and investment deposit accounts with the Issuer; (c) any other source of funds from financial and investment activities included in the general Mudaraba pool by the Issuer from time to time; and (d) following contribution of Mudaraba Capital from time to time in respect of a Mudaraba, the Mudaraba Capital of each Mudaraba then existing (the “**General Mudaraba Pool**”) in accordance with an investment plan scheduled to the Master Mudaraba Agreement (the “**Investment Plan**”). The Mudaraba of each Series shall, following investment of the Mudaraba Capital in the General Mudaraba Pool in accordance with the Investment Plan, constitute *pro rata* undivided assets in the Business Portfolio carried out through the General Mudaraba Pool (in respect of each Series, the “**Mudaraba Assets**”).

In the Master Mudaraba Agreement, the Mudareb will:

- (a) acknowledge and agree that the Investment Plan was prepared by it with due skill, care and attention;
- (b) represent and warrant to the Sukukholders' Agent that the Investment Plan is fair and accurate in all material respects; and

- (c) acknowledge that the Sukukholders' Agent will enter into the Master Mudaraba Agreement and each Mudaraba in reliance on the Investment Plan and the terms of the Investment Plan will apply to each Mudaraba.

The Mudareb is entitled, in its sole and absolute discretion, to co-mingle any of its own *Shari'ah*-compliant assets from time to time with the Mudaraba Assets during the term of any Mudaraba, **provided that** prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit (each, as defined below) in respect of any Series, the Mudareb shall deduct a proportion of any profit earned for its own account.

The Mudareb will manage the Mudaraba of each Series based on its expertise and shall be entitled to share in the profit arising from the Mudaraba of each Series in accordance with the terms of the Master Mudaraba Agreement. The Master Mudaraba Agreement provides that the Mudareb shall, subject to certain conditions relating to Non-Payment Event, Non-Payment Election or the Mudaraba End Date (as described in the paragraphs below) occurring, one Business Day prior to each Mudaraba Profit Distribution Date, on the basis of a constructive liquidation of the relevant Mudaraba by the Mudareb (after the Mudareb has deducted, on a *pro rata* basis, its share of profit in respect of any co-mingled assets in the General Mudaraba Pool), calculate and distribute the Mudaraba Profit for the relevant Mudaraba Profit Distribution Period (if any) between the Sukukholders' Agent (for and on behalf of the Sukukholders of that Series) and the Mudareb in accordance with the following profit-sharing ratio:

- (i) the Sukukholders (as Rab-al-Maal), 90 per cent.; and
- (ii) the Mudareb, 10 per cent.

If, in respect of a Mudaraba, the Mudareb (at its sole discretion but subject to the terms of the Master Mudaraba Agreement) elects to make a payment of Mudaraba Profit or the Final Mudaraba Profit is otherwise payable pursuant to the Master Mudaraba Agreement and the Sukukholders' Agent's share of the Mudaraba Profit (the "**Rab-al-Maal Mudaraba Profit**") or the Sukukholders' Agent's share of the Final Mudaraba Profit (the "**Rab-al-Maal Final Mudaraba Profit**") (as applicable) payable to the Sukukholders' Agent (for and on behalf of the Sukukholders) on any Mudaraba Profit Distribution Date, or the Mudaraba End Date in the case of the Rab-al-Maal Final Mudaraba Profit, is:

- (i) greater than the then applicable Periodic Distribution Amount for the corresponding period, the amount of any excess shall be retained by the Mudareb and credited to a reserve account (in respect of each Mudaraba, the "**Mudaraba Reserve**") and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to Sukukholders' Agent (for and on behalf of the Sukukholders) shall be reduced accordingly; or
- (ii) less than the then applicable Periodic Distribution Amount, the Mudareb:
  - (a) first, shall utilise any amount standing to the credit of the Mudaraba Reserve to make payments to, or to the order of, the Sukukholders in order to cover such shortfall; and
  - (b) second, may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources as a donation in order to cover such shortfall.

If, in respect of a Mudaraba, the Mudareb elects to make payments from its own cash resources as a donation in accordance with the terms of the Master Mudaraba Agreement, it shall be entitled to recover such amounts on the Mudaraba End Date of the relevant Series from the Excess Liquidation Proceeds (as defined below) but not, for the avoidance of doubt, from the Sukukholders of such Series.

The Mudaraba Reserve for each Mudaraba shall be recorded by the Mudareb through a book-entry ledger account; will not be required to be maintained in a separate defined bank account; and shall be reflected in the relevant Mudaraba Accounts; and the Mudareb shall (at its sole discretion) be entitled to invest amounts

standing to the credit of a Mudaraba Reserve in the same manner as it invested the related Mudaraba Capital in accordance with the Investment Plan.

*The Master Mudaraba Agreement does not require the Mudareb to make payments to the Sukukholders' Agent of amounts equal to, or sufficient to enable the Sukukholders' Agent to pay, any amounts due under the Sukuk of any Series irrespective of the amount of Mudaraba Profit generated by any Mudaraba Assets at the relevant time or (as the case may be) irrespective of the amount of Dissolution Mudaraba Capital generated by any liquidation of a Mudaraba, and the Sukukholders' Agent acknowledges in the Master Mudaraba Agreement that there is no guarantee of any return from the Mudaraba Assets.*

If a Non-Payment Event occurs in respect of a Series, the Mudareb will be prohibited from paying the Final Mudaraba Profit (and, as a result, the Rab-al-Maal Final Mudaraba Profit) on the relevant Mudaraba End Date or the Mudaraba Profit (and, as a result, the Rab-al-Maal Mudaraba Profit) on a relevant Mudaraba Profit Distribution Date. The Mudareb may in its sole discretion elect that the Rab-al-Maal Mudaraba Profit (but not the Rab-al-Maal Final Mudaraba Profit) (in whole or in part) will not be paid on any Mudaraba Profit Distribution Date (being a **“Non-Payment Election”**).

If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall: (i) in the case of a Non-Payment Election, no later than seven calendar days prior to such event; and (ii) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case (except where the relevant Non-Payment Event occurs during such period) no later than five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Sukukholders' Agent in accordance with the Master Mudaraba Agreement and to the Sukukholders of the relevant Series in accordance with the Conditions, in each case providing details of such Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event, as the case may be. However, any failure to provide such notice will not invalidate the cancellation of the relevant payment of the Relevant Rab-al-Maal Mudaraba Profit Amount or Periodic Distribution Amount. In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given in accordance with the Master Mudaraba Agreement, the fact of non-payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (or any part thereof) on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) shall be evidence of the occurrence of a Non-Payment Election or Non-Payment Event, as the case may be. Sukukholders and the Sukukholders' Agent shall have no right to require payment of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (or any part thereof, as applicable) not paid as a result of either (in the case of Rab-al-Maal Mudaraba Profit only) a Non-Payment Election or (in the case of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit) a Non-Payment Event (in each case irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given in accordance with the Master Mudaraba Agreement) and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or a Periodic Distribution Amount in such circumstance shall not constitute an Event of Default. The Mudareb shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise). In respect of any Series, if a Non-Payment Election or a Non-Payment Event occurs, any profit from the Mudaraba of such Series for the relevant period which is not paid to the Sukukholders of such Series in such circumstances shall be credited by the Mudareb to the relevant Mudaraba Reserve and the Mudareb shall be entitled to re-invest such profit standing to the credit of such Mudaraba Reserve in the same manner as it invested the Mudaraba Capital of such Series in accordance with the Investment Plan.

If, in respect of any Series, any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit payable is not paid as a consequence of a Non-Payment Election or a Non-Payment Event, as the case may be, then from the date of such Non-Payment Election or Non-Payment Event (the **“Dividend Stopper Date”**), the

Mudareb will not, so long as any of the Sukuk of such Series are outstanding, undertake any of the payments outlined in Condition 9.4 (*Dividend and Redemption Restrictions*) (which include, but are not limited to, declaring or paying distributions or dividends, declaring or paying profit and directly or indirectly redeeming, purchasing cancelling, reducing or otherwise acquiring any Ordinary Shares in the Issuer) until: (i) the next following payment of Rab-al-Maal Mudaraba Profit; or (ii) (as the case may be) payment of the Rab-al-Maal Final Mudaraba Profit, in each case following the Dividend Stopper Date, has been made in full (or an amount equal to that amount has been duly set aside or provided for in full) for the benefit of the Sukukholders of such Series.

The Master Mudaraba Agreement provides that if a Non-Viability Event occurs at any time on or after the Issue Date of the first Tranche issued under a Series and prior to the Effective Date, a Write-down (in whole or in part, as applicable) in respect of the relevant Series will take place in accordance with the terms of the Master Mudaraba Agreement on the Non-Viability Event Write-down Date. In the case of a Write-down:

- (a) in full of the Sukuk of all Series then outstanding, the Master Mudaraba Agreement will be automatically terminated with effect from the Non-Viability Event Write-down Date and neither the Sukukholders nor the Sukukholders' Agent shall be entitled to any claim for any amounts in connection with the Mudaraba Assets; and
- (b) of any Series in part only, the relevant Mudaraba Capital shall be reduced in proportion to the Prevailing Face Amount of the Sukuk to be Written-down with effect from the Non-Viability Event Write-down Date and neither the Sukukholders nor the Sukukholders' Agent shall be entitled to any claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

Subject to certain conditions as set out in the Master Mudaraba Agreement, the Mudareb may (in its sole discretion) liquidate the Mudaraba of any Series in whole but not in part on the basis of a final constructive liquidation of the Mudaraba for the purposes of (i) firstly, returning the relevant Mudaraba Capital (the "**Dissolution Mudaraba Capital**") to the Sukukholders of the relevant Series; and (ii) secondly, (to the extent such amount is payable pursuant to the terms of the Master Mudaraba Agreement) paying the Rab-al-Maal Final Mudaraba Profit to the Sukukholders of such Series (the aggregate of (i) and (ii) being the "**Required Liquidation Amount**") on the relevant Mudaraba End Date, in the following circumstances:

- (a) (i) in the case of Fixed/Reset Rate Sukuk, if Condition 11.1(b)(ii) (*Issuer's Call Option*) is marked as applicable in the Applicable Final Terms, on any date during the period commencing (and including) the First Call Date to (and including) the First Reset Date or any Mudaraba Profit Distribution Date thereafter or (ii) in the case of Floating Rate Sukuk or, in the case of Fixed/Reset Rate Sukuk, if Condition 11.1(b)(iii) (*Issuer's Call Option*) is specified as applicable in the Applicable Final Terms, on the First Call Date or any Mudaraba Profit Distribution Date thereafter, as the case may be, by giving not less than 15 nor more than 20 days' prior notice to the Sukukholders' Agent (the "**Issuer Call Option**"); or
- (b) on any date, on or after the Issue Date (whether or not a Mudaraba Profit Distribution Date) or, in the case of Floating Rate Sukuk, on any Mudaraba Profit Distribution Date, by giving not less than 15 nor more than 20 days' prior notice to the Sukukholders' Agent:
  - (i) upon the occurrence of a Tax Event; or
  - (ii) upon the occurrence of a Capital Event.

Any final constructive liquidation in whole under the Master Mudaraba Agreement will be subject to the Dissolution Mudaraba Capital of the relevant Series being equal to the Mudaraba Capital of the relevant Series (the "**Liquidation Condition**"). If the Mudareb, in its sole discretion, proposes to exercise its option to liquidate

the Mudaraba of any Series in whole, but not in part, on the basis of a final constructive liquidation of that Mudaraba in accordance with the terms of the Master Mudaraba Agreement, and the relevant Dissolution Mudaraba Capital which would be generated upon such liquidation is less than the Mudaraba Capital of that Series, the Issuer (as Mudareb) would, if it were to proceed with an actual liquidation, be in breach of the Liquidation Condition and as a result of such breach the Sukukholders of such Series would suffer a loss in an amount equal to the difference between the relevant Mudaraba Capital and the Dissolution Mudaraba Capital (the “**Shortfall**”). In the event that there is or will be a Shortfall, the Mudareb shall (in its sole discretion), in respect of each such Series, either:

- (a) continue investing the Mudaraba Capital of such Series in the relevant Mudaraba, and accordingly the Mudareb shall not proceed with the final constructive liquidation of that Mudaraba and as a result no distribution of the Required Liquidation Amount shall occur; or
- (b) proceed with the final constructive liquidation of the relevant Mudaraba and indemnify the Sukukholders of such Series in respect of the Shortfall, and accordingly transfer into the Transaction Account (subject to the terms of the Master Mudaraba Agreement) an amount equal to the relevant Required Liquidation Amount, provided always that the Mudareb will not be in breach of the terms of the Master Mudaraba Agreement.

If the Mudareb gives a notice of liquidation in accordance with the terms of the Master Mudaraba Agreement and, after giving such notice but prior to the relevant redemption date specified in such notice, a Non-Viability Event occurs, the relevant notice of liquidation shall be automatically rescinded and shall be of no force and effect, the Mudaraba of that Series will not be liquidated on the scheduled date of liquidation and instead a Write-down shall occur in respect of that Series in accordance with the terms of the Master Mudaraba Agreement. Following the occurrence of a Non-Viability Event, the Mudareb shall not be entitled to give a notice of liquidation in respect of the Issuer Call Option or following the occurrence of a Tax Event or Capital Event.

The Mudaraba of a Series will automatically be liquidated in whole but not in part if an Event of Default occurs in relation to such Series and a Dissolution Notice is delivered pursuant to Condition 13.1 (*Events of Default*) and the Sukukholders’ Agent may at its discretion, and shall if requested by the relevant Sukukholders of the relevant Series in accordance with Condition 13.2(a) (*Proceedings for Winding-up*), as applicable, take any action specified in Condition 13.2(a) (*Proceedings for Winding-up*), and the Mudareb acknowledges that the Sukukholders of the relevant Series shall in such case be entitled to claim for all amounts in respect of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and any other payments due in respect of the relevant Series in accordance with the terms of the Master Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event), **provided that** certain conditions relating to subordination, Non-Payment Event and Non-Payment Election contained in the Master Mudaraba Agreement are satisfied.

If, following the liquidation of the Mudaraba of any Series in accordance with the terms of the Master Mudaraba Agreement, the Required Liquidation Amount payable to or to the order of the Sukukholders on the relevant Mudaraba End Date is greater than the then applicable Dissolution Distribution Amount, the amount of any excess (the “**Excess Liquidation Proceeds**”) shall be credited to the Mudaraba Reserve of such Series and the relevant Required Liquidation Amount payable to or to the order of the Sukukholders of such Series shall be reduced accordingly.

After payment in full of the amounts due and payable to or to the order of the Sukukholders pursuant to the terms of the Master Mudaraba Agreement, neither the Sukukholders’ Agent nor any Sukukholder will have any further right or claim to any assets of the Mudareb in respect of the relevant Series.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital of any Series suffered by the Sukukholders or the Sukukholders' Agent unless such losses are caused by: (i) the Mudareb's breach of the Master Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

Subject to the Mudareb: (A) obtaining the prior written consent of the Financial Regulator (except to the extent that the Financial Regulator and/or the Capital Regulations (as defined in the Conditions) no longer so requires); (B) being in compliance with the Applicable Regulatory Capital Requirements; and (C) satisfying certain solvency conditions at the time of purchase, the Mudareb or any of its Subsidiaries, may purchase Sukuk at such price(s) and upon such other conditions as may be agreed upon between the Mudareb or the relevant Subsidiary (as the case may be) and the relevant Sukukholder(s). Upon any such purchase, the Mudareb shall deliver such Sukuk to the Registrar for cancellation and, upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Sukuk so cancelled.

The Mudareb shall exercise its rights, powers and discretions as arise under the Master Mudaraba Agreement (together with any other incidental rights, powers, authorities and discretions), and shall take such action as it deems appropriate, in each case:

- (a) in accordance with material applicable laws;
- (b) with the degree of skill and care that it would exercise in respect of its own assets; and
- (c) in a manner that is not repugnant to *Shari'ah*.

The Mudareb will agree in the Master Mudaraba Agreement that all payments by it to or to the order of the Sukukholders of any Series shall be made free and clear of, and without withholding or deduction for any taxes imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom or any political sub-division or authority thereof or therein having the power to tax ("**Taxes**"), unless such withholding or deduction of Taxes is required by law. In such event, and/or if Additional Amounts are payable by the Issuer in respect of the Sukuk of any Series in accordance with Condition 14 (*Taxation*), the Issuer will pay such Taxes and/or amounts equal to such Additional Amounts by credit transfer in Saudi Riyals for same day value into the Transaction Account of the relevant Series so that the full amount which otherwise would have been due and payable to or to the order of the relevant Sukukholders, and/or in respect of the relevant Sukuk, is received in the relevant Transaction Account, **provided that** no such Additional Amount shall be payable to any Sukukholder who is not, or at any time ceases to be, a Qualified Person.

### **Master Declaration of Agency**

The Master Declaration of Agency will be entered into on 14 February 2024 between the Issuer and the Sukukholders' Agent and will be governed by the laws and regulations of Saudi Arabia.

Pursuant to the Master Declaration of Agency, each Sukukholder, by completing an Investor Application Form or by subscribing to, acquiring or holding the Sukuk, shall be deemed:

- (a) to have appointed the Sukukholders' Agent as its agent in relation to the relevant Series on the terms set out in the Master Declaration of Agency and each relevant Supplemental Declaration of Agency; and
- (b) to have ratified and accepted the entry by the Sukukholders' Agent into the Transaction Documents to which it is a party and performance by the Sukukholders' Agent of its obligations thereunder;
- (c) to have given irrevocable and unconditional instructions requiring the Sukukholders' Agent to, on the date fixed for payment of the Dissolution Distribution Amount of a Series, upon satisfaction of the Relevant Obligations, transfer and/ or assign at any time thereafter, the remaining portion of the Sukuk Assets of the relevant Series to the Issuer (for its own account); and

- (d) to have given irrevocable and unconditional instructions requiring the Sukukholders' Agent to, with effect from any Non-Viability Event Write-down Date, to comply with the provisions of Conditions 12 (*Write-down at the Point of Non-Viability*) and clause 7 (*Write-down at the Point of Non-Viability*) of the Master Mudaraba Agreement.

In relation to each Series, the Sukukholders' Agent:

- (a) accepts its appointment as agent of the Sukukholders on the terms set out in the Master Declaration of Agency and each Supplemental Declaration of Agency;
- (b) as agent on behalf of the Sukukholders, confirms that, on the date fixed for payment of the Dissolution Distribution Amount, upon satisfaction of the Relevant Obligations, it shall transfer and/or assign at any time thereafter the remaining portion of the Sukuk Assets to the Issuer (for its own account);
- (c) as agent on behalf of the Sukukholders, confirms that with effect from any Non-Viability Event Write-down Date, it shall comply with the provisions of Condition 12 (*Write-down at the Point of Non-Viability*) and clause 7 (*Write-down at the Point of Non-Viability*) of the Master Mudaraba Agreement; and
- (d) declares and the Issuer acknowledges, that, with effect from the Issue Date of the first Tranche of a Series, the Sukukholders' Agent holds the benefit of the relevant Sukuk Assets of that Series as agent of the relevant Sukukholders *pro rata* according to the share of the Prevailing Face Amount of the Sukuk of that Series held by each Sukukholder, in accordance with the terms set out in the Master Declaration of Agency.

Subject to Condition 12 (*Write-down at the Point of Non-Viability*), the Issuer shall covenant and undertake with the Sukukholders' Agent that, so long as any Sukuk remains outstanding, to the order of the Sukukholders' Agent, it shall, in respect of each Series, satisfy the Relevant Obligations, as and when each payment shall be required to be made in accordance with the Conditions, and shall make such payments in the manner specified in the Conditions and the Payment Administration Agreement.

The Issuer shall further covenant and undertake with the Sukukholders' Agent that, so long as any Sukuk remains outstanding, it shall comply with those provisions of the Master Declaration of Agency, each relevant Supplemental Declaration of Agency, the other Transaction Documents and the Conditions which are expressed to be binding on it and to perform and observe the same.

The Master Declaration of Agency shall specify, including, without limitation, that in relation to each Series:

- (a) if an Event of Default has occurred and is continuing, the Sukukholders' Agent may, by notice in writing to the Issuer and the Payment Administrator, require the Payment Administrator to act thereafter as its agent in accordance with the Payment Administration Agreement;
- (b) the Sukukholders' Agent may, without any consent or sanction of the Sukukholders and without prejudice to its rights in respect of any subsequent breach, condition, event or act, from time to time and at any time, but only if and in so far as in its opinion the interests of the Sukukholders are not materially prejudiced thereby, determine whether or not a breach in the performance or observance by the Issuer of any obligation under the provisions of the Master Declaration of Agency, each relevant Supplemental Declaration of Agency or the other Transaction Documents is capable of remedy, authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any breach or prospective breach of any of the covenants or provisions contained in the Master Declaration of Agency, each relevant Supplemental Declaration of Agency or any other Transaction Document or determine that any Event of Default shall not be treated as such for the purposes of the Master Declaration of Agency, any relevant Supplemental Declaration of Agency and the Conditions;

- (c) the Sukukholders' Agent may from time to time and at any time without the consent or sanction of the Sukukholders concur with the Issuer in making any modification (other than in respect of a Basic Terms Modification (as defined in the Master Declaration of Agency)) to the Master Declaration of Agency, each relevant Supplemental Declaration of Agency or any other Transaction Documents which, in the opinion of the Sukukholders' Agent, it may be proper to make provided the Sukukholders' Agent is of the opinion that:
  - (i) such modification is not materially prejudicial to the interests of the Sukukholders; or
  - (ii) such modification is of a formal, minor or technical nature or made to correct a manifest error or to comply with mandatory provisions of law (including but not limited to as a consequence of any Applicable Statutory Loss Absorption Regime becoming effective after the Issue Date which imposes requirements with respect to the Sukuk and the Sukuk Assets which are not expressly provided for in Condition 12 (*Write-down at the Point of Non-Viability*) and/or the related provisions contained in the Transaction Documents),

and any such modification shall be binding on the Sukukholders and, unless the Sukukholders' Agent agrees otherwise, any such modification shall be notified as soon as practicable thereafter in accordance with Condition 16 (*Notices*); and

- (d) if and to the extent that the Issuer exercises its rights under Condition 18 (Further Issues) to issue additional Sukuk in respect of a Series, on the date upon which any additional Sukuk in respect of a Series are created and issued pursuant to the terms of the Master Declaration of Agency, each of the Issuer and the Sukukholders' Agent will execute a Declaration of Commingling of Assets for and on behalf of the holders of the existing Sukuk and the holders of such additional Sukuk so issued, agreeing and declaring that the relevant Mudaraba Assets (in respect of the issuance of the additional Sukuk) and the Mudaraba Assets as in existence immediately prior to the creation and issue of the additional Sukuk are commingled and shall collectively comprise part of the Sukuk Assets for the benefit of the holders of the existing Sukuk and the holders of such additional Sukuk pro rata according to the Prevailing Face Amount of Sukuk held by each Sukukholder, in accordance with the Master Declaration of Agency.

### ***Shari'ah Compliance***

Each Transaction Document shall provide that Banque Saudi Fransi will agree that it has accepted the *Shari'ah* compliant nature of the Transaction Documents and, to the extent permitted by law, and will further agree that:

- (a) it shall not claim that any of its obligations under the Transaction Documents (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'ah*;
- (b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'ah* compliance of the Transaction Documents; and
- (c) none of its obligations under the Transaction Documents shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that and the Transaction Documents are not compliant with the principles of *Shari'ah*.



## SUBSCRIPTION AND SALE

### Programme Agreement

The Dealer(s) have, entered into a programme agreement (the “**Programme Agreement**”) dated 14 February 2024, with the Issuer. Pursuant to the Programme Agreement, the Issuer has agreed with the Dealer(s) a basis upon which the Dealer(s) may from time to time agree to procure persons to purchase Sukuk issued under the Programme. Any such agreement will extend to those matters stated under “*Terms and Conditions of the Sukuk*”. The Issuer may pay each relevant Dealer a commission as agreed between the Issuer and the Dealer in respect of Sukuk placed by it.

The Issuer has agreed to indemnify the Dealer(s) against certain liabilities in connection with the offer and sale of the Sukuk. The Programme Agreement entitles the Dealers to terminate any agreement that they make to place Sukuk in certain circumstances prior to payment for such Sukuk being made to the Issuer.

### Application by Prospective Investors

The investor presentation period for each Tranche will be notified to prospective investors (in respect of each Tranche, the “**Investor Presentation Period**”). The Issue Date for each Tranche of Sukuk will be a date notified by the Issuer and the relevant Dealer(s) to the prospective investors after the end of the relevant Investor Presentation Period and shall be specified in the Applicable Final Terms. During the Investor Presentation Period, the relevant Dealer(s) may solicit expressions of interest from prospective investors for acquiring the Sukuk of the relevant Series, during which time the Issuer and the relevant Dealer(s) shall consult and agree on the Profit Rate, the Margin and/or the Initial Periodic Distribution Rate, as the case may be.

Persons wishing to purchase the Sukuk of the relevant Series will be required to submit a duly completed form (an “**Investor Application Form**”) to the relevant Dealer(s) before the end of the Investor Presentation Period and shall make payment for the Sukuk of such Series as per the instructions contained in the Investor Application Form. Investor Application Forms will be available from the relevant Dealer(s) in respect of such Series. Applications to purchase Sukuk for less than the Specified Denomination will not be accepted.

Persons wishing to purchase the Sukuk will be required to declare that they have read and understood this Base Offering Circular (including the sections entitled “*Risk Factors*” and “*Terms and Conditions of the Sukuk*” of this Base Offering Circular) and the terms and conditions of the Investor Application Form and accept in full and agree to the basis on which the offer of Sukuk is made. They will also be required to declare that all the information provided in the Investor Application Form is true and correct.

Allocation of the Sukuk of each Tranche will be at the discretion of the Issuer and the relevant Dealer(s) and will be made following the end of the Investor Presentation Period. Once the allocation of Sukuk of such Tranche has been completed, the Issuer will cause the Profit Rate, the Margin and/or the Initial Periodic Distribution Rate, as the case may be, and the aggregate face amount, together with the anticipated aggregate net proceeds, of the Sukuk of such Tranche, to be communicated to investors.

All prospective investors must carefully read the Conditions prior to completing an application for the purchase of the Sukuk since the execution of the Investor Application Form constitutes acceptance of, and agreement to, the Conditions.

### General

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will (to the best of its knowledge and belief) comply in all material respects with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers any Sukuk or possesses or distributes this Base Offering Circular and that it will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of

the Sukuk under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and the Issuer shall have no responsibility therefor.

Other than the private placement notification to the Authority in relation to a private placement of the Sukuk in the Kingdom of Saudi Arabia filed in accordance with the Rules on the Offer of Securities and Continuing Obligations, no action has been or will be taken in any jurisdiction by any Dealer that would, or is intended to, permit an offering or trading of the Sukuk under the Programme, or possession or distribution of this Base Offering Circular or any other offering material relating thereto, where action for that purpose is required and no offering of the Sukuk will be made outside of those periods mandated by the Authority.

None of the Issuer, the Dealers and the Sukukholders' Agent represents that Sukuk may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Base Offering Circular or any Sukuk may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Offering Circular and the offering and sale of Sukuk.

### **The Kingdom of Saudi Arabia**

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Sukuk. Any investor in Saudi Arabia or who is a Saudi person (a **"Saudi Investor"**) who acquires any Sukuk pursuant to an offering should note that the offer of the Sukuk is a private placement under Article 8(a)(1) or Article 9 of the Rules on the Offer of Securities and Continuing Obligations as issued by the Authority Resolution number 3-123-2017 dated 09/04/1439H (corresponding to 27 December 2017), as amended by its Resolution number 8-5-2023 dated 25/06/1444H (corresponding to 18 January 2023), made through an authorised person licensed to carry out arranging activities by the Authority and following a notification to the Authority under Article 10 of the Rules on the Offer of Securities and Continuing Obligations.

The Sukuk may thus not be advertised, offered or sold to any person in Saudi Arabia other than to "Institutional Clients" or "Qualified Clients" (each as defined under the Authority's Glossary of Defined Terms) under Article 8(a)(1) of the Rules on the Offer of Securities and Continuing Obligations or by way of a limited offer under Article 9 of the Rules on the Offer of Securities and Continuing Obligations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of the Sukuk to a Saudi Investor will be made in compliance with Article 8(a)(1) or Article 9 of the Rules on the Offer of Securities and Continuing Obligations.

Each offer of the Sukuk shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the Rules on the Offer of Securities and Continuing Obligations, but is subject to the restrictions on secondary market activity under Article 14 of the Rules on the Offer of Securities and Continuing Obligations. These restrictions on secondary market activity require an Investor (a **"transferor"**) who has acquired the Sukuk pursuant to a private placement not to offer or sell such Sukuk or part thereof to any person (a **"transferee"**) unless such offer or sale is made through a capital market institution duly licensed by the Authority and satisfying one of the following requirements:

- (a) the price to be paid by the transferee for such Sukuk in any one transaction does not exceed SAR 200,000 or an equivalent amount;
- (b) the Sukuk are offered or sold to an Institutional Investor or Qualified Investor (each as defined under the Authority's Glossary of Defined Terms); or
- (c) the Sukuk are being offered or sold in such other circumstances as the Authority may prescribe;
- (d) If the requirement in paragraph (a) above cannot be fulfilled because the price of the Sukuk being offered or sold to the transferee has increased since the date of the original private placement, the transferor may

offer or sell the Sukuk to the transferee if their purchase price during the period of the original private placement did not exceed SAR 200,000 or an equivalent amount;

- (e) if the requirements in paragraph (b) cannot be fulfilled, the transferor may offer or sell the Sukuk if the transferor sells its entire holding of the Sukuk to one transferee; and
- (f) the provisions of paragraphs (a) to (e) shall apply to all subsequent transferees of the Sukuk.

This Base Offering Circular may not be distributed in Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations.

The Authority does not make any representation as to the accuracy or completeness of this Base Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Offering Circular. Prospective investors of the Sukuk offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Base Offering Circular, you should consult an authorised financial adviser.

### **Transfers and Payments**

The Registrar will maintain the Register in respect of the Sukuk in accordance with the provisions of the Registry Agreements. Investors must either maintain an account directly with the Registrar or through a custodian or other intermediary in order to hold Sukuk. All the transfers shall be effected as per Condition 3 (*Transfers of Sukuk*).

In addition, pursuant to Condition 10 (*Payments*), all payments under the Sukuk will be made to Saudi Riyal denominated accounts in the Kingdom as notified in writing to the Registrar, the Issuer, the Payment Administrator and the Sukukholders' Agent by the Sukukholders not later than 15 days prior to the date of the relevant payment. Accordingly, investors will need to make appropriate arrangements to receive payments under the Sukuk in such an account. Investors are required to consult with their own advisers as to the requirements of setting up the accounts referred to above and must take any necessary action in respect of opening such account themselves. None of the Issuer, the Sukukholder's Agent, the Payment Administrator, the Sole Arranger and the Dealers shall have any responsibility for ensuring that investors comply with the correct process, regulations and requirements in relation to opening such accounts in order to hold Sukuk and receive payments and none of them accept any liability for any loss arising directly or indirectly as a consequence of any action or inaction in respect of setting up such accounts.

## TAXATION AND ZAKAT

*The statements herein regarding taxation/Zakat are based on Saudi Arabia's laws in effect as of the date of this Base Offering Circular and are subject to any changes in law or relevant rules and practices occurring after such date, which could have a retroactive effect. These laws include the Income Tax Law issued under Royal Decree No. M/1 dated 15/01/1425H (corresponding to 6 March 2004) as amended and its implementing regulations issued under Ministerial Resolution (MR) No. 1535 dated 11/06/1425H (corresponding to 28 July 2004), as amended (collectively, the “**Income Tax Law**”), and the Zakat Law issued pursuant to Royal Decree No. 17/02/28/8634 dated 29/06/1370H (corresponding to 6 April 1951) and its implementing regulations issued under Ministerial Resolution No. 2216 dated 07/07/1440H (corresponding to 14 March 2019) as amended and the Zakat rules for computing Zakat on financing activities issued under MR No. 2215 dated 07/07/1440H (corresponding to 14 March 2019) (the “**Zakat Regulations**”) and Value Added Tax (VAT) Law issued under Royal Decree number M113 dated 02/11/1438H (corresponding to 25 July 2017), as amended, and its implementing regulations issued by ZATCA's Board of Directors Resolution No. 3839 dated 14/12/1438H (corresponding to 5 September 2017) as amended (the “**VAT Law**”).*

*The following is a general description of certain Saudi Arabian Zakat and tax considerations relating to the Sukuk issued under the Programme. It does not purport to be a complete analysis of all Zakat or tax considerations relating to the Sukuk, is not intended and does not constitute legal or tax/Zakat advice, nor does it address the considerations that are dependent on individual circumstances, whether in Saudi Arabia or elsewhere. Prospective purchasers of any Sukuk should consult their own tax and/or Zakat advisers to determine the Zakat and/or tax consequences for them in relation to acquiring, holding and disposing of the relevant Sukuk and receiving payments of principal, profit and/or other amounts under those Sukuk and the consequences of such actions under the Zakat and tax regulations of Saudi Arabia. This summary is based upon the laws as in effect in Saudi Arabia on the date of this Base Offering Circular and is subject to any change in laws that may take effect after such date. Prospective Investors should note that the Issuer is not obligated to update this section for any subsequent changes or modification to the applicable Zakat or tax regulations.*

Unless otherwise stated, capitalised terms in this section shall have the meanings given to them in “Definitions” below.

## OVERVIEW OF INCOME TAX LAW AND ZAKAT REGULATIONS

### Income Tax

According to the Income Tax Law, Persons Subject to Taxation include a Resident company in Saudi Arabia owned by foreign (i.e. non-GCC) persons (on its foreign partner's (shareholder's) share) and a non-Resident who carries out business in Saudi Arabia through a Permanent Establishment (as defined below) (other than a Permanent Establishment of GCC persons that meet the conditions set out under Article 2(4) of the Zakat Regulations) are subject to corporate income tax in Saudi Arabia at the rate of 20 per cent. (if not engaged in oil and hydrocarbon production activities, see below). Resident companies wholly-owned by GCC persons (in addition to Persons Subject to Zakat (as defined below)) are subject to Zakat instead of corporate income tax. Legal entities Resident in Saudi Arabia, which are owned jointly by GCC persons and non-GCC persons are subject to corporate income tax in respect of the share of their taxable profit attributable to the ownership (legal or beneficial) percentage held by non-GCC persons and Zakat on the ownership (legal or beneficial) percentage held by GCC persons.

Shares held directly by GCC persons or via other GCC companies (where the shareholding structure does not fall outside of the GCC) in a Resident company are subject to Zakat and not income tax. In determining the tax or Zakat profile of a Saudi tax / Zakat Resident company in Saudi Arabia, the ZATCA applies a “look-through”

approach to determine whether the up-stream shareholding structure at any point exists outside of the GCC (in other words, at the ultimate shareholder level).

Additionally, as per the Income Tax Law, Saudi tax / Zakat Resident entities in Saudi Arabia which are engaged in oil and hydrocarbon production activities are subject to corporate income tax in Saudi Arabia irrespective of the nationality of their shareholders/owners. The income tax rates applicable to such entities range from 50 per cent. to 85 per cent. depending on the level of total capital investment of such entity.

In addition, effective 1 January 2018, 20 per cent. corporate income tax rate applies to companies engaged in natural gas investment activities (previously 30 per cent.). Also, effective 1 January 2020, Resident companies engaged in oil and hydrocarbons production activities as well as engaged in related downstream activities are subject to 20 per cent. corporate income tax on their taxable income attributable to downstream activities for a five year period starting from 1 January 2020 if certain conditions are fulfilled.

Non-GCC natural persons Resident in Saudi Arabia who are not performing commercial activities in Saudi Arabia (as defined in Chapter 1 - Article 1 of the Income Tax Law, and Chapter 1 - Article 1 of the Zakat Regulations) are not currently subject to income tax or Zakat in Saudi Arabia according to existing practices of ZATCA (as compliance/administration of Income Tax Law is not currently enforced by ZATCA on individuals).

## **Zakat**

Zakat is a religious obligation imposed on Muslims by *Shari'ah* law to pay a fixed percentage of their wealth for the relief of poverty. The Zakat implementing regulations of Saudi Arabia were issued by Ministerial Resolution No. 2082, dated 28 February 2017 (the “**Old Zakat Regulations**”). The Old Zakat Regulations are effective from the date of their issuance and supersede all prior directives, resolutions, instructions and circulars issued by ZATCA. Furthermore, the Ministry of Finance has issued new Zakat implementing regulations under Ministerial Resolution No. 2216 dated 07/07/1440H (corresponding to 14 March 2019). The Zakat Regulations are effective (and replace the existing Old Zakat Regulations) for financial years commencing 1 January 2019.

The rules governing the calculation of Zakat are complex. Separate rules are applicable for the calculation of Zakat by Zakat payers who engage in financing activities (licensed by SAMA) in Saudi Arabia and Zakat payers who engage in non- financing activities in Saudi Arabia. This “Taxation and Zakat” section broadly covers the Zakat consequences of investment in Sukuk by investors who are engaged in non-financing activities in Saudi Arabia.

As per the Zakat Regulations, Persons Subject to Zakat include Resident companies which are owned by GCC persons (whether fully or partially) on the Saudi/GCC share, Resident natural persons who are GCC persons engaged in business activities, non-GCC persons (other than founding shareholders) who own shares in companies which are listed on a Saudi financial market and Resident in Saudi Arabia and a Permanent Establishment of GCC persons in Saudi Arabia (meeting the conditions set out under Article 2(4) of the Zakat Regulations).

Except for Persons Subject to Zakat, Zakat is not assessed/applicable to:

- (a) Resident companies operating in the oil and hydrocarbon production sector;
- (b) Resident companies operating in natural gas investment activities; and
- (c) any entity (or Zakat payer) for which ZATCA (or the Ministry of Finance) issues a decision to exempt from Zakat.

There are certain rules that apply to the method of calculating the Zakat liability. In general, Zakat on Zakat payers engaged in non-financing activities is currently levied on the higher of the adjusted Zakatable profits or the Zakat base. Generally, the Zakat base on which Zakat is computed comprises the equity, provisions, loans

and credit balances (subject to certain conditions and limitations) and adjusted net profit or /loss for Zakat purposes for the year, less the sum of the value of fixed assets, long-term investments and certain other deductions. The Zakat rate on the Zakat base is approximately 2.578 per cent. if a Zakat payer is following the Gregorian financial year and 2.5 per cent. if a Zakat payer is following the Hijri financial year. The Zakat rate on Zakatable profit is 2.5 per cent. regardless of the financial year (Gregorian or Hijri) followed by the Zakat payer.

It should be noted that the Zakat Regulations were amended as per Ministerial Resolution No. 58705 dated 21/09/1444H (corresponding to 12 April 2023), to provide that investments in sukuk are deductible for the general Zakat payer if the following conditions are met:

- (a) the investment is not held for trading purposes;
- (a) the sukuk issuer treats these issuances as capital/equity for Zakat purposes, regardless of the classification of such instruments in the financial statements, when calculating the Zakat base; and
- (b) the issuer does not change the treatment of sukuk, mentioned in the point above, under their Zakat return during the period in which the sukuk are due.

Prior to this amendment, investors in sukuk who are Resident Zakat payers in Saudi Arabia (other than banks and financial institutions licensed by SAMA who are subject to different Zakat rules) were not allowed to claim the investment in sukuk as deductible from their Zakat base (whether these were long-term or short-term investments) on the basis that issuers were not subjecting these sukuk to Zakat in their Zakat base.

**BSF (TIN 3000002546) will treat the Sukuk as capital/equity for Zakat purposes (i.e. the Sukuk would be added regardless of the financing use) throughout the period in which the Sukuk are outstanding and pay Zakat on the Saudi/GCC portion. The investors are advised to consult their Zakat/tax advisers on the specific implications of these rules.**

#### **Withholding Tax (WHT)**

Saudi Arabian tax/Zakat Resident persons and Permanent Establishments of non-Resident persons in Saudi Arabia are required to withhold taxes on certain payments to non-Residents of Saudi Arabia, including to residents of the other GCC countries, if such payment is derived from a source of income in Saudi Arabia. WHT rates vary from 5 per cent. to 20 per cent. depending on the nature of the underlying payment. Income earned by Sukukholders in respect of Sukuk in the nature of profit (which are equivalent to Loan Charges/interest) should be considered as Loan Charge as per Article 5(1) of the implementing regulations to Income Tax Law. Loan Charges paid to a non-Resident attract 5 per cent. WHT unless such WHT is reduced or eliminated pursuant to the terms of an applicable double tax treaty (see below). WHT is imposed on payments against services and not the sale of goods. Services are defined to mean anything done for consideration other than the purchase and sale of goods and other property.

WHT is reduced or eliminated pursuant to the provisions of an applicable double tax treaty signed between a non-resident's country of tax residence and Saudi Arabia. Application of double tax treaties in Saudi Arabia may take place under one of two methods: (i) a refund mechanism which requires the payor to subject the relevant payment to WHT and then a refund request of the WHT may be submitted to ZATCA; or (ii) the automatic application of double tax treaties which provides for the possibility of the payor to not subject the relevant payment to WHT in the first place. Both mechanisms require the beneficiary/recipient to provide certain documents and forms to ZATCA (such as a tax residency certificate).

If any WHT is required by law to be deducted or withheld in connection with any payment by BSF to the Sukukholders in respect of Sukuk, BSF has agreed to increase the amount paid so that the full amount of such payment is received by the Sukukholders as if no such deduction or withholding had been made. However, BSF

will not pay any additional amounts in respect of any withholding required by law to any Sukukholder who is not a Qualified Person.

### **Capital gains tax**

According to Article 2 of the Income Tax law, Person Subject to Taxation (as defined below) include a non-Resident in Saudi Arabia, with taxable income generated from sources in Saudi Arabia, without having a Permanent Establishment for income tax purposes in Saudi Arabia (other than a Permanent Establishment of a GCC person as defined under Article 2(4) of the Zakat Regulations).

Further, Article 1(2) of the implementing regulations to the Income Tax Law, defined the applicable tax on such a Person, as to being subject to the following:

- (a) WHT as per the provisions of Article 68 of the Income Tax Law if the income generated is stipulated under that Article; and
- (b) Capital gains tax as per the general provisions of the Income Tax Law if the income is derived from disposal of fixed and traded assets, or from disposal of shares in a resident company.

Based on the above, if the sale of Sukuk by the Sukukholders is considered a source of income in Saudi Arabia, then the related income (or capital gain) will be subject to 20 per cent. Corporate income tax in Saudi Arabia according to the rules for computation of capital gain tax provided in the Income Tax Law for non-Residents (including GCC residents in countries other than Saudi Arabia which do not have a Permanent Establishment for Zakat purposes).

The Income Tax Law provide that capital gains realised from disposal of securities (such as Sukuk) traded in a financial market in Saudi Arabia or outside Saudi Arabia (if they are also traded in Saudi Arabia) is exempt from income tax in Saudi Arabia if following conditions are met:

#### *Securities (sukuk) traded in Saudi Arabia:*

- the disposal is carried out in accordance with the regulations of the financial market in Saudi Arabia (Tadawul); and
- the investor did not hold the securities before the effective date of the Income Tax Law (i.e. 30 July 2004).

#### *Securities (sukuk) traded outside Saudi Arabia:*

- The securities are also traded in a financial market in Saudi Arabia; and
- The investor did not hold the securities before the effective date of the Income Tax Law (i.e., 30 July 2004).

The above exemption provided in the Income Tax Law is not applicable to the Sukuk as the Sukuk will not be listed on Tadawul in Saudi Arabia and therefore the exemption is not considered in the below taxation summary.

Capital gains realised from disposal of Sukuk by Resident Sukukholders will not be subject to capital gains tax, however, such gains will be included in the total income of such Sukukholders' subject to corporate income tax or Zakat in Saudi Arabia.

### **Certain Tax and Zakat implications for Sukukholders**

#### **(a) Sukukholders who are GCC persons and Resident in Saudi Arabia**

Sukukholders that are legal entities Resident in Saudi Arabia and wholly-owned by GCC persons are subject to Zakat only, with respect to all income in the nature of profit, Loan Charges income earned in

respect of the Sukuk or capital gains realised on the sale or transfer of the Sukuk as such income will be part of such Sukukholder's gross income subject to Zakat.

It should be noted that the above summary does not consider the extent to which such Sukukholders would be liable to Zakat as a consequence of acquiring, holding or disposing of its Sukuk. Additionally, as noted above, the current Zakat Regulations were amended as per Ministerial Resolution No. 58705 dated 21/09/1444H (corresponding to 12 April 2023), to provide that investments in sukuk are deductible for the general Zakat payer if certain conditions are met as explained in the "Zakat" section above.

*Legal entities Resident in Saudi Arabia but not wholly owned by GCC persons*

Sukukholders who are legal entities Resident in Saudi Arabia and owned jointly by GCC persons and non-GCC persons are subject in Saudi Arabia to Zakat and corporate income tax based on the percentage of ownership (legal or beneficial) held by GCC and non-GCC shareholders respectively in respect of any income earned/received in the nature of profit or Loan Charges income in respect of the Sukuk or capital gains realised on the sale or transfer of the Sukuk as such income will be part of such Sukukholder's gross income subject to Zakat/Income tax.

*Sukukholders that are GCC natural persons and Resident in Saudi Arabia*

Sukukholders that are GCC natural persons and Resident in Saudi Arabia are not subject to Zakat in Saudi Arabia as per the Zakat Regulations in respect of any income earned/received in the nature of profit, Loan Charge or capital gains realised in respect of the Sukuk unless such Sukukholder's investment in the Sukuk is connected to such Sukukholder's business activity in Saudi Arabia. If such income is connected to such Sukukholder's business activity in Saudi Arabia, such amounts generally will be subject to Zakat in Saudi Arabia.

**(b) Sukukholders who are non-GCC persons and Resident in Saudi Arabia**

Sukukholders who are non-GCC persons that are Resident for income tax purposes should be subject to Saudi Arabian income tax at the rate of 20 per cent. (assuming they are owned by non-GCC persons, not listed on a financial market in Saudi Arabia (in the case of non-founding shareholders as mentioned below) and not engaged in oil and hydrocarbon production activities) in respect of any income/interest earned in the nature of profit, Loan Charge income earned or capital gain realised in relation to the Sukuk as such income will be part of the Sukukholder's gross income.

The considerations described above also apply to Saudi Arabian companies wholly-owned by non-GCC persons (which should be subject to Saudi Arabian corporate income tax) and on the income attributable to the ownership of non-GCC persons in Saudi Arabian companies (which should be subject to Saudi Arabian corporate income tax on the profits attributable to such non-GCC ownership).

Sukukholders who are Resident in Saudi Arabia and engaged in oil and hydrocarbon production in Saudi Arabia are subject to corporate income tax in Saudi Arabia at rates between 50 per cent. to 85 per cent. (depending on the level of total capital investment of such entity).

Sukukholders that are non-GCC natural persons and Resident in Saudi Arabia who are not performing commercial activities in Saudi Arabia (as defined in Chapter 2 – Article 2 of the Income Tax Law) are not currently subject to Saudi Arabian income tax or Zakat in respect of any income / Loan Charge income earned or capital gains realised in respect of the Sukuk according to the existing practices of ZATCA (as compliance / administration of Income Tax Law is not currently enforced by ZATCA on individuals) unless such Sukukholder's investment in the Sukuk is connected to such Sukukholder's business activity in Saudi Arabia. If such income is connected to such Sukukholder's business activity



in Saudi Arabia (including on capital gain realised from disposal of Sukuk), such amounts generally will be subject to 20 per cent. corporate income tax in Saudi Arabia.

**(c) Sukukholders who are non-Resident in Saudi Arabia**

Sukukholders, either natural persons or legal entities, who are not Resident in Saudi Arabia, (whether such Sukukholders are GCC nationals or non-GCC nationals, including Sukukholders resident in the GCC countries other than Saudi Arabia) and do not have a Permanent Establishment in Saudi Arabia for income tax or Zakat purposes will be subject to Saudi Arabian WHT on the interest / Loan Charge income paid to them at a rate of 5 per cent. (the rate applicable on loan charges or interest as defined in Article 63 of the income tax implementing regulations and Article 68 of the Income Tax Law) in respect of the Sukuk unless such WHT is reduced or eliminated pursuant to the terms of an applicable double tax treaty (please refer to the refund mechanisms listed under the “Withholding Tax (WHT)” section above for details).

Sukukholders, be it natural persons or legal entities, that are not Resident in Saudi Arabia (whether such Sukukholders are GCC persons or non-GCC persons) with a Permanent Establishment in Saudi Arabia for income tax purposes as defined in Article 4 of the Income Tax Law (other than the Permanent Establishment of a GCC person as defined under Article 2(4) of the Zakat Regulations) will be subject to Saudi Arabian income tax. All income / interest in the nature of profit/Loan Charge earned in respect of the Sukuk or capital gains realised from the disposal / transfer of Sukuk will be part of the Sukukholder’s gross income that is subject to income tax after deduction of allowable costs and certain other adjustments, at the current rate of 20 per cent. if such profit, Loan Charges or capital gains realised from the disposal of Sukuk is attributable to the Permanent Establishment’s activities in Saudi Arabia.

Furthermore, any transfer of the after-tax profit to the head office of the Permanent Establishment outside of Saudi Arabia (similar to a payment by a company of a dividend to a foreign shareholder) is considered to be a distribution of profit and accordingly subject to a 5 per cent. WHT in Saudi Arabia.

A non-Resident Sukukholder, whether such a Sukukholder has, or does not have, a Permanent Establishment in Saudi Arabia, will be subject to capital gains tax at the rate of 20 per cent. on any gain realised on the disposal or repurchase (including on transfer of Sukuk to heirs on death) of its Sukuk.

***Indirect and Transfer Taxes***

There are no transfer taxes currently applicable in the Kingdom (other than the newly introduced rules for real estate transaction / transfer taxes).

**Value Added Tax (VAT)**

VAT was introduced in Saudi Arabia with effect from 1 January 2018. VAT in Saudi Arabia is generally applicable to goods and services supplied by registered taxpayers in Saudi Arabia.

Where a transaction is considered to be in scope for Saudi Arabia VAT, the treatment can either be exempt, zero-rated (taxable at 0 per cent.) or standard rated (taxable at 5 per cent. or 15 per cent.) depending, but not limited to a number of factors, such as the nature of the supply being provided, and the recipient’s place of residence for VAT purposes. With regards to the standard VAT rate, the Saudi Arabia Ministry of Finance announced that such rate will increase from 5 per cent. to 15 per cent. with effect from 1 July 2020. Certain financial services, including those where the consideration is margin-based (e.g. profit) are treated as exempt from a VAT perspective in Saudi Arabia. The exemption also applies to the issue or transfer of a debt security.

The issuance of a Sukuk is akin to the issuance of a debt security and is treated as exempt for Saudi Arabia VAT purposes where the supply is made by a registered taxpayer in Saudi Arabia.

Islamic Finance products involve the transfer of underlying goods which can lead to a number of transactions to analyse for purposes of Saudi Arabia VAT. With respect to Sukuk in particular, ZATCA has published guidance to clarify that as an exception to the usual rules of VAT, the requisite underlying transfers of goods (e.g. commodities) should be treated as out of scope for VAT purposes, to the extent that the transfer is intended to be temporary and on the basis that it is contractually certain the assets will be sold back. Accordingly, the goods received or supplied (and associated payments) by Sukukholders (via an Agent) as part of the Sukuk structure via a *Shari'ah* compliant financing arrangement, should be considered to be out of scope for VAT purposes in Saudi Arabia.

Profits or trading gains generated by holding the Sukuk should be treated as exempt for Saudi Arabia VAT on the basis that the consideration is margin-based. This component may, however, be treated as zero-rated for Saudi Arabia VAT purposes (taxable at 0 per cent.) where the profits/gains are received by a registered taxpayer in Saudi Arabia, from a person that is not resident in Saudi Arabia, subject to relevant criteria being fulfilled.

The precise reporting requirements attached to the various payments and receipts associated with the aforementioned transactions will depend on the residence of the Sukukholder, and whether they are a registered taxpayer for Saudi Arabia VAT purposes. However, with an exception of explicit fees or charges, any gain should not carry a positive VAT charge as they should either be treated as out of scope, exempt or zero-rated for the purposes of Saudi Arabia VAT.

Any other goods or services supplied or received which are ancillary to or separate from the Sukuk may attract Saudi Arabia VAT along with other reporting requirements for Sukukholders.

## Definitions

For the purposes of this summary:

**“Dependent Agent”** means, as per Article 4(1) of the implementing regulations to the Income Tax Law, an agent who has any of the following authorities:

- (a) negotiate on behalf of a non-resident;
- (b) conclude contracts on behalf of a non-resident;
- (c) has a stock of goods, owned by a non-resident, on hand in Saudi Arabia to supply the client’s demands on behalf of the non-resident.

**“GCC”** means the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates.

**“GCC person”** means (a) a citizen of any of the member countries of the Cooperation Council of the Arab States of the Gulf (namely, the Kingdom of Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait), (b) a legal entity owned by GCC citizens and established under the laws of a GCC country.

**“Resident”** means a natural person or company that satisfies the residency conditions stipulated in Article 3 of the Income Tax Law or any governmental department or ministry, public entity, or other corporate person or entity formed in Saudi Arabia (Article 1 of the Income Tax Law).

The concept of Residency in Saudi Arabia as defined in Article 3 of the Income Tax Law is set out below:

- (a) A natural person is considered a Resident in Saudi Arabia for a taxable year if he/she meets either of the two following conditions:

- (i) he/she has a permanent place of abode in Saudi Arabia and is physically residing in Saudi Arabia for a period, in aggregate, of not less than 30 days during the taxable year; or
- (ii) he/she is physically residing in Saudi Arabia for a period of not less than 183 days in the taxable year.

For the purposes of this paragraph, residence in Saudi Arabia for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside Saudi Arabia.

- (b) A company is considered Resident in Saudi Arabia during the taxable year if it meets either of the following conditions:
  - (i) it is formed in accordance with the Saudi Arabian Companies Law; or
  - (ii) its central management is located in Saudi Arabia.

**“Loan Charge”** as defined in Article 5 (1) of the By-Laws to Income Tax Law means an amount realised / earned for the use of money.

This includes income realised from loan transactions of any type, whether secured by guarantees or not, or by giving rights to participate in the profits of the debited person or not. It also includes income realised from governmental and non-governmental bonds.

**“Persons Subject to Taxation”** as defined in Article 2 of the Income Tax Law, are:

- (a) resident capital company with respect to non-GCC shares (owned directly and indirectly) and with respect to the shares owned either directly or indirectly by persons engaged in oil and hydrocarbon production activities with the exception of the shares owned by persons engaged in oil and hydrocarbon production activities in companies listed in a financial market in Saudi Arabia and shares held by such listed companies in other capital companies (as these shares would be subject to Zakat instead);
- (b) a resident non-GCC natural person who conducts activities in Saudi Arabia;
- (c) a non-resident who conducts activities in Saudi Arabia through a Permanent Establishment;
- (d) a non-resident with taxable income generated from sources within Saudi Arabia without having a Permanent Establishment;
- (e) a person engaged in the field of natural gas investment; and
- (f) a person engaged in the field of oil and hydrocarbons production.

**Note:** A capital company, as per Article 1 of the Income Tax Law, is a joint stock company, a limited liability company, or a company limited by shares. For purposes of the Income Tax Law, investment funds shall be considered capital companies.

**“Persons Subject to Zakat”** as defined in Article 2 of the Zakat Regulations, are:

- (a) Saudi and GCC natural persons residing in Saudi Arabia and carrying on business activity in Saudi Arabia.
- (b) Companies (listed and unlisted) Resident in Saudi Arabia in respect of shares owned by GCC persons, as well as anyone who carries on business activity under a license issued by a competent governmental or administrative authority in accordance with rules established by such authority.
- (c) The shares owned by non-GCC persons, other than founders and their assigns, in accordance with the memorandum of association or statutory documents, in companies which are listed in a financial market

in Saudi Arabia and Resident in Saudi Arabia, and the shareholders of Saudi governmental authorities, bodies and institutions.

- (d) Permanent establishment owned by non-resident GCC persons as per Article 2(4) of the Zakat Regulations.

**“Permanent Establishment”** for income tax purposes means a permanent place for the non-Resident’s activity where it conducts the activity either fully or partly; this also includes the activities conducted by the non-Resident through a Dependent Agent. A non-Resident carrying out an activity in Saudi Arabia through a licensed branch (as defined in Article 4(b)(4) of the Income Tax Law) is considered to have a Permanent Establishment in Saudi Arabia.

**“Permanent Establishment of GCC persons”** is subject to Zakat provided at least two conditions of the conditions stated below are met in respect of the central management of such Permanent Establishment (as set out under Article 2(4) of the Zakat Regulations):

- (a) the board of directors’ ordinary meetings which are held regularly and at which the main policies and decisions relating to management and running of the entity’s business are made, are held regularly in Saudi Arabia;
- (b) the supreme executive decisions relating to the Permanent Establishment’s functions (for example, the chief executive officer’s/deputies’ decisions) are made in Saudi Arabia; and
- (c) the entity’s business is mainly generated from Saudi Arabia (i.e. 50 per cent. of its revenues).

In such case, the Permanent Establishment’s activity and those of such entity’s branches shall be accounted for on a worldwide basis.

### **Value Added Tax (VAT)**

Please note that references to Value Added Tax (VAT) through this Base Offering Circular are made in reference to the Common VAT Agreement of the States of the Gulf Cooperation Council, Value Added Tax Law, the VAT Implementing Regulations in Saudi Arabia and the information published in the ZATCA’s VAT guidelines.

**“ZATCA”** means the Zakat, Tax and Customs Authority.

## SHARIAH COMMITTEE AND PRONOUNCEMENT

*Prospective Sukukholders should not rely on the pronouncement referred to below in deciding whether to make an investment in a Series of Sukuk and should consult their own Shari'ah advisers as to whether the proposed transaction described in the pronouncement referred to above is in compliance with Shari'ah principles.*

### **Pronouncement of the *Shariah* Committee of BSF**

Copies of the pronouncement issued by the *Shariah* Committee of BSF relating to the Programme and confirming that, in its view, the proposed issue of the Sukuk and the related structure and mechanism described in the Transaction Documents are in compliance with *Shari'ah* principles, shall be distributed to prospective Sukukholders upon request to the Issuer.

### **Overview of the *Shariah* Committee of BSF**

The *Shariah* Committee of BSF is an independent committee appointed by BSF's board of directors. It guides BSF and meets regularly to review and appraise various transactions and ensure compliance with the principles of *Shariah*.

### **Members of the *Shariah* Committee of BSF**

#### ***Dr. Salah bin Fahd Al-Shalhoub (Chairman of the *Shariah* Committee)***

Dr. Salah bin Fahd Al-Shalhoub is a specialist in Islamic fiqh and an academic with over twenty years of experience in teaching and researching in the fields of *Shariah* sciences, Islamic finance, and economics. He is a consultant for a group of Islamic financial institutions to review contracts and products in financing, investment, cooperative insurance, Islamic bonds, and their development to enhance their *Shariah* and practical efficiency, and serves society through training, authoring, writing, and media participation to raise awareness of Islamic finance and banking.

#### ***Dr. Salim Ali Al Ali (Member of the *Shariah* Committee)***

Dr Salim Ali Al Ali A specialist in Islamic finance law and the legal and jurisprudential issues related to the development of Islamic capital markets. He is an assistant professor in the Department of *Shariah* and Islamic Studies at the United Arab Emirates University and a member of the *Shariah* Committee in many financial institutions. He has many consultative, educational, and research contributions in the Islamic finance sector in several countries, including Saudi Arabia, the United Arab Emirates, Malaysia, and the United Kingdom.

#### ***Dr. Hisham bin Abdulmalik Al Al-Sheikh (Member of the *Shariah* Committee)***

Dr. Hisham bin Abdulmalik Al Al-Sheikh is a professor of comparative fiqh and *Shariah* regulations at the Higher Institute of Judiciary at Imam Muhammad bin Saud Islamic University. He previously held the position of *Shariah* advisor in many financial institutions and entities. He participated in the preparation and formulation of the *Shariah* rulings code in the financial transactions section under the chairmanship of one of the subcommittees and then participated in the review committees for the *Shariah* rulings code. He has many printed publications and research in the judiciary and financial transactions field.

## DOCUMENTS AVAILABLE FOR INSPECTION

For so long as any of the Sukuk are current, copies of the following documents are available for inspection at the registered office of the Issuer (King Saud Road, AlMuraba' District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia) and the Sukukholders' Agent (being 4th floor, Legend Tower, King Fahd Rd, Al Olaya, Riyadh 12313, Kingdom of Saudi Arabia), between the hours of 9.00 a.m. and 5.00 p.m. on each weekday other than a Friday, Saturday or a public holiday:

- (a) the constitutional documents of BSF;
- (b) the *Shari'ah* pronouncement of each of the *Shariah* Committee of BSF in relation to the Programme;
- (c) the Master Declaration of Agency as supplemented by each relevant Supplemental Declaration of Agency;
- (d) the Payment Administration Agreement;
- (e) the Registry Agreements; and
- (f) the Master Mudaraba Agreement.