البنك السعودي الفرنسي
Banque Saudi Fransi

# Enhancing Efficiency & Remaining Resilient

Banque Saudi Fransi Annual Report 2020

# Banque Saudi Fransi (BSF) is a Saudi Arabian Joint Stock Company established in 1977.

BSF offers financial services in Corporate Banking, Retail Banking, Private Banking and Global Markets. The Bank also provides investment banking, asset management, investment funds and brokerage services through its subsidiary Saudi Fransi Capital.

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Banque Saudi Fransi

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## Contents



Banque Saudi Fransi is a leading banking group in Saudi Arabia with a strong focus on domestic operations. A full-service bank, our business comprises retail banking, corporate banking, investment banking, private banking and treasury.

Offering both Islamic and conventional products, BSF is regulated by the Saudi Central Bank and is listed on the Saudi Stock Exchange (Tadawul).

## The Mission of the bank is to become the most modern, innovative and experience focused bank in the region.

### Our values

We conduct our business according to our values, which guide and inform everything that we do:

**TRUE TO OURSELVES, ALWAYS** – We are honest with one another, even at the risk of temporary disharmony. It is never personal.

**US BEFORE ME** – We put ideas before ego and leverage the expertise of others.

**KEEP IT SIMPLE** – We strive to make everything we do as simple as possible. We set our people up for success and then get out of their way. We own it.

**WINNING IS FUN** – We seek to be number one in the hearts and minds of our people, customers and shareholders. We have limitless ambition and the drive to win.

**WE ARE BSF** – Always putting the needs of our people, customers, shareholders and society ahead of our own personal agenda. We are a community that we defend and protect, always.

**THINK BIG** – ACT QUICK We think long-term in our decisions, but we make them quickly and have a bias towards action.

### BSF At A Glance:

**Employees:**

2,881

**Retail customers:**

1.1 million

**Branches:**

87

**Total Assets:**

SAR 194.1 billion

**Customer Deposits:**

SAR 127.1 billion

**Total Operating Income:**

SAR 7.045 billion

**Loans and Advances:**

SAR 130.6 billion

**Awards:**

**Forbes World's Best Employers 2020**

1st – Best Employer in the Financial and Banking Sector in the Middle East

2nd – Best Employer in KSA

18th – Best Employer in the world in the Financial and Banking Sector

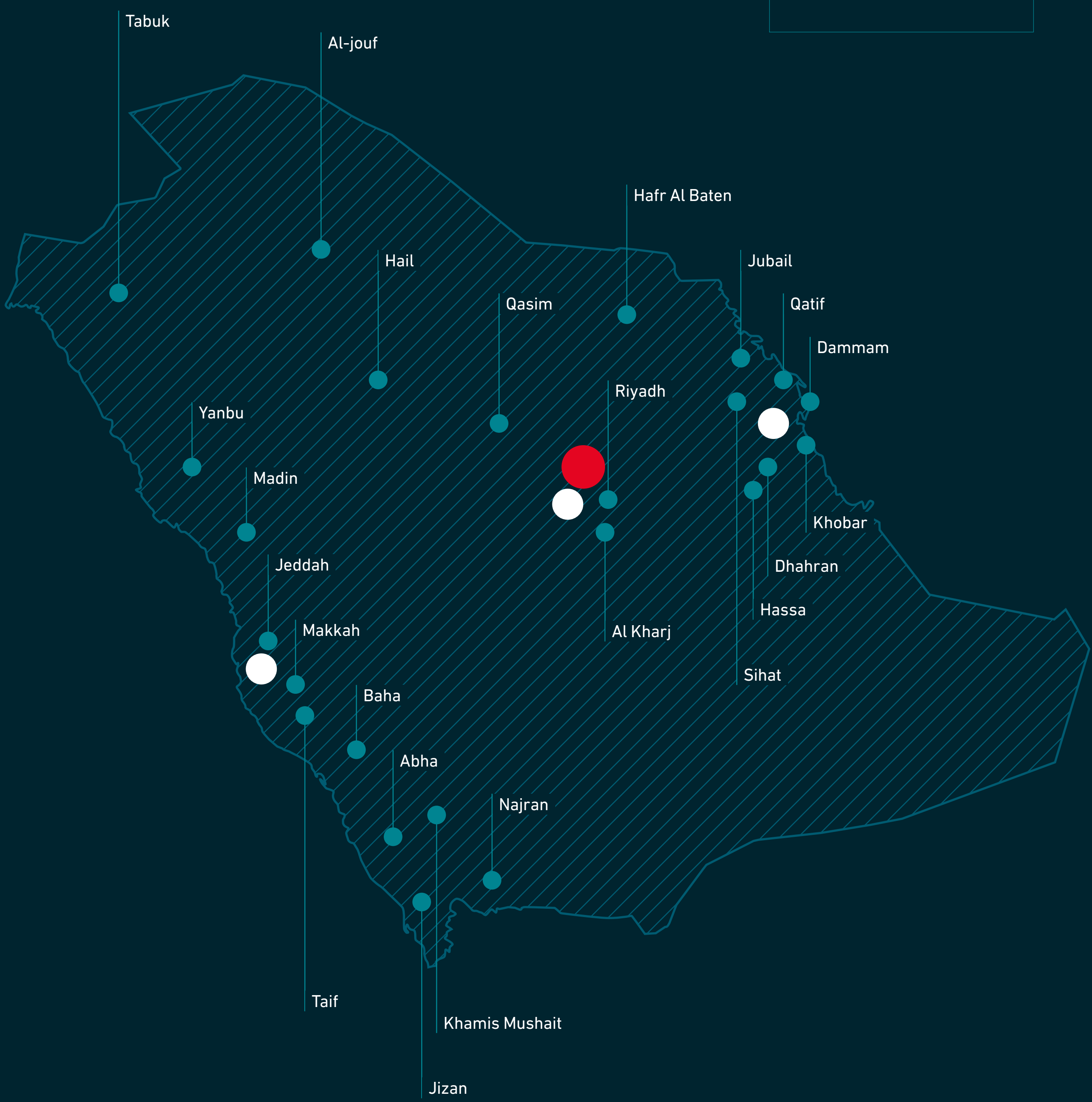
**Syndicated Loan Deal of the Year award by Bonds, Loans & Sukuk Awards Middle East**

**MENA Export Finance Deal of the Year award by IJ Global Awards**





Head Office
Regional Offices
Branches




**Ratings:**

# S&P: BBB+ Moody's: A1 Fitch: BBB+

# A Year Like No Other

2020 was a year like no other. The extraordinary disruption visited on the world by the Coronavirus pandemic impacted the Kingdom's economy, and BSF's year-end financial results clearly reflect this.

In addition to the regular contents of an annual report, BSF's 2020 annual report also sets out in detail the impact of the Covid pandemic and the steps the bank took to deal with the crisis. Broadly, the Kingdom of Saudi Arabia has weathered the pandemic well, and BSF adapted swiftly to the new normal, but this resilience came at a cost.

However, as we emerge into 2021, there are reasons for optimism. Several effective vaccines are being delivered to large parts of the global population. The unprecedented speed and scale of the development and distribution of these vaccines speak to humanity's ability to collaborate and innovate globally when faced with a common threat.

While this global effort is heartening, BSF will continue to be vigilant, prudent and risk-aware, with the safety and security of our employees, our customers and our suppliers and partners paramount.

Closer to home, there are more reasons for optimism. The bold "Vision 2030" plan for the Kingdom is transformational and will give rise to tremendous opportunities as it proceeds from Vision to Reality. And the price of oil is stabilising thanks again to an extraordinary global effort from the oil-producer community.

For these reasons, we believe that 2020's decline in economic output for the Kingdom will be followed by 2.9% GDP growth in 2021.

2020 delivered a shock to the world. This Annual Report tells the story of the impact of that shock on BSF, and how the bank has navigated and managed the crisis to emerge as a healthy and strong participant in – and driver of – the global recovery.





## 2020 Financial Highlights

**Loans and Advances:**

# SAR 130.6 billion

| | |
|---|---|
| 2020 | 130,564,835 |
| 2019 | 125,725,096 |
| 2018 | 120,631,634 |

**Non interest-bearing deposits:**

# SAR 85.9 billion

– 68% of total deposits

| | |
|---|---|
| 2020 | 85,916,302 |
| 2019 | 72,766,739 |
| 2018 | 72,138,124 |

**Total Operating Income:**

# SAR 7.045 billion

| | |
|---|---|
| 2020 | 7,044,594 |
| 2019 | 6,872,550 |
| 2018 | 6,798,644 |

**Non interest bearing deposits % of total:**

# 68%

| | |
|---|---|
| 2020 | 68% |
| 2019 | 55% |
| 2018 | 49% |

**Net Income after zakat and income tax:**

# SAR 1.546 billion

| | |
|---|---|
| 2020 | 1,546,211 |
| 2019 | 3,114,966 |
| 2018 | 1,403,016 |

**Net interest margin:**

# 3.0%

| | |
|---|---|
| 2020 | 3.00% |
| 2019 | 3.04% |
| 2018 | 2.85% |

**Cost-to-Income Ratio:**

# 33.6%

| | |
|---|---|
| 2020 | 33.6% |
| 2019 | 33.3% |
| 2018 | 33.7% |

**Tier 1 Capital Ratio:**

# 20.56%

| | |
|---|---|
| 2020 | 20.56% |
| 2019 | 18.32% |
| 2018 | 17.71% |

# It is with a sense of great pride and privilege that I come to write this Statement in Banque Saudi Fransi's 2020 Annual Report.

One of our bank's values is defined as "We Are BSF: Always putting the needs of our people, customers, shareholders and society ahead of our own personal agenda. We are a community that we defend and protect, always."

The values and culture at BSF have enabled us to deliver our purpose and mission in one of the most extraordinary years. We end 2020 having kept our promise to our customers, people and society: to be a community that puts their needs ahead of any individual agenda. As a team, we have been tested in 2020, and have emerged stronger, more unified and having played our part in helping the Kingdom's economy and society to get through one of the harshest tests many of us have ever known.

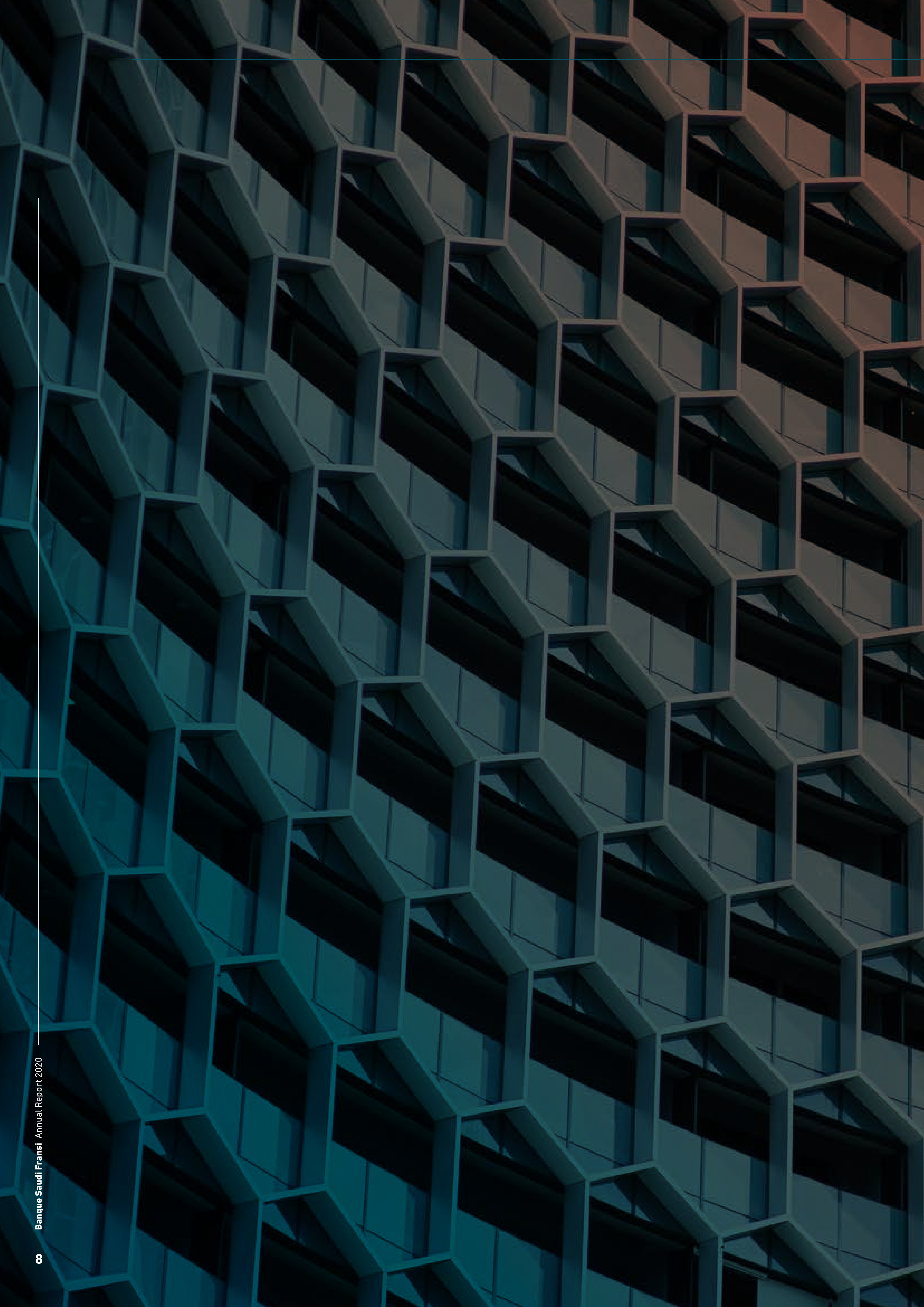
Because of the extraordinary impact of the pandemic in 2020 and the large credit provisions we had to take as a result, the bank has reported lower net profit. I am however proud of the operating performance the bank has delivered in a very difficult year. More importantly, the pandemic didn't prevent us from playing a wider role and responsibility towards the Saudi economy and society.

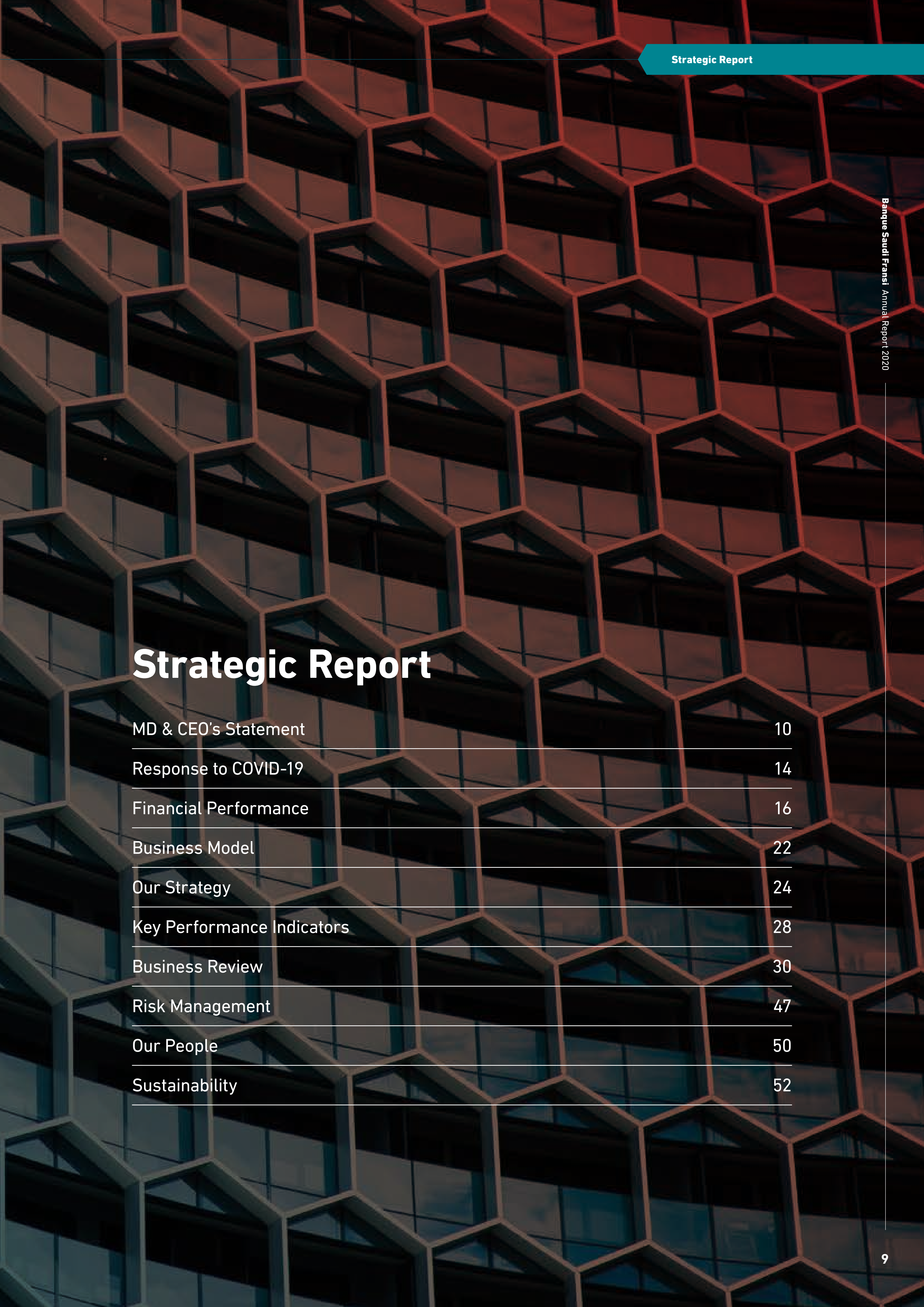
And this resilient performance would not have been possible without the strong and enduring partnership we enjoy with the government and regulators of Saudi Arabia. It is sometimes said that the strength and value of any partnership is only revealed under testing conditions. 2020 provided that test, and I am delighted to say that these partnerships are stronger than ever. The banking sector has been a key enabler of the resilience demonstrated in 2020, and we will continue to play our part in the recovery in 2021 and beyond. BSF has banked some clients for decades, helping to nurture family businesses, enabling firms to expand, supporting communities and driving prosperity. As one of the largest and longest-established banks in Saudi Arabia, we have an impact that goes beyond our business activities. This leads to our role as an active corporate citizen. Through the actions of the bank, we help individuals to better manage their money;
we help entrepreneurs to launch businesses; we nurture today's small businesses to become the success stories of tomorrow; and we play a critical role in developing and enabling the economy of the Kingdom to thrive. And we undertake all these tasks against the backdrop of our responsibility to the environment, the communities in which we operate and the stakeholders and partners with whom we work.

I would like to thank my fellow members of the Board of Directors for their hard work, loyalty and commitment to this organisation in this most difficult of years. To the Saudi government leadership and regulators, we thank you for your vision to create a supportive and encouraging business environment. To our partners, we appreciate your cooperation, and to our customers and shareholders, we express our deep appreciation for your trust and confidence in Banque Saudi Fransi and our vision for the Bank today and in the future.

**Mazin Al Romaih**
Chairman

**The values and culture at BSF have enabled us to deliver our purpose and mission in one of the most extraordinary years.**





# Strategic Report



# The modern era in the Saudi banking sector has been shaped in many ways by crises and systemic tests.

From the oil price boom and bust of 2006-09 to the great financial crisis of 2008 to another collapse in oil prices in 2014-15, the Kingdom's economy and its banking sector have been tested in the 21st century as never before.

The current global public health crisis caused by the Coronavirus has brought new challenges. While these earlier 21st century crises were economic and financial, the current crisis is societal and global. No country is immune, and no industry unaffected. We are experiencing a stress test for humanity.

I, therefore, take immense pride and satisfaction to be able to report a bank in robust health, whose management, operations, governance, culture and risk management have withstood this test, and whose people have steadfastly served their customers, helping the nation to navigate an uncertain period and emerge with optimism.

**Rayan Fayez**
Managing Director &
Chief Executive Officer

Our strategic vision has emerged unscathed through immense disruption, aided and enabled by our strong culture and the strength of our institution and infrastructure.

I would like to take this opportunity to give thanks where they are due: To our people, for keeping the business operating. To our customers, for honouring us with their business and for partnering with us to see through the storm. To our regulators, for helping us to build one of the world's most robust and resilient financial systems. And to the Saudi government and rulers, for acting decisively and bravely and ensuring the Kingdom has not only survived the pandemic, but is able to look forward with hope and positivity.

### Supporting our Customers and People

BSF was quick to recognise the seriousness of the pandemic and took immediate steps to support its customers – both businesses and individuals. The bank was able to move quickly and decisively to provide liquidity and financing for our clients whose business was impacted by the pandemic, and to ensure that individuals were able to continue their lives with minimal disruption. This is reflected in the 3.8% increase in loans and advances provided over 2020, and a 8.9% increase in total assets over the period.

The bank made great efforts to serve its customers: following the initial closure of many branches, we swiftly reopened them so that our branches were fully operational during the second half of the year. Digital and online banking played a strong part in enabling customers to manage their finances: we have seen a surge in digital and contactless payments across the board as well as a significant increase in online account opening to the point where the majority of our new accounts are now opened online. Despite the pressures we have on our digital channels in 2020, our digital channel availability averaged 99.9%, with the same availability average for our network of 562 ATMs.





In other practical steps designed to support customers, BSF worked closely with the Kingdom's financial and banking regulators to support individuals and businesses through the uncertainty: we waived payments on mortgages and personal loans for 3 months, refunded all currency transaction fees, waived refinancing and facility cancellation fees for 6 months, waived POS and e-commerce fees for SMEs, and waived the cost of financing guarantees under the KAFALA program. The bank also participated in the SAMA support programme for small and medium-sized companies, with loan instalment deferrals and other practical measures.

We collaborated with the public health authorities in the Kingdom to ensure our premises were configured to allow social distancing and imposed a regular thorough cleaning system to ensure our staff could come to work with confidence. We instigated flexible and remote working arrangements, with 25% of staff working remotely at year-end, from more than 70% at the height of the crisis. The net effect of these measures was to protect our staff, support our customers, and ensure business continuity.

### Delivering our Strategy

We continued on the same path of delivering on our strategic ambitions focused on our mission of being the most modern, innovative and experience focused bank in the region. And while some of the profit-focused strategic metrics have been impacted by our elevated risk cost and reduction in interest rates, others show we are on track: costs held steady, net promoter score reaching an impressive 64.9%, and solid progress in the ongoing strategic delivery of the bank.

> **The bank made great efforts to serve its customers: following the initial closure of many branches, we swiftly reopened them so that our branches were fully operational during the second half of the year.**

**Vision 2030 Update – and BSF's central role in its delivery**

BSF is deeply involved with many aspects of Vision 2030, the Kingdom's transformation strategy. The banking and financial sectors are a focus and driver for many Vision 2030 objectives, and BSF is proud to be playing its part in the modernization and growth of Saudi Arabia.

Highlights of our involvement in Vision 2030 initiatives in 2020 included:

- A leading role in several Housing Projects for the Ministry of Housing, Kingdom-wide.
- As part of the Government's initiative to promote the tourism sector, BSF is actively partnering with different developers involved in the construction of properties to provide accommodation/ facilities for tourists (domestic and foreign) as well as pilgrims.
- Scholarship program by Royal Commission of Alula for sending its residents to Europe for training related to tourism. BSF participated by arranging financing to the Expert Academy that entered into a contract with the Royal Commission of Alula to provide the necessary arrangements related to the training of the residents.
- Active partner in the Red Sea project promoting the Tourism and Entertainment sectors in the Kingdom.
- Project financing collaboration agreement with the Tourism Development Fund to support the development of the Tourism sector.
- Offered lending support to clients in helping them achieve the Government's objective of providing Cinema to audiences in the Kingdom.
- Promoting the Entertainment Industry (in line with Vision 2030) through arranging financing facilities to set up Go-Karting in Riyadh.
- Financing partner in the Landscaping and Playground projects; acting as a contribution towards the betterment of the environmental conditions in Riyadh.

2020 marked the mid-point of our five-year strategic journey, and I am delighted to be able to report solid progress against all targets and roadmaps. 26 initiatives were completed in 2020. These included:

- Core Banking System Release One completed
- Finalised selection of Corporate Digital Platform
- New credit card offering finalised
- Strong progress on remittance partnerships
- Branch optimisation continued with the installation of self-service kiosks
- All initiatives completed in Global Markets Group
- Corporate credit process re-engineered
- Several HR digitisation initiatives completed

### Financial Performance

The impact of the upheaval of 2020 on the bank's financial results was substantial with BSF reporting a 50% decline in net income. But this decline in profits is rooted in prudence, while also masking some strong achievements.

This decline in profitability was due to the rise in provisions for non-performing loans, and a deliberate and substantial increase in the coverage ratio for those loans, from 103% to 125%. We have also taken advantage of attractive market conditions to raise SAR 5bn in Tier 1 capital sukuks at very attractive rates. These actions have bolstered our balance sheet and will position us to capture the growth expected in the market over the coming few years.

Other metrics tell the story of a resilient institution demonstrating its ability to withstand the pandemic-led economic buffeting: Operating Income rose by 2.5% in the face of falling economic activity; our net interest margin was stable at 3% in spite of a falling rate environment; and assets grew by 8.9%, driven by increased lending and a strong investment performance.

This robust performance was underscored by the bank's credit ratings, which continued to stay at investment grade by all 3 major rating agencies, proving the strength of the firm.

The 2020 financial results, and the story they tell of a bank supporting its customers, maintaining discipline, demonstrating its financial strength and taking the right decisions for society are something we can all be very proud of.

**"2020 marked the mid-point of our five-year strategic journey, and I am delighted to be able to report solid progress against all targets and roadmaps. 26 initiatives were completed in 2020."**

### Conclusion and Outlook

While 2020 was a year of challenges for us all, the staff, customers and shareholders of Banque Saudi Fransi can take immense pride in the performance and resilience of the bank. We maintained and strengthened our customer relationships. We gave help and assistance where it was needed. We worked closely with government and regulators. And we protected our people throughout the pandemic.

Against this dramatic backdrop, the bank remained focused on the delivery of its strategy, and 2021 sees BSF extremely well-placed as we continue to execute. We anticipate a pick-up in Saudi GDP and a return of confidence to the corporate and consumer sectors.

Given these positive indicators, the strength of the bank's balance sheet, capitalisation and liquidity, as well as the ongoing successful strategy execution, we look to the next twelve months with significant optimism.



# In March 2020, Coronavirus transformed from being a localised issue in Asia into a major global public health emergency which delivered a massive shock to the world's financial, economic and social systems.

## Government Response

In Saudi Arabia, in line with the rest of the world, the impacts of the virus were immediate and dramatic, and triggered major government intervention.

The government of Saudi Arabia acted decisively and quickly in response to the pandemic. Domestic and international aviation was suspended, along with attendance for schools and universities, sporting activities and entertainment venues, non-critical employee attendance in government and private sectors. The religious observances of Umrah, prayers at mosques, and the Hajj season were also suspended, along with inter-province transportation.

The government also imposed partial or full curfews and lockdowns. These have now ended, and phased measures have begun to normalize international travel and resume Umrah pilgrimages.

In monetary policy moves, the government allowed SAR 30bn in deferred payments, freed up SAR 13.2bn funding for lending, issued SAR 6bn in loan guarantees, and provided SAR 0.8bn Supporting Fees of POS and E-Commerce. The authorities also provided a SAR 50bn banking liquidity injection, a move that allowed the financial system to continue operating normally.

The Ministry of Finance also moved decisively and in tandem with the monetary authorities to impose radical fiscal moves: The Debt to GDP limit was increased to 50%, and the Repo rate cut to 1.0%. SAR 117bn was made available in Private Sector Payments, and SAR 47bn in Health Sector Allocations. SAR 43bn was mobilised for deferrals & exemptions of levies, fees and taxes, while the VAT rate was increased from 5% to 15% from 1 July.

These moves combined to ensure that not only was the population protected, but that the economy could continue to function.

## Macro Indicators

The macro-economic environment in 2020 was a tale of response to the pandemic and global cooperation to keep economies open. Oil ended the year 25% below its 2019 price, as demand fell away during global lockdowns. However, oil producing nations collaborated as never before in the face of the crisis, leading to a recovery in the oil price over the course of 2020.

Partly as a result of the declining price of oil, Saudi GDP is expected to contract by 4.15% in 2020. While uncertainties remain, macro-economic fundamentals are expected to improve during 2021, leading to expected growing demand for consumer financing, improving corporate banking activity, and phased resumption of Vision 2030 projects and opportunities. We predict a 2.9% expansion of the economy in 2021.

We remain in a challenging environment, however: Interest rates fell to new lows, and this is expected to remain the case for the foreseeable future; The Saudi Arabian stock market (Tadawul), in line with global equity markets, dropped 22% in 1Q 2020 but recovered to 4% above 4Q 2019 levels by the end of the year.

In a sign of renewed optimism, however, the Purchasing Managers' Index recovered from a sharp fall in the first half to end the year at 57, on a par with its Q4 2019 level.

## Saudi Banking Sector overview

The Saudi banking sector faced a turbulent 12 months in 2020, but has delivered a strong performance through the pandemic, with its resilience proven and its role in restoring the economy underscored. Total bank credit rose by 14% during 2020, while deposits increased by 8%, demonstrating confidence in the sector. The sector's Tier One Capital Ratio was steady at 18.1%.

Although non-performing loans rose, they remained at a manageable 2.2% of overall loans across the sector.

This picture of a strong sector played out against a backdrop of declining rates, economic slowdown and falling oil price.

The swift and decisive actions of the government, together with our world-class regulatory authorities ensured a competitive but fair banking environment that was able to play a leading role in navigating through troubled times. The actions of our regulators over the past twelve months included SAR 100 billion of private sector support and SAR 150 billion in economic support from the Ministry of Finance. These and other measures have ensured that the banking sector remains strong and stable, ready to support the return to normality as we emerge from the pandemic.

**"The macro-economic environment in 2020 was a tale of response to the pandemic and global cooperation to keep economies open."**

# Highlights

**Net income for 2020:**

SAR 1,546mn

down 50% YoY due to prudent provisioning

**Improvement in NPL coverage ratio:**

125%

from 103% in 2019

**Operating income:**

SAR 7,045mn

up 2.5% YoY

**Net interest margin:**

3.0%

despite lower rate environment

**Cost-to-income ratio:**

33.6%

compared with 33.3% for 2019

**Total assets:**

SAR 194.1bn

up 9% YoY from increased lending and investments

**Loans and advances:**

SAR 130.6bn

up 4% YoY

**Customers' deposits:**

SAR 127.1bn

down 4% YoY from reducing interest-bearing deposits

**Improved funding mix with non-interest-bearing deposits:**

68%

of total deposits from 55% in 2019

**Tier 1 ratio:**

20.6%

up from 18.3% YoY; Capital Adequacy Ratio (CAR) of 21.56%

**Liquidity Coverage Ratio (LCR):**

199%

Net Stable Funding Ratio (NSFR) of 122%

Against the backdrop of Coronavirus-related economic disruptions, Banque Saudi Fransi reported a 50% year-on-year decline in net income to SAR 1,546 million, as higher provisions were recorded to bolster the bank's coverage ratio. In spite of the disruption caused by the pandemic, operating income rose by 2.5% year-on-year to SAR 7,045 million on 8% growth in non-interest income.

Total assets reached SAR 194.1 billion as at 31 December 2020, an increase of 9% from the end of the previous year, principally due to higher investments and lending growth. Total customers' deposits decreased by 4% from intentional shedding of interest-bearing deposits, partly offset by strong 18% growth in non-interest-bearing deposits.

# Performance Highlights

## Income Statement Highlights

| SAR (MN) | 2020 | 2019 | CHANGE % |
|---|---|---|---|
| Net interest income | **5,240** | 5,206 | +1% |
| Non-interest income | **1,804** | 1,667 | +8% |
| Operating income | **7,045** | 6,873 | +2.5% |
| Operating expenses | **(2,364)** | (2,287) | +3% |
| Impairment charge | **(2,670)** | (966) | +176% |
| Total operating expenses | **5,034** | 3,253 | +55% |
| Net income before zakat & tax | **2,010** | 3,619 | -44% |
| Zakat & income tax charge | **(464)** | (504) | -8% |
| Net income after zakat & tax | **1,546** | 3,115 | -50% |
| NIM | **3.00%** | 3.04% | -1% |
| Cost to income ratio | **33.6%** | 33.3% | +1% |
| Cost of risk | **2.07%** | 0.79% | +160% |
| EPS | **1.24** | 2.60 | -52% |
| ROAE | **4.5%** | 9.7% | -54% |
| ROAA | **0.80%** | 1.67% | -52% |

Net income after zakat and income tax for 2020 declined 50% year-on-year to SAR 1,546 million, as 2.5% growth in operating income was more than offset by increased credit costs.

Total operating income grew 3% year-on-year to reach SAR 7,045 million for 2020. This growth resulted from a 1% increase in net interest income to SAR 5,240 million on a stable net interest margin of 3.00%, and 8% growth in non-interest income to SAR 1,804 million, from higher exchange and trading income, further aided by a one-off gain on the sale of an investment during the year of SAR 72 million.

2020 Operating expenses rose 3% year-on-year to SAR 2,364 million, partly a reflection of salary increments and improvements made to the talent pool, as well as the inclusion of a one-off accrual reversal of SAR 37 million in 2019. Excluding the one-off benefit in the previous period, operating expenses increased 2%. The cost to income ratio increased by 28 basis points year-on-year to 33.6% for 2020.

The impairment charge amounted to SAR 2,670 million for 2020 compared with SAR 966 million in the comparable period of the previous year. This increase was driven by a reassessment of the macroeconomic scenarios (based on more cautious forecasts owing to Covid-19), a conservative review of borrower risk ratings resulting in IFRS 9 Stage transitions, additional sector-based overlays of SAR 436 million, and improvements to the provision coverage of non-performing loans.

# Balance Sheet Highlights: FY 2020

## Balance Sheet

| SAR (MN) | FY 2020 | FY 2019 | CHANGE % YOY |
|---|---|---|---|
| Cash and balances with SAMA | **10,548** | 9,117 | +16% |
| Due from banks and other financial Institutions | **4,027** | 3,742 | +8% |
| Investments, net | **37,679** | 31,454 | +20% |
| Loans and advances, net | **130,565** | 125,725 | +4% |
| Positive fair value of derivatives, net | **6,909** | 4,607 | +50% |
| Investments in associates | **10** | 10 | +0% |
| Property and equipment, net | **1,440** | 1,325 | +9% |
| Other real estate | **384** | 406 | -5% |
| Deferred tax | **0** | 43 | -100% |
| Other assets | **2,512** | 1,720 | +46% |
| Total assets | **194,074** | 178,149 | +9% |
| Due to banks and other financial institutions | **16,792** | 2,372 | +608% |
| Customers' deposits | **127,112** | 132,838 | -4% |
| Debt securities and sukuks | **0** | 0 | |
| Negative fair value of derivatives | **5,096** | 3,069 | +66% |
| Other liabilities | **6,437** | 6,923 | -7% |
| Total liabilities | **155,438** | 145,202 | +7% |
| Share capital | **12,054** | 12,054 | +0% |
| Statutory reserve | **12,054** | 12,054 | +0% |
| General reserve | **983** | 983 | +0% |
| Other reserves | **1,188** | 812 | +46% |
| Retained earnings | **7,433** | 5,946 | +25% |
| Proposed dividend | **0** | 1,200 | -100% |
| Treasury shares | **(75)** | (101) | -25% |
| Total equity | **33,636** | 32,947 | +2% |
| Tier 1 sukuk | **5,000** | 0 | |
| Equity attributable to equity holders of the bank | **38,636** | 32,947 | +17% |
| Total liabilities and equity | **194,074** | 178,149 | +9% |
| NPL ratio | **2.78%** | 2.64% | +5% |
| NPL coverage ratio | **124.60%** | 108.51% | +15% |
| Risk weighted assets | **187,232** | 178,565 | +5% |
| Total tier 1 capital (T1) | **38,489** | 32,720 | +18% |
| Total capital (TC) | **40,374** | 34,289 | +18% |
| T1 ratio | **20.56%** | 18.32% | +12% |
| TC ratio | **21.56%** | 19.20% | +12% |
| Liquidity coverage ratio (LCR) | **199%** | 324% | -39% |
| Basel III leverage ratio | **16.54%** | 15.29% | +8% |
| Net stable funding ratio | **122%** | 122% | +0% |

Total assets at 31 December 2020 amounted to SAR 194,074 million, an increase of 9% from 31 December 2019. This increase was driven by 4% loan growth and a strong investment performance, with 20% growth. Investment performance was driven by increased participation in sovereign debt issues, and other investment grade assets.

Loans and receivables rose 4% to SAR 130,565 million from 54% growth in mortgages, while commercial lending remained stable year-on-year.

Customers' deposits declined by 4% during 2020 to SAR 127,112 million. Strong growth was registered in non-interest-bearing deposits (+18%), while interest-bearing deposits were intentionally reduced (-31%). This active balance sheet management was successfully executed by our Treasury team and was complemented by the profit-free finding received from SAMA as part of the Central Bank's Covid-linked liquidity measures.

The non-performing loans ratio was 2.8% at 31 December 2020, a 14 basis points increase during the year as higher non-performing loan formation in the commercial book was partly offset by write-offs and lending growth. The provision coverage of non-performing loans improved by 16.1 percentage points during the year to 124.6%.

The total capital adequacy ratio stood at a strong 21.56% and the Tier 1 ratio at 20.56% at the end of 2020. These ratios improved by 2.3 and 2.2 percentage points respectively during the year as 18% growth in capitalization levels, supported by SAR 5.0 billion Tier 1 Sukuk Issuance, more than offset a 5% increase in risk-weighted assets.

The bank's liquidity remained strong and comfortably within regulatory limits, with the liquidity coverage ratio at 199%, the net stable funding ratio at 112% and the SAMA regulatory loan to deposit ratio at 82.3%.

**Total assets (SAR mn):**

194,074

**Loans and receivables (SAR mn):**

130,565

**Customers' deposits (SAR mn):**

127,112

**Total capital adequacy ratio:**

21.56%

**Liquidity coverage ratio:**

199%

# Operating Segment Highlights – Income Statement

## Operating Segments

| SAR (MN) | FY 2020 | FY 2019 | CHANGE % YOY |
|---|---|---|---|
| **RETAIL BANKING** | | | |
| Total assets | **29,086** | 23,705 | +23% |
| Loans and advances, net | **27,915** | 22,391 | +25% |
| Total liabilities | **74,967** | 70,547 | +6% |
| Customers' deposits | **74,389** | 70,387 | +6% |
| Net special commission income | **1,562** | 1,564 | -0% |
| Non-interest income | **249** | 321 | -22% |
| Total operating income | **1,811** | 1,885 | -4% |
| Operating expenses before impairment charge | **(1,202)** | (1,105) | +9% |
| Impairment charge | **(271)** | (277) | -2% |
| Net income before zakat and income tax | **337** | 503 | -33% |

Retail net income before zakat and income tax for 2020 declined 33% year-on-year to SAR 337 million, due to a 4% reduction in operating income to SAR 1,811 million and 9% higher operating expenses, slightly offset by a 2% improvement in credit losses. Total retail assets rose by 23% during the year to SAR 29,086 million from a strong 54% growth in mortgages. Total liabilities increased by 6% to SAR 74,967 million, mainly from 6% growth in customers' deposits.

| SAR (MN) | FY 2020 | FY 2019 | CHANGE % YOY |
|---|---|---|---|
| **CORPORATE BANKING** | | | |
| Total assets | **102,507** | 103,245 | -1% |
| Loans and advances, net | **102,650** | 103,334 | -1% |
| Total liabilities | **54,368** | 64,397 | -16% |
| Customers' deposits | **52,723** | 62,451 | -16% |
| Net special commission income | **2,273** | 2,355 | -3% |
| Non-interest income | **653** | 705 | -7% |
| Total operating income | **2,926** | 3,060 | -4% |
| Operating expenses before impairment charge | **(634)** | (635) | -0% |
| Impairment charge | **(2,397)** | (683) | +251% |
| Net income before zakat and income tax | **(104)** | 1,742 | -106% |

Corporate reported a net loss of SAR 104 million for 2020 compared with net income of 1,742 million in 2019 the comparable period of 2019 due to higher impairments for credit losses. Total assets for the corporate segment declined 1% in 2020 to SAR 102,507 million from a 1% decrease in loans and advances. Corporate liabilities decreased by 16% from a reduction in interest-bearing deposits.

| SAR (MN) | FY 2020 | FY 2019 | CHANGE % YOY |
|---|---|---|---|
| **TREASURY** | | | |
| Total assets | **61,050** | 49,633 | +23% |
| Investments | **37,679** | 31,454 | +20% |
| Total liabilities | **24,681** | 8,748 | +182% |
| Net special commission income | **1,356** | 1,224 | +11% |
| Non-interest income | **590** | 411 | +44% |
| Total operating income | **1,946** | 1,634 | +19% |
| Operating expenses before impairment charge | **(305)** | (367) | -17% |
| Impairment charge | **3** | (6) | -152% |
| Share in earnings of associates, net | **0** | 0 | |
| Net income before zakat and income tax | **1,644** | 1,261 | +30% |

Treasury reported strong 30% year-on-year growth in net income to SAR 1,644 million in 2020, as operating income grew 19% to SAR 1,946 million on improved net interest and fee income. Treasury assets rose 23% during the year, while liabilities grew 182% mainly from mark-to-market impacts resulting from lower interest rates and increased market volatility.

| SAR (MN) | FY 2020 | FY 2019 | CHANGE % YOY |
|---|---|---|---|
| **INVESTMENT BANKING AND BROKERAGE** | | | |
| Total assets | **1,431** | 1,565 | -9% |
| Total liabilities | **1,422** | 1,509 | -6% |
| Net special commission income | **49** | 63 | -21% |
| Non-interest income | **312** | 231 | +35% |
| Total operating income | **362** | 294 | +23% |
| Operating expenses before impairment charge | **(223)** | (180) | +24% |
| Impairment charge | **(5)** | 0 | |
| Net income before zakat and income tax | **133** | 113 | +17% |

The Investment Banking and Brokerage segment registered a 17% year-on-year increase in net income to SAR 133 million due to improved brokerage and asset management fees driving 23% total operating income growth year-on-year.

# Long-term investment

## Our inputs

### Economy
With 84 years experience in the banking sector, we have a solid base to re-invest in the business to continuously improve our market share.

### People
We are proud of our employees at every level of the business and do whatever is necessary to set them up for success. We will continue to do our best to ensure this is considered a great place to work.

### Customers
Our customers are at the heart of our business and delivering the best possible service is a shared goal by everyone at BSF.

### Investors
We think about the long-term sustainability of the business and that is the reason why we have a solid and loyal shareholder base.

## Our business divisions

### Institutional Banking Group
Corporate Banking
Private Banking
Islamic Banking
Global Transaction Solutions

### Global Markets Group

### Retail Banking Group

### Subsidiaries
Saudi Fransi Agency
Saudi Fransi Capital
Saudi Fransi Leasing

## Our support team

Finance

HR

Legal

Risk

Internal Audit

Compliance

Operations, IT, Premises and Procurement

Strategy and Digital, Customer Experience, Change and Marketing



## Our outputs

### Economy
Operating Profit

2020 4,618

2019 4,585

### People
Employee Net Promoter Score

2020 23

2019 9

### Customers
Net Promoter Score

2020 64.9

2019 61.3

### Investors
Total Shareholder Return

2020 -13.8%

2019 26.43%

## Our strategy

- Solidify our leadership position in Corporate Banking
- Scale up in Retail Banking
- Optimise our leading position in Private Banking
- Reinforce our continued growth of Global Markets

### Our enablers

Modernise our Technology & IT platforms

Boost digitalisation

Lead in customer experience

Improve organisational effectiveness

Brand

Nurture a positive environment and culture for our people

Harmonise risk with our business aspiration

Ensure successful delivery of our strategy

## Our values

True to ourselves, always

Us before me

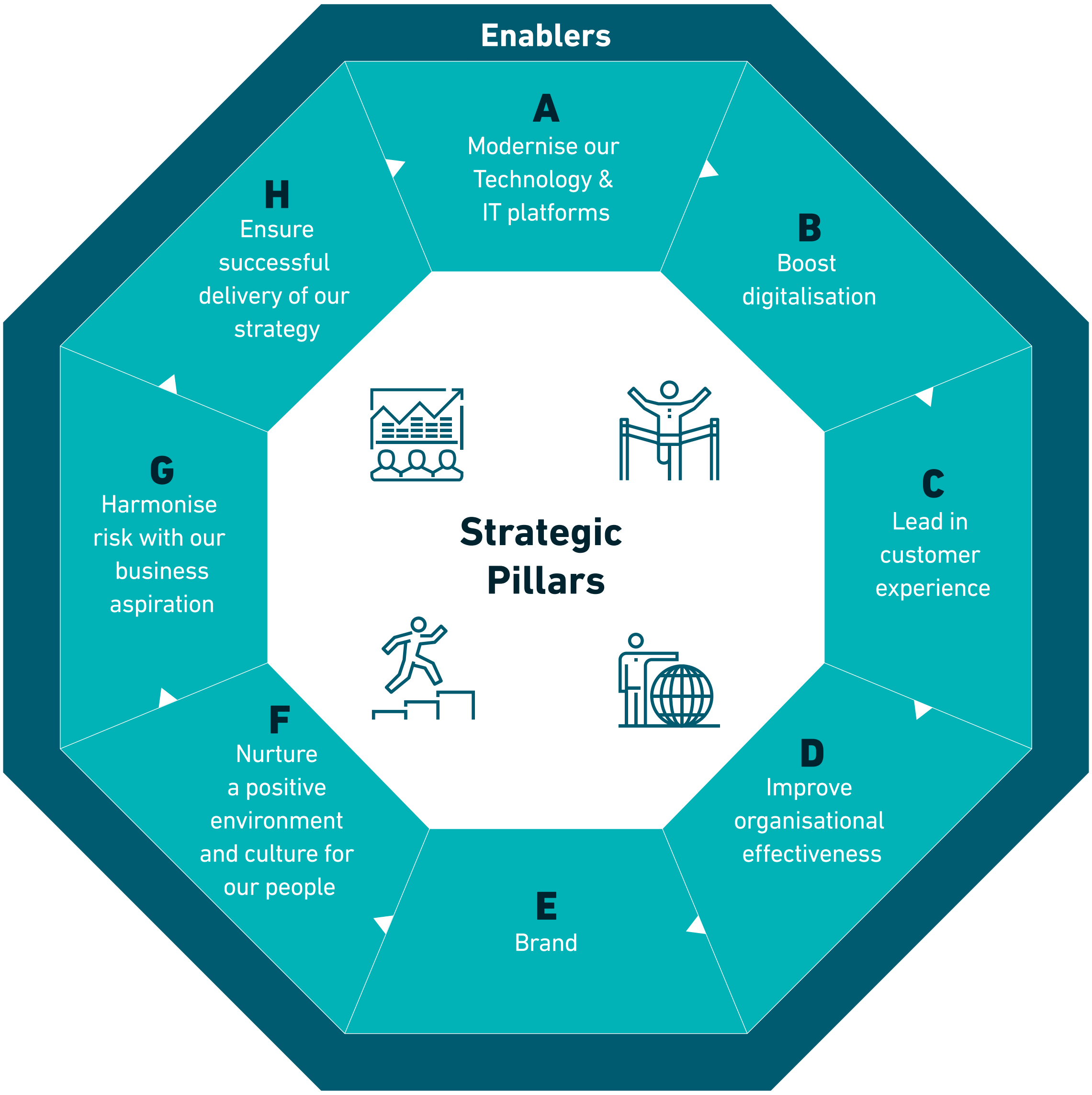
Keep it simple

Winning is fun

We are BSF

Think big, act quick

# Unwavering focus on delivering our 2023 Strategy



**Mike Cunningham**
Chief Strategy & Digital Officer

BSF has developed a client-centered strategy aimed at ensuring a well-balanced contribution to the net profit of the Bank from its different business lines, underpinned by a focus to put the customer at the heart of everything we do.

The core ambition is to be a scale player in the Kingdom with customer experience setting us apart and achieving the highest advocacy.

In order to deliver our 'Leap' Strategy, we have a comprehensive set of enablers, from which initiatives are developed including a progressive Human Resources Transformation Programme that focuses on reimagining the future of working at BSF and positioning the Bank to become an employer of choice in the Kingdom, not only within the Banking sector. The Bank is also launching several operational transformation initiatives to modernise and optimise the way we deliver our services, including procurement, IT and back-office operations.

BSF developed 'Leap' with bold ambitions and a clear direction to expand its market footprint, while maintaining a focus on client satisfaction and profitability. The Bank is now making great strides towards achieving our mission of becoming the most modern, innovative and experience-focused bank in the region, with the skills and efforts of our exceptional people, leadership of the management team and commitment of the Board of Directors.

**The core ambition is to be a scale player in the Kingdom with customer experience setting us apart and achieving the highest advocacy.**



The following inputs have been used to shape the future direction of the Bank, under the direction of the Chief Strategy & Digital Officer:

1.
**BSF's current position in the KSA market**

2.
**Assumptions of market and segmental growth based upon historical growth trends in the KSA market**

3.
**The impact of Vision 2030 and an analysis of the opportunities this presents the bank**

4.
**An analysis of global banking trends and potential opportunities, i.e. digital, new business models, FinTech developments**

5.
**Local banking trends i.e. consolidation, digital attackers, new international entrants**

6.
**Addressing Saudi Central Bank (SAMA) priorities in retail segments, i.e. mortgages, savings and SME**

## Our strategic pillars

**Solidify our leadership position in Corporate Banking**

**Scale up in Retail Banking**

**Optimise our leading position in Private Banking**

**Reinforce our continued growth of Global Markets**

| 2020 progress | Future plans |
|---|---|
| – Focused on enhancing Corporate Banking's cross-sell capabilities and institutionalised a cross-sell function to drive operations.<br>– Developed an approach to maintain its strong market share in terms of assets across a broad sector exposure and further increase its focus on those client segments driven by Vision 2030. | – Corporate Digital Platform implementation<br>– Leverage account planning, pipeline management & cross-selling to drive efficiencies, greater share of wallet and client-focused automation |
| – Consumer loans continued to show strong growth, supported by the ongoing Retail Transformation Plan. In addition, several initiatives are underway to enhance the Retail Banking Group's offerings.<br>– The Retail Banking Group collaborated with the Ministry of Housing to support the National Housing Program, which led to a solid increase in mortgages compared to previous years.<br>– A new program was launched to introduce agency-banking services with leading retail companies to further increase the available channels to onboard new clients to BSF. | – Monitoring and engagement with up and coming fintechs in KSA to develop strategic partnerships that can be mutually beneficial for the Bank. This will provide a larger and more flexible variety of services to BSF clients and position the Bank as an active member in the ecosystem, while supporting further government initiatives such as the Financial Sector Development Program. |
| – Assets under management continued to show strong year-on-year growth, which was enabled by the development of an enhanced cross-selling framework with Corporate Banking and Retail Banking. This allowed Private Banking to showcase their abilities in providing tailored offerings to clients and a greater value proposition, which led clients to utilise more services by the bank and significantly increased revenues. | – An updated segmentation system is in development, which will more accurately allocate clients to the right bracket and ensure that BSF becomes more proactive in identifying client needs and react quickly to any changes in their status within the bank. The aim is to maximise clients' satisfaction and position BSF as a partner for their success.<br>– We will focus on enhancing client services through additional Private Banking Centres and leveraging the wide-ranging Privilege Retail Banking branch network, to offer bespoke and more accessible services. |
| – 2020 saw continued support for internal requirements and servicing of the Institutional and Corporate client base.<br>– Profitability showed very strong growth compared to previous years and peers in the KSA banking sector as a whole. This was driven by several initiatives that were undertaken, including a culture of cash flow hedging, which mitigated the effects of the severe drop in interest rates due to Covid-19 stimulus measures.<br>– Efforts continued to optimise the Bank's balance sheet, while increasing its investment book, allowing it to significantly reduce cost of funding and increase profitability of the deployed capital. | – BSF Global Markets Group will focus on introducing an enhanced cross-selling framework with Corporate and Private Banking to offer greater value-added services to BSF's clients and maximise returns for both clients and BSF's respective business lines. |

# Strategy Progress Report vs KPIs

Despite strong progress made on strategy implementation, 2020 saw declines in financial key performance indicators due to the elevated risk cost.

**The successful execution of the strategy is measured against the following KPIs:**

## KPI #1

**Total shareholder return (TSR): Generate top-quartile total returns for our shareholders.**

Total Shareholder Return declined 39.9% year on year due to the suspension of the dividend, and the share price performance of the entire banking sector

## KPI #2

**Return on average equity (ROAE): To increase ROAE, by focusing on growing our business where risk adjusted returns are maximized and capital is efficiently deployed.**

Return on Average Equity declined 54% to 4.5%

## KPI #3

**Basic earnings per share (EPS): Deliver consistent bottom line income and returns for our shareholders, with no surprises.**

Earnings per Share declined 52% year on year to SAR 1.24

## KPI #4

**Dividends per share (DPS): Distribute consistent dividends to our shareholders.**

DPS declined 80% to SAR 0.4 from SAR 2.0, as dividend payments were reduced sector-wide due to the pandemic

## KPI #5

**Cost-to-income Ratio: Improve operating efficiency by re-engineering our processes and focusing on digital.**

Cost to Income ratio remained flat at 33.6%

## KPI #6

**Net Promoter Score (NPS): Continuous improvement in our customer experience.**

Net Promoter Score rose from 61.3 to 64.9

## KPI #7

**Employee Net Promoter Score (ENPS): Continuous improvement in our employees' workplace experience and satisfaction.**

Employee net promoter score increased to 23 in 2020 from 9 in 2019

# Digitisation boost

| **Our pillars:** | **Our enablers:** |
|---|---|
| Enhancing Our Value Proposition | Digital Technology Stack |
| Developing an Agile Digital Capability | Digital Talent & Capabilities |
| Leveraging Data and Analytics | Smart Ways of Working |

In 2020, the Bank developed its overarching Digital Strategy to support the achievement of the 'Leap' Strategy and ensure a coordinated approach to its digital transformation.

While the Bank has placed great emphasis on the importance of digital operations and offerings, the Covid pandemic accelerated the development of our Digital Strategy to support our functions and business lines and position BSF as "The go-to Bank for Digital".

Despite the challenging backdrop to 2020, we completed 26 strategic initiatives over the year, including the following digital milestones:

- The first release of the new Core Banking System was successfully executed. This is a fundamental change and advancement for BSF, and will bring new efficiencies, levels of customer service and potential to our business. 2021 will see further progress with the release of Core Banking System 2, taking our automation levels to a new level.
- The full digital strategy definition for the Institutional Banking businesses was successfully implemented, meaning this business will be taking full advantage of data processing, data science and artificial intelligence.
- In Corporate Banking, we finalized the selection of the new Corporate digital platform, which will deliver a state of the art platform for our Corporate business in the future. The platform will be implemented in 2021.

# Institutional Banking Group

## About Institutional Banking Group

BSF's Institutional Banking Group, through its two business lines – Corporate Banking Group and Private Banking Group – serves a large and loyal base of public sector organisations, corporates, MSMEs and high net worth clients with a diverse range of leading banking and investment solutions through an approach tailored to each client's individual needs.

**Strategic Highlights 2020**

- 4% Growth of CBG's Asset Book
- 6.9% Increase in Cross-sell Across the Bank
- 44% Jump in POS Terminals

**Financial Highlights 2020**

- SAR 104 Million Net Loss Before Zakat and Income Tax
- SAR 2,624 Million in Net Revenue
- SAR 101.3 Billion in Total Loans
- SAR 52.7 Billion in Total Deposits

**Strategic Focus 2021**

- Enhance end-to-end omnichannel capabilities
- Grow and expand product offerings
- Adapt operating model to increase efficiency and value creation

**Mazen AlTamimi**
Senior Executive Director – Institutional Banking Group

The Institutional Banking Group continued to provide bespoke and proactive banking solutions and support to its government, corporate, MSME and high-net-worth clients through the unprecedented financial and operating landscape of 2020, acting with agility to capitalise on emergent opportunities to maintain its asset book, deliver multiple project and structured finance deals, and deepen the scale and scope of its client relationships.

## Corporate Banking Group

The Corporate Banking Group is one of the largest providers of corporate banking services in the Kingdom, with a commanding market share of large corporate and institutional clients, as well as government and public sector entities. Meanwhile, entities with sales of SAR 200 million or below are managed by a specialised team dedicated to Micro, Small and Medium Enterprises (MSMEs), in line with the government's vision and strategies.

The Group is also one of the Kingdom's leading providers of funding to large and medium sized corporations, with particular expertise in project financing.

During 2020, the Corporate Banking Group's asset book was largely flat at SAR 102.5 billion, or 53% of the Bank's total assets.

The Bank's customer relationship management system and dedicated team of senior bankers maximise the internal synergies of its deep and long-lasting relationships with key corporate clients. The Bank is therefore well placed to leverage opportunities created by the strong synergies between its Corporate, Private and Retail Banking Groups.

**Corporate Banking Group's asset book (SAR)**

102.5bn





## Innovation and cross-selling

The Bank is constantly innovating and upgrading the range of products and services that it offers customers across its different business lines. It has developed commercial action plans that include increasing cross-selling revenues through proactive management by senior relationship officers in charge of particular client relationships.

The Corporate Banking Group supports the sale of Retail Banking products using the Bank's Corporate Banking relationships as a platform to distribute banking products to staff of Corporate Banking customers. The Bank also leverages its treasury segment's expertise in derivatives products to expand its range of products, risk advisory solutions, and pursue cross-selling activities through business lines and subsidiaries.

During 2020, cross selling across the Bank increased by 6.9% to reach SAR 580.3 million.

## Customer relationship management

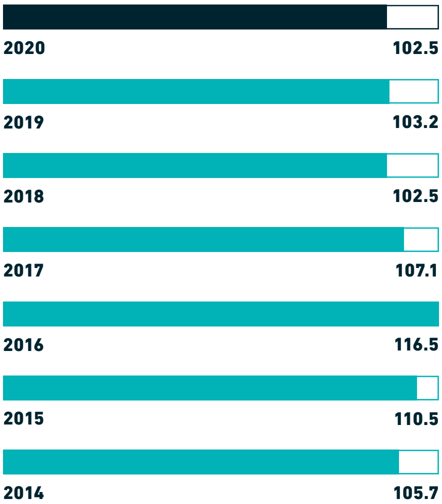
The Bank has implemented a customer relationship management system for its corporate customers that helps the Bank identify the profile of its clients, the quality of the relationship between the Bank and each of its clients, the transaction history of each client, each client's needs and the profitability of the relationship.

BSF also evaluates the needs of all its customers through market research to ensure competitive services and products. It uses client segmentation systems to tailor products better to fit client needs and demands and effectively coordinate growth and cross-selling opportunities.

During 2020, the Corporate Banking Group team provided uninterrupted services to clients during the COVID-19 pandemic and lockdown period. To continue to engage and inform clients through the challenging circumstances of the year, the Group established the BSFCONNECT webinar brand and held two successful webinars. It also delivered on its promise to hold the 2020 BSF Leaders Forum, with a virtual event for Corporate and Private Banking clients under the theme 'ESG: Opportunities Where Everyone Wins', which featured engaging discussions with a range of renowned Saudi and international panellists.

The Group also launched a Net Promoter Score (NPS) programme during the year to evaluate customer experience and the likelihood of referrals. Two waves of evaluations were conducted during this year, with a major improvement seen from Wave 1 to Wave 2, which can be attributed to corporate clients rating their overall experience with the bank as a positive, professional and geared towards providing them with the best service and solutions.

**Corporate Banking Group's asset book (SAR billion)**




**Cross-selling amount across the Bank (SAR million)**


**During 2020, the Corporate Banking Group team provided uninterrupted services to clients during the COVID-19 pandemic and lockdown period.**

# **Institutional Banking Group** continued

## **Corporate Banking Group** continued

### Supporting the Saudi Vision Realisation Programme

In support of Saudi Vision 2030, the Group launched the Vision Realisation Programme, providing a one-stop-shop to support the Government Vision Realisation Offices and Vision Realisation Programmes. This will ensure the Bank captures its 'share of wallet' from banking services and products that will support ongoing public-private partnerships (PPP) and privatisation initiatives.

During the year, three MoUs were signed with the following organisations to enhance cooperation and further align the Bank with the goals of Saudi Vision 2030:

– National Housing Company
– Tourism Development Fund
– Social Development Bank

### Corporate Credit Transformation Programme

During 2020, the Corporate Banking Group kicked off its Corporate Credit Transformation Programme, which consisted of:

– Revamping the entire credit approval and evaluation process by aligning stakeholders on risk appetite;
– Enhancing customer journey and turnaround time without compromising credit quality; and
– Automating and standardising the credit application to enable front-liners to focus on business and marketing activities.

### Driving economic diversification through MSMEs

The Corporate Banking Group's MSME business continued to deliver strong results during 2020, most notably by growing its client base and achieving an increase in guaranteed facilities provided as part of the government's SMEs loan guarantee programme, Kafalah, to achieve a Tier 1 rating for the first time.

To support its MSME clients during this challenging year, the Bank implemented the SAMA support program by efficiently allocating loans to clients. MSME also maximised the opportunities created by signing agreements with the Saudi Government's SME authority, Monsha'at. The MSME business will support Monsha'at's SME funding platform and financial awareness programme, and also will provide SMEs with financial advisory, training and representation when dealing with business prospects.

In addition, the MSME business launched a dedicated phone number and referral portal for MSME customers and developed specific credit file templates for its customers, ensuring shorter turnaround times and improved returns.

### Growth in Islamic Banking

It is part of the Bank's strategy to increase its portfolio of Islamic products in all areas of its banking activities. In order to satisfy the growing demand for Islamic Banking products and services, BSF has established a dedicated Islamic Banking team to assist with the development of new Sharia-compliant financial products and to coordinate Islamic Banking activities across all the Bank's business lines.

BSF continues to grow its Islamic product range. In the Corporate and Investment Banking sector, BSF offers corporate clients both conventional and Islamic capital market products.

**BSF Sharia-compliant portfolio (SAR)**

114.5bn

**BSF continues to grow its Islamic product range. In the Corporate and Investment Banking sector, BSF offers corporate clients both conventional and Islamic capital market products.**

### Investment in branch network, joint ventures and alternative delivery channels

The Bank provides point of sale (POS) terminals to numerous well-established commercial centres, hypermarkets, restaurants and other vendors. Expanding in this sector is part of the Bank's long-term strategy and the Bank intends to continue to build its existing portfolio of relationships where the Bank believes that the relationship with vendors will offer good returns and keep risks at a reasonable level. As of 31 December 2020, BSF had approximately 42,000 POS terminals in operation throughout the Kingdom, up 44% for the year to support the needs of customers and changing business models.

### Focus on development of digital capabilities

Over the past year, the Corporate Banking Group has increased its focus on digital capabilities to enhance customer experience and improve operational efficiency. To that end, the Bank is undergoing a digital strategy update incorporating all the business segments as well as support functions. The strategy aims to position the Bank as a leader in digital through key enablers that include customer engagement, digital talent, IT infrastructure and performance management, in line with the Bank's mission statement.

In addition, following the recent disruptions caused by the COVID-19 crisis, the Bank is institutionalising the flexibility and productivity gains that arose through novel adaptations that were required to mitigate any negative effects. This includes a focus on smarter ways of working, equipping employees with additional tools to enable flexible delivery, and focusing on re-imaging its workspaces and optimising utilisation of real estate. These efforts look beyond the direct effects of the crisis to focus on future-proofing operations for potential challenges in the years ahead.

### Project and structured finance

A leader in project and structured finance in the Kingdom, having participated in the majority of landmark deals within Saudi Arabia, Banque Saudi Fransi offers a wide range of related services, including debt financial advisory, project and infrastructure finance, acquisition and leverage finance, real estate, corporate finance and syndicated loan agency management. As of 31 December 2020, total outstanding transactions exceeded SAR 30 billion.

BSF finances both greenfield and brownfield projects, with extensive expertise arranging and participating in complex, long-term financing transactions, such as advising the Government of Saudi Arabia on Rabigh 3 IWP, the first PPP water desalination project under the Vision 2030.

Underpinned by an experienced team of industry specialists, it plays a key role in lead arranging transactions and has received the following awards for leading industry specialists since 2019:

- Syndicated Loan Deal of the Year award by Bonds, Loans & Sukuk Awards Middle East
- MENA Export Finance Deal of the Year award by IJ Global Awards
- MENA Oil & Gas Deal of the Year award by IJ Global Awards
- Commodity Murabaha Deal of the Year award by IFN Awards
- MENA Petrochemical Deal of the Year award by IJ Global Awards
- MENA Refinancing Deal of the Year award by IJ Global Awards
- MEA Refinancing Deal of the Year award by PFI Awards

**Islamic retail branches as of year-end**

17

**Over the past year, the Corporate Banking Group has increased its focus on digital capabilities to enhance customer experience and improve operational efficiency.**

# Institutional Banking Group continued

## Corporate Banking Group continued

Over the last 20 years, since the start of major activities in non-recourse and limited recourse financing in the Kingdom, the Bank has been involved in more than 100 of such facilities, financing projects in oil and gas, petrochemicals, metals and mining, power, water, infrastructure, telecommunications, transport, real estate, construction and cement. In doing so, BSF demonstrated its commitment to the industrial growth in the Kingdom and has become one of the key participants in assisting in the financing of these transactions. BSF has also participated in regional syndicated transactions, which are mostly restricted to the oil, gas and petrochemicals, infrastructure, and power sectors, in which the government of the relevant country is involved.

During 2020, BSF arranged and participated in several landmark deals across a number of different sectors, including infrastructure, telecommunications, health, 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.

## Private Banking Group

BSF's Private Banking Group is one of the largest providers of tailored financial planning, portfolio management and investment advisory solutions in Saudi Arabia. It has achieved this position by helping ultra-high-net-worth, high-net-worth and affluent individuals meet short and long-term investment goals, by ensuring symmetry between income and capital growth in a manner that helps clients manage wealth for today and for future generations.

During 2020, the Group has continued to support customers with an exceptional and seamless transaction journey, while also improving operating efficiency and controls. It worked closely with clients throughout the year to help them benefit from the market volatility caused by the COVID-19 pandemic. More broadly, the business took steps to define its value proposition over the short and medium term, and to launch a Value Proposition Governance Forum to provide a mechanism to continually enhance corporate governance and risk management.

Private Banking clients avail a full range of products tailored to suit their individual investment requirements, with support from the Asset Management Group, Treasury and Saudi Fransi Capital, in addition to all products that are available to the Bank's Retail and Corporate clients. Private Banking services are delivered by a dedicated team of private bankers, with specialist knowledge of asset management, based at BSF's head office and regional offices.

Looking forward, Private Banking will seek to expand its client base by targeting entrepreneurs, building on the relationships it has developed through its Corporate Banking activities. The resulting growth will be driven by a mix of value-added wealth management solutions and more traditional banking products, such as non-interest-bearing deposits and loans.

Another key driver of growth will be the cross-selling opportunities offered by the new companies and joint ventures under development, reinforcing the Bank's strength in designing and marketing global wealth management solutions.

**BSF's Private Banking Group is one of the largest providers of tailored financial planning, portfolio management and investment advisory solutions in Saudi Arabia.**



## Global Transactions Solutions

Global Transactions Solutions (GTS) provides a range of services and digital solutions to connect corporate clients with local and international counterparties, services and ecosystems. These include trade finance solutions, including Documentary Letters of Credit and Guarantees; correspondent banking activities for trade and cash management, including credit line management, trade finance facilities and maintenance of existing correspondent banking relationships; and a range of domestic and international payment, liquidity management and collection products.

Established in December 2019 through the consolidation of three existing Bank businesses (Global Transactions Business, Financial Institutions and Trade Finance), GTS was created to reflect global best practice by combining related operations into one organisation to achieve efficiencies, synergies and address all aspects of clients' transactional flow requirements. The new organisation delivers operational benefits to the Bank, as well as product and service improvements to clients that ultimately drive increased revenue.

In the disruption following the global lockdown, it became immediately clear that, for corporates in today's landscape, better cashflow management, forecasting and the ability to digitally transact with the Bank have become even more significant priorities. As the uncertainty continues, corporates are not only looking to become more time efficient, from capturing a cash 'snapshot' to creating an accurate cash report, but are also increasingly reliant on real-time working capital and trade finance clarity to inform their next steps around recovery.

During 2020, GTS played a central role in the delivery of various digital services across the Bank, while ensuring service continuity for clients across collection of funds via POS, eCommerce, and payroll and supplier payments via the FransiGlobal platform. It delivered significant growth in client adoption and payment volumes across all banking channels, as clients migrated to digital solutions, while also supporting clients by waiving all charges through the lockdown period, in compliance with SAMA directives, and demonstrated agility in supplying a large number of POS machines to clients who had to quickly convert to eCommerce and delivery.

Digital technology is driving change across the industry, and BSF is adapting, with the launch of enhanced capabilities on its FransiGlobal platform in Q4 2020. In the coming year, GTS will continue its transformation into the financial platform of choice for the Bank's corporate clients, in order to provide them with the best possible experience, taking an advisory approach to facilitate the acceleration of their transformational journey into a new digital decade. To this end, GTS is working to launch leading-edge solutions and products for cash management, eCommerce and trade finance on a single client facing platform by late 2021.

**During 2020, GTS played a central role in the delivery of various digital services across the Bank, while ensuring service continuity for clients across collection of funds via POS, eCommerce, and payroll and supplier payments via the FransiGlobal platform.**

# Retail Banking Group

## About Retail Banking Group

BSF's Retail Banking Group operates a wide network of branches, ATMs, digital platforms and mobile apps to deliver trusted services and outstanding experience to its customers. It offers products and services to meet a comprehensive range of everyday banking needs – whether managing a household, buying a house, preparing for education, raising a family or planning for retirement. The Group also provides an exclusive level of service to affluent banking customers through dedicated relationship managers, as part of its affluent banking offering.

**Strategic Highlights 2020**
- 9.9% Increase in Branch NPS
- 253k+ Loyalty Programme Customers
- 53% Increase in Home Loans

**Financial Highlights 2020**
- SAR 235 Million Net Income
- SAR 1.3 Billion Net Revenue
- SAR 20.3 Billion in Total Loans
- SAR 43.3 Billion in Total Deposits

**Strategic Focus 2021**
- Launch Agency Banking
- Streamline Branch Network
- Extend Credit Card Product Range

**Mohammed AlSheikh**
Head of Retail Banking Group

The Retail Banking Group maintained its strategic focus in 2020, responding to the market disruption and volatility to post significant growth in its deposit base, loan portfolio and product sales, while launching a range of new customer offerings and deploying relief measures to support affected customers.

During the year, the Retail Banking Group took decisive and proactive steps to mitigate the negative impact of the COVID-19 crisis on its affected customers, in support of SAMA initiatives. These included waiving all types of digital fees for a period of six months; exempting all clients from any loan-related charges, such as processing and breakage fees; and deferring loan instalments for more than 7,200 healthcare workers and 3,600 SANED beneficiaries without interest or additional costs.

To better meet customer needs and increase customer engagement and satisfaction, the Retail Banking Group continued to launch new products and service channels during 2020, including an Alfursan co-branded credit card in partnership with Saudia, an affluent segment credit card, self-service kiosks, NFC-enabled ATMs and a WhatsApp chatbot.

The Retail Banking Group's customer-centric approach was reflected in Net Promoter Scores (NPS) for the year, which jumped 9.9% to 71.7% for branches, and achieved 67.6% for direct sales and 60% for digital channels, supporting its strategic objective of becoming number one in NPS in the Kingdom.

**Healthcare workers given deferred loan installments**

7,200

**To better meet customer needs and increase customer engagement and satisfaction, the Retail Banking Group continued to launch new products and service channels during 2020.**

## 2020 Highlights

For 2020, the Retail Banking Group posted net income of SAR 235 million on net revenue of SAR 1.304 billion and total assets of SAR 20.3 billion. Despite challenging market conditions, the Group made substantial strategic and operational progress, highlighted by strong growth in total deposits, assets and sales across key categories.

### Increasing deposits

Total retail deposits grew 10.4% to SAR 43.3 billion for the year, with a corresponding 5 bps rise in market share, primarily due to a combined increase of SAR 3.6 billion in the Elite and Privilege affluent segment deposit base. The Classic segment, which consists of individual and non-individual customers, contributed a SAR 900 million increase, as the pandemic curtailed discretionary spending from Q2.

### Growing assets

BSF's overall retail asset book grew 31.7% during 2020 to reach SAR 20.3 billion, with a 15 bps increase in market share. Personal loans grew 15.4% to SAR 9.1 billion, while its home loans book jumped by 53%, outpacing the Saudi market, to reach 10.6 billion.

### Rising sales

The Retail Banking Group delivered sales growth across all consumer asset segments, despite COVID-19 related challenges, through increased cross-selling and bundling, enhanced productivity and competitive pricing. Personal loan sales increased 11% to reach SAR 4.5 billion; home loans rose 14% to SAR 4.3 billion, and credit card sales jumped 19% to reach almost 20,500 customers as of year-end.

### Expanding affluent segment

The Group achieved strong growth in the affluent segment, posting increases of 20% in Elite customers and 19% in Privilege customers during the year, driven by 3,200 new-to-bank affluent customers (+62%) and upgrades of existing retail customer relationships. Outstanding loans as of year-end stood at SAR 8.9 billion from the affluent segment (+37%) and NCBDs grew to SAR 26.8 billion (+16%).

### Loyalty programme enhancements and partnerships

The Retail Banking Group's JANA loyalty programme grew by 30% during the year to around 253,000 members, as a result of new partnerships and features that enhanced customer experience. JANA digital wallet and instant vouchers were launched, as well as integration with a new flight search engine "Serra" for booking and after-sale support. The programme's points matrix scheme was revised to increase efficiency, and value-added partnerships were introduced with STC's "Qitaf" loyalty programme, Housing Development Corporation (Jood al Eskan) and Alnahda Society.

### Branch network optimisation

In line with its focus on branch optimisation and migration to digital channels, Retail Banking reduced the number of female branches to five and decreased rental costs of its branch network by 6% overall during the year. Of its current footprint of 87 branches across the Kingdom, two further branches were identified to be merged in 2021, for projected rental savings in excess of SAR 6 million.

## Looking ahead to 2021

In the coming year, the Retail Banking Group will focus on its strategic priorities to deliver increased value for customers and the Bank. It will launch Agency Banking for the first time in Saudi Arabia, expanding the reach of its Retail Banking products and services by opening new routes to market. It will also enable digital sales for consumer assets products, such as personal finance and mortgage; reinforce direct sales with dedicated agents focused on individual products; and build on the momentum of 2020 to grow its affluent segment base.

The retail branch network will be further optimised with a modern format and design for the digital age, while a number of new products, services and technologies will be launched to provide increased variety and support for customers. These include introducing non-salary transfer personal finance, extending the credit card product range, and filling a market gap through new prepaid, multi-currency and low-limit cards, as well as preparing the mortgage business for the expected rise in demand of off-plan properties and streamlining the onboarding process for telesales using digital certifications.

**Net income (SAR)**

235mn

**Despite challenging market conditions, the Group made substantial strategic and operational progress, highlighted by strong growth in total deposits, assets and sales across key categories.**



# Global Markets Group

## About Global Markets Group

Banque Saudi Fransi's Global Markets Group is a leader in its sector in Saudi Arabia. It provides clients with foreign exchange, interest rate and commodities hedging, as well as other derivatives and structured products. The Group serves as a market maker in SAR derivatives products and money market instruments. It also facilitates client trade requirements, and provides market advisory, investment and other tailored solutions, as well as managing the Bank's liquidity, interest rate and foreign exchange risks.

**Zuhair Mardam**
Head of Global Markets Group

The Global Markets Group demonstrated its agility and customer focus in 2020, adapting to support its clients through this volatile period, opportunistically growing and optimising its balance sheet, and delivering record performance for the Bank and its shareholders.

During the year, the Global Markets Group acted to safeguard its clientele and staff, whilst adapting to ensure business and service continuity. It rapidly adopted its Business Continuity Plan by shifting key staff to virtual offices to ensure the coverage of clients' transactions, especially in terms of loans/deposits and foreign exchange. However, to support clients with any issues that could not be resolved remotely, it always maintained a skeleton staff physically in the office.

The Group kept in close contact with clients throughout the year to ensure their needs were met, and transitioned face-to-face meetings to online channels to provide uninterrupted support and gauge any issues or requirements that they had. The sales team also conducted several client webinars to keep clients abreast of the latest market news and update them on products recommendations for the current market environment.

**The Bank's issue of a SAR 5 billion Tier 1 Sukuk achieved a bid-to-cover ratio in excess of**

200%

**The Group kept in close contact with clients throughout the year to ensure their needs were met, and transitioned face-to-face meetings to online channels to provide uninterrupted support and gauge any issues or requirements that they had.**

## 2020 Highlights

For 2020, the Global Markets Group posted net income before Zakat and Income Tax of SAR 1,644 million, up 30%, on Operating Income of SAR 1,946 million, while operating expenses fell by 17% to SAR 305 million. The Group displayed flexibility in a rapidly changing operational and market environment to maintain stability and strategic focus. It acted opportunistically to expand its investments when markets were dislocated, with an associated evolution of market risks limits, and achieved significant progress across a range of key areas. The Group displayed flexibility in a rapidly changing operational and market environment to maintain stability and strategic focus. It acted opportunistically to expand its investments when markets were dislocated, with an associated evolution of market risks limits, and achieved significant progress across a range of key areas.

### Balance sheet

A drop in day-to-day liquidity resulted in an optimised balance sheet, healthy liquidity ratios and more efficient use of liquidity, while the Group reduced deposits to decrease its cost of funding and increased its loans and investments.

### Profitability

Opportunistic investment and funding strategies capitalised on market dislocation and uncertainties.

### Interest income

Existing cashflow hedges at favourable rates protected a large proportion of the Group's interest income.

### Capital Issuance

The Bank's issue of a SAR 5 billion Tier 1 Sukuk achieved a bid-to-cover ratio in excess of 200%.

**Operating expenses fell**

17%

**Net income (SAR)**

1,644mn

## Looking ahead to 2021

In the coming year, the Global Markets Group will continue to capitalise on its market-leading proposition and transform to better serve its clients. Its digital focus for the year will include modernising the Treasury front office system and growing FX volumes through digitisation. It will continue to build its human capital and infrastructure to drive future growth, while leveraging the Bank's new cross-selling capabilities to unlock revenue streams.

The group will also continue to evolve and innovate, analysing and improving client journeys and experience based on NPS feedback, while launching new products to institutionalise interest rate hedging and create value through an enhanced focus on private placements and capital bonds.

**Global Markets Group will continue to capitalise on its market-leading proposition and transform to better serve its clients. Its digital focus for the year will include modernising the Treasury front office system and growing FX volumes through digitisation.**

# Saudi Fransi Capital

## About Saudi Fransi Capital

A leader in investment banking, wealth and asset management, and securities brokerage in the Kingdom of Saudi Arabia, Saudi Fransi Capital provides a full range of investment solutions and advisory services to local and global financial institutions, corporations, government entities and individual investors.

**Operating revenue (SAR)**

381.55mn

Saudi Fransi Capital demonstrated its resilience and agility in the face of the challenges of 2020, launching seven new products to capitalise on new market dynamics while ensuring operational and service continuity across its Asset Management, Investment Banking and Securities businesses.

During a year characterised by uncertainty and volatility, Saudi Fransi Capital maintained focus on providing industry leading investment products and services to its government and private clients across the Kingdom.

It acted to ensure business continuity and safeguard its staff from the impact of COVID-19 through a range of health and safety measures, while accelerating a variety of digital initiatives to boost client engagement and experience.

Despite the challenging operating and business environment, it successfully launched a host of new investment products, closed major investment banking deals, and facilitated increased local and international equity trading volumes.

As a result of these achievements, Saudi Fransi Capital, the Banque Saudi Fransi subsidiary, delivered record financial performance during the year, posting its highest-ever operating revenue of SAR 381.55 million (+30%) and net income before Zakat and income tax of SAR 153.20 million (+35%).

### Asset Management

Asset Management achieved significant growth in its assets under management (AUM) during 2020, by ensuring continuity of timely and best-in-class investment solutions to its clients through this period of uncertainty.

It offered its clients seven new investment products – covering real estate, private equity and private credit – specifically to provide protection and capitalise on emerging opportunities resulting from the market dislocations caused by the pandemic. Through its diverse and growing investment product range, investors gain access to a global portfolio of funds covering a broad array of asset classes across multiple regions.

In addition, the Taleem REIT acquired educational property for SAR 92 million in June 2020. The educational property, Al-Ghad National Schools, is located in King Abdullah District, Riyadh. Al-Ghad National Schools is wholly owned and operated by National Company for Learning and Education.

In recognition of the consistently strong risk-adjusted three-year performance relative to its peers, one of its funds, Al Qasr GCC Real Estate & Construction Equity Trading Fund, received the Refinitiv Lipper Fund Award for 2020.

In 2021, Asset Management will enhance its global product range and expand the reach of its global investment advisory services to better serve its clients. In addition, it plans to enhance its online presence to enable clients to not only trade but also quickly and easily access investments and savings solutions. Its focus, as always, will remain on providing best-in-class and timely solutions across all asset classes.

### Investment Banking

Investment Banking maintained the top spot in the Equity Capital Markets ranking in Saudi Arabia, with a total of 14 deals valued at SAR 16.8 billion since inception (excluding Saudi Aramco's IPO), while ensuring continuity of its services to clients throughout the year.

It successfully completed two blockbuster transactions in 2020 – a SAR 5 billion Tier-1 sukuk for BSF and a SAR 4.5 billion rights issue for Zain KSA, raising a total of SAR 9.5 billion in capital.

- Banque Saudi Fransi mandated Saudi Fransi Capital as sole book runner and lead manager for its SAR 5 billion private placement of Tier-1 sukuk.
- Zain KSA appointed Saudi Fransi Capital as the lead manager, financial advisor and underwriter to strengthen its financial position by first reducing equity to cancel accumulated losses and then to raise SAR 4.5 billion of capital through a rights issue. The rights issue was partly funded through fresh cash injection and partly through conversion of shareholder loan.

In addition, the Capital Market Authority approved a number of Saudi Fransi Capital's high profile IPOs expected for 2021, such as Theeb Car Rental and Alkhorayef Water & Power Technologies. Saudi Fransi Capital also won several M&A mandates in various sectors, such as fuel retailing, insurance and materials and multiple transactions in the debt capital market space, focused on the energy and real estate industries.

In 2021, Investment Banking will focus on completing the approved IPOs, sukuks and debt conversion deals, while building on its historic growth and market leadership position by winning new landmark mandates and growing its market share in the investment banking space.

### Securities Brokerage

The Securities Brokerage business was once again a market share leader in the Saudi securities during 2020, while substantially increasing its qualified foreign investor base who are able to trade securities in the Saudi stock market and continuing to make progress in growing its institutional business in the region and globally.

It grew its total value of executed trades to SAR 202.85 billion, an increase of 94.6% from 2019, overcoming substantial operational and logistical challenges during the year to ensure the functionality and availability of its platform and services for its large and growing customer base.

It was a pioneer member of the Saudi Futures Index on the Saudi Stock Exchange (Tadawul) and began offering futures trading for Saudi Futures Index to its clients for the first time. In order to facilitate the ability to trade on the derivatives market, it became a clearing member of Muqassa – a new entity established by Tadawul to clear trades. It also supported Tadawul in the implementation of other new initiatives and participated in Tadawul's marketing campaigns to showcase the attractiveness of the Saudi market.

Responding to the increased interest of its clients in international equity markets that resulted from the increase in global liquidity and stimulus from global central banks resulting in strong performance of global equity markets since the onset of the pandemic, the company also increased its focus on the international brokerage business during the year.

In 2021, the Securities Brokerage business will implement new Tadawul initiatives that correspond to enhanced efficiency in existing services and the expansion of new product offerings. It will also bolster its trading platform to provide clients with improved service and experience, while increasing the breadth and depth of its research offering to enhance stakeholder knowledge and position the company as a thought leader in the Saudi market.

**Net income before Zakat and income tax (SAR)**

153.20mn

**Saudi Fransi Capital maintained focus on providing industry leading investment products and services to its government and private clients across the Kingdom.**

# Saudi Fransi Agency

## About Saudi Fransi Agency

Saudi Fransi Agency, a fully owned Bancassurance subsidiary of BSF, was established in 2010 to promote and sell insurance products to the Bank's existing and prospective customers. Saudi Fransi Agency has an exclusive distribution agreement with Allianz Saudi Fransi, a Bank affiliate, to promote and sell its insurance products to Bank customers.

Saudi Fransi Agency capitalised on market uncertainty and volatility during 2020 to achieve strong growth in its corporate business, while also minimising expenses and achieving balance between its corporate and retail portfolios.

In 2020, Saudi Fransi Agency built on the strong foundation of new Bancassurance products launched in previous years to deliver improved financial performance. The corporate business witnessed strong growth during the year to become the Agency's core business portfolio, surpassing the retail portfolio to achieve 70% share by year-end.

As a result, Saudi Fransi Agency achieved an increase of 60% in the value of total collected corporate gross written premiums, up from SAR 18.8 million in 2019 to SAR 30.2 million in 2020. Furthermore, corporate revenue rose by 78% on a year-on-year basis, which drove an overall 29% increase in revenue for the year to SAR 3.3 million.

In expanding the corporate team, the business saw a marginal 9% increase in staff-related expenses in 2020. This was offset by a focus on cost efficiencies, resulting in a 30% decrease in general and administrative expenses, compared to the prior year.

On the retail side, SAMA released the new rules governing Bancassurance activities, which stated that they must be practiced directly through the Bank with the permission to deal with insurance companies without intermediaries. Saudi Fransi Agency has established a comprehensive strategy to comply and capitalise on the new regulation in 2021.

### Assuring peace of mind in 2021

Looking ahead to 2021, Saudi Fransi Agency will seek to build on the success achieved in its corporate business during 2020, by bringing that same focus to further expand its retail Bancassurance operations. Overall, Saudi Fransi Agency remains committed to continuing to grow and diversify, in order to achieve its sales targets and create greater value for the Bank and its shareholders.

**Revenue growth**

28%

**In 2020, Saudi Fransi Agency built on the strong foundation of new Bancassurance products launched in previous years to deliver improved financial performance.**

# Saudi Fransi Leasing

## About Saudi Fransi Leasing

Licensed by the Saudi Arabian Monetary Authority, Saudi Fransi Leasing is a leading provider of lease financing services in the Kingdom. The company provides Shari'ah-compliant solutions to government, semi-government, individuals, and small and medium enterprises (SMEs) in sectors such as trade (wholesale and retail), construction, manufacturing, transportation, communication, utilities and health services. Its core customers are in the auto and heavy-machinery lease financing sectors.

Saudi Fransi Leasing delivered strong performance across the board in 2020, achieving significant increases in profitability, portfolio size and market share through its enhanced focus on customer experience and the luxury segment.

Saudi Fransi Leasing continued to support its clients with trusted and innovative auto financing solutions throughout the year to strengthen its relationships and reputation in the market. In particular, Saudi Fransi Leasing concentrated on financing luxury by leasing high-value vehicle brands to affluent customers employed in government, semi government and large private organisations.

This strategic focus, complemented by greater customer care and elevated experience throughout the leasing process, as well as exceptional after sales service, resulted in strong performance during the year. For 2020, Saudi Fransi Leasing posted net income growth of 21% to reach SAR 105.5 million on a 13% rise in operating income to SAR 151.5 million, whilst its portfolio grew 2.5% to reach SAR 2,618 million and its overall market share also increased to 6.2% as of December 2020, up from 5.1% as of December 2019.

Saudi Fransi Leasing's efforts and achievements were recognised when it was honoured with the 'Best Leasing Finance Program in the Industry' award by Sport Motor Awards.

**Looking ahead to 2021**

In the coming year, Saudi Fransi Leasing expects a more positive outlook for the automotive industry and the whole Saudi economy, with rising consumer confidence and a pick-up in consumer spending complementing the Corporate and SMEs segment looking to take advantage of the lower cost of borrowing.

Saudi Fransi Leasing will remain focused on improving its digital footprint in the market, providing an innovative range for automotive financing products, and advancing its value proposition of trusted auto financing solutions for its customers across the Kingdom.

**This strategic focus, complemented by greater customer care and elevated experience throughout the leasing process, as well as exceptional after sales service, resulted in strong performance during the year.**

**Net income growth**

21%

# Allianz Saudi Fransi

## About Allianz Saudi Fransi

Allianz Saudi Fransi Cooperative Insurance Company (ASF) provides comprehensive insurance solutions in all lines of business, such as motor, health, savings, protection, property and casualty for individual and corporate customers. Combining the global experience of the Allianz Group, which is today the world's most valuable insurance brand, and the local know-how of Banque Saudi Fransi, ASF provides its customers with best-in-class products and customer service, unmatched risk calculation and management.

Allianz Saudi Fransi continued to innovate and persevere in the face of challenging market conditions in 2020, combining global technical excellence with local know-how to deliver comprehensive and flexible insurance solutions to its retail and corporate customers throughout Saudi Arabia.

As a result of the difficult economic landscape caused by the local and global impacts of the COVID-19 pandemic, Allianz Saudi Fransi reported a net loss of SAR 17.6 million before surplus, zakat and tax for the year ending 31 December 2020, compared to a net profit of SAR 41.6 million for the previous year.

In 2020, to bolster its market position and affirm the commitment of the Allianz Group to the Saudi market, the Company increased its capital from SAR 200 million to SAR 600 million through a rights issue, following its Board's recommendation and a General Assembly approval by its shareholders. In line with its focus on providing world-class insurance services and products to its customers, the Company also launched several online channels during the year, including for claims submissions and to manage visit visa insurance customers.

In 2021, as the Company will seek to strengthen its position by focusing on further enhancements in customer service and digitalisation, which is set to become a core pillar of its business moving forward as it continuously improves its digital sales and services channels to drive the company in an agile and sustainable direction. Inclusive meritocracy will also be a priority in 2021, in order to empower employees and improve the work environment by fostering collaboration and encouraging its employees to take the initiative to be part of something better and bigger. In these ways and more, Allianz Saudi Fransi will shape a better tomorrow, together.

**Capital (SAR)**

600mn

**In 2021, as the Company will seek to strengthen its position by focusing on further enhancements in customer service and digitalisation, which is set to become a core pillar of its business moving forward.**

# Technology and Operations Group

**Thamer M. Yousef**
Chief Operating Officer

During 2020, the Technology and Operations Group played a critical role in BSF's rapid and successful response to the challenges and changes brought about by the COVID-19 pandemic, while continuing to drive efficiency, productivity and transformation across all areas of the Bank.

## 2020 Highlights

The Technology and Operations Group made significant progress across a wide range of technology, risk, service excellence and operational support areas in 2020, continuing to drive improvements in availability, quality and efficiency of key services and systems. The Group's focus remained on enabling the Bank to fulfil its strategic priorities and implement a range of modernisation, digitisation and transformation programmes for the future, while also ensuring operational continuity through this challenging and volatile year.

The Group was the key enabler in the fast and focused response to the shifting needs of key internal and external stakeholder groups that resulted from the impacts of COVID-19. While continuing to implement its strategy and make progress across a range of key initiatives and programmes, the Group's also took on the responsibility of assuring continuity of daily banking operations, while simultaneously realising the necessary changes to ensure a future ready and resilient work environment. It continued to communicate and collaborate with trusted business partners throughout the year, as well as investing in the knowledge, skills and wellbeing of its people, to allow them to carry out their roles and fulfil their potential.

**During 2020, the Technology and Operations Group continued to drive efficiencies and optimise costs across all areas of the Bank.**

## Technology Services

BSF's Core Banking System programme is critical to achieving the Bank's mission of becoming the most modern, innovative and experience focused bank in the region. Release 1 of the Core Banking System programme, which included 36 initiatives, successfully went live on 5 December 2020. This phase of the programme included customer information files and retail loans, which are now both live and operational on the new Core Banking System platform. Releases 2 and 3 are currently in progress and will run in parallel.

The Technology Services Division also delivered major service quality enhancements during the year, including yielding significant improvements to service availability through the adoption of systematic quality assurance practices and service dashboards. It launched Apple Pay, a digital branch transformation programme, and contactless services, as well as supporting the Global Transactions Business with the launch of a new version of FransiGlobal that features a fresh user interface and a unified experience across the Bank's channels.

The Business Relationship Management team progressed multiple initiatives with business lines to enhance performance and facilitate smoother delivery of projects, while also acting as a point of contact for the Group domain.

The Capital Market Demand team completed a number of major projects, including Kondor Upgrade and Market Risk Value at Risk, as well as carrying out over 1,000 support and development activities related to Treasury, Asset Liability Management and Risk Management.

The Group also secured approval for a General Clearing Member (GMC) license from Muqassa in order to support the national capital market transformation. This is in alignment with Tadawul's Post-Trade Technology Programme, which is part of the Saudi Vision 2030.

## Risk Data Aggregation and Reporting

The Technology and Operations Group successfully completed the year 1 scope of the Basel Committee on Banking Supervision's Standard Number 239 (BCBS 239) for the implementation of Risk Data Aggregation and Risk Reporting during 2020. This enabled the Bank's Data Governance Framework, organisation, policy, handbook, roles and responsibilities, stewardship structure, Data Governance Council, process workflows, data lineages, and data quality rules. The completed year 1 scope included:

- 600+ data quality rules developed
- 250+ business glossary terms defined
- 200+ data dictionary terms defined
- 250+ data lineage elements created
- 250+ data model elements developed
- 9 end-to-end reporting process assessments developed



# Technology and Operations Group continued

Implementation of BCBS 239 will continue over the coming years to achieve full compliance.

The Group also conducted disaster recovery exercises for number of critical IT services during the year to ensure that the Bank and its systems are secure against any eventuality.

### Cost Optimisation

During 2020, the Technology and Operations Group continued to drive efficiencies and optimise costs across all areas of the Bank. This ongoing initiative focused on negotiation and optimisation of various services to achieve a total of SAR 63.9 million in savings and cost avoidance, which included direct savings of SAR 19.6 million, costs avoidance of SAR 35.7 million, and SAR 8.6 million of savings under IFRS16.

The Procurement Division achieved SAR 35.2 million of negotiated savings, as well as real estate rental cost reductions of SAR 8.6 million during the year. The Property Management Division continued its cost reduction initiatives, which resulted in SAR 4.99 million of reductions in services and security contracts during 2020, in addition to SAR 2.6 million as a result of space optimisation and value engineering.

Meanwhile, the Corporate Operations Division achieved savings of SAR 5.5 million through the implementation of online statements and efficient mailroom management, while the review of technology contracts of infrastructure hardware, along with in-house development of many activities such as: Digital debit cards, contactless cards, EKYC, etc., have delivered a further SAR 6.9 million in cost reductions.

### Customer Experience

Improving customer experience continues to be a major strategic objective for BSF. The Group launched, led or supported a wide range of initiatives across the Bank to enhance service and experience for its customers, including:

- Achieving 98.29% ATM availability
- Reducing ATM declined transactions by 60%
- Minimising international payment cancellations
- Reaching card authorisation rates above peer banks
- Ranking #4 of 21 in Simah Saudi Credit Bureau data quality
- Participating as a key stakeholder in the Tadawul Clearing System

### Collections

During 2020, the Technology and Operations Group worked to improve overall delinquency and recovery performance to stabilise the Bank's collections portfolio. Overall, it achieved a 27% increase in the portfolio during the year, with delinquent amounts down 7.99%, reducing the delinquency percentage by 66% from 1.2% to 0.8%. This included:

- Home Finance portfolio increased 44.35% YoY, with delinquent amounts down 39%
- Personal Finance portfolio increased 13.97% YoY, with delinquent amounts down 3%
- Credit Card portfolio decreased 6% YoY, with delinquent amounts down 4%

In addition, Corporate Operations was able to recover SAR 32 million of fraudulent transactions.

### Regulatory Compliance

In 2020, the Technology and Operations Group successfully delivered a compliance transformation programme that integrates with SAMA's new Tanfeeth platform and the Common Reporting Standard project. It also implemented several significant regulatory projects during the year, including: Instant Payment System, AFAQ Real-time Gross Settlement, SWIFT Upgrade Release 2020, VAT phase-2, beneficiary customer ID in Saudi Arabian Riyal Interbank Express (SARIE) payment, Simah Saudi Credit Bureau Report, Unified Number, Al-Hassa Cash Center renovation, Letter of Guarantee Integration with Tabadul, Eitimad Ministry of Finance portal, SAMA Trade Repository, and Money Market & Foreign Currency Flow.

### Looking ahead to 2021

2021 will be another challenging year as the impact of the pandemic persists across the Kingdom and around the world. The Technology and Operations Group will continue to support all areas of the Bank to build strong and sustainable relationships with customers, driving service excellence, achieving cost reductions, and providing a solid foundation for operational efficiency and business performance.
The Group is building artificial intelligence capabilities to automate repetitive tasks and is developing robotics for various operational areas, in order to improve processes, costs, quality and compliance. It will also continue accelerate transformation across the Bank, including in relation to the Core Banking System, Enterprise Resource Planning (ERP), Oracle Financial Services Applications, Enterprise Data Warehouse, and Customer Relationship Management (CRM), as well as enhancements to the Bank's digital platforms and further implementation common processes and builds across key platforms.

**The Group's focus remained on enabling the Bank to fulfil its strategic priorities and implement a range of modernisation, digitisation and transformation programmes for the future, while also ensuring operational continuity through this challenging and volatile year.**



# Strong risk management

**Ravishanker Visvanathan**
Chief Risk Officer

BSF places very high priority on protection of its reputation, stakeholders and assets by effectively preparing for and mitigating significant risks across our organisation. We adopt and regularly update risk management principles issued by the Basel Committee for Banking Supervision (BCBS) of Bank of International Settlements (BIS) and follow all applicable regulations issued by Saudi Arabian Monetary Authority (SAMA).

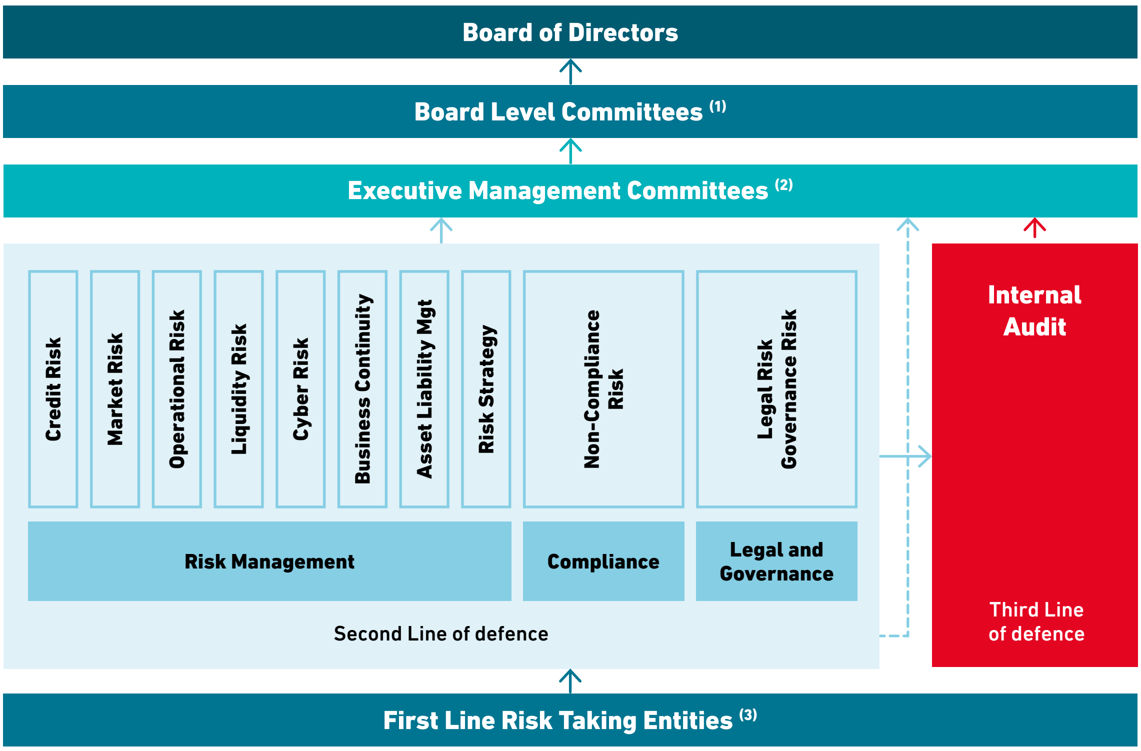
Our Risk Management Framework was established to ensure strong risk management awareness and culture, and to inculcate these practices in day-to-day business activities and responsibilities. It provides the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation.

**Risk governance**

BSF's approach is to identify, analyse and respond appropriately to all risks. The approved appetites, tolerances, and actions required determine the risk responses selected for various types of risk. Our Risk Appetite Framework, metrics, and thresholds have continuously evolved over time according to the specific business objectives, including strategic, operational and asset protection.

The effectiveness of risk management and control measures is regularly reported to and acted upon by the Board. In addition, periodic independent reviews on the effectiveness of such measures are conducted. The Risk Governance

**Risk Management at BSF is governed as follows:**




Notes:
1 Board Level Committees – Executive Committee, Board Risk Management Committee, Audit Committee, Nomination & Remuneration Committee, and Strategy Committee
2 Executive Management Committees – Credit, Asset Liability, Business Continuity, Classification & Impairment, Fraud Control, Liquidity, Information Security Governance, Market Risk, Operational Risk, Treasury Investment
3 First Line – Business Lines (Institutional Banking, Retail Banking, Global Markets) & Support Functions (Finance, Operations, Information Technology, Human Resources)



# **Strong risk management** continued

Framework includes a strong risk culture, adequately developed risk appetite framework articulated through the Risk Appetite Statement, and well-defined responsibilities for risk management and control functions, under the three lines of defence model.

BSF's Board of Directors has ultimate responsibility for the Bank's business, strategy and financial soundness, as well as its management and compliance obligations.

The Risk Committee of the Board of Directors is responsible for advising the Board on the Bank's overall current and emerging risks; appropriateness of appetite & thresholds including adherence to the same; overseeing senior management's implementation of the Risk Management Framework;, reporting on the state of risk culture; and overseeing the adequate functioning of the risk management function.

Under the direction of the Board and its committees, the Managing Director and senior management carry out and manage the Bank's activities in a manner consistent with the business strategy, risk appetite, incentive compensation and other policies approved by the Board.

### Three lines of defence

The Board and senior management have the ultimate responsibility for the governance of all risk-taking activities of the Bank. 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 (as also Compliance & Legal functions) facilitates and monitors the implementation of effective risk management practices by business and operational management, and assists the risk owners in 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, through a risk-based audit approach, provides independent assurance to the Bank's Board and senior management on the effectiveness of the risk management process in the Bank, in terms of assessment and management of its risks, including the manner in which the first and second lines of defence operate.

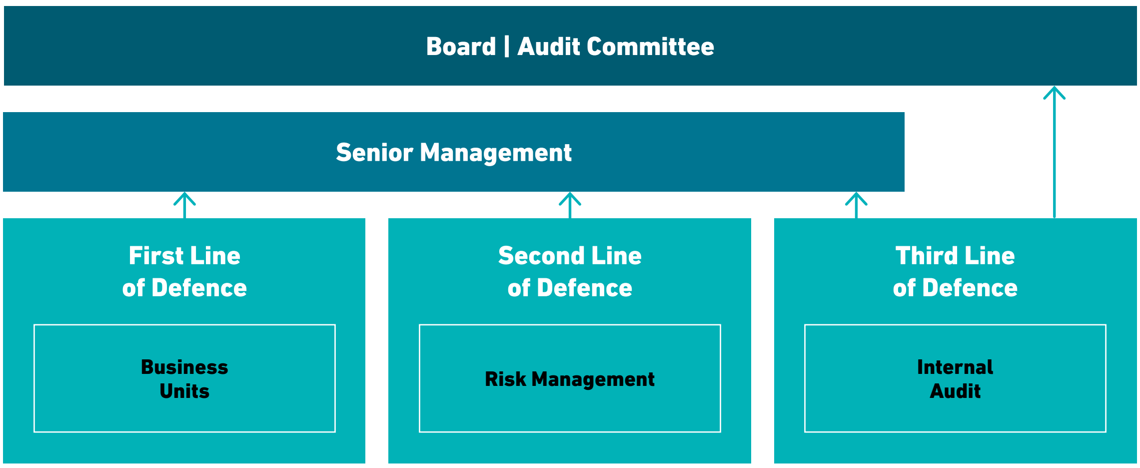
### Achievements of 2020 – The year of the COVID-19 pandemic

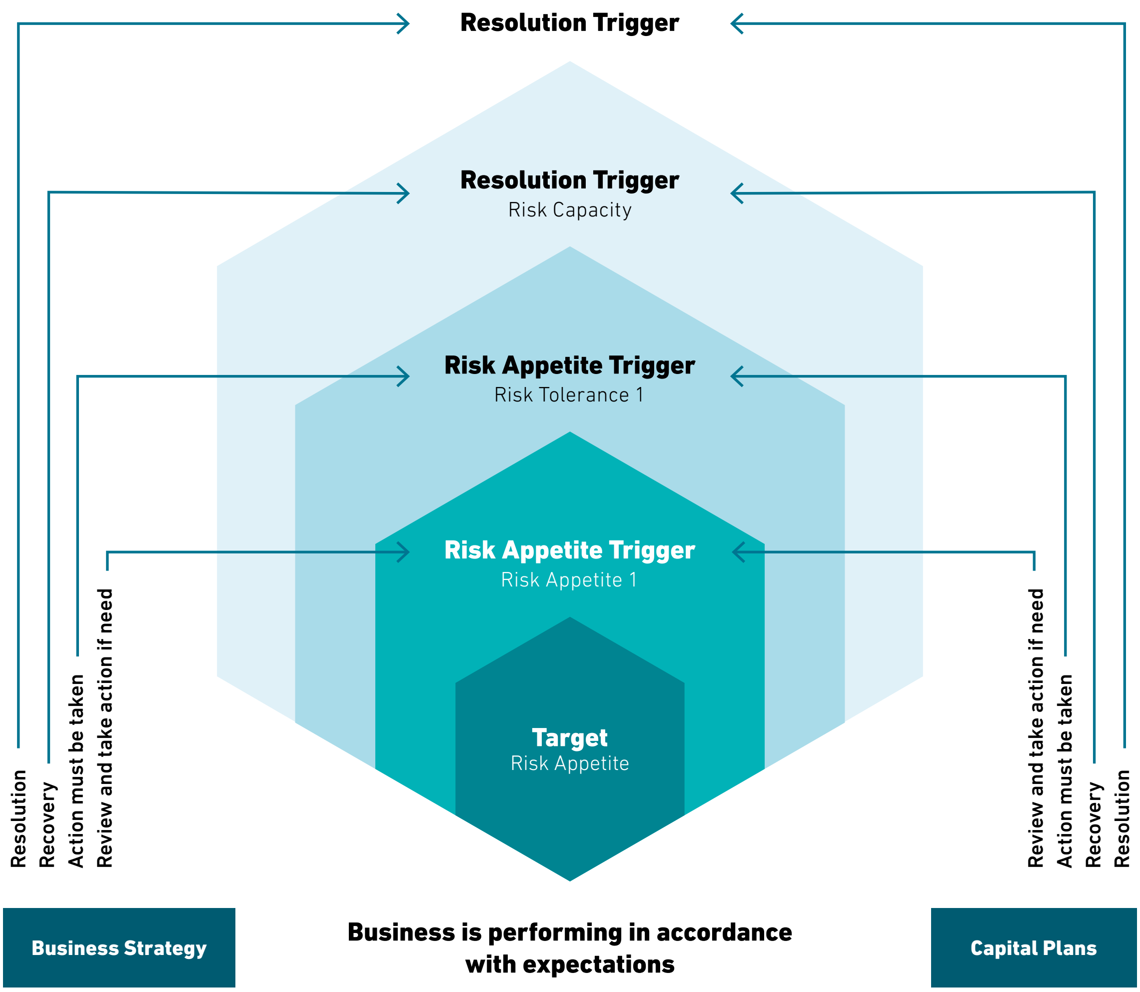
In early 2020, the global economy was subject to extreme disruptions from the effects of the COVID-19 pandemic and attendant responses from global, national, and local authorities to contain the health costs.

The Bank's Business Continuity management framework and its crisis management plans, which were designed to manage disruptions of this nature, were operationalized swiftly. As a first order of priority the work-from-home/remote working infrastructure was engaged allowing bank employees to perform their work and ensure uninterrupted delivery of products and services to its clients. Simultaneously, required health protocols were operationalized in order to safeguard the health of its employees, their families, and customers.

The crisis management effort, under the leadership of the MD & CEO, also ensured mobilization of existing senior executive committees to meet very frequently (some of them on a daily basis) in order to manage the bank's operational effectiveness, credit quality, liquidity, balance sheet, and capital adequacy metrics.

During the peak of the crisis, the Bank's Board of Directors was also engaged more frequently to ensure information flow on market developments, emerging customer requirements/behaviour, regulatory guidance, and matters of tactics and strategy with a view to preserving the long-term viability of the Bank's operations. With the engagement of the Board of Directors, numerous internal & regulatory stress-testing exercises related to critical metrics were delivered in quick time.






All actions taken during the crisis and resultant outcomes have demonstrated, in a real world severe crisis, the robustness of the Bank's contingency planning as well staff resolve to deliver in an extended crisis condition.

**Policies**

2020 saw significant updates to the Bank's credit policies and standards for wholesale business to guide internal stakeholders through the complete lifecycle of customer credit journeys.

**Risk identification**

In 2020, the Bank designed and implemented an Early Warning Signals (EWS) process to ensure early identification of problem loans and guide management/recovery of such exposures.

**Risk measurement**

The Bank's corporate rating models landscape and macro-economic/term structure risk estimation methodologies were updated in collaboration with Moody's Analytical Services.

**Monitoring**

Process improvements and reorganisation in the sphere of credit control and monitoring has ensured reduced turnaround time and greater efficiency.

Technology, information and cybersecurity risks continue to impact financial institutions and other businesses across the globe, with the threats increasing in both volume and sophistication. Recognising its importance, the Bank has invested in a unique Cybersecurity Development Programme that develops cyber skillset amongst local talent and promotes BSF in the local banking sector for cybersecurity. The Bank's efforts have led to the achievement of continuous compliance status against ISO/IEC 27001, a globally recognised best-practice framework for addressing the entire range of security risks.

# Our People

**May AlHoshan**
Chief Human
Capital Officer

**Total Employees at 31 December 2020**

2,881

The Covid pandemic of 2020 was disruptive and shocking, but BSF's people rose to the challenge. In some ways the lessons learned in 2020 have placed the bank in a better position as we move into 2021. The resilience demonstrated by our business results was matched by the resilience and agility of our people.

In response to workplace changes caused by the pandemic, the bank raised its communication activities significantly in 2020. When the majority of colleagues are working remotely, Leadership needs to be more visible and in touch than ever. Consequently, the bank held a series of senior Leader calls and updates for all staff in 2020, Managers were helped with their communication activities, and staff were given support to help them to work from home.

BSF has a proud heritage of developing its people with new skills, encouraging mobility in the workplace and delivering training to close skills gaps and develop the best workforce for the future. In 2020, the bank invested heavily in its "Skills of the Future" Program, a course that teaches the skills to make people ready for banking in the 21st century. Courses delivered in 2020 included Data Analytics, Agile Thinking, Design Thinking and – in an industry first – a graduate program in cyber security was successfully launched. Separately, a successful Fintech Internship program saw more than 430 applications from bright young Saudis.

The bank maintained its Graduate programme, with a 2020 intake of 39, and we will continue to invest in the next generation of leaders and executives in 2021 and beyond. How the bank delivers learning and development had to be adapted for the Covid environment too, and we explored Virtual Learning and eLearning approaches to meet priority learning needs while under COVID-19 lockdown. eLearning Platforms were launched and communicated, including Intuition, Udemy & Knowledge City.

**Ratio of Female Employees**

# 18.05%

**Ratio of Saudi National employees**

# 91.83%

The bank's People Strategy is designed to empower and enable our people to make the best decisions, to build their skills and capabilities, and ultimately to deliver the best possible customer service. Perhaps the best proof of success of the strategy comes from our people themselves. The annual engagement survey taken by all colleagues has grown Employee Net Promoter Score from a score of minus 18 in 2018, to plus 9 in 2019 to plus 23 in 2020.

This outstanding progress was also recognized by Forbes Magazine with an "Employer of Choice" award in 2020.

To recognize and celebrate the outstanding contribution of many colleagues, we launched "BSF Heroes" in 2020, a reward and recognition program that highlights the best behaviors among our people and celebrates colleagues who go the extra mile.

The bank continued its drive to encourage female participation in the workplace and Saudisation, both key pillars of the national Vision 2030 strategy. Women now account for 17% of all staff, while Saudi nationals make up over 91% of the workforce.

Looking forward, BSF will continue to invest heavily in its people, and in helping to develop the most skilled and most engaged workforce in the Saudi banking sector.

We also strive to continually become more efficient, and 2020 saw further advances in increased use of automation and digitization across the bank, making processes faster and more accurate, raising customer service levels and driving profitability. In HR, areas such as performance management, learning and development lend themselves to automation, and the bank's investment in these areas has enabled us to look forward to a bright future enabled by technology and drive by our outstanding people.

# A Sustainable Bank: ESG at BSF

## Materiality Framework

**Most Important:**
- Governance, Accountability, Transparency and Ethics
- Financial and Economic Performance
- Responsible Customer Relations and Satisfaction
- Data Privacy and Security
- Risk Management

**Very Important:**
- Financial Inclusion and Accessibility
- Digitalization
- Employee Engagement, Wellbeing and Satisfaction
- Diversity and Inclusion
- Sustainable Lending and Investment

**Important:**
- Talent Attraction, Retention and Development
- Community Investment
- Environmental Management
- Nationalization
- Responsible Procurement

These fifteen most important considerations that make up the Materiality Matrix are more than a list of risks. We also see a range of opportunities. By approaching them with a desire to improve the outcomes for our stakeholders, we arrive at our sustainability strategy.

Although Environment, Social and Governance (ESG) is a relatively new terminology and consideration for companies, BSF can trace the roots of its culture of sustainable business and trusted partnerships back to its foundation in 1977.

From the day that the bank was formed, a long-term partnership approach has been our preferred way of doing business. Indeed, some of our customers and partners in 2020 have been with us since then.

BSF, which was listed on the Saudi Stock Exchange (Tadawul) in January 1993, has been a cornerstone of the Saudi banking sector for more than four decades, providing financial advisory and services to the individuals and organizations that drive the stability and strong growth of the Kingdom's economy.

The fact is that BSF has always run a sustainable business. We have always cherished long-term relationships. We have always understood the wholly symbiotic relationship the bank has with all its partners: employees, customers, regulators, communities. We only prosper when they prosper too.

Banking and finance can only succeed in an environment of trust. The founders of our bank, more than forty years ago, knew that they had to earn the trust of all stakeholders if the bank was to survive and thrive.

Today, that spirit of sustainable business remains stronger than ever. BSF is a systemically important bank in the Kingdom, with over a million customers and approximately 3,000 colleagues, which holds a responsibility to society that needs to be codified, measured and formally disclosed.

**Number of initiatives and workstreams in progress**

150

**“The founders of our bank, more than forty years ago, knew that they had to earn the trust of all stakeholders if the bank was to survive and thrive.”**


> **From the day that the bank was formed, a long-term partnership approach has been our preferred way of doing business. Indeed, some of our customers and partners in 2020 have been with us since then.**



# A Sustainable Bank: ESG at BSF continued

### Our Strategic Approach to ESG: The Virtuous Circle

To succeed in our objective of operating a sustainable business, BSF must manage the ESG risks that it faces and must seize the opportunities that they present.

To achieve this, BSF has undertaken intensive and wide-ranging research to identify the areas that are most meaningful to the bank and to its stakeholders. This has involved not only examining our own business and culture, but also those of our peers and competitors, regulators and international bodies, as well as global trends and standards.

This intensive research resulted in areas being identified as the most important – both to the bank and its stakeholders. This Materiality Matrix represents the focus area of the bank's ESG strategy, and therefore the focus areas of this report.

### Our Stakeholders

Each of these stakeholder groups, and its relationship with BSF, is interconnected. When they work together for mutual benefit, we achieve a synergy that adds up to more than the sum of the parts.

When it comes to BSF's partner stakeholders, one plus one makes more than two.

Trust is the central element that defines our business. We seek to reinforce and enhance the trust placed in us by our stakeholders at every stage of our business.

**The trust of our Customers**

Our success and growth depend on our ability to maintain strong and healthy relationships with our customers. Through long-term customer relationships and a sustained commitment to customer-focused innovation, we offer a comprehensive suite of market-leading products and award-winning platforms, supported by a premium customer experience. We are working diligently to assess our current journey and identify areas of improvement with the latest technologies afforded to the market.

**The trust of our Employees**

Our human capital is the catalyst for achieving our long-term strategy. Employees are key enablers of growth and are in direct contact with our customers. We seek to be number one in the hearts and minds of our employees, always putting their needs ahead of any other agenda. We aim to provide them with training and development opportunities and a safe and diverse working environment for them to realize their full potential.

This is an ongoing activity. Our aim is to have the most qualified, most engaged employees in the Kingdom, with the highest levels of job satisfaction, motivated by a real desire to serve customers excellently.

**The trust of our Shareholders**

Attracting investment and seizing opportunities are critical factors to our future success. Strong leadership, robust governance and a clear strategy are designed to unlock shareholder value through strategic growth.

**The trust of the Communities and Society in which we operate**

We recognize our responsibility to uplift the communities and people we serve across the Kingdom. Corporate social responsibility is deeply integrated into our business activities, reflecting our commitment to make a positive impact on the world. We are conscious of our environmental responsibilities and seek to limit our environmental footprint.

**The trust of our Government and Regulators**

Promotion of a healthy compliance culture lies at the heart of our strategy. We adopt comprehensive principles of governance, compliance, control and all-round transparency while remaining fully compliant with the applicable Corporate Laws and Governance, and any other regulations. We are committed to complying with all legal and regulatory requirements.

**The trust of our Suppliers and Partners**

Strong business relationships across the supply chain are needed to mitigate potential reputational risks and ensure operational continuity and excellence. We always seek to maintain good relationships with suppliers to streamline our value chain, and are committed to ethical, fair and transparent dealings with our suppliers.

This vision of harmonious and symbiotic stakeholder partnerships sums up the roles that BSF plays in society as a leading Saudi institution and corporate citizen. They inform our systematic approach to maintaining and growing a sustainable business, and they form the foundations of our Sustainability principles.





### How Sustainability is Managed in the Bank

Sustainability as a concept occupies a central place at the top of the bank. Senior management decision-making bodies and the Board of Directors are intensely aware of the importance of a sustainable approach to our business and conduct, and this is reflected in the output and strategy they produce.

The strategy of the bank is determined and guided by a desire to continue to support and build a long-term growth business with mutually beneficial outcomes for all stakeholders. This guiding vision aligns perfectly with the national strategy Vision 2030, our own five year LEAP strategy and the United Nations Social Development Goals.

### How BSF's five-year LEAP strategy is contributing to our sustainability journey

In 2018, Banque Saudi Fransi launched a five-year strategic plan named LEAP. Its objective is to create the most modern, innovative and experience-focused bank in the region. LEAP is a root-and-branch transformation of the bank, scrutinising every facet of our business, identifying any gaps, and taking decisive action to bring about positive outcomes.

Almost 150 initiatives and workstreams have been started and, in spite of the pandemic, progress has been excellent.

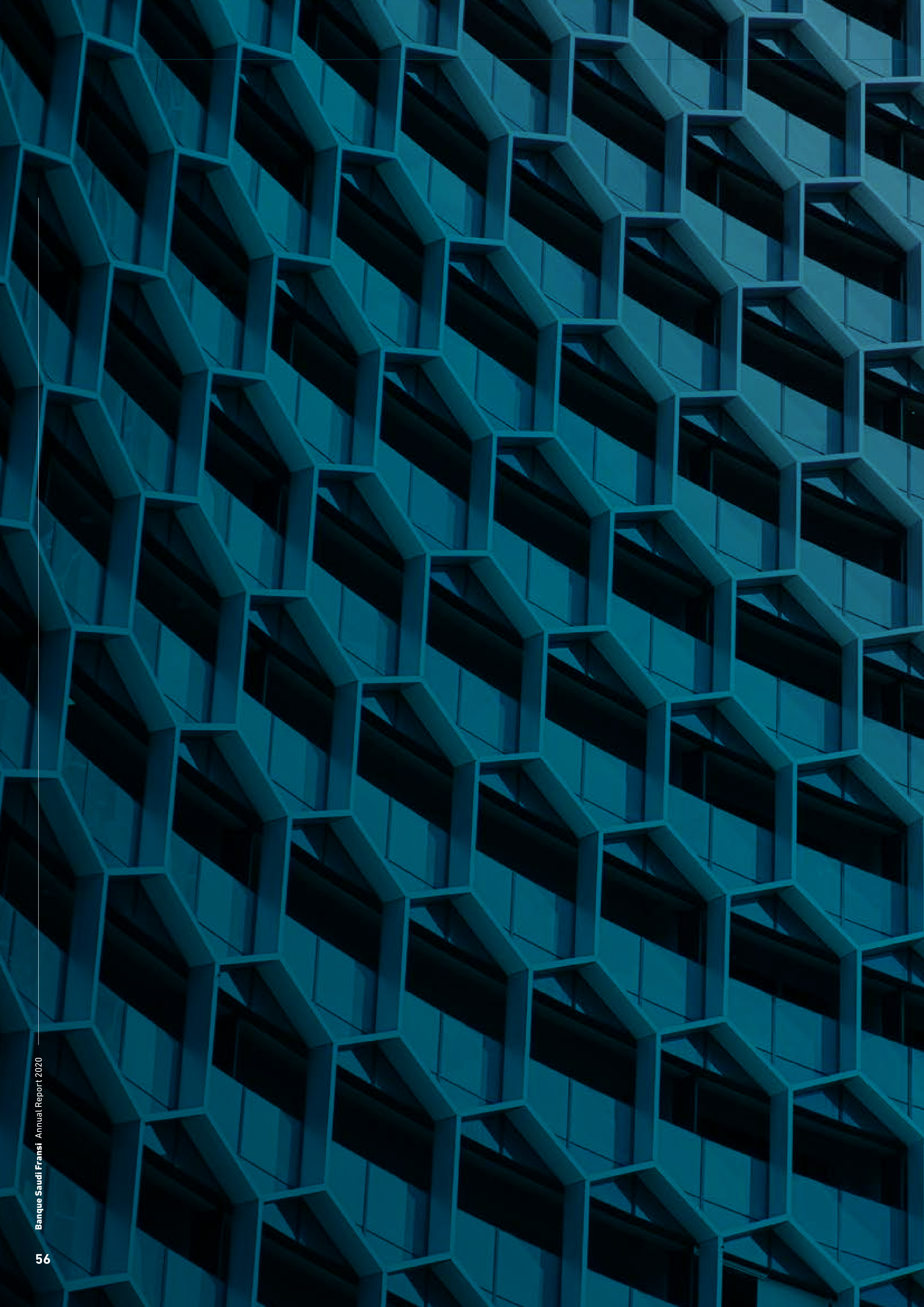
The strategy has at its heart our firm conviction that the bank's purpose is to create positive outcomes for all stakeholders and partners: our people, our customers, our partners. What is gratifying is that the aims of the five-year LEAP strategy will enable this objective.

As an example, the digitisation of our entire business model has resulted in net positive ESG outcomes: digitisation of how we do business with our corporate clients has cut the need for travel, paperwork and other potentially wasteful activities. Digitisation of our retail offerings has meant that we can reach customers in rural and remote locations with the full suite of our products and services. And digitisation of the tools they use means that our people are able to become more efficient and able to achieve their objectives with higher productivity.

Customer experience initiatives mean that we are able to predict what our customers need and are able to satisfy those needs quickly and efficiently with appropriate products and exceptional levels of service and communication.

Digitisation is just one area of endeavour under the LEAP initiative. But all the activity and efforts of our dedicated people are aimed at bringing prosperity and wellbeing to all our stakeholders.

**"BSF's Strategy is Sustainability in action."**



# Corporate Governance



|  |  |  |  |  |
|---|---|---|---|---|
| **Mazin Al Romaih** | **Talal Al Maiman** | **Abdulrahman Al Rashed** | **Khaled Al Mutabagani** | **Bader Al Issa** |
| Chairman | Vice Chairman | Board Member | Board Member | Board Member |
| **Current positions** | | | | |
| CEO of Future Generation Investment Company | CEO of Kingdom Holding Company | Member of Al Shura Council<br>Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company<br>Chairman of the Board of Directors of Dammam Hotels Company<br>Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company | Pediatric Surgery Consultant at New Jeddah Clinic Hospital<br>CEO of New Jeddah Clinic Hospital<br>CEO of Madina National Hospital | Managing Director of Al Marai Company<br>CEO of Assila Investment Company |
| **Previous positions** | | | | |
| Member of the Board of Capital Market Authority, 2009-2014<br>General Manager and Chief Executive Officer at Samba Capital & Investment Management Company (Samba Capital), 2008-2009<br>General Manager of Corporate Finance Department at Capital Market Authority, 2004-2007 | Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017<br>CEO of Kingdom Holding Company, 1996-2016<br>Director of Computer Department at Saudi Central Bank, 1986-1996<br>Director of Operations of IT Center at Ministry of Interior, 1979-1986 | | Pediatric Surgery Consultant at King Faisal Specialist Hospital, Jeddah, 2000-2001<br>Assistant Professor, Physiology at the Medical College in King Abdulaziz University, Jeddah, 2000-2002 | CFO of Assila Investment Company<br>Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008<br>Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004<br>Financial Analyst at JP Morgan, London, 2001-2002 |
| **Qualifications** | | | | |
| Bachelor of Accounting and Financial Management, University of Buckingham, 1992 | Master of Business Administration, University of Liverpool, UK, 2009<br>Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979<br>Executive Management Program, Harvard University, 1986<br>Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981 | Bachelor of Business Administration, Department of Finance, University of Seattle, 1985 | Ph.D. in Physiology, The Ohio State University, 1999<br>M.S in Physiology, The Ohio State University, 1993<br>M.B. & Ch.B, King Abdulaziz University, 1988 | MBA, Rice University, 2006<br>Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001 |





## Abdullatif Al Othman

Board Member

**Current positions**

Owner and CEO of Al-Othman Engineering Consultants

**Previous positions**

Governor and Chairman of the Board of Directors, General Authority for Investment, 2012-2016

More than 35 years in the field of planning and managing oil and gas projects, financial management, investment, business and international relations development.

**Qualifications**

MBA., Sloan Fellows program, Massachusetts Institute of Technology, 1998

Bachelor of Civil Engineering, King Fahad University of Petroleum and Minerals, 1979

## Ghazi Al Rawi

Board Member

**Current positions**

Chairman of Valuegate Investments Company

**Previous positions**

Managing Partner – Eastgate Capital Group, 2006-2015

Assistant Professor, Electrical Engineering King Abdulaziz University, 2004-2006

Associate – McKinsey & Company, 2003-2004

Research Assistant – Stanford University, 1999-2002

**Qualifications**

Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003

M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001

Master's in Electrical Engineering (EE), Communication, Stanford University, 1998

Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994

## Khaled Al Omran

Board Member

**Current positions**

General Manager of Daily Food Company

**Previous positions**

10 years in Retail

2 years in Management Consulting

**Qualifications**

Master's in Business Administration, IESE Business School, Spain, 2012

Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006

## Timothy Collins

Board Member

**Current positions**

Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management

Member at New York State Common Retirement Fund Investment Advisory Committee

Member at Yale Divinity School Advisory Board

**Previous positions**

Director at RHJ International, 2004-2018

Director at Gogo, Inc, 2013

Director at Citigroup, Inc., 2009-2012

Director at Weather Investments SpA, 2008-2011

Director at 3W Power Holdings Ltd, 2009-2011

Director at Commercial International Bank of Egypt, 2006-2009

Director at RSC Holdings Inc., 2006-2009

**Qualifications**

Honorary Doctorate of Humane Letters, DePauw University, 2004

MBA in Public & Private Management, Yale University,1982

BA in Philosophy, DePauw University, 1978

## Rayan Fayez

Managing Director & Chief Executive Officer

**Current positions**

Managing Director and CEO of Banque Saudi Fransi

**Previous positions**

CEO of Savola Group, 2016-2018

Managing Director and Senior Country Officer at JPMorgan Chase N.A, Riyadh Branch, 2013-2016

CEO of JP Morgan Saudi Arabia Limited, 2012-2013

CEO of Goldman Sachs, Saudi Arabia, 2009-2012

Executive Director at Goldman Sachs International, London, 2007-2009

**Qualifications**

Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001



## Mazen AlTamimi

### Senior Executive Director – Institutional Banking Group

Mazen was appointed Senior Executive Director – Institutional Banking Group in October 2017.

Prior to his current post, Mazen started his career as an Executive Trainee in BSF and became a Corporate Banking Division Officer, Western Region from 1990-1999. He was Corporate Banking Division Manager, Western Region from 1999-2003 and Regional General Manager, Western Region from 2003 to 2017. In addition to the above, he also serves various boards and committees in Saudi Arabia and abroad. Mazen has 29 years of professional banking experience, with a unique blend of managerial and operational expertise in regional management and corporate banking, and with proven ability in building a competent business organisation and employee development.

## Mohammed AlSheikh

### Head of Retail Banking Group

Mohammed joined Banque Saudi Fransi as Head of Retail Banking Group in July 2018.

He is an accomplished banker with extensive leadership and a wealth of experience in various well-known banks in Saudi Arabia.

Mohammed started his career as an executive trainee in SABB 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 until in 2011 he became Head of the Consumer Credit Administration and then Head of Branch Network position Deputy General Manager – Retail Banking. In 2017, he was Head of Branch Banking Assistant General Manager – Retail Banking at Alrajhi Bank before joining BSF.

With extensive people management skills and ability to drive change while delivering transformational growth, his experience runs across cross Kingdom sales, consumer product development, Islamic banking, retail operations/ compliance and customer servicing/ experience.

## Adel Mallawi

### Chief Investment Officer

Adel was appointed Chief Investment Officer of Banque Saudi Fransi in April 2019.

He previously served as head of Finance and Strategy (CFO) from 2017 to 2019. Adel has 26 years of experience with BSF where he started in 1994 as part of the professional development program. He spent most of his career in the field of treasury and investment. He was Head of Global Markets Group from 2011 to 2017 where he was in charge of the implementation of all new regulations that changed the market after the financial crisis. Adel served as Chairman of the Board at SAKAN and Board, Executive, Risk and Investment Committee member at Allianz Saudi Fransi. Also, he sits on Audit and Executive Committee at Saudi Fransi Capital.

Mr. Mallawi earned a Bachelor of Science degree from King Saud University, in addition to various executive certificates from INSEAD, IMD and GCC BDI.

## Abdullah Alkhalifa

### Chief Financial Officer

Abdullah was appointed Chief Financial Officer of the Bank in December 2019, bringing over 27 years of strategic banking sector experience to the role.

Before joining Banque Saudi Fransi, Abdullah was the CFO of Al Rajhi Bank for over 4 years and the CFO of Arab National Bank for 9 years. Prior to that, he spent 11 years with SAMBA, including over 3 years in London.

Abdullah earned his Bachelor's Degree in Accounting from King Saud University and his Master's Degree in Accounting from the University of Miami in the United States.





### Thamer M. Yousef

Chief Operating Officer

Thamer was appointed Chief Operating Officer in 2018 and has been an experienced banker for over 24 years.

He has introduced a new core banking system, next-generation internet and mobile banking, new treasury solution covering front-middle-back office systems supporting the branches, and pioneered several digital banking solutions in Saudi Arabia.

Prior to his role, he was Assistant General Manager – Technical Support at SAMBA, Senior Executive – Telecom and Office Automation at SABB as well as Senior Executive – Information Technology and Chief Information Officer & Chief Digital and Data Officer. At BSF, he has held the post of Chief Information Officer, Acting Chief Operating Officer and Board of Director – BSF Markets Limited.

He is an active member of several committees inside and outside the bank. His interest focuses mainly on providing customers with reliable systems and processes from all bank delivery channels and to meet the digital banking services demand of the Saudi market.

### May AlHoshan

Chief Human Capital Officer

May joined BSF in August 2018 as Chief Human Capital Officer.

Previously, she was at Alawwal bank as Human Resources General Manager responsible for leading the bank'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 since the inception of NCB's investment arm. Her previous roles include managing leadership development, high potential programs, and organisational/human capital strategy.

May serves as a board and NRC member at Care, and as NRC member at Bupa and the National Center for Privatisation.

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., USA.

### Ravishanker Visvanathan

Chief Risk Officer

Ravishanker was appointed Chief Risk Officer in December 2017.

He has more than 30 years in the financial services industry in Saudi Arabia, Bahrain, United Arab Emirates, and India.

He commenced his career with HDFC Ltd., the first mortgage finance provider in India, as a management trainee. He was subsequently in business development roles with Citibank (India) and as ratings analyst with CRISIL, India's first credit rating agency. After his role with Middle East Bank UAE in commercial banking, he joined Banque Saudi Fransi – Corporate Banking Group in 1991. He later served as Head of Credit Risk for 12 years covering all business verticals of the bank. Between 2013 and 2017 he served in senior risk management roles with banks in Bahrain and Saudi Arabia before rejoining Banque Saudi Fransi.

Ravishanker has a Bachelor Degree in Chemistry and a Master's Degree in Business Administration from premier institutions in India.

### Abdulaziz AlMolhem

Regional General Manager – Eastern Region

Abdulaziz has held the position of Regional General Manager in Eastern Region at Banque Saudi Fransi for more than 10 years.

With 35 years of diversified and extensive experience in the banking industry, with a focus on banking operations and management. He started his career in BSF under the professional training program in the Khobar Branch and held various positions in the bank, 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 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 Marketing Department, Acting in-charge for Remote Delivery Channels, Member of the Internal Audit Committee, Member of the new Core Banking System Steering Committee, Member of the Strategic Change Program Committee, Stream Leader of the Strategic Change Program and Member of the Maximum Growth Strategy Committee.

## Mike Cunningham

### Chief Strategy & Digital Officer

Mike joined BSF as Chief Strategy & Digital Officer in 2018.

Mike is a thought leader and digital practitioner of innovation within financial services and has an unmatched global network with the world's leading FinTechs, Accelerators and the established corporates. He mentors new FinTech start-ups at two of the region's leading accelerators in Dubai and Lebanon. Before joining BSF, Mike was the CEO of a digital-only bank called, CLEARLY. Prior to that, in 2008, Mike was Executive Vice President at Abu Dhabi Commercial Bank where he led Group Strategy and Innovation. Before that he worked for Barclays as a Managing Director in Europe, Asia, Africa and the Middle East where he led the de-novo market entry and establishment of Barclays in India, Pakistan and Namibia.

With more than 20 years of financial services experience, Mike has a deep understanding of building and innovating digital financial services in emerging markets with extensive knowledge of customer experience transformation

## Abdallah AlShaikh

### Head of Legal & Governance and Secretary General

Abdallah was appointed Head of Legal & Governance in 2018.

With more than 15 years of relevant experience, he has worked in the legal division of the bank's regulators (SAMA and CMA) and has also 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 Bachelor's degree of Law from King Saud University, Saudi Arabia, and Master of Law from Harvard Law School, USA.

## Abdulmohsen AlRayes

### Chief Audit Officer

Abdulmohsen was appointed Chief Audit Officer in Banque Saudi Fransi in August 2017.

With 34 years of experience in the Banking industry, he developed his career from a Branch Manager to his current position. He developed his expertise in Business Development and Banking Operations by working in the Saudi British Bank as the Head of Retail Operations and as Head of Internal Audit Division at Arab National Bank. He has experience in Audit, Banking Operations, Banking Regulations, Retail Banking, Risk Management, Compliance and, in addition, extensive knowledge of International Standards and Best Practices of Internal Auditing. Abdulmohsen started his career in Saudi British Bank as a Branch Manager in 1982 and in 1989 he was promoted to the position of Senior Retail Manager of the Central Region for two years. 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 the Arab National Bank, where he held the position of the Regional Manager of the Central Region (1998 – 2001), Head of Retail Operations (2001 – 2003) and Head of Internal Audit Division.

## Sami Almehaid

### Chief Compliance Officer

Sami is Chief Compliance Officer at Banque Saudi Fransi.

With a career spanning over 20 years in the Saudi banking sector, Sami brings significant experience to bear in the fields of compliance and risk. Most recently, he was Chief Preventative Risk Officer at SABB.

Sami received his Diploma of Banking Operation from the Institute of Public Administration in 2000.

## Zuhair Mardam

### Head of Global Markets Group

Zuhair was appointed Head of Global Markets Group in March 2019.

He oversees the management of BSF's Treasury, which includes several interbank functions and sales activity and prior to this, he was managing the bank's interbank activities, which include derivatives trading, funding and investments, and was a fixed income and derivatives trader Zuhair when he joined BSF in 2004.

Zuhair is a financial professional with 16 years of markets experience spent primarily in the Saudi banking sector and is a member of several treasury related committees including Asset and Liability Management Committee, Treasury and Investment Committee, Liquidity Committee, and Market Risk Committee. He is also currently the Chairman of SAMA Treasurers' Committee.

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 University of Michigan's Senior Executive Leadership Program.



## Introduction

**Ladies and Gentlemen: Shareholders of Banque Saudi Fransi**

Greetings,

Banque Saudi Fransi (BSF) Board members are pleased to present their annual board report for the fiscal year 2020.

Banque Saudi Fransi is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977), after taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977). It operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 87 branches in the Kingdom of Saudi Arabia, with 2,881 employees. The objective of the Bank is to provide a full range of banking services, including Islamic products and services, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road (AlMa'ather previously), AlMuraba' District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

Net income after Zakat and income tax for the 2020 financial year amounted to SAR 1,546 million compared to SAR 3,115 million in 2019. Net income decreased by 50.4% mainly due to higher impairment for financial assets (SAR 1,704 million) and higher expenses (SAR 77 million).

Total operating income increased by 2.5% driven by net special commission income, exchange income, trading income and other operating income that was partially offset by a reduction in fee and commission income, gain on non-trading investments, and dividend income.

Meanwhile, total operating expenses increased by 3.4%. This increase was primarily due to increase in Staff related expenses, which was offset by reduction in, rent & premises related expenses, depreciation & amortization and other operating & general & administrative expenses. There was a reversal of staff related accruals which reduced the staff cost in 2019.

Net special commission income increased slightly to SAR 5,240 million, an increase of 0.7% (SAR 35 million) compared to SR 5,206 million in previous year. Total assets amounted to SAR 194,074 million at the end of 2020, an increase of 8.9% compared to SAR 178,149 million in 2019. The investment portfolio grew by 19.8% to SAR 37,679 million at the end of December 2020 compared to SR 31,454 million at the end of previous year. Net loans and advances also increased by 3.8% to SAR 130,565 million at the end of 2020 compared to SAR 125,725 million for the previous year. Customer deposits decreased by 4.3% to SAR 127,112 million at the end of December 2020 compared to SAR 132,838 million for the previous year.

Banque Saudi Fransi will continue to achieve its strategic objectives to enhance its position in the banking sector, improve its profitability and deliver a seamless customer and employee experience.

In this report, information is given on the bank's activities, major indicators during 2020 and details on the governance framework of the Board of Directors, its committees and internal controls.

### (1) Bank's strategy and future plans:

**A. Future Plans:**

Banque Saudi Fransi is currently embarking on its ambitious five-year strategic roadmap titled 'Leap', which commenced in 2018 to be delivered by 2023. Despite the wide-ranging effects of the COVID-19 crisis the Bank has remained committed to progressing on delivering the strategy on time and mitigating any potential risks posed by the COVID-19 crisis. The key elements of the strategy revolve around solidifying BSF's leading position in corporate banking, scaling up retail banking, optimizing our leading position in private banking, and reinforcing our strength in global markets. Achieving 'Leap' is underpinned by focusing on enhancing customer experience and delivering best-in-class customer journeys. In addition, during 2020, the Bank has developed a Digital Strategy to encompass all digital initiatives across support functions and business lines. This ensures a unified approach to digital projects and leverages synergies between the various ongoing initiatives.

**B. Strategy:**

The 'Leap' program defines the Banque Saudi Fransi's ambition as: 1) To achieve and sustain an overall 10% market share in the Kingdom across total assets and liabilities; 2) To become the #1 bank in the Kingdom in terms of Net Promoter Score (NPS).

To achieve the market share ambition, the Bank will aim to protect its leadership position in corporate banking by leveraging our established relationships and expand into new relationships as well. In corporate banking, the Bank will enhance its value proposition and solidify its standing as a partner for its clients by enhancing its credit lending process, introducing an advanced digital offering, integrating its platform, and continue to institutionalize cross-sell activities. On the retail front, the Bank will focus on its areas of strength in the affluent market segment in addition to enhancing its standing in the mass market segment by providing updated digital channels and engaging with current clients to increase their activities and overall assets. These initiatives will be enabled and aligned with the growth opportunities and emerging trends planned as part of KSA's Vision 2030, an enhanced internal cross-selling framework, and reimagined digital propositions.

Three key programmes will support the delivery of the 2023 plan. First, the continued focus on cross selling by leveraging BSF's product and service proposition across all of our businesses. Second, the Bank has set an ambitious goal to be best-in-class in terms of customer experience. Following the development of the NPS baseline in 2018, BSF focused in 2020 to ensure that it achieves its mission to be "The most modern, innovative and experienced focused bank" and ensuring that it can be a valuable partner for its clients during a challenging year. This has been reflected in the continued improvement in NPS results, which the Bank considers to be a driver for success. The Bank's growth outlook to 2023 is also underpinned by a strong capital base and sufficient liquidity well above the minimum regulatory thresholds. Finally, in 2020, the Bank developed its overarching Digital Strategy to support the achievement of the five-year roadmap and ensure a coordinated approach to its digital transformation. In light of the COVID-19 crisis, the Bank has also increased emphasis on the importance of Digital operations and offerings. This led to the development of the overarching Digital Strategy that covers both support functions and business lines. The Digital Strategy will aim to position BSF as "The go-to Bank for Digital" and develop the bank across several pillars including Enhancing Our Value Proposition, Developing an Agile Digital Capability, and Leveraging Data and Analytics to tailor and optimize services and operations. These will be enabled by a Digital Technology Stack, Digital Talent & Capabilities, and Smart Ways of Working. During 2020, the bank has already begun to implement the first phase of the Digital Strategy, with initiatives planned up to the final year of the 5-year strategy in 2023. The outcomes of this strategy will lead the Bank to become more resilient in the face of future challenges and cement its ambition of becoming the most modern, innovative and experience-focused bank in the region.

The Bank has defined its strategic drivers around consistently delivering shareholder value, resilience in earnings and dividends, efficiency in operation, outstanding customer experience, and ensuring the bank remains a great place to work. The success of this strategy will be championed by exceptional leaders across every business unit and department, enabled by our talented people, and supported by a strong and committed Board of Directors.

### (2) A description of the main scope of business of the Bank and its affiliates and a statement showing each activity and how it affects the Bank businesses and results:

**The main activities of the Bank are as follows:**

**a. Retail Banking** –Retail Banking offers individual customers through physical channels and digital platforms with their daily banking needs such as fund transfers, cash withdrawals, deposits and bill payments as well as products like demand deposit account, savings account, fixed deposit, personal finance, mortgage, debit & credit card and car lease.

**b. Corporate Banking** – includes on-demand accounts for customers of companies and medium enterprises, deposits, overdrafts, loans and other credit facilities and financial derivatives.

**c. Treasury** –Includes treasury services, trading activities, investment securities, capital markets, bank financing operations, balance sheet management and financial derivatives products.

**d. Brokerage and Investment Banking** – Includes investment management services related to dealing, managing, arranging, advising and custody of securities, which covers local and international brokerage services in addition to funds and portfolio management.

**(2) A description of the main scope of business of the Bank and its affiliates and a statement showing each activity and how it affects the Bank businesses and results:** continued

**The impact of these major activities on the Bank's size and contribution to the results is as follows:**

| ACTIVITY TYPE | NET INCOME BEFORE ZAKAT AND INCOME TAX (IN THOUSANDS OF SAUDI RIYALS) | PERCENTAGE |
|---|---|---|
| **Retail Banking** | 337,380 | 16.8% |
| **Corporate Banking** | (104,173) | -5.2% |
| **Treasury** | 1,643,760 | 81.8% |
| **Brokerage and Investment Banking** | 133,269 | 6.6% |
| **Total** | 2,010,236 | 100% |

**The main activities of subsidiaries and their impact on the Bank's business volume and its contribution to the results are as follows:**

| SUBSIDIARY | ACTIVITY | NET INCOME BEFORE ZAKAT AND INCOME TAX (IN THOUSANDS OF SAUDI RIYALS) | PERCENTAGE |
|---|---|---|---|
| **Saudi Fransi Capital** | Acts as principal and agent, and undertake, manage, arrange, advise and file in securities trading | 133,269 | 6.63% |
| **Saudi Fransi for Finance Leasing** | Leasing and financing of vehicle assets (Cars, motorcycles, trucks) and heavy equipment and machinery, in addition to the purchase and registration of these assets | 105,547 | 5.22% |
| **Saudi Fransi Insurance Agency Co.** | Insurance brokerage services | 178 | 0.01% |

As for Sakan Real Estate Financing Company, it is engaged in acquisition of real estate properties and land, providing finance for real estate properties and land through Ijarah and Murabaha, and carry out other investments. Its contribution to the results is very small (less than 0.005%).

**(3) Credit ratings of the Banque Saudi Fransi granted by international rating agencies:**

| RATINGS | STANDARD & POOR'S RATINGS SERVICES | MOODY'S INVESTORS SERVICE | FITCH RATINGS |
|---|---|---|---|
| **Long-term ratings** | BBB+ | A1 | BBB+ |
| **Short-term ratings** | A-2 | P-1 | F2 |
| **Outlook / Review** | Stable | Negative | Stable |
| **Last published credit opinion** | 26/08/2019 | 19/03/2020 | 7/10/2019 |

**(4) The Bank's assets, liabilities and financial results in the last five financial years:**

| (IN THOUSANDS OF SAUDI RIYALS) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Total assets** | 194,073,584 | 178,148,577 | 190,250,277 | 192,928,881 | 203,428,709 |
| **Investments and investments in associates, net** | 37,688,336 | 31,463,474 | 28,381,675 | 25,400,944 | 24,187,599 |
| **Loans and advances, net** | 130,564,835 | 125,725,096 | 120,631,634 | 121,940,394 | 129,457,869 |
| **Total liabilities** | 155,437,639 | 145,201,859 | 159,388,327 | 161,267,500 | 173,729,706 |
| **Customer deposits** | 127,111,644 | 132,837,502 | 148,368,004 | 150,954,187 | 158,458,472 |
| **Total equity** | 38,635,945 | 32,946,718 | 30,861,950 | 31,661,381 | 29,699,003 |
| **Total operating income** | 7,044,594 | 6,872,550 | 6,798,644 | 6,576,207 | 6,399,714 |
| **Total operating expenses** | 5,034,358 | 3,253,408 | 3,494,119 | 3,051,891 | 2,896,270 |
| **Share in earnings of associates, net** | 0 | 0 | 2,529 | 7,568 | 6,790 |
| **Net income before Zakat and income tax** | 2,010,236 | 3,619,142 | 3,307,054 | 3,531,884 | 3,510,234 |
| **Net special commission income** | 5,240,388 | 5,205,677 | 5,016,872 | 4,699,670 | 4,256,187 |
| **Fees from banking services, net** | 1,081,816 | 1,139,506 | 1,095,503 | 1,119,318 | 1,363,990 |
| **Impairment charge for credit losses and other financial assets, net** | 2,670,268 | 966,244 | 1,202,794 | 664,613 | 747,394 |
| **Salaries and employees related expenses** | 1,418,703 | 1,329,250 | 1,379,980 | 1,384,543 | 1,392,408 |
| **Number of employees** | 2,881 | 2,998 | 3,027 | 3,072 | 3,233 |





## Financial indicators for the last five years:

**NET income (before Zakat & income tax) (SAR million)**

| | |
|---|---|
| 2020 | 2,010 |
| 2019 | 3,619 |
| 2018 | 3,307 |
| 2017 | 3,532 |
| 2016 | 3,510 |

**Loans and advances, net (SAR million)**

| | |
|---|---|
| 2020 | 130,565 |
| 2019 | 125,725 |
| 2018 | 120,632 |
| 2017 | 121,940 |
| 2016 | 129,458 |

**Customers' deposits (SAR million)**

| | |
|---|---|
| 2020 | 127,112 |
| 2019 | 132,838 |
| 2018 | 148,368 |
| 2017 | 150,954 |
| 2016 | 158,458 |

**Total assets (SAR million)**

| | |
|---|---|
| 2020 | 194,074 |
| 2019 | 178,149 |
| 2018 | 190,250 |
| 2017 | 192,929 |
| 2016 | 203,429 |

**Total liabilities (SAR million)**

| | |
|---|---|
| 2020 | 155,438 |
| 2019 | 145,202 |
| 2018 | 159,388 |
| 2017 | 161,268 |
| 2016 | 173,730 |

**Total equity (SAR million)**

| | |
|---|---|
| 2020 | 38,636 |
| 2019 | 32,947 |
| 2018 | 30,862 |
| 2017 | 31,661 |
| 2016 | 29,699 |

**(5) Geographical analysis of the Bank's and its affiliates' revenues:**

**The following table shows the income for each region (Eastern, Western, Central, Head Office, and subsidiaries) for 2020:**

| BANQUE SAUDI FRANSI AND ITS SUBSIDIARIES, EXCLUDING SAUDI FRANSI CAPITAL | | | | | |
|---|---|---|---|---|---|
| (IN THOUSANDS OF SAUDI RIYALS) | WESTERN | EASTERN | CENTRAL | HEAD OFFICE | TOTAL |
| **Total income** | 1,158,646 | 1,091,977 | 2,032,406 | 2,399,794 | 6,682,823 |
| **Total expenses** (before provisions) | (217,796) | (183,365) | (246,406) | (1,493,263) | (2,140,830) |
| **Provisions** | (581,652) | (938,075) | (955,964) | (189,335) | (2,665,026) |
| **Net income** | 359,198 | (29,463) | 830,036 | 717,196 | 1,876,967 |
| SAUDI FRANSI CAPITAL | | | | | |
| (IN THOUSANDS OF SAUDI RIYALS) | WESTERN | EASTERN | CENTRAL | HEAD OFFICE | TOTAL |
| **Total income** | 22,197 | 19,463 | 51,085 | 269,026 | 361,771 |
| **Total expenses** (before provisions) | (2,233) | (3,148) | (2,925) | (214,954) | (223,260) |
| **Provisions** | – | – | – | (5,242) | (5,242) |
| **Net income** | 19,964 | 16,315 | 48,160 | 48,830 | 133,269 |
| BANQUE SAUDI FRANSI GROUP | | | | | |
| (IN THOUSANDS OF SAUDI RIYALS) | WESTERN | EASTERN | CENTRAL | HEAD OFFICE | TOTAL |
| **Total income** | 1,180,843 | 1,111,440 | 2,083,491 | 2,668,820 | 7,044,594 |
| **Total expenses** (before provisions) | (220,029) | (186,513) | (249,331) | (1,708,217) | (2,364,090) |
| **Provisions** | (581,652) | (938,075) | (955,964) | (194,577) | (2,670,268) |
| **Net income before Zakat and income tax** | 379,162 | (13,148) | 878,196 | 766,026 | 2,010,236 |

## (6) Material differences in the operational results compared to the preceding year's results, along with any expectations announced by the Bank:

### (6/A) Consolidated income statement for the years ended on 31 December, 2020 and 2019:

| (IN THOUSANDS OF SAUDI RIYALS) | 2020 | 2019 |
|---|---|---|
| Special commission income | 6,284,791 | 7,369,530 |
| Special commission expense | 1,044,403 | 2,163,853 |
| **Net special commission income** | 5,240,388 | 5,205,677 |
| Fee and commission income | 1,523,127 | 1,504,211 |
| Fee and commission expense | 441,311 | 364,705 |
| **Net fee and commission income** | 1,081,816 | 1,139,506 |
| Exchange income, net | 378,891 | 335,504 |
| Trading income, net | 167,885 | 92,163 |
| Dividend income | 1,180 | 2,442 |
| Gains on FVOCI / non-trading investments, net | 10,423 | 31,456 |
| Other operating income | 164,011 | 65,802 |
| **Total operating income** | 7,044,594 | 6,872,550 |
| Salaries and employee related expenses | 1,418,703 | 1,329,250 |
| Rent and premises related expenses | 69,626 | 75,796 |
| Depreciation and amortization | 210,254 | 211,284 |
| Other operating and general and administrative expenses | 665,507 | 670,834 |
| **Total operating expenses before impairment charge** | 2,364,090 | 2,287,164 |
| Impairment charge for expected credit losses, net | 2,816,322 | 1,008,567 |
| Impairment reversal for investments, financial assets and others, net | (146,054) | (42,323) |
| **Total operating expenses, net** | 5,034,358 | 3,253,408 |
| **Net income for the year before Zakat and income tax** | 2,010,236 | 3,619,142 |
| Zakat and income tax for the year | 464,025 | 504,176 |
| **Net income for the year after Zakat and income tax** | 1,546,211 | 3,114,966 |
| Basic and diluted earnings per share (SAR) | 1.24 | 2.60 |

### (6/B) Summary of financial results as follows:

| (IN MILLIONS OF SAUDI RIYALS) | 31-12-20 | 31-12-19 | CHANGE | % |
|---|---|---|---|---|
| **Net income after Zakat and income tax** | 1,546 | 3,115 | (1,569) | -50.37% |
| **Net income before Zakat and income tax** | 2,010 | 3,619 | (1,609) | -44.46% |
| **Total operating income** | 7,045 | 6,873 | 172 | 2.50% |
| **Net special commission income** | 5,240 | 5,206 | 34 | 0.65% |
| **Assets** | 194,074 | 178,149 | 15,925 | 8.94% |
| **Investments** | 37,679 | 31,454 | 6,225 | 19.79% |
| **Loan and advances portfolio** | 130,565 | 125,725 | 4,840 | 3.85% |
| **Customer deposits** | 127,112 | 132,838 | (5,726) | -4.31% |
| **Total equity** | 38,636 | 32,947 | 5,689 | 17.27% |
| **Earnings per share** | 1.24 | 2.60 | (1.31) | -50.4% |

**(7) The name of each affiliate, its capital, the Bank's ownership percentage, the main scope of business, the country of operation, and the country of incorporation:**

| COMPANY NAME | CAPITAL | EQUITY PERCENTAGE | ACTIVITY | MAIN STATE OF ITS OPERATIONS | STATE OF INCORPORATION |
|---|---|---|---|---|---|
| **Saudi Fransi Capital** | 500 million Saudi Riyals | 100 | Acting as a principal and an agent, undertaking management, arranging, advising and custody in securities trading | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia |
| **Saudi Fransi for Finance Leasing** | 500 million Saudi Riyals | 100 | Leasing and financing of vehicle assets (Cars, motorcycles, trucks) and heavy equipment and machinery, in addition to the purchase and registration of these assets | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia |
| **Sakan Real Estate Company** | 500 thousand Saudi Riyals | 100 | Financing real estate and land through Ijarah & Murabaha, buying land and real estate, and investing on behalf of the Bank | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia |
| **Saudi Fransi Insurance Agency Co.** | 500 thousand Saudi Riyals | 100 | Insurance brokerage services | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia |

Banque Saudi Fransi has a share in the Saudi Credit Bureau (SIMAH) of 10.9% of its capital of SAR 20 million. It also owns shares in the Saudi Financial Support Services Company (SANID) (formerly Saudi Traveler Cheques Company) of 5% of its capital of SAR 25 million. The Bank also invested SAR 1.786 million in the Saudi Financial Lease Registration Company. Moreover, Banque Saudi Fransi owns shares in Sofinco Saudi Fransi of 100% of its capital, however it has no material impact on the Group financial statements.

All of the companies listed above are existing and established in Saudi Arabia.

The Bank invested in Halalah company (incorporated in UAE), SAR 9 Million and hold 10.88% shares in its capital.

In addition, the Banque Saudi Fransi Markets Co. Ltd., a limited liability company owned 100% by the Bank with authorised capital of USD 50,000, has been established in the Cayman Islands. This company is engaged in derivative trading and repo activities. The Bank also owns BSF Sukuk Limited company, which is incorporated in the Cayman Islands, having a 100% share in equity (authorised capital of USD 50,000), which has no material impact on the Group financial statements.

The Bank has investments in other companies. It owns 27% of the capital of Banque BEMO Saudi Fransi, a joint stock company established in 2004 in Syria. It has issued share capital of SYP 8.0 billion (as of 31.12.2019). The Bank also owns 10.33% of Banque BEMO Lebanon, a company incorporated in 2003 in Lebanon, Beirut. It has issued share capital of LBP 77.8 billion (as of 31.12.2019). All legal and contractual procedures are being followed to complete the sale of Banque Saudi Fransi's share in Banque BEMO Saudi Fransi, Syria, and Banque BEMO Lebanon based on the announcement on 26/11/2011 through Tadawul; that the Board of Directors of the Banque Saudi Fransi has unanimously decided to sell its shares in Banque BEMO Saudi Fransi, Syria (27%) and its shares in Banque BEMO Lebanon (10.33%). Banque Saudi Fransi is not represented on the boards of the Banque BEMO Saudi Fransi, Syria or Banque BEMO Lebanon as of 26/11/2011, and its main partners in Banque BEMO Lebanon were informed of this decision.

The Bank also owns 8,400,000 shares in Allianz Saudi Fransi Cooperative Insurance Company (60 million shares), i.e. 14% of the company's share capital of SR 600 million.

**(8) Details of shares and debt instruments issued for each affiliate Company:**

**a) No shares or debt instruments were issued to subsidiaries during 2020.**

**b) Loans provided by the Bank to its subsidiaries:**

The following table shows the loans made on 31/12/2020 by Banque Saudi Fransi to its subsidiaries:

| NAME OF SUBSIDIARY | (IN THOUSANDS OF SAUDI RIYALS) |
|---|---|
| **Saudi Fransi Capital*** | 1,252,710 |
| **Saudi Fransi for Finance Leasing**** | 1,525,000 |

Saudi Fransi Capital has an overdraft facility and Saudi Fransi for Finance Leasing has a term loan facility from Banque Saudi Fransi. There is no other loan available to the subsidiaries, except for the above loans provided by Banque Saudi Fransi.

*** Details of Saudi Fransi Capital loans:**

| (IN THOUSANDS OF SAUDI RIYALS) | 2020 | 2019 |
|---|---|---|
| **Opening balance** | 1,391,466 | 1,160,829 |
| **Loan granted during the period** | 411,426 | 4,263,234 |
| **Repayment of loans during the period** | 550,182 | 4,032,597 |
| **Closing balance of loans** | 1,252,710 | 1,391,466 |

**** Details of loans to Saudi Fransi for Finance Leasing:**

| (IN THOUSANDS OF SAUDI RIYALS) | 2020 | 2019 |
|---|---|---|
| **Opening balance** | 1,620,000 | 1,695,000 |
| **Loan granted during the period** | 460,062 | 400,000 |
| **Repayment of loans during the period** | 555,062 | 475,000 |
| **Closing balance of loans** | 1,525,000 | 1,620,000 |

**(9) Main shareholders of the Bank, and a description of any interest in a class of voting shares held by persons (other than the Bank's Directors, Senior Executives and their relatives) who have notified the Bank of their holdings, together with any change to such interests during the last fiscal year:**

**The table below shows the equity of the main shareholders in the Bank's shares during the fiscal year 2020:**

| MAIN SHAREHOLDERS IN THE CAPITAL OF THE BANK AS AT 31/12/2020 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | SHAREHOLDER | NUMBER OF SHARES AT THE BEGINNING OF THE YEAR | EQUITY PERCENTAGE AT THE BEGINNING OF THE YEAR | NUMBER OF SHARES AT THE END OF THE YEAR | EQUITY PERCENTAGE AT THE END OF THE YEAR | NET CHANGE | CHANGE PERCENTAGE |
| 1 | Kingdom Holding Company | 195,267,861 | 16.199 % | 195,267,861 | 16.199 % | 0 | 0% |
| 2 | Rashed Abdul Rahman Al Rashed & Sons Co. | 118,488,534 | 9.830 % | 118,488,534 | 9.830 % | 0 | 0% |
| 3 | RAM Holding | 108,482,145 | 8.999% | 108,482,145 | 8.999% | 0 | 0% |
| 4 | General Organization for Social Insurance | 108,244,467 | 8.980% | 108,244,467 | 8.980% | 0 | 0% |

No person (other than the Bank's Directors, Senior Executives and their relatives) has notified the bank about any interest in a class of voting shares.

**(10) A description of any interest, contractual securities or rights issue of the Board members, Senior Executives and their relatives on shares or debt instruments of the Bank or its affiliates, and any change on these interests or rights during the last fiscal year:**

| DESCRIPTION OF ANY INTEREST, CONTRACTUAL SECURITIES AND SUBSCRIPTION RIGHTS OF THE BOARD MEMBERS AND THEIR RELATIVES IN THE BANK'S SHARES OR DEBT INSTRUMENTS | | | | | | | |
|---|---|---|---|---|---|---|---|
| | NAME OF THOSE WHO HAVE INTEREST OR CONTRACTUAL SECURITIES OR SUBSCRIPTION RIGHTS | BEGINNING OF THE YEAR | | END OF THE YEAR | | NET CHANGE | CHANGE PERCENTAGE |
| | | NUMBER OF SHARES | DEBT INSTRUMENTS | NUMBER OF SHARES | DEBT INSTRUMENTS | | |
| 1 | **Mazin Al Romaih** | 6,000 | – | 6,000 | – | 0 | 0% |
| 2 | **Talal Al Maiman** | 150,000 | – | 150,000 | – | 0 | 0% |
| 3 | **Relatives of Talal Al Maiman** | 1 | – | 0 | – | (1) | (100%) |
| 4 | **Abdulrahman Al Rashed** | 312,685 | – | 312,685 | – | 0 | 0% |
| 5 | **Relatives of Abdulrahman Al Rashed** | 5,371,652 | – | 5,071,652 | – | (300,000) | (5.6%) |
| 6 | **Khaled Al Mutabagani** | 59,624 | – | 59,624 | – | 0 | 0% |
| 7 | **Relatives of Khaled Al Mutabagani** | 16,743,222 | – | 16,749,411 | – | 6,189 | 0.04% |
| 8 | **Bader Al Issa** | 1,000 | – | 1,000 | – | 0 | 0% |
| 9 | **Relatives of Bader Al Issa** | 178 | – | 178 | – | 0 | 0% |
| 10 | **Abdullatif Al Othman** | 1 | – | 1 | – | 0 | 0% |
| 11 | **Ghazi Al Rawi** | 1,000 | – | 1,000 | – | 0 | 0% |
| 12 | **Khalid Al Omran** | 40 | – | 40 | – | 0 | 0% |
| 13 | **Relatives of Khalid Al Omran** | 19,601,352 | – | 19,601,352 | – | 0 | 0% |
| 14 | **Rayan Fayez** | 10 | – | 10 | – | 0 | 0% |

| DESCRIPTION OF ANY INTEREST, CONTRACTUAL SECURITIES AND SUBSCRIPTION RIGHTS OF SENIOR EXECUTIVES AND THEIR RELATIVES IN THE BANK'S SHARES OR DEBT INSTRUMENTS | | | | | | | |
|---|---|---|---|---|---|---|---|
| | NAME OF THOSE WHO HAVE INTEREST | BEGINNING OF THE YEAR | | END OF THE YEAR | | NET CHANGE | CHANGE PERCENTAGE |
| | | NUMBER OF SHARES | DEBT INSTRUMENTS | NUMBER OF SHARES | DEBT INSTRUMENTS | | |
| 1 | **Mazen Al Tamimi** | 90,000 | – | 90,000 | – | 0 | 0% |
| 2 | **Relatives of Mazen Al Tamimi** | 1,259,050 | – | 1,259,050 | – | 0 | 0% |
| 3 | **Adel Ali Malawi** | 46,663 | – | 46,663 | – | 0 | 0% |
| 4 | **Zuhair M. Mardam** | 15,400 | – | 15,400 | – | 0 | 0% |
| 5 | **Abdulaziz A. Al Molhem** | 120,967 | – | 120,967 | – | 0 | 0% |
| 6 | **Relatives of Abdulaziz A. Al Molhem** | 0 | – | 15 | – | 15 | 100% |
| 7 | **Majed A. Al Sadhan** | 0 | – | 4,920 | – | 4,920 | 100% |

**(11) Information on any loans (payable upon request or not), a statement of the total indebtedness of the Bank and its affiliates, any amounts paid by the Bank in repayments of loans during the year, the amount of the principal debts, the creditor name, the loan term and remaining amount:**

A. There are no loans on the Bank (loans to subsidiaries are set out in item 8 of this report).

B. Debt instruments and sukuks.

During 2020, the Bank through a Shariah compliant arrangement issued Tier 1 Sukuk (the "Sukuk"), amounting to SAR 5 billion. The issuance was approved by the regulatory authorities and the Board of Directors of the Bank.

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

The applicable profit rate is 4.5% per annum from date of issue up to 2025 and is subjected to reset every 5 years. The applicable profit on the Sukuks is payable quarterly in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

**Repayment of debt instruments:**
During the year 2020, the Bank had no debt settlement.

A. There are no convertible debt instruments, contractual securities and subscription rights or similar rights issued or granted by the Bank and its subsidiaries during the fiscal year.

B. There are no converting or subscription rights under convertible debt instruments, contractual securities, notes of subscription rights or similar rights issued or granted by the Bank during the fiscal year.

C. There is no redemption, purchase or cancellation by the Bank of any redeemable debt instruments.

**(12) Description of the dividend distribution policy:**
Cash distribution of dividends by the Bank depends on several factors including assumptions and recommendations of the Board of Directors based on the financial position of the Bank, results of the Bank's operations, current capital adequacy and prospective financial position of the Bank and liquidity requirements in the short and medium term considering the Bank's expansion plans and projects.

The distribution of the annual net profit, after deducting all expenses and other costs, taking the necessary precautions for doubtful debts, investment losses and contingent liabilities as deemed appropriate by the Board in compliance with the provisions of the Banking Control Law, are as follows:

1. The amounts required to pay Zakat assessed on the Saudi shareholders and the tax assessed on foreign shareholders are calculated in accordance with the applicable laws and regulations of the Kingdom of Saudi Arabia. The Bank shall pay these amounts to the competent authorities. The Zakat paid on behalf of Saudi shareholders will be deducted from their share in the net profit, and the tax paid on behalf of non-Saudi shareholders will likewise be deducted from their share of the net profit.

2. A minimum of 25% of the net profits remaining after the deduction of Zakat and tax as stated above in paragraph (1), shall be transferred to the statutory reserve until the mentioned reserve is equal, at least, to the paid-up capital.

3. From the remaining profits, after the deduction of the statutory reserve, Zakat and tax, a minimum of 5% of the paid-up capital shall be allocated to Saudi and non-Saudi shareholders to be distributed prorate to the value of paid-up shares of Saudi and non-Saudi shareholders, as recommended by the Board and decided by the General Assembly. If the remaining profits accruing to any Saudi or non-Saudi shareholder is found to be insufficient to pay such dividends to the respective shareholders, such shareholders shall not have the right to demand such distribution from the following year/s' profits. Moreover, the General Assembly shall not be entitled to distribute any dividends that exceed the limit duly recommended by the Board.

4. The remaining profits after the allocation of the amounts mentioned in the aforementioned paragraphs (1), (2) & (3) shall be used as recommended by the Board and determined by the General Assembly.

5. The subscription ratio of each Saudi and non-Saudi shareholder must be maintained upon calculation of the allocations needed for the statutory reserve and other reserves from net profits (after Zakat and tax). The two shareholding groups shall contribute to those reserves as per their percentage of the capital, and their contributions will be deducted from their shares of the net profits.

6. Cash dividends shall be distributed to shareholders at the place and time determined by the Board of Directors in accordance with applicable regulations.

7. The Board may decide not to distribute cash dividends and use such dividends in the settlement of debts, obligations or commitments of shareholders to the Bank.

8. The Bank may distribute interim dividends for its shareholders semiannually or quarterly, after satisfying the necessary requirements stipulated in the Articles of Association.

Shareholders must be informed of this policy during the General Assembly meeting.

**Basic and diluted earnings per share:**
Basic and diluted earnings per share for the year ended 31 December 2020 are calculated on a weighted average basis by dividing the net income adjusted for Tier 1 sukuk cost for the year by 1,200 million shares after excluding treasury shares of 5.7 million shares (as of 31 December 2019 5.7 million shares).

## (12) Description of the dividend distribution policy: continued

**Total dividends:**

The Board of Directors has proposed a final net dividend of SAR Nil million (2019: SAR 1,200 million), i.e. SAR Nil (2019: SAR 1.00) net per share for the year, which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared an interim net dividend of SAR Nil million (2019: SAR 1,155 million), i.e. SAR Nil (2019: SAR 1.00) net per share.

| | DIVIDENDS DISTRIBUTED DURING THE YEAR 2020 | | PROPOSED DIVIDEND FOR THE END OF 2020 | TOTAL FOR 2020 |
|---|---|---|---|---|
| | FINAL FOR 2019 | INTERIM 2020 | | |
| **Amount** (in thousands of Saudi Riyals) | 1,199,679 | – | – | – |
| **Pay-out Ratio** (before Zakat and tax) | 78.02% | – | – | – |

## (13) Description of any transactions between the Bank and a related party:

The Bank during its normal course of business deals with related parties. The management and the Board of Directors consider that transactions with related parties have been made on the same terms with other parties. Transactions with related parties are subject to the ratios stipulated in the Banking Control Law and the instructions issued by the Saudi Central Bank. The balances resulting from these transactions as of 31 December 2020 and 2019, which are included in the consolidated financial statements, are as follows:

| (IN THOUSANDS OF SAUDI RIYALS) | 2020 | 2019 |
|---|---|---|
| **Associates** | | |
| Investments | 9,695 | 9,695 |
| Due to banks and other financial institutions | 8,283 | 8,017 |
| **Directors, auditors, Senior Management and major shareholders' and their affiliates** | | |
| Loans and advances | 11,233,546 | 11,975,396 |
| Investments | 801,864 | 430,870 |
| Due from banks and other financial institutions | – | 500,000 |
| Other assets | 10 | 7 |
| Customers' deposits | 2,004,973 | 8,416,294 |
| Due to banks and other financial institutions | 1,500,000 | 8,017 |
| Other liabilities | 13,774 | 9,096 |
| Derivatives at fair value, net | 105,030 | 47,457 |
| Commitments and contingencies | 2,661,188 | 3,998,308 |

The following table shows the income and expenses of transactions with related parties that are included in the consolidated financial statements:

| (IN THOUSANDS OF SAUDI RIYALS) | 2020 | 2019 |
|---|---|---|
| **Special commission income** | | |
| – Directors, auditors, Senior Management and major shareholders' and their affiliates | 342,962 | 617,739 |
| Total special commission income | 342,962 | 617,739 |
| **Special commission expense** | | |
| – Directors, auditors, Senior Management and major shareholders' and their affiliates | 89,372 | 360,012 |
| – Associates | 145 | 187 |
| Total special commission expense | 89,517 | 360,199 |
| Fees, commission income and others, net | 22,242 | (52,718) |
| Directors' fees | 9,250 | 9,141 |
| Other general and administrative expenses | 109,999 | 93,438 |

**(14) Contracts and transactions made with the Bank, in which there is or there was an interest of a Board member of the Bank or a Senior Executive, or any person related to any of them:**

| | THE NATURE OF BUSINESS OR CONTRACT | THE AMOUNT OF BUSINESS OR CONTRACT | START DATE OF THE CONTRACT | END DATE OF THE CONTRACT | CONTRACT STATUS | NAME OF THE BOARD MEMBER, SENIOR EXECUTIVE OR ANY PERSON RELATED TO THEM |
|---|---|---|---|---|---|---|
| 1 | Property and Business Interruption (Allianz Saudi Fransi) | 402,322.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 2 | Electronic Equipment & Computers all Risk- (Allianz Saudi Fransi) | 196,735.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 3 | Comprehensive General Liability (Allianz Saudi Fransi) | 23,126.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 4 | Sabotage & Terrorism (Allianz Saudi Fransi) | 129,451.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 5 | Motor Comprehensive (Allianz Saudi Fransi) | 69,173.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 6 | GCL – Corporate Staff Personal Loans (Allianz Saudi Fransi) | 17,474,613.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 7 | GCL-SAKAN Home Loans (Allianz Saudi Fransi) | 17,386,256.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 8 | GCL-SAKAN Residential Mortgage (Allianz Saudi Fransi) | 1,760,639.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 9 | GCL-BSF Staff Home Loans (Allianz Saudi Fransi) | 292,435.00 | 01-07-2020 | 30-06-2021 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 10 | Life and Personal Accident Insurance (Allianz Saudi Fransi) | 1,371,322.00 | 01-01-2020 | 31-12-2020 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 11 | Registration and Disclosure Agreement (SIMAH SAUDI CREDIT BUREAU) | 260,000.00 yearly subscription + Monthly 9,650.00 for support | 01-01-2020 | 31-12-2020 | Valid | Abdullah Ali Alkhalifa (Senior Executive of the Bank) |
| 12 | Costumer Banking Benchmarking Report (SIMAH SAUDI CREDIT BUREAU) | 800,000.00 annually | 03-01-2015 | 29-02-2020 | Valid | Abdullah Ali Alkhalifa (Senior Executive of the Bank) |
| 13 | Credit Cards Acquisition ENR Growth (SIMAH SAUDI CREDIT BUREAU) | 1,010,000.00 | 03-01-2020 | 28-02-2021 | Valid | Abdullah Ali Alkhalifa (Senior Executive of the Bank) |
| 14 | Agreement to provide data and commercial information services (SIMAH SAUDI CREDIT BUREAU) | Varies based on BSF request | 30-07-2019 | by agreement between SIMAH and BSF | Valid | Abdullah Ali Alkhalifa (Senior Executive of the Bank) |
| 15 | Financial Support Services (SANID Saudi Financial Service Company) | Varies based on BSF request | 22-02-2020 | 21-02-2021 | Valid | Majda Malik Taher (Senior Executive of the Bank) |
| 16 | IT services (SOFINCO SAUDI Fransi Leasing) | 846,372.00 annually | 01-01-2020 | 31-12-2020 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |
| 17 | IJARA Vehicle Leasing (SOFINCO SAUDI Fransi Leasing) | 25,000.00 annually | 09-10-2019 | 08-10-2020 | Valid | Mazen Hani Altamimi (Senior Executive of the Bank) |

**(14) Contracts and transactions made with the Bank, in which there is or there was an interest of a Board member of the Bank or a Senior Executive, or any person related to any of them:** continued

| | THE NATURE OF BUSINESS OR CONTRACT | THE AMOUNT OF BUSINESS OR CONTRACT | START DATE OF THE CONTRACT | END DATE OF THE CONTRACT | CONTRACT STATUS | NAME OF THE BOARD MEMBER, SENIOR EXECUTIVE OR ANY PERSON RELATED TO THEM |
|---|---|---|---|---|---|---|
| 18 | Provide GLORY UW-500 (ABANA Enterprise Group) | 27,000.00 per month | 01-03-2016 | 31-05-2020 | Expired | Abdulrahman Alrashed's brother Abdulaziz Rashed Al Rashed (Board of Directors member) |
| 19 | TCR integration with BDS (ABANA Enterprise Group) | 2,712,334.00 | 17-10-2019 | 31-12-2020 | Valid | Abdulrahman Alrashed's brother Abdulaziz Rashed Al Rashed (Board of Directors member) |
| 20 | Network and Security Privacy (Cyber) Insurance (Walaa Cooperative Insurance Company) | 776,250.00 | 01-01-2020 | 31-12-2020 | Valid | Abdulaziz Almolhem's Brother Jameel Abdullah Almolhem (Senior Executive of the Bank) |
| 21 | Telecom Service Provisioning (Mobily Etihad etilsalat) | 328,860.00 annually | 01-01-2010 | 31-12-2020 | Valid | Bader Alissa's Father. Abdullah Alissa (Board of Directors member) |
| 22 | Telecom Service Provisioning (Mobily Etihad etilsalat) | 30,048.00 annually | 10-01-2010 | 31-12-2020 | Valid | Bader Alissa's Father. Abdullah Alissa (Board of Directors member) |
| 23 | Telecom Service Provisioning (Mobily Etihad etilsalat) | 39,960.00 annually | 30-01-2008 | 31-12-2020 | Valid | Bader Alissa's Father. Abdullah Alissa (Board of Directors member) |
| 24 | Telecom Service Provisioning (Mobily Etihad etilsalat) | 345,600.00 annually | 28-03-2007 | 31-12-2020 | Valid | Bader Alissa's Father. Abdullah Alissa (Board of Directors member) |
| 25 | Telecom Service Provisioning (Mobily Etihad etilsalat) | 265,200.00 annually | 31-05-2008 | 31-12-2020 | Valid | Bader Alissa's Father. Abdullah Alissa (Board of Directors member) |
| 26 | Telecom Service Provisioning (Mobily Etihad etilsalat) | 1,080,000.00 annually | 17-05-2008 | 31-12-2020 | Valid | Bader Alissa's Father. Abdullah Alissa (Board of Directors member) |
| 27 | Telecom Service Provisioning (Mobily Etihad etilsalat) | 19,320.00 annually | 21-03-2006 | 31-12-2020 | Valid | Bader Alissa's Father. Abdullah Alissa (Board of Directors member) |
| 28 | ATM Site (Jeddah National Hospital) | 40,000.00 annually | 01-06-2016 | 31-05-2021 | Valid | Khaled Mutabagani (Board of Directors Member) |
| 29 | ATM Site (Jeddah National Hospital) | 35,000.00 annually | 01-06-2014 | 31-05-2024 | Valid | Khaled Mutabagani (Board of Directors Member) |
| 30 | ATM Site (Panda Retail Company) | 43,000.00 annually | 01-12-2020 | 30-11-2021 | Valid | Bader Alissa (Board of Directors member) |

**(15) A statement of the value of any paid and outstanding statutory payment on account of any Zakat, taxes, fees or any other charges that have not been paid until the end of the annual financial period with a brief description and the reasons therefor:**

| STATEMENT (IN THOUSANDS OF SAUDI RIYALS) | 2020 | |
|---|---|---|
| | REPAID | DUE AMOUNT |
| **Zakat *** | | 380,931 |
| **Income tax **** | | 40,157 |
| **General Organization for Social Insurance** | 98,317 | – |
| **Costs of visas and passports** | 267 | – |
| **Fees of labor office** | 1,750 | – |

*** Zakat:** Zakat attributable to Saudi shareholders for the year of 2020 amounted to SAR 381 million (2019: SAR 391 million).
**** Income tax:** Income tax payable on the current years' share of income is approximately SAR 40 million (2019: SAR 106 million).The deferred tax charge for the year was 43 million (2019: 7 million).CACIB sold its remaining shares in the Bank during 2020. After the sale of these shares, it is expected that the Bank is not subjected to Income Tax and 100 percent of its shareholding is considered zakatable.

**(16) Disclosures related to small, medium and micro enterprises:**

**A. Qualitative Disclosures:**

Banque Saudi Fransi has established the MSME sector in 2014 in the belief of the importance of this sector and in providing the best financing solutions and banking facilities for the owners of these establishments. This sector includes 50 employees in three regional departments and each region has a director who supervises the progress of the work plan and reports to the head of the MSME sector.

The MSME sector is part of the Corporate Banking Group. The head of the sector submits his reports to the Committee of Micro, Small and Medium Enterprises, comprising the CEO and Managing Director, Head of the Institutional Banking Group, Head of Corporate Banking Group, Chief of the Risk Management Group and his deputy, the Retail Banking Group, Head of the Compliance Group, and Head of Micro, Small and Medium Enterprises.

The Bank also serves all its customers in the MSME category in the three main cities of the Kingdom and receives customer requests to provide them with services from all branches operating in the Kingdom and spread across all cities and regions. As part of the Bank's interest in this segment, the online application service has been launched through the Bank's website and a dedicated number for this segment has been added.

| | |
|---|---|
| Number of training days for staff | 427* |
| Number of training days for customers | 6 |

*Aggregate of training received by all employees.

The Saudi Central Bank announced several programs to support the MSME sector to counter the effects of the Coronavirus (COVID-19), including Deferred payments, Fees support, Loan guarantee program, Support for point of sale fees and e-commerce, and the Saudi Fransi Bank has actively participated to support the sector, the instalment for micro, small and medium enterprises have been Deferred, and several entities have been funded under the loan guarantee program in cooperation with the Kafala program.

On the other hand, Banque Saudi Fransi was upgraded to Tier one with Kafalah Program that enable the bank to issue guarantees internally (within certain criteria).

In cooperation with the General Authority for Small and Medium Enterprises (Monsha'at), the Memorandum of Understanding on financing awareness has been activated, and several workshops and awareness messages have been conducted to increase the enterprises awareness, and the funding platform agreement has been activated to finance small and medium enterprises and facilitate the process for companies to obtain financing.

All initiatives are part of Banque Saudi Fransi's endeavor to support and develop the small and medium enterprises sector to improve their contribution to the GDP to achieve the target of the Kingdom of Saudi Arabia 2030.

**(16) Disclosures related to small, medium and micro enterprises:** continued

**B. Quantitative Disclosures:**

| (IN SAUDI RIYALS) | ON DECEMBER 31, 2020 MICRO | SMALL | MEDIUM | TOTAL | ON DECEMBER 31, 2019 MICRO | SMALL | MEDIUM | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Loans to MSMEs – on balance sheet (SAR millions) | 499 | 2,317 | 10,694 | 13,510 | 308 | 1,238 | 6,292 | 7,838 |
| Loans to MSMEs – off balance sheet (SAR millions) | 135 | 1,132 | 3,974 | 5,241 | 142 | 1,133 | 3,736 | 5,011 |
| On balance sheet loans to MSMEs as a percentage of total on balance sheet loans | 0.4% | 1.7% | 7.9% | 10.0% | 0.2% | 1.0% | 4.9% | 6.1% |
| Off balance sheet loans to MSMEs as a percentage of total off balance sheet loans | 0.2% | 2.0% | 7.1% | 9.3% | 0.3% | 2.1% | 7.0% | 9.3% |
| Number of loans (on and off balance sheet) | 1,145 | 887 | 1,514 | 3,546 | 1,202 | 932 | 1,538 | 3,672 |
| Number of customers | 863 | 575 | 645 | 2,083 | 908 | 602 | 660 | 2,170 |
| Number of loans guaranteed by the Kafalah Program (on and off balance sheet) | 1 | 62 | 43 | 106 | 1 | 57 | 24 | 82 |
| Amount of loans guaranteed by the Kafalah Program (on and off balance sheet) | 4 | 230 | 313 | 547 | 4 | 188 | 228 | 420 |

The number of secured funds is the number of guarantees issued. The total of secured funds is the total amount of the facilities in millions of Saudi Riyals.

**(17) Disclosure of details of treasury shares held by the Bank and details of the uses of these shares:**

The Bank acquired treasury shares as authorised by the Board under its Long Term Incentive (LTI) plan, which will grant the appreciation award of the Banks share performance to eligible employees as per LTI plan. The eligible employees will benefit from the appreciation in value of the Bank shares over the vesting period. The LTI plan has been commenced on grant date. The Bank has offered eligible employees the option of equity ownership opportunities.

The total number of treasury shares outstanding as of 31 December 2020 was 5.7 million.

**The significant features of these plans are as follows:**

| NATURE OF PLAN | LONG TERM INCENTIVE PLAN | LONG TERM INCENTIVE PLAN | LONG TERM INCENTIVE PLAN |
|---|---|---|---|
| **Number of outstanding plans** | 1 | 1 | 1 |
| **Grant date** | May 15, 2018 | March 31, 2019 | March 31, 2020 |
| **Maturity date** | January 01, 2021 | April 01, 2022 | April 01, 2023 |
| **Grant price (SAR)** | 23.096 | 35.95 | 33.265 |
| **Vesting period** | 2.6 years | 3 years | 3 years |
| **Vesting conditions** | Employees remain in service and meets required service criteria | Employees remain in service and meets required service criteria | Employees remain in service, meets performance and service criteria |
| **Method of settlement** | Appreciation in equity | Equity | Equity |
| **Valuation model** | Black-Scholes | Black-Scholes | Monte-Carlo |
| **Fair value per share on grant date (SAR)** | 33.906 | 42.37 | 23.297 |

The share performance will be granted under a service condition along with market condition associated with them. The total amount of expense recognised in the consolidated financial statements in respect of the above plans for the year is SAR 25.6 million (2019: SAR 16.4 million).

| | 2020 |
|---|---|
| **Number of shares allocated for LTI calculation at the beginning of the year** | 2,157,219 |
| **Vested / forfeited during the year** | (214,832) |
| **Allocated during the year, net** | 1,638,401 |
| **Number of shares allocated for LTI calculation at the year end** | **3,580,788** |

**(18) Statement of the value of any investments made or any reserves set up for the benefit of the employees of the Bank:**

The Bank is keen to encourage its employees and provides incentive programmes and remuneration that enhances their confidence and loyalty to the Bank. The following is a statement of the Employee Takaful Al Ghad Program and the movement it received during 2020:

| (IN THOUSANDS OF SAUDI RIYALS) | EMPLOYEE SHARE | BANK SHARE | TOTAL |
|---|---|---|---|
| **Balance as at the beginning of 2020** | 32,705 | 53,319 | 86,024 |
| **Amount added during 2020** | 11,389 | 9,429 | 20,818 |
| **Amount refunded during 2020** | (8,521) | (1,263) | (9,784) |
| **Balance at the end of 2020** | 35,573 | 61,485 | 97,058 |

**(19) Any punishment, penalty, precautionary procedure or preventive measure imposed on the Bank by the Authority or any other supervisory, regulatory or judiciary authority, describing the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future:**

**A. Penal Decisions of the Saudi Central Bank:**

| SUBJECT OF THE VIOLATION | 2019 | | 2020 | | WAYS TO TREAT AND AVOID THEM IN THE FUTURE |
|---|---|---|---|---|---|
| | NUMBER OF PENAL DECISIONS | TOTAL AMOUNT OF FINANCIAL PENALTIES (IN SAUDI RIYALS) | NUMBER OF PENAL DECISIONS | TOTAL AMOUNT OF FINANCIAL PENALTIES (IN SAUDI RIYALS) | |
| Violation of SAMA's supervisory instructions | 8 | 3,570,000 | 10 | 6,480,000 | The level of control has been increased and the procedures has been improved to ensure compliance with instructions issued by regulatory bodies to ensure that such violations are not repeated |
| Violation of SAMA's instructions for protecting customers | None | | 2 | 1,095,000 | Setting the necessary procedures to ensure compliance with the instructions issued by the regulatory authorities to avoid the recurrence of these violations in the future |
| Violation of SAMA's instructions regarding the performance level of the ATMs and point of sale devices | None | | None | | |
| Violation of SAMA's instructions for due diligence in the fight against money laundering and financing of terrorism | None | | None | | |
| **Total** | **8** | **3,570,000** | **12** | **7,575,000** | |

**(19) Any punishment, penalty, precautionary procedure or preventive measure imposed on the Bank by the Authority or any other supervisory, regulatory or judiciary authority, describing the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future:** continued

**B. Other Penal Decisions:**

| PENALTY / SANCTION / PRECAUTIONS / RESTRICTION | REASONS FOR THE VIOLATION | VIOLATING BODY | WAYS TO TREAT AND AVOID THEM IN THE FUTURE |
|---|---|---|---|
| SAR 385,000 (Multiple fines) | – Lack of municipal licenses<br>– Start working on ATM's without issuing an operating license<br>– Closing parking with barriers | Ministry of Municipal, Rural Affairs & Housing. | We raised the level of regulation and follow-up of licenses and the procedures of the concerned authorities, and procedures have been improved to ensure complying with the instructions issued by the regulatory authorities in order to avoid violations and ensure that they are not repeated, as well as the understanding with the concerned internal authorities such as the branch management to reach solutions to these observations. |
| SAR 20,000 | Non-compliance to implement the regulations and decisions of the Ministry issued the organization for exceptional circumstances | Ministry of Human Resources and Social Development. | |

**(20) Any inconsistency with the standards approved by the Saudi Organization for Certified Public Accountants:**

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

**(21) Auditors' reservations to the financial statements:**

The auditors' report did not include any reservations to the annual financial statements.

### (22) Composition of the Board of Directors and the classification of its members:

| | MEMBER'S NAME | POSITION | MEMBERSHIP CLASSIFICATION |
|---|---|---|---|
| 1 | **Mazin Al Romaih** | Chairman of the Board | Non-executive |
| 2 | **Talal Al Maiman** | Vice Chairman of the Board | Non-executive |
| 3 | **Abdulrahman Al Rashed** | Member | Independent |
| 4 | **Khaled Al Mutabagani** | Member | Non-executive |
| 5 | **Bader Al Issa** | Member | Independent |
| 6 | **Abdullatif Al Othman** | Member | Independent |
| 7 | **Ghazi Al Rawi** | Member | Independent |
| 8 | **Khalid Al Omran** | Member | Non-executive* |
| 9 | **Rayan Fayez** | Member | Executive |
| 10 | **Timothy Collins** | Member | Independent |

*Changed from Independent to Non-executive on 13/02/2020.

### (23) Names, qualifications and experience of the Board, Board committees' members and Executive Management:

**(A) Board of Directors Members:**

| NAME | | EXPERIENCES | | QUALIFICATIONS |
|---|---|---|---|---|
| | | CURRENT POSITIONS | PREVIOUS POSITIONS | |
| 1 | **Mazin Al Romaih** | – CEO of Future Generation Investment Company | – Member of the Board of Capital Market Authority, 2009-2014<br>– General Manager and Chief Executive Officer at Samba Capital & Investment Management Company (Samba Capital), 2008-2009<br>– General Manager of Corporate Finance Department at Capital Market Authority, 2004-2007 | – Bachelor of Accounting and Financial Management, University of Buckingham, 1992 |
| 2 | **Talal Al Maiman** | – CEO of Kingdom Holding Company | – Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017<br>– CEO of Kingdom Holding Company, 1996-2016<br>– Director of Computer Department at Saudi Central Bank, 1986-1996<br>– Director of Operations of IT Center at Ministry of Interior, 1979-1986 | – Master of Business Administration, University of Liverpool, UK, 2009<br>– Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979<br>– Executive Management Program, Harvard University, 1986<br>– Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981 |
| 3 | **Abdulrahman Al Rashed** | – Member of Al Shura Council<br>– Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company<br>– Chairman of the Board of Directors of Dammam Hotels Company<br>– Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company | – | – Bachelor of Business Administration, Department of Finance, University of Seattle, 1985 |
| 4 | **Khaled Al Mutabagani** | – Pediatric Surgery Consultant at New Jeddah Clinic Hospital<br>– CEO of New Jeddah Clinic Hospital<br>– CEO of Madina National Hospital | – Pediatric Surgery Consultant at King Faisal Specialist Hospital, Jeddah, 2000-2001<br>– Assistant Professor, Physiology at the Medical College in King Abdulaziz University, Jeddah, 2000-2002 | – Ph.D. in Physiology, The Ohio State University, 1999<br>– M.S in Physiology, The Ohio State University, 1993<br>– M.B. & Ch.B, King Abdulaziz University, 1988 |

**(23) Names, qualifications and experience of the Board, Board committees' members and Executive Management:** continued

**(A) Board of Directors Members:** continued

| | | | | |
|---|---|---|---|---|
| 5 | **Bader Al Issa** | – Managing Director of Al Marai Company<br>– CEO of Assila Investment Company | – CFO of Assila Investment Company<br>– Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008<br>– Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004<br>– Financial Analyst at JP Morgan, London, 2001-2002 | – MBA, Rice University, 2006<br>– Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001 |
| 6 | **Abdullatif Al Othman** | – Owner and CEO of Al-Othman Engineering Consultants | – Governor and Chairman of the Board of Directors, General Authority for Investment, 2012-2016<br>– More than 35 years in the field of planning and managing oil and gas projects, financial management, investment, business and international relations development. | – MBA., Sloan Fellows program, Massachusetts Institute of Technology, 1998<br>– Bachelor of Civil Engineering, King Fahad University of Petroleum and Minerals, 1979 |
| 7 | **Ghazi Al Rawi** | – Chairman of Valuegate Investments Company | – Managing Partner – Eastgate Capital Group, 2006-2015<br>– Assistant Professor, Electrical Engineering King Abdulaziz University, 2004-2006<br>– Associate – McKinsey & Company, 2003-2004<br>– Research Assistant – Stanford University, 1999-2002 | – Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003<br>– M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001<br>– Master's in Electrical Engineering (EE), Communication, Stanford University, 1998<br>– Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994 |
| 8 | **Khalid Al Omran** | – General Manager of Daily Food Company | – 10 years in Retail<br>– 2 years in Management Consulting | – Master's in Business Administration, IESE Business School, Spain, 2012<br>– Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006 |
| 9 | **Timothy Collins** | – Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management<br>– Member at New York State Common Retirement Fund Investment Advisory Committee<br>– Member at Yale Divinity School Advisory Board | – Director at RHJ International, 2004-2018<br>– Director at Gogo, Inc, 2013<br>– Director at Citigroup, Inc., 2009-2012<br>– Director at Weather Investments SpA, 2008-2011<br>– Director at 3W Power Holdings Ltd, 2009-2011<br>– Director at Commercial International Bank of Egypt, 2006-2009<br>– Director at RSC Holdings Inc., 2006-2009 | – Honorary Doctorate of Humane Letters, DePauw University, 2004<br>– MBA in Public & Private Management, Yale University,1982<br>– BA in Philosophy, DePauw University, 1978 |
| 10 | **Rayan Fayez** | – Managing Director and CEO of Banque Saudi Fransi | – CEO of Savola Group, 2016-2018<br>– Managing Director and Senior Country Officer at JPMorgan Chase N.A, Riyadh Branch, 2013-2016<br>– CEO of JP Morgan Saudi Arabia Limited, 2012-2013<br>– CEO of Goldman Sachs, Saudi Arabia, 2009-2012<br>– Executive Director at Goldman Sachs International, London, 2007-2009 | – Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001 |

**(B) Board Committees' Members:**

(B/1) Executive Committee:

| NAME | | EXPERIENCES | | QUALIFICATIONS |
|---|---|---|---|---|
| | | CURRENT POSITIONS | PREVIOUS POSITIONS | |
| 1 | **Mazin Al Romaih** | – CEO of Future Generation Investment Company | – Member of the Board of Capital Market Authority, 2009-2014<br>– General Manager and Chief Executive Officer at Samba Capital & Investment Management Company (Samba Capital), 2008-2009<br>– General Manager of Corporate Finance Department at Capital Market Authority, 2004-2007 | – Bachelor of Accounting and Financial Management, University of Buckingham, 1992 |
| 2 | **Abdulrahman Al Rashed** | – Member of Al Shura Council<br>– Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company<br>– Chairman of the Board of Directors of Dammam Hotels Company<br>– Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company | – | – Bachelor of Business Administration, Department of Finance, University of Seattle, 1985 |
| 3 | **Talal Al Maiman** | – CEO of Kingdom Holding Company | – Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017<br>– CEO of Kingdom Holding Company, 1996-2016<br>– Director of Computer Department at Saudi Central Bank, 1986-1996<br>– Director of Operations of IT Center at Ministry of Interior, 1979-1986 | – Master of Business Administration, University of Liverpool, UK, 2009<br>– Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979<br>– Executive Management Program, Harvard University, 1986<br>– Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981 |
| 4 | **Rayan Fayez** | – Managing Director and CEO of Banque Saudi Fransi | – CEO of Savola Group, 2016-2018<br>– Managing Director and Senior Country Officer at JPMorgan Chase N.A Riyadh Branch, 2013-2016<br>– CEO of JP Morgan Saudi Arabia Limited, 2012-2013<br>– CEO of Goldman Sachs, Saudi Arabia, 2009-2012<br>– Executive Director at Goldman Sachs International, London, 2007-2009 | – Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001 |
| 5 | **Timothy Collins** | – Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management<br>– Member at New York State Common Retirement Fund Investment Advisory Committee<br>– Member at Yale Divinity School Advisory Board | – Director at RHJ International, 2004-2018<br>– Director at Gogo, Inc, 2013<br>– Director at Citigroup, Inc., 2009-2012<br>– Director at Weather Investments SpA, 2008-2011<br>– Director at 3W Power Holdings Ltd, 2009-2011<br>– Director at Commercial International Bank of Egypt, 2006-2009<br>– Director at RSC Holdings Inc., 2006-2009 | – Honorary Doctorate of Humane Letters, DePauw University, 2004<br>– MBA in Public & Private Management, Yale University, 1982<br>– BA in Philosophy, DePauw University, 1978 |

**(23) Names, qualifications and experience of the Board, Board committees' members and Executive Management:** continued

**(B) Board Committees' Members:** continued

(B/2) Audit Committee:

| NAME | | EXPERIENCES | | QUALIFICATIONS |
|---|---|---|---|---|
| | | CURRENT POSITIONS | PREVIOUS POSITIONS | |
| 1 | **Bader Al Issa** | – Managing Director of Al Marai Company<br>– CEO of Assila Investment Company | – CFO of Assila Investment Company<br>– Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008<br>– Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004<br>– Financial Analyst at JP Morgan, London, 2001-2002 | – MBA, Rice University, 2006<br>– Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001 |
| 2 | **Mohammad Ali Ikhwan** | – Retired | – Advisor to the Minister of Labor, 2010-2015<br>– Vice President of Savola Group for M & A, 2004-2009 | – Ph.D. in Engineering, Economic Systems, Stanford University, 1985<br>– Master of Operations Research, Stanford University, 1976 |
| 3 | **Mohammed Al Subaie** | – Retired | – General Auditor of Saudi Aramco, 2015-2018<br>– Various leadership positions at Saudi Aramco, 1993-2013<br>– Various positions at Eastern Province Water Directorate, 1988-1993 | – Master's in Accounting, King Fahad University of Petroleum and Minerals, 1991<br>– Bachelor of Business Administration, Columbia College, 1981 |
| 4 | **Mamdouh Al Majed** | – Managing Partner of Al Majed and Al Enzi Certified Public Accountants | – Finance Manager at Kingdom Holding Company, 2004-2010<br>– Financial Controller at Kingdom Holding Company, 1997-2003 | – MBA, Leicester University, 2004<br>– Bachelor of Arts in Accounting, King Saud University, 1995 |
| 5 | **Ghazi Al Rawi** | – Chairman of Valuegate Investments Company | – Managing Partner – Eastgate Capital Group, 2006-2015<br>– Assistant Professor, Electrical Engineering King Abdulaziz University, 2004-2006<br>– Associate – McKinsey & Company, 2003-2004<br>– Research Assistant – Stanford University, 1999-2002 | – Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003<br>– M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001<br>– Master's in Electrical Engineering (EE), Communication, Stanford University, 1998<br>– Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994 |

### (B/3) Nominations and Remunerations Committee:

| NAME | | EXPERIENCES – CURRENT POSITIONS | EXPERIENCES – PREVIOUS POSITIONS | QUALIFICATIONS |
|---|---|---|---|---|
| 1 | **Abdulrahman Al Rashed** | – Member of Al Shura Council<br>– Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company<br>– Chairman of the Board of Directors of Dammam Hotels Company<br>– Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company | – | – Bachelor of Business Administration, Department of Finance, University of Seattle, 1985 |
| 2 | **Talal Al Maiman** | – CEO of Kingdom Holding Company | – Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017<br>– CEO of Kingdom Holding Company, 1996-2016<br>– Director of Computer Department at Saudi Central Bank, 1986-1996<br>– Director of Operations of IT Center at Ministry of Interior, 1979-1986 | – Master of Business Administration, University of Liverpool, UK, 2009<br>– Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979<br>– Executive Management Program, Harvard University, 1986<br>– Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981 |
| 3 | **Khaled Al Mutabagani** | – Pediatric Surgery Consultant at New Jeddah Clinic Hospital<br>– CEO of New Jeddah Clinic Hospital<br>– CEO of Madina National Hospital | – Pediatric Surgery Consultant at King Faisal Specialist Hospital, Jeddah, 2000-2001<br>– Assistant Professor, Physiology at the Medical College in King Abdulaziz University, Jeddah, 2000-2002 | – Ph.D. in Physiology, The Ohio State University, 1999<br>– M.S in Physiology, The Ohio State University, 1993<br>– M.B. & Ch.B, King Abdulaziz University, 1988 |
| 4 | **Ghazi Al Rawi** | – Chairman of Valuegate Investments Company | – Managing Partner – Eastgate Capital Group, 2006-2015<br>– Assistant Professor, Electrical Engineering King Abdulaziz University, 2004-2006<br>– Associate – McKinsey & Company, 2003-2004<br>– Research Assistant – Stanford University, 1999-2002 | – Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003<br>– M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001<br>– Master's in Electrical Engineering (EE), Communication, Stanford University, 1998<br>– Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994 |
| 5 | **Mansoor Al-Mansoor** | – Vice President for Finance and Operation at the King Abdullah Petroleum Studies and Research Center, 2016 | – Deputy Director General at HRDF, 2014-2016<br>– Vice President, HR & Admin of Arabian Pipes Company, 2006-2014 | – Ph.D. in Applied Linguistics, Ball State University, 2004<br>– Master of Science in Human Resources, University of Central Missouri, USA, 1997 |

**(23) Names, qualifications and experience of the Board, Board committees' members and Executive Management:** continued

**(B) Board Committees' Members:** continued

(B/4) Board Risk Committee:

| NAME | | EXPERIENCES | | QUALIFICATIONS |
|---|---|---|---|---|
| | | CURRENT POSITIONS | PREVIOUS POSITIONS | |
| 1 | **Abdullatif Al Othman** | – Owner and CEO of Al-Othman Engineering Consultants | – Governor and Chairman of the Board of Directors, General Authority for Investment, 2012-2016<br>– More than 35 years in the field of planning and managing oil and gas projects, financial management, investment, business and international relations development. | – MBA., Sloan Fellows program, Massachusetts Institute of Technology, 1998<br>– Bachelor of Civil Engineering, King Fahad University of Petroleum and Minerals, 1979 |
| 2 | **Bader Al Issa** | – Managing Director of Al Marai Company<br>– CEO of Assila Investment Company | – CFO of Assila Investment Company<br>– Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008<br>– Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004<br>– Financial Analyst at JP Morgan, London, 2001-2002 | – MBA, Rice University, 2006<br>– Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001 |
| 3 | **Khalid Al Omran** | – General Manager of Daily Food Company | – 10 years in Retail<br>– 2 years in Management Consulting | – Master's in Business Administration, IESE Business School, Spain, 2012<br>– Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006 |
| 4 | **Mohammed Al Kinani*** | – Founder and CEO of V Consortium<br>– Vice President & General Supervisor of Investment at KFUPM Endowment | – Teaching Assistant, Assistant Professor Finance, Chairman of Department of Finance and Economics, and Dean College of Industrial Management at King Fahad University of Petroleum and Minerals, 1997-2018 | – Ph.D. in Finance, Oklahoma State University, 2006<br>– Master's in Finance, University of Colorado, Denver, 2001<br>– Bachelor of Finance, King Fahad University of Petroleum and Minerals, 1998 |
| 5 | **Vanessa Eastham Fisk** | – Manager of Anglo Gulf Trade Bank, UAE<br>– Manager of ABC International Bank PLC, UK | – Chief Operating Officer of Standard Chartered PLC, Middle East, North Africa, 2010-2015<br>– Managing Director of Ingram Group, UAE, 2008-2009<br>– Chief Operating Officer and Chief Risk Officer at Barclays Bank PLC, Middle East and North Africa, 2006-2008. | – Accountancy, Huddersfield Polytechnic, UK, 1990 |

*Resigned on 01/04/2020.

## (B/5) Corporate Social Responsibility Committee:

| NAME | | EXPERIENCES | | QUALIFICATIONS |
|---|---|---|---|---|
| | | CURRENT POSITIONS | PREVIOUS POSITIONS | |
| 1 | **Talal Al Maiman** | – CEO of Kingdom Holding Company | – Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017<br>– CEO of Kingdom Holding Company, 1996-2016<br>– Director of Computer Department at Saudi Central Bank, 1986-1996<br>– Director of Operations of IT Center at Ministry of Interior, 1979-1986 | – Master of Business Administration, University of Liverpool, UK, 2009<br>– Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979<br>– Executive Management Program, Harvard University, 1986<br>– Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981 |
| 2 | **Bader Al Issa** | – Managing Director of Al Marai Company<br>– CEO of Assila Investment Company | – CFO of Assila Investment Company<br>– Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008<br>– Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004<br>– Financial Analyst at JP Morgan, London, 2001-2002 | – MBA, Rice University, 2006<br>– Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001 |
| 3 | **Rayan Fayez** | – Managing Director and CEO of Banque Saudi Fransi | – CEO of Savola Group, 2016-2018<br>– Managing Director and Senior Country Officer at JPMorgan Chase N.A Riyadh Branch, 2013-2016<br>– CEO of JP Morgan Saudi Arabia Limited, 2012-2013<br>– CEO of Goldman Sachs, Saudi Arabia, 2009-2012<br>– Executive Director at Goldman Sachs International, London, 2007-2009 | – Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001 |

**(23) Names, qualifications and experience of the Board, Board committees' members and Executive Management:** continued

**(B) Board Committees' Members:** continued

(B/6) Board Strategy Committee:

| NAME | | EXPERIENCES | | QUALIFICATIONS |
|---|---|---|---|---|
| | | CURRENT POSITIONS | PREVIOUS POSITIONS | |
| 1 | **Talal Al Maiman** | – CEO of Kingdom Holding Company | – Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017<br>– CEO of Kingdom Holding Company, 1996-2016<br>– Director of Computer Department at Saudi Central Bank, 1986-1996<br>– Director of Operations of IT Center at Ministry of Interior, 1979-1986 | – Master of Business Administration, University of Liverpool, UK, 2009<br>– Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979<br>– Executive Management Program, Harvard University, 1986<br>– Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981 |
| 2 | **Bader Al Issa** | – Managing Director of Al Marai Company<br>– CEO of Assila Investment Company | – CFO of Assila Investment Company<br>– Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008<br>– Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004<br>– Financial Analyst at JP Morgan, London, 2001-2002 | – MBA, Rice University, 2006<br>– Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001 |
| 3 | **Rayan Fayez** | – Managing Director and CEO of Banque Saudi Fransi | – CEO of Savola Group, 2016-2018<br>– Managing Director and Senior Country Officer at JPMorgan Chase N.A Riyadh Branch, 2013-2016<br>– CEO of JP Morgan Saudi Arabia Limited, 2012-2013<br>– CEO of Goldman Sachs, Saudi Arabia, 2009-2012<br>– Executive Director at Goldman Sachs International, London, 2007-2009 | – Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001 |
| 4 | **Khalid Al Omran** | – General Manager of Daily Food Company | – 10 years in Retail<br>– 2 years in Management Consulting | – Master's in Business Administration, IESE Business School, Spain, 2012<br>– Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006 |
| 5 | **Timothy Collins** | – Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management<br>– Member at New York State Common Retirement Fund Investment Advisory Committee<br>– Member at Yale Divinity School Advisory Board | – Director at RHJ International, 2004-2018<br>– Director at Gogo, Inc, 2013<br>– Director at Citigroup, Inc., 2009-2012<br>– Director at Weather Investments SpA, 2008-2011<br>– Director at 3W Power Holdings Ltd, 2009-2011<br>– Director at Commercial International Bank of Egypt, 2006-2009<br>– Director at RSC Holdings Inc., 2006-2009 | – Honorary Doctorate of Humane Letters, DePauw University, 2004<br>– MBA in Public & Private Management, Yale University, 1982<br>– BA in Philosophy, DePauw University, 1978 |

**(C) Executive Management:**

| | NAME | CURRENT POSITION | PREVIOUS POSITION | QUALIFICATIONS | EXPERIENCES |
|---|---|---|---|---|---|
| 1 | **Rayan Fayez** | Managing Director and Chief Executive Officer | Chief Executive Officer of Savola Group | Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001 | 19 years of experience in several executive positions |
| 2 | **Abdullah Alkhalifa** | Chief Financial Officer | Chief Financial Officer of AlRajhi Bank | Master of Accounting, University of Miami School of Business<br>BS Accountancy, King Saud University | 26 years of banking experience in banking sector |
| 3 | **Mazin Al Tamimi** | Head of Institutional Banking Group | Senior Executive Director at Banque Saudi Fransi | Bachelor of Computer Science, 1989 | 31 years of banking experience in various positions at the Bank |
| 4 | **Mohammad Al Alsheikh** | Head of Retail Banking Group | Head of Branch Network for Retail Banking at Al Rajhi Bank | Bachelor of Industrial Engineering, King Saud University, 2005 | 14 years' experience in Islamic and Retail Banking |
| 5 | **Adel Mallawi** | Chief Investment Officer | Chief Financial Officer at Banque Saudi Fransi | Bachelor of Chemistry, 1993 | 25 years of experience in treasury, global markets and finance |
| 6 | **Abdulaziz Al-Molhem** | Regional Director for the Eastern Region | Credit Officer of Retail Banking, Regional Director at AlAwwal Bank | Bachelor of Business Administration, Indiana State University, 1983 | 35 years of experience in banking sector |
| 7 | **Thamer Yousef** | Chief Operating Officer | Head of Information Systems Department at SABB | Bachelor of Computer Engineering, King Saud University, 1994 | 24 years of experience in IT & Operations |
| 8 | **May Alhoshan** | Chief Human Capital Officer | Director of Human Resources at AlAwwal Bank | Master of Engineering – George Washington University, 2004 | 15 years of experience in Human Resources |
| 9 | **Michael Cunningham** | Chief Strategy & Digital Group Officer | Co-Founder & CEO at Clearly Executive Vice President and Head of Group Strategy & Innovation at Abu Dhabi Commercial Bank | Diploma of Business Administration, University of Durham | 9 years of banking experience in banking sector |
| 10 | **Abdulmohsen Al Rayes** | Chief Audit Executive | Director of Internal Audit at Arab National Bank | Bachelor of Arabic Grammar, 1981 | 34 years of experience in the banking sector |
| 11 | **Ravishanker Visvanathan** | Chief Risk Officer | Head of Credit Risk Management – Riyad Bank | Bachelor of Business Administration, University of Pune, 1993 | More than 30 years of experience in the financial sector |
| 12 | **Sami Almehaid** | Chief Compliance Officer | Chief Preventive Risk Officer – SABB | Diploma of Banking Operation, Institute of Public Administration, 2000 | 20 years of experience in banking sector |
| 13 | **Abdallah Al Shaikh** | Head of Legal & Governance, Corporate Secretary | Head of Legal Affairs and Secretary of the Board of Directors at Samba Financial Group | LL.M, Harvard Law School, 2008 | 15 years of legal experience in several positions in the financial sector |
| 14 | **Abdulaziz Albani** | Head of Consumer Protection and Customer Complaints | Director of AML/CFT, General Manager of the Compliance Group at Al Rajhi Bank | Master's in Business Administration, Al Yamamah University, 2018 | 22 years of experience in banking sector |
| 15 | **Zuhair Mardam** | Head of Global Markets Group | Head of Global Trading and Funding (Deputy Treasurer) | Bachelor of Financial Science, Prince Sultan University | 16 Year of Banking experience in BSF |

**(24) Names of the companies inside and outside the Kingdom in which a Board member is a member of their current or previous Board member or manager:**

| | | CURRENT | | | PREVIOUS | | |
|---|---|---|---|---|---|---|---|
| MEMBER'S NAME | | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS CURRENT BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS PREVIOUS BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY |
| 1 | **Mazin Al Romaih** | Future Generation Investment Company | Inside the Kingdom | Limited Liability Company | Saudi Fransi Capital | Inside the Kingdom | Closed Joint Stock Company |
| | | Dr. Sulaiman Al Habib Medical Group | Inside the Kingdom | Joint Stock Company | Samba Capital & Investment Management Company | Inside the Kingdom | Joint Stock Company |
| | | Sada Company for Investment | Inside the Kingdom | Limited Liability Company | HSBC Saudi Arabia Limited | Inside the Kingdom | Closed Joint Stock Company |
| | | – | – | – | Al Yammamh Steel Company | Inside the Kingdom | Closed Joint Stock Company |
| | | – | – | – | Food Concepts Ltd. | Inside the Kingdom | Limited Liability Company |
| | | – | – | – | Alissa Holding Group | Inside the Kingdom | Closed Joint Stock Company |
| 2 | **Talal Al Maiman** | Kingdom Holding company | Inside the Kingdom | Listed Joint Stock Company | Savola Group | Inside the Kingdom | Listed Joint Stock Company |
| | | Kingdom Real Estate Development | Inside the Kingdom | Closed Joint Stock Company | SRMJ | Inside the Kingdom | Closed Joint Stock Company |
| | | Tasnee Company | Inside the Kingdom | Closed Joint Stock Company | Der' alreayah Health Company | Inside the Kingdom | Closed Joint Stock Company |
| | | NAS Holding Company | Inside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | Trade Centre Company Limited | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Real Estate Investment Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Kingdom School Company limited | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Kingdom Investment and Development Company | Inside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | Jeddah Economic Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Saudi Fransi Capital | Inside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | Five Capital advisors company (DIFC) | Outside the Kingdom | Private Company | – | – | – |

| MEMBER'S NAME | | CURRENT | | | PREVIOUS | | |
|---|---|---|---|---|---|---|---|
| | | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS CURRENT BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS PREVIOUS BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY |
| 3 | **Abdulrahman Al Rashed** | Rashed Abdul Rahman Al Rashed & Sons Company | Inside the Kingdom | General Partnership | Al Yamama Investment Company | Inside the Kingdom | Closed Joint Stock Company |
| | | Rashed Al Rashed & Sons Donaldson Company Ltd | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Dhahran Techno Valley Company | Inside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | Beit Al Tawazun Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Al Awael Holding | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Company of Crystal Ice Factory | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | UNICOIL, Universal Metal Coating Company | Inside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | Dammam Hotels Company Ltd. | Inside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | Rashed Development Company – RASHEDCO | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Rashed Alrashed & Partners Commercial Investment Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Rashed Alrashed & Partners Business Development Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Rashed Alrashed & Partners Development & Real Estate Investment company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Ibhar Albenaa Real Estate Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Property & Real Estate Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Global United Investment Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Sanad Healthcare Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Al Awael Modern Contracting Company | Inside the Kingdom | Limited Liability Company | – | – | – |
| | | Denys Arabia Company | Inside the Kingdom | Limited Liability Company | – | – | – |

| MEMBER'S NAME | | CURRENT: NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS CURRENT BOARD OF DIRECTORS OR FROM ITS DIRECTORS | CURRENT: INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | CURRENT: LEGAL ENTITY | PREVIOUS: NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS PREVIOUS BOARD OF DIRECTORS OR FROM ITS DIRECTORS | PREVIOUS: INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | PREVIOUS: LEGAL ENTITY |
|---|---|---|---|---|---|---|---|
| 4 | **Khaled Al Mutabagani** | New Jeddah Clinic Hospital | Inside the Kingdom | A Limited Liability Company | – | – | – |
| | | Madina National Hospital | Inside the Kingdom | A Limited Liability Company | – | – | – |
| | | New Horizon Company | Inside the Kingdom | A Limited Liability Company | – | – | – |
| | | Nai Arabia Food Company | Inside the Kingdom | A Limited Liability Company | – | – | – |
| | | Marine Plankton Company | Inside the Kingdom | A Limited Liability Company | – | – | – |
| 5 | **Bader Al Issa** | Assila for Investment | Inside the Kingdom | Closed Joint Stock Company | Saudi Fransi Capital | Inside the Kingdom | Closed Joint Stock Company |
| | | Savola Group | Inside the Kingdom | Listed Joint Stock Company | Kinan International for Real Estate Development Company | Inside the Kingdom | Closed Joint Stock Company |
| | | United Sugar Company | Inside the Kingdom | Closed Joint Stock Company | Knowledge Economic City | Inside the Kingdom | Listed Joint Stock Company |
| | | Afia International Company | Inside the Kingdom | Closed Joint Stock Company | Savola for Packaging | Inside the Kingdom | Closed Joint Stock Company |
| | | Savola Foods | Inside the Kingdom | Closed Joint Stock Company | Al Aqiq for Real Estate Development | Inside the Kingdom | Closed Joint Stock Company |
| | | Dur Hospitality Company | Inside the Kingdom | Listed Joint Stock Company | Sukoon International Company | Inside the Kingdom | Closed Joint Stock Company |
| | | Panda Retail Company | Inside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | Almarai | Inside the Kingdom | Listed Joint Stock Company | – | – | – |

| MEMBER'S NAME | | CURRENT | | | PREVIOUS | | |
|---|---|---|---|---|---|---|---|
| | | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS CURRENT BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS PREVIOUS BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY |
| 6 | **Abdullatif Al Othman** | Al-Othman Engineering Consultants | Inside the Kingdom | Closed Joint Stock Company | Saudi Aramco Products Trading Company | Inside the Kingdom | Joint Stock Company |
| | | Wahed | Outside the Kingdom | Joint Stock Company | Wa'ed, established by Aramco to support small and medium enterprises | Inside the Kingdom | Joint Stock Company |
| | | Remaiyah | Inside the Kingdom | Closed Joint Stock Company | Sadara Chemical Company, partnership between Saudi Aramco and The Dow Chemical Company | Inside the Kingdom | Joint Stock Company |
| | | Olayan Group | Inside the Kingdom | Closed Joint Stock Company | Dussur, The Saudi Industrial Investments Company | Inside the Kingdom | Joint Stock Company |
| | | Investcorp | Outside the Kingdom | Joint Stock Company | – | – | – |
| | | GCC Board Directors Institute | Outside the Kingdom | Nonprofit | – | – | – |
| 7 | **Ghazi Al Rawi** | Saudi Civil Aviation Holding Company (Matarat) | Inside the Kingdom | Limited Liability Company | Smart Health Solutions | Inside the Kingdom | Limited Liability Company |
| | | Valuegate Investments Company | Inside the Kingdom | Limited Liability Company | Saudi Fransi Capital | Inside the Kingdom | Closed Joint Stock Company |
| | | Green Oasis Hotel Company | Inside the Kingdom | Limited Liability Company | National Medical Care Company | Inside the Kingdom | Joint Stock Company |
| | | Adaptive Spectrum & Signal Alignment, Inc | Outside the Kingdom | Closed Joint Stock Company | Sanabil Investment | Inside the Kingdom | Closed Joint Stock Company |
| | | Valuegate Investments International | Outside the Kingdom | Limited Liability Company | Eastgate Capital Group | Outside the Kingdom | Limited Liability Company |
| | | Ithmar Taiba for Dates | Inside the Kingdom | Limited Liability Company | L'azurde | Inside the Kingdom | Joint Stock Company |
| | | Valuegate Astro SPV1 | Outside the Kingdom | Limited Liability Company | Tadrees Holding | Inside the Kingdom | Closed Joint Stock Company |
| | | – | – | – | SIGMA Pharmaceutical Industries | Outside the Kingdom | Closed Joint Stock Company |
| 8 | **Khalid Al Omran** | Daily Food Company | Inside the Kingdom | A Limited Liability Company | – | – | – |
| | | Goldman Sachs Saudi Arabia | Inside the Kingdom | Closed Joint Stock Company | – | – | – |

**(24) Names of the companies inside and outside the Kingdom in which a Board member is a member of their current or previous Board member or manager:** continued

| MEMBER'S NAME | | CURRENT | | | PREVIOUS | | |
|---|---|---|---|---|---|---|---|
| | | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS CURRENT BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS PREVIOUS BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY |
| 9 | **Timothy Collins** | SODIC | Outside the Kingdom | Joint Stock Company | Working America Education Fund Board of Directors | Outside the Kingdom | Establishment |
| | | EFG Hermes | Outside the Kingdom | Joint Stock Company | Palm Hills Developments | Outside the Kingdom | Joint Stock Company |
| | | McKinsey Advisory Council | Outside the Kingdom | Establishment | RHJ International | Outside the Kingdom | Closed Joint Stock Company |
| | | AS Citadele Banka | Outside the Kingdom | Closed Joint Stock Company | Gogo, Inc. | Outside the Kingdom | Closed Joint Stock Company |
| | | NEOM | Inside the Kingdom | Closed Joint Stock Company | Citigroup, Inc. | Outside the Kingdom | Joint Stock Company |
| | | Henry Belton Fellowship Program, Yale School of Management | Outside the Kingdom | Establishment | Weather Investments SpA | Outside the Kingdom | Closed Joint Stock Company |
| | | New York State Common Retirement Fund Investment Advisory Committee | Outside the Kingdom | Establishment | 3W Power Holdings Ltd | Outside the Kingdom | Closed Joint Stock Company |
| | | Yale Divinity School Advisory Board | Outside the Kingdom | Establishment | Commercial International Bank of Egypt | Outside the Kingdom | Joint Stock Company |
| | | Yale School of Management Advisory Board | Outside the Kingdom | Establishment | RSC Holdings Inc. | Outside the Kingdom | Closed Joint Stock Company |
| | | RA SIX Holdings LTD | Outside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | RA Mena Holdings | Outside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | RA Holdings I Limited | Outside the Kingdom | Closed Joint Stock Company | – | – | – |
| | | RA PHD Holdings Limited | Outside the Kingdom | Closed Joint Stock Company | – | – | – |

| MEMBER'S NAME | | CURRENT | | | PREVIOUS | | |
|---|---|---|---|---|---|---|---|
| | | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS CURRENT BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY | NAME OF COMPANY IN WHICH THE BOARD MEMBER IS A MEMBER OF ITS PREVIOUS BOARD OF DIRECTORS OR FROM ITS DIRECTORS | INSIDE THE KINGDOM/ OUTSIDE THE KINGDOM | LEGAL ENTITY |
| 10 | **Rayan Fayez** | Saudi Fransi Capital | Inside the Kingdom | Closed Joint Stock Company | Saudi Agricultural & Livestock Investment Company (SALIC) | Inside the Kingdom | Closed Joint Stock Company |
| | | Hassana Investment Company | Inside the Kingdom | Closed Joint Stock Company | Saudi Stock Exchange (Tadawul) | Inside the Kingdom | Closed Joint Stock Company |
| | | Al Ula Company for Development | Inside the Kingdom | Closed Joint Stock Company | Savola Group | Inside the Kingdom | Listed Joint Stock Company |
| | | – | – | – | Kinan International Real Estate Development Company | Inside the Kingdom | Closed Joint Stock Company |
| | | – | – | – | Knowledge Economic City | Inside the Kingdom | Listed Joint Stock Company |
| | | – | – | – | Almarai | Inside the Kingdom | Listed Joint Stock Company |
| | | – | – | – | Herfy for Food Services | Inside the Kingdom | Listed Joint Stock Company |
| | | – | – | – | JP Morgan Chase NA, Riyadh Branch | Inside the Kingdom | Closed Joint Stock Company |
| | | – | – | – | JP Morgan Saudi Arabia Limited | Inside the Kingdom | Limited Liability Company |
| | | – | – | – | Savola for Foods | Inside the Kingdom | Closed Joint Stock Company |
| | | – | – | – | Panda Retail Company | Inside the kingdom | Closed Joint Stock Company |
| | | – | – | – | Goldman Sachs, Saudi Arabia | Inside the Kingdom | Closed Joint Stock Company |

### (25) The number of Board meetings held during the last financial year, their dates and the attendance record of each meeting, listing the names of the attendees:

| MEMBER NAME | | DATES OF MEETINGS | | | | | | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | | FIRST MEETING 13/02/2020 | SECOND MEETING 24/03/2020 | THIRD MEETING 13/05/2020 | FOURTH MEETING 22/06/2020 | FIFTH MEETING 15/07/2020 | SIXTH MEETING 17/09/2020 | SEVENTH MEETING 10/12/2020 | |
| 1 | **Mazin Al Romaih** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 2 | **Talal Al Maiman** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 3 | **Abdulrahman Al Rashed** | ✓ | ✕ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| 4 | **Khaled Al Mutabagani** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 5 | **Bader Al Issa** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 6 | **Abdullatif Al Othman** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 7 | **Ghazi Al Rawi** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 8 | **Khalid Al Omran** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 9 | **Rayan Fayez** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| 10 | **Timothy Collins** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |

### (26) A brief description of the competencies and duties of the committees, indicating their names, names of their chairmen, names of their members, the number of their respective meetings, dates of those meetings and the members' attendance details of each meeting:

The Board of Directors of Banque Saudi Fransi has formed the following six committees for a three-year period from 01/01/2019 to 31/12/2021: the Executive Committee, the Audit Committee, the Nominations and Remunerations Committee, the Board Risk Committee, the Corporate Social Responsibility Committee and the Board Strategy Committee. These committees have powers under their own regulations. The details of these committees are as follows:

#### (26/A) Executive Committee:

The Committee consists of five members and held eight meetings during 2020. The following are the members of the Committee and its meetings during the year:

| NAME | | TYPE OF MEMBERSHIP | DATES OF MEETINGS | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | FIRST MEETING 13/02/2020 | SECOND MEETING 25/03/2020 | THIRD MEETING 01/04/2020 | FORTH MEETING 12/05/2020 | FIFTH MEETING 22/07/2020 | SIXTH MEETING 16/09/2020 | SEVENTH MEETING 20/10/2020 | EIGHTH MEETING 03/12/2020 |
| 1 | **Mazin Al Romaih** | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 2 | **Abdulrahman Al Rashed** | Member | ✓ | ✕ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3 | **Talal Al Maiman** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4 | **Rayan Fayez** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5 | **Timothy Collins** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✕ |

The Committee's main responsibilities include but are not limited to the following:

- Approve related party transactions as per the 'Delegation of Authority Manual' and the 'Related Party Transaction Policy';
- Approve loans and credit facilities to Banque Saudi Fransi's clients, as per the Bank's 'Delegation of Authority Manual', in line with SAMA rules and regulations for granting loans and credit facilities;
- Review periodic management report activities and reports on the execution and completion of the Bank's major projects;
- Review annual budgets and plans, and material differences in the budget (if any) before submitting them to the Board for review; and
- Review and make recommendations to the Board with respect to Banque Saudi Fransi's overall strategy and business plan.

**(26/B) Audit Committee:**
The Committee consists of five members, is presided by an independent member of the Board and most of the members are from outside the Board. The members of the Audit Committee have high academic qualifications and high professional experiences, including knowledge of accounting standards and the ability to analyze financial reports, in addition to understanding the laws and regulations issued by the competent authorities. The Audit Committee held six meetings during 2020. The following are the members of the Committee and its meetings during 2020:

| NAME | | TYPE OF MEMBERSHIP | DATES OF MEETINGS | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FIRST MEETING 30/01/2020 | SECOND MEETING 27/04/2020 | THIRD MEETING 10/05/2020 | FORTH MEETING 22/07/2020 | FIFTH MEETING 26/10/2020 | SIXTH MEETING 06/12/2020 |
| 1 | **Bader Al Issa** | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 2 | **Mohammad Ikhwan** (from outside the Board) | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3 | **Mohammed Al Subaie** (from outside the Board) | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4 | **Mamdouh Al Majed** (from outside the Board) | Member | ✕ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5 | **Ghazi Al Rawi** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

The Audit Committee's members assist the Bank's Board of Directors in fulfilling its oversight responsibility relating to the following:
- Shareholders, potential shareholders, the investment community and others relating to the financial reporting process;
- The system of Internal Controls;
- The audit process;
- The Bank's financial statements;
- Related parties transactions and conflict of interests' cases; and
- The Bank's process for monitoring compliance with applicable laws and regulations and the Code of Conduct.

**(26/C) Nominations and Remunerations Committee:**
The Committee is composed of five members of the Board of Directors and other specialists. The Committee held four meetings during 2020. The following are the members of the Committee and its meetings during the year:

| NAME | | TYPE OF MEMBERSHIP | DATES OF MEETINGS | | | |
|---|---|---|---|---|---|---|
| | | | FIRST MEETING 11/02/2020 | SECOND MEETING 11/05/2020 | THIRD MEETING 16/09/2020 | FORTH MEETING 08/12/2020 |
| 1 | **Abdulrahman Al Rashed** | Chairman | ✓ | ✓ | ✓ | ✓ |
| 2 | **Khaled Al Mutabagani** | Member | ✓ | ✓ | ✓ | ✓ |
| 3 | **Mansoor Al Mansoor** (from outside the Board) | Member | ✓ | ✓ | ✓ | ✓ |
| 4 | **Talal Al Maiman** | Member | ✓ | ✓ | ✓ | ✓ |
| 5 | **Ghazi Al Rawi** | Member | ✓ | ✓ | ✓ | ✓ |

Functions of the Committee include but are not limited to the following:
- Preparing a clear policy for the remunerations of the Board members, the Board committees' members and the Executive Management, and presenting such policy to the Board in preparation for approval by the General Assembly, provided that such policy follows standards that are linked to performance, and disclosing and ensuring the implementation of such policy;
- Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
- Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank whose appointment is subject to obtaining 'No Objection by SAMA;
- Determining the bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;
- Reviewing compliance of the Remunerations and Compensation policy with the relevant rules and the principles and standards of the Financial Stability Board (FSB); and
- Determine points of strength and weakness in the Board of Directors and the Board committees through performance assessments and recommend remedies that are compatible with Banque Saudi Fransi's interests.

**(26) A brief description of the competencies and duties of the committees, indicating their names, names of their chairmen, names of their members, the number of their respective meetings, dates of those meetings and the members' attendance details of each meeting:** continued

**(26/D) Board Risk Committee:**

The Board Risk Committee comprises four members at present, including members of the Board of Directors and other specialists. The committee held five meetings during 2020. The Committee's members and meetings during the year are as follows:

| NAME | | TYPE OF MEMBERSHIP | DATES OF MEETINGS | | | | |
|---|---|---|---|---|---|---|---|
| | | | FIRST MEETING 12/02/2020 | SECOND MEETING 31/03/2020 | THIRD MEETING 11/05/2020 | FORTH MEETING 10/09/2020 | FIFTH MEETING 09/12/2020 |
| 1 | **Abdullatif Al Othman** | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ |
| 2 | **Bader Al Issa** | Member | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3 | **Khalid Al Omran** | Member | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4 | **Mohammed Al Kinani*** (from outside the Board) | Member | ✓ | ✓ | – | – | – |
| 5 | **Vanessa Eastham Fisk** (from outside the Board) | Member | ✓ | ✓ | ✓ | ✓ | ✓ |

* Resigned from the membership of the Committee as of 01/04/2020.

Major duties and responsibilities of the Board Risk Committee include but are not limited to the following:

- Require and review development strategies and comprehensive policies for risk management that are consistent with the nature and volume of the Bank's activities;
- Ensure efficient operation of these policies, and regularly review and update the policies based on the Bank's internal and external changing factors;
- Review the adequacy of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP);
- Review the adequacy of the Bank's risk management system along with management's assessment of the effectiveness of the systems and mechanisms used to determine and monitor the risks that threaten the Bank in order to identify areas of inadequacy therein in order to maintain the risk register;
- Review the adequacy of the Bank's risk intelligence levels, in terms of gathering information about risks and conducting analysis and evaluation of risks. The results should be utilised for the Bank's competitive advantage;
- Require establishment of bank-wide risk measurement methodologies for quantifying risks;
- Require assessment and review of Credit Risk Management process;
- Provide recommendations on the formulation of the Credit Policy of the Bank, particularly on credit risk related issues including; setting standards for presentation of credit proposals, financial covenants, rating standards and benchmarks; and
- When required, provide recommendations to the Executive Committee on matters relating to delegation of credit approving powers, prudential limits on large credit exposures, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans and provisioning.

**(26/E) Corporate Social Responsibility Committee:**

The Board of Directors of Banque Saudi Fransi is keen to support the largest possible segment of society in all fields. The Committee consists of three members. The Committee held one meeting in 2020. The Committee's members and the meeting attendance record during 2020 are as follows:

| NAME | | TYPE OF MEMBERSHIP | DATE OF MEETING 01/04/2020 |
|---|---|---|---|
| 1 | **Talal Al Maiman** | Chairman | ✓ |
| 2 | **Bader Al Issa** | Member | ✓ |
| 3 | **Rayan Fayez** | Member | ✓ |

The tasks of the Corporate Social Responsibility Committee include but are not limited to the following:

- Review, evaluate and oversee Banque Saudi Fransi's bank-wide charitable giving strategy and funding guidelines;
- Review requests for funding from eligible community and charitable organizations;
- Establish and review social contribution policies and programs;
- Oversee and ensure proper implementation of social contribution compliance systems;
- Review of annual budgets with respect to social contribution programs;
- Set short & long term plans to achieve environmental, social & governance goals, governed with key targets, and ensure that such plans are incorporated in BSF's business strategy; and
- Develop and maintain environmental, social & governance trackers that feed into the Global Sustainability Index, and report BSF's progress in the Annual Report.

**(26/F) Board Strategy Committee:**
The Board Strategy Committee consists of five members of the Board of Directors. The Committee held six meetings during 2020. The Committee's members and meetings during the year are as follow:

| NAME | | TYPE OF MEMBERSHIP | DATES OF MEETINGS | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FIRST MEETING 27/01/2020 | SECOND MEETING 12/02/2020 | THIRD MEETING 15/04/2020 | FORTH MEETING 30/04/2020 | FIFTH MEETING 23/07/2020 | SIXTH MEETING 06/10/2020 |
| 1 | **Talal Al Maiman** | Chairman | × | ✓ | ✓ | ✓ | ✓ | ✓ |
| 2 | **Bader Al Issa** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3 | **Khalid Al Omran** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | × |
| 4 | **Rayan Fayez** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5 | **Timothy Collins** | Member | ✓ | ✓ | ✓ | ✓ | ✓ | × |

Major duties and responsibilities of the Board Strategy Committee include but are not limited to the following:
- Review and evaluate all recommendations from the Strategy Steering Committee against the strategic direction of the Board;
- Critique said recommendations to ensure they fit with the strategic direction of the Board;
- Review and make recommendations to the Board on Strategy related matters; and
- Monitor and suggest remedial action during the first year of implementation.

**(27) A list of the dates of the General Assembly meetings held during the last fiscal year and the names of the Board members who attended them:**
One General Assembly Meeting was held during 2020. The following is the attendance report of the meeting:

| NAME | | ATTENDANCE RECORD |
|---|---|---|
| | | GENERAL ASSEMBLY MEETING 13/05/2020 |
| 1 | **Mazin Al Romaih** (Chairman of the Executive Committee) | ✓ |
| 2 | **Talal Al Maiman** (Chairman of the Corporate Social Responsibility Committee and Board Strategy Committee) | ✓ |
| 3 | **Abdulrahman Al Rashed** (Chairman of the Nomination and Remuneration Committee) | × |
| 4 | **Khaled Al Mutabagani** | ✓ |
| 5 | **Bader Al Issa** (Chairman of the Audit Committee) | ✓ |
| 6 | **Abdullatif Al Othman** (Chairman of the Board Risk Committee) | ✓ |
| 7 | **Ghazi Al Rawi** | ✓ |
| 8 | **Khalid Al Omran** | ✓ |
| 9 | **Rayan Fayez** | ✓ |
| 10 | **Timothy Collins** | × |

**(28) Disclosure of the remuneration of the Board members, Committee Members and Executive Management as stated in the regulations:**
Members of the Board of Directors shall receive a certain amount of money as a remuneration for each member in accordance with his performance and the number of meetings he attends, as per the recommendations of the Nominations and Remuneration Committee, according to Companies Law and the laws and controls issued by the Capital Market Authority and the Saudi Central Bank – emphasising on the absence of any differences between the approved remunerations and what has been approved by the Board of Directors based on the recommendations of the Nominations and Remuneration Committee. In regard to Executive Management remunerations, they are determined based on performance criteria and approved by the Nominations and Remuneration Committee. Remunerations and compensations of the Board of Directors, committees' members and Executive Management are as follows:

**(28) Disclosure of the remuneration of the Board members, Committee Members and Executive Management as stated in the regulations:** continued

**(28/A) The Board's members remunerations:**

| BOARD MEMBERS REMUNERATION (IN THOUSANDS OF SAUDI RIYALS) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FIXED REMUNERATIONS | | | | | | | VARIABLE REMUNERATIONS | | | | | | | | |
| | | CERTAIN AMOUNT | ALLOWANCE FOR ATTENDING BOARD'S SESSIONS | TOTAL FOR ATTENDING COMMITTEES' SESSIONS | BENEFITS IN KINDS | A STATEMENT OF WHAT MEMBERS OF THE BOARD HAVE RECEIVED AS WORKERS, ADMINISTRATIVE OR AS A RETURN FOR TECHNICAL, ADMINISTRATIVE OR CONSULTING WORK | THE REMUNERATION OF THE CHAIRMAN OF THE BOARD, THE MANAGING DIRECTOR OR THE SECRETARY IF HE IS A MEMBER | TOTAL | PERCENTAGE OF PROFITS | PERIODIC REMUNERATIONS | SHORT-TERM INCENTIVE PLANS | LONG-TERM INCENTIVE PLAN | GRANTED SHARES (THE VALUE MUST BE INSERTED) | TOTAL | LEAVING INDEMNITY | SUM TOTAL | EXPENSES ALLOWANCES |
| **FIRST: INDEPENDENT MEMBERS:** | | | | | | | | | | | | | | | | | |
| 1 | Abdulrahman Al Rashed | 420 | 18 | 33 | – | – | – | 471 | – | – | – | – | – | – | – | 471 | – |
| 2 | Bader Al Issa | 420 | 21 | 54 | – | – | – | 495 | – | – | – | – | – | – | – | 495 | – |
| 3 | Abdullatif Al Othman | 420 | 21 | 15 | – | – | – | 456 | – | – | – | – | – | – | – | 456 | – |
| 4 | Ghazi Al Rawi | 420 | 21 | 30 | – | – | – | 471 | – | – | – | – | – | – | – | 471 | – |
| 5 | Timothy Collins | 420 | 21 | 36 | – | – | – | 477 | – | – | – | – | – | – | – | 477 | – |
| **Total** | | 2,100 | 102 | 168 | – | – | – | 2,370 | – | – | – | – | – | – | – | 2,370 | – |
| **SECOND: NON-EXECUTIVE MEMBERS:** | | | | | | | | | | | | | | | | | |
| 1 | Mazin Al Romaih | – | 21 | 24 | – | – | 3,750 | 3,795 | – | – | – | – | – | – | – | 3,795 | – |
| 2 | Talal Al Maiman | 420 | 21 | 54 | – | – | – | 495 | – | – | – | – | – | – | – | 495 | – |
| 3 | Khaled Al Mutabagani | 420 | 21 | 12 | – | – | – | 453 | – | – | – | – | – | – | – | 453 | – |
| 4 | Khalid Al Omran | 420 | 21 | 30 | – | – | – | 471 | – | – | – | – | – | – | – | 471 | – |
| **Total** | | 1,260 | 84 | 120 | – | – | 3,750 | 5,214 | – | – | – | – | – | – | – | 5,214 | – |
| **THIRD: EXECUTIVE MEMBERS:** | | | | | | | | | | | | | | | | | |
| 1 | Rayan Fayez | 420 | 21 | 45 | – | – | – | 486 | – | – | – | – | – | – | – | 486 | – |
| **Total** | | 420 | 21 | 45 | – | – | – | 486 | – | – | – | – | – | – | – | 486 | – |

**(28/B) Committees' members remunerations:**

| COMMITTEES' MEMBERS REMUNERATIONS (IN THOUSANDS OF SAUDI RIYALS) | | | | | |
|---|---|---|---|---|---|
| | | FIXED REMUNERATIONS (EXCEPT ATTENDING SESSIONS ALLOWANCE) | ALLOWANCE FOR ATTENDING SESSIONS | TOTAL | NOTES |
| AUDIT COMMITTEE MEMBERS | | | | | |
| 1 | Bader Al Issa | – | 18 | 18 | |
| 2 | Mohammad Ikhwan | 200 | 18 | 218 | |
| 3 | Mohammed Al Subaie | 200 | 18 | 218 | |
| 4 | Mamdouh Al Majed | 200 | 15 | 215 | |
| 5 | Ghazi Al Rawi | – | 18 | 18 | |
| **Total** | | 600 | 87 | 687 | |
| NOMINATION AND REMUNERATION COMMITTEE MEMBERS | | | | | |
| 1 | Abdulrahman Al Rashed | – | 12 | 12 | |
| 2 | Mansoor Al Mansoor | 200 | 12 | 212 | |
| 3 | Talal Al Maiman | – | 12 | 12 | |
| 4 | Ghazi Al Rawi | – | 12 | 12 | |
| 5 | Khaled Al Mutabagani | – | 12 | 12 | |
| **Total** | | 200 | 60 | 260 | |
| BOARD RISK COMMITTEE MEMBERS | | | | | |
| 1 | Abdullatif Al Othman | – | 15 | 15 | |
| 2 | Bader Alissa | – | 15 | 15 | |
| 3 | Khalid Al Omran | – | 15 | 15 | |
| 4 | Mohammed Al Kinani* | 50 | 6 | 56 | |
| 5 | Vanessa Fisk | 200 | 15 | 215 | |
| **Total** | | 250 | 66 | 316 | |
| EXECUTIVE COMMITTEE MEMBERS | | | | | |
| 1 | Mazin Al Romaih | – | 24 | 24 | |
| 2 | Abdulrahman Al Rashed | – | 21 | 21 | |
| 3 | Talal Al Maiman | – | 24 | 24 | |
| 4 | Rayan Fayez | – | 24 | 24 | |
| 5 | Timothy Collins | – | 21 | 21 | |
| **Total** | | – | 114 | 114 | |
| SOCIAL RESPONSIBILITY COMMITTEE MEMBERS | | | | | |
| 1 | Talal Al Maiman | – | 3 | 3 | |
| 2 | Bader Al Issa | – | 3 | 3 | |
| 3 | Rayan Fayez | – | 3 | 3 | |
| **Total** | | – | 9 | 9 | |
| BOARD STRATEGY COMMITTEE MEMBERS | | | | | |
| 1 | Talal Al Maiman | – | 15 | 15 | |
| 2 | Bader Al Issa | – | 18 | 18 | |
| 3 | Rayan Fayez | – | 18 | 18 | |
| 4 | Khalid Al Omran | – | 15 | 15 | |
| 5 | Timothy Collins | – | 15 | 15 | |
| **Total** | | – | 81 | 81 | |

* Resigned on 01/04/2020

**(28) Disclosure of the remuneration of the Board members, Committee Members and Executive Management as stated in the regulations:** continued

**(28/C) Senior Executives remunerations:**

| REMUNERATIONS OF FIVE SENIOR EXECUTIVES, INCLUDING CEO AND CFO (IN THOUSANDS OF SAUDI RIYALS) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FIXED REMUNERATIONS | | | | VARIABLE REMUNERATIONS | | | | | | END-OF-SERVICE AWARD | TOTAL EXECUTIVES' REMUNERATION FOR THE BOARD, IF ANY | AGGREGATE |
| SALARIES | ALLOWANCES | IN-KIND BENEFITS | TOTAL | PERIODIC REMUNERATIONS | PROFITS | SHORT-TERM INCENTIVE PLANS | LONG-TERM INCENTIVE PLANS | GRANTED SHARES (INSERT THE VALUE) | TOTAL | | | |
| 12,061 | 6,068 | 552 | 18,681 | – | – | 15,500 | – | – | 15,500 | – | 486 | 34,667 |

| REMUNERATIONS OF SENIOR EXECUTIVES WHOSE APPOINTMENT REQUIRES OBTAINING NO OBJECTION OF THE SAUDI CENTRAL BANK (IN THOUSANDS OF SAUDI RIYALS) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FIXED REMUNERATIONS | | | | VARIABLE REMUNERATIONS | | | | | | INDEMNITY | TOTAL EXECUTIVES' REMUNERATION FOR THE BOARD, IF ANY | AGGREGATE |
| SALARIES | ALLOWANCES | IN-KIND BENEFITS | TOTAL | PERIODIC REMUNERATIONS | EARNINGS | SHORT-TERM INCENTIVE PLANS | LONG-TERM INCENTIVE PLANS | SHARES AWARDED (VALUE ENTERED) | TOTAL | | | |
| 21,212 | 10,775 | 879 | 32,866 | – | – | 24,430 | – | – | 24,430 | 2,568 | 486 | 60,350 |

**(29) Waiver of remuneration or dividends by Board members, Senior Executives or shareholders:**

There are no arrangements or agreements whereby members of the Board of Directors or Senior Executives have waived any remuneration or compensation.

There are no arrangements or agreements whereby a shareholder of the Bank has waived any rights in profits.

**(30) The means used by the Board of Directors to assess its performance, the performance of its committees and members and the external body, which conducted the assessment and its relationship with the Bank, if any:**

The Board of Directors of the Bank evaluates its performance and the performance of its committees and members separately on an annual basis and in addition, at the end of the Board's session (each three years), assigns a specialised external body to conduct a comprehensive assessment of the performance of the Board, its committees and members.

For the year of 2020, an internal assessment has been conducted for the Board, its members and committees using key performance indicators linked to the extent to which the strategic objectives of the Bank have been achieved, the quality of the risk management and the efficiency of the internal control systems. The assessment also included the skills and experiences of the Board, as well as the mechanisms of the Board's activities in general.

**(31) The audit committees recommendation with conflict with Board resolution or those which the Board disregards relating to the appointment, dismissal, assessment or determining the remuneration of an external auditor, as well as justifications for those recommendations and reasons for disregarding them:**

There are no recommendations from the Audit Committee that contradict with the decisions of the Board of Directors and the Board of Directors have not rejected any recommendations from the Audit Committee regarding the appointment, dismissal, remuneration, performance evaluation of Bank's External Auditors.

**(32) Board of Directors' recommendations to change auditors:**

For the Fiscal Year 2020, the Board recommended to change PricewaterhouseCoopers (PWC) and appoint Ernst & Young (EY) as the Joint External Auditors of the Bank along with KPMG, to conduct the quarterly and annual audit of financial statements for FY 2020.

**(33) Actions taken by the Board of Directors to inform its members, especially non-executives, of shareholders' proposals and observations on the Bank and its performance:**

The Board is keen to enable shareholders to exercise their rights and submit their comments and inquiries during the General Assembly meetings. These comments and inquiries shall be recorded in the minutes of the meeting. The Bank also allocates means of communication for shareholders (telephone, fax, postal address, e-mail) through which comments and inquiries of shareholders, if any, are received and then submitted to Board members at the first subsequent meeting of the Board of Directors, and this is included in the minutes of the meeting.

**(34) Declarations of the Board of Directors:**

**The Board of Directors of the Banque Saudi Fransi declares the following:**

a) Proper books of account have been maintained;
b) The system of internal control is sound in design and has been effectively implemented; and
c) There are no significant doubts concerning the Bank's ability to continue its activity.

Transactions with the related parties and the information concerning any contracts or acts in which the Bank is a party, or in which there is a material interest to the Chairman and members of the Board of Directors of the Bank, the Chief Executive Officer, the Chief Financial Officer or any person directly related to any of them, have been disclosed in Disclosure No. (35) on transactions with related parties in the consolidated financial statements, and Articles (13) and (14) of this report.

**(35) Information on any risks facing the Bank (operational, financing, or market related) and the policy of managing and monitoring these risks:**

**A. Risk Appetite Framework:**

The Risk Appetite Statement is reviewed and renewed by the Board of Directors annually, or on significant changes to business strategy. It encapsulates the quantum and type of risks that the Bank is willing to accept within its risk capacity to achieve its Strategic Risk Objectives and Business Plan. Its objective is to provide the Bank's management and business lines with guidance regarding the risk profile that the Bank targets and is prepared to accept. The Bank revised its Risk Appetite Framework for 2020. It has enhanced the Bank's Risk Appetite and formulated business line cascades for Corporate and Retail. Improvements in the area of risk-based country limits are to be incorporated in 2021.

The Risk Appetite articulates the Bank's tolerance for risk across a wide range of parameters, which include solvency and capital adequacy, liquidity and funding, credit quality and provisioning, credit concentration, market risk, operational risk, people risk and the investment portfolio. The limits have been established taking into account adequate buffers vis-à-vis regulatory thresholds, where applicable.

The Corporate metrics provide detailed guidance on RWA usage, segmental and country limits, banking portfolio credit quality, sectoral distribution and obligor concentrations to align the Business Strategies with the Bank's Risk Appetite. The Retail metrics provide guidance on recovery-adjusted default flow rates for various product segments.

The Risk Management Group monitors adherence to the approved Risk Appetite Statement. Deviations, if any, from the acceptable tolerance bands are escalated for further action by Senior Management, with corrective actions initiated. At quarterly intervals, the Executive Committee of the Board and the Board Risk Committee review the actual position of the risk indicators vis-à-vis the laid down parameters.

**B. Credit Risk Management:**

The Bank's credit portfolio is managed in accordance with the recently enhanced Credit Policy and Risk Appetite, which together provide the qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk.

The Bank's Credit Policy (Wholesale and Retail) underwent a comprehensive incorporating industry good practices, latest regulatory guidelines (e.g. Large Exposures, Related Party and Management of Problem Loans) and business stakeholder expectations. The Risk Rating Standards were developed to enhance guidance on aspects related to Risk Rating, a critical element of the lifecycle management of credit processes.

The credit granting and approval process is performed through credit committees with different levels of credit approval delegation, and the Credit Risk Department being entrusted with the responsibility of providing independent risk opinions on the credit requests emanating from the business lines.

The decision making in the credit committees of the Bank is aided by internal credit rating models developed and maintained for different segments of the banking book and subject to re-validation at periodical intervals. It may be specifically mentioned that the Corporate and SME models were newly re-developed to higher standards for better decision-making and risk measurement.

The Bank has adopted and integrated SAMA's Rules on Management of Problem Loans beginning Oct 2020.

**C. Market Risk Management:**

Concerning Market Risk monitoring, the Bank has clearly defined policies and procedures related to market risk activities, as well as a comprehensive set of market risk limits (together with loss alerts) which are reviewed at least annually, and independently monitored on a daily basis by a dedicated Market Risk department.

In order to monitor the market risk in the trading book, the Bank applies on a daily basis a VAR methodology based on historical rates evolutions observed in the market, and also performs daily stress testing in order to estimate the potential economic loss based on a defined set of significant changes in market conditions (i.e. extreme adverse market movements).

**(35) Information on any risks facing the Bank (operational, financing, or market related) and the policy of managing and monitoring these risks:** continued

**D. Operational Risk Management:**

Operational Risk Management (ORM) is the second line of defense actively engaged in identifying, analyzing, evaluating and ensuring sound treatment for prevailing operational risks across the organization. Ensuring a sound implementation of the OpRisk framework, ORM manages an array of systematic and idiosyncratic risks, which can be traced back to people, processes, systems or external events.

A comprehensive, systematic and integrated approach allows ORM to work closely with business, support and other control entities providing proactive advice and oversight to all banking functions. Dynamic Operational Risk Profiles (DYRPs) are maintained for all key processes across the Bank, reflecting their risk exposure, current controls and their on-ground performance to derive the required remediation requirements that allow for analyzing the overall risk position of each unit and are collated to form the Bank-wide Risk Heat map.

With timely incident reporting, strong detection mechanisms and efficient incident response processes, our Incident Management allows for minimizing impacts and ensuring lessons are learnt. This is achieved by inculcating a strong risk culture, introducing various training programs for staff and creating awareness through regular broadcasts.

In our drive towards predictive analytics, KRIs have played a pivotal role in providing early warning signs for possible operational failures, helping to gauge risk levels accurately. With the Control Testing practice reaching maturity, ORM has great visibility on the performance of the current first and second level of controls, while being able to identify control gaps and ensure timely corrective actions. ORM participate in stress testing exercise and provides its input from operational risk perspective.

Operational Risk Management is an integral part of New Products & Services Process. ORM not only participates as a member of risk assessment team, but also manages the process at the bank level. Operational Risk Management assess technology risk, as well as insurance risk from operational risk perspective and provide advice on any proposed process/system changes as well. Operational Risk is an active member of Policies and Procedure Review Committee. As one of the regular member of the committee, ORM reviews all policies & procedures bank-wide. ORM is also involved in subsidiaries oversight for operational risk activities.

Given the global rise in outsourcing risk with the advent of FinTech and digitalization, the proactive Outsourcing Risk Assessment has allowed for a review of contracts prior to being signed, coupled with strong monitoring during the course of contracts. Technology Risk Management is an essential part of ORM, since Information, Communication and Technology (ICT) are core to the banking operations. ORM continues to ensure full coverage of technology and digital banking risks and their associated mitigation plans, allowing for the protection of the Banks' customers and related stakeholders, as well as ensuring reliable digital and conventional banking services.

Insurance Risk Management creates a great risk-sharing mechanism, increasing the Bank's resilience in the highly volatile and dynamic financial services industry, with evolving risks and threats. With the enhanced Insurance Risk Management Policy, ORM performs deep risk analytics to understand the Bank's current loss profile and reviews the insurance policy coverage accordingly.

Furthermore, with a robust and comprehensive Business Continuity Management practice, the Bank has ensured that critical operations can continue to function at an acceptable level in the event of a disaster or long-term outage of normal facilities, utilities, systems and functions. The Bank has proactively implemented the ISO 22301 standard to enhance operational resilience, covering Business Continuity, Crisis Management & Disaster Recovery. With comprehensive Risk Assessment & Business Impact Analysis, critical functions are identified along with resources and dependencies. Comprehensive testing ensures that the Bank's Business Continuity and Disaster Recovery Plans are well understood and subject to periodic testing.

**E. International Financial Reporting Standards (IFRS):**

On 1 January 2018, the Bank adopted International Financial Reporting Standard 9 (IFRS 9). The standard incorporates a forward-looking expected credit loss (ECL) approach. The Bank is required to record an allowance for expected losses for all loans and other debt type financial assets not held at fair value through profit or loss. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

In course of 2019, the Bank had substantially automated input processes on the IFRS9 technology platform. In 2020, there have been significant improvements in analytics, policies and processes; thus ensuring precision in IFRS 9 ECL estimates. These include:

- Analytics: The Macroeconomic Models were re-developed based on appropriate internal and external data and validated for precision, with the assistance of Moody's Analytics. IFRS9 scenarios and narratives are now sourced from econometric models of Moody's (Data buffet) to ensure they are probabilistic, robust and regularly updated. This also ensures a consistent alignment of KSA-specific scenarios for IFRS 9 and Stress Tests designed by SAMA. Based on annual validation results, the Corporate and SME models were re-estimated on a wider default dataset on robust statistical principles, expert judgment and Governance and pre-implementation validation indicated robust discriminatory power and calibration of the models. Additional monitoring mechanisms are being set up to ensure that the models remain fit-for-purpose.
- Policies and Standards: To ensure appropriateness of the Rating process and Staging, your Bank has approved through appropriate Board Governance, a host of updated Policies and Standards including the Credit Policy (pl. see section on Credit Risk Management), Validation and Risk Rating Standards, and procedural enhancements in Staging Rules (e.g. SICR criteria, Collateral and Covenants etc.).
- Processes: Full automation ensuring correct input and output processes with checks has now reached a stage of maturity, with close alignment to SAMA IFRS9 guidelines including allied regulations in the Credit space.

**F. A Brief Write-Up On Corporate Information Security Division**

In its continuous pursuit for excellence, BSF Board of Directors recognize cyber Security as strategic enabler to accomplish corporate mission and achieve business goals, and hence, treat cyber Security as high priority. BSF and its Board of Directors are firmly committed to maintain high standards of Cyber Security over its assets and information. The Vision of Cyber security is "Protect BSF data and reputation by providing a secure and resilient digital banking environment and security posture which is in compliance with local and international cybersecurity standards and regulations".

The components of Cyber Security include the following:

- Cybersecurity Leadership: Cybersecurity in BSF is an independent entity under Risk Management Group and managed by Senior Level Executive – Chief Information Security Officer (CISO) who is responsible for establishing and maintaining the enterprise vision, strategy, and program on cybersecurity. The BSF Cybersecurity Governance Committee consisting of Group Heads from all relevant Groups support the overall cybersecurity governance in BSF.
- BSF Cybersecurity Strategy: BSF Board of Directors have approved the four years Cyber Security Strategy which is in aligned with the Bank's strategic objectives, business requirements, future state aspirations, emerging technologies and also encompasses the requirements of regulations.
- Policy, procedure, baseline and standards: Corporate Information Security continuously strives to maintain the highest standards in cyber security and hence have revised the Cyber security policies, procedures, baselines and standards to ensure alignment with industry best practices and national and international security standards and regulation.
- Cyber Security Governance Function: BSF Corporate Information Security Division is staffed with qualified resources to fulfill the cyber security responsibilities. BSF has adopted strategy to attract and retain the best talents in Cyber Security and has implemented training programs that are designed to rapidly accelerate the development of core skills and to provide paths for specialized development of advanced cyber security expertise.
- Security Awareness program for staff and customers: Corporate Information Security Division adopts multi-channel approach for awareness dispersion. The program encompasses and explains proper rules of behavior for the safe and secure use of information and systems for staff and customers.
- Risk Management Framework: BSF Corporate Information Security Division adopts a risk-based approach to manage Cyber Security risk to detect, analyze, evaluate, communicate and mitigate cyber security risk.
- Continuous Compliance program: Corporate information Security Division maintains a continuous compliance status against Payment Card Industry Data Security Standard (PCI DSS) certification – the rigorous data security standards that BSF applies in protecting customers' information, reducing credit card fraud and thereby enhancing customer confidence. Corporate Information Security has also robust methodologies to ensure compliance with mandates of SAMA Cyber security Framework and also mandates from National Cybersecurity Authority.
- 24/7 Cyber Security Monitoring: Corporate Information Security is maintaining a Security Operations Center (SOC) where security-related data from enterprise information systems is monitored, assessed and actioned. The Security Operations Center (SOC) is responsible for monitoring and analyzing the security posture of banks critical assets on a 24/7 basis.
- Digital forensic and incident response: Corporate Information Security has a matured security incident management process for managing security incident and conducting drills for Incident Management. Procedure to challenge existing controls with real life attacks in order to measure their resilience and effectiveness are performed.
- Threat Hunting: Corporate Information Security has established a Threat hunting function, which uses a mixture of forensics capabilities and threat intelligence to track down where attackers have established footholds within the network and eliminate their access before any damaging malicious actions, can take place.
- Peer group collaboration: Corporate Information Security is a member in Banking Committee on Information Security (BCIS), this committee is managed by SAMA for exchanging information, risk, alert and expertise in information security across banks and with SAMA.

**(36) Results of the annual review of the effectiveness of the internal control procedures of the Bank and the opinion of the Audit Committee with respect to the adequacy of Bank's internal control system:**

**A. Internal Control Framework (ICF):**

In view of the importance of the internal controls environment to Banque Saudi Fransi, the Board of Directors has taken responsibility for ensuring that the essential policies and procedures in the Bank are designed to provide effective internal controls to manage risks within the agreed risk appetite. Accordingly, it has adopted an integrated framework for internal controls to provide reasonable assurance on the effectiveness and efficiency of controls within the Bank. In addition, the Bank has Internal Control Policy in place, which is intended to strengthen the governance of Internal Control processes and its operations in accordance with the systems and controls framework set-out in the Bank's Corporate Governance Manual approved by the Board and guidelines on Internal Control issued by Saudi Central Bank (SAMA).

The Executive Management at Banque Saudi Fransi is responsible for validating the application and reviewing the effectiveness of the internal control environment, in line with the directives of the (SAMA) and as specified in the internal control framework approved by the Board of Directors. The Internal Control Framework (ICF) is based on the model of 'Three Lines of Defense' in the Management and Control of risk. It defines the roles and responsibilities of the Board of Directors and the Board committees to support in the process of monitoring and mitigating risks associated with strategy, financial performance, technology, asset and liability management, credit, operations, legal affairs, organizational affairs and information security.

Undoubtedly, all Bank divisions are exerting their best efforts to improve the effectiveness and efficiency of the internal controls environment through continuous reviews, coordinated and integrated procedures and corrective actions in order to avoid and correct any control deficiencies.

**(36) Results of the annual review of the effectiveness of the internal control procedures of the Bank and the opinion of the Audit Committee with respect to the adequacy of Bank's internal control system:** continued

**A. Internal Control Framework (ICF)** continued

Senior Executive Managers – Heads of Departments (the first line of defense), are assigned the responsibility of supervising the implementation process of the corrective action plans related to the identified gaps as reported by all control functions (the second line of defense) such as Compliance, Risk Management, Human Resources and Finance. Internal Audit (the third line of defense) provides a reasonable and comprehensive assurance, based on the highest level of independence and objectivity, on the effectiveness of governance, risk management and internal controls, including the approaches in which the first and second lines of defense apply to achieve risk management and control objectives. Moreover, the Board of Directors are provided with periodic reports that clarifies the level of effectiveness of the internal control environment.

**B. Internal Audit Group (IAG):**

The responsibilities of the 'Internal Audit Group' are established and defined by the Board Audit Committee, whose role is based on adding value to improve the Bank's operations and providing independent and objective assurance to Senior Management and the Board of Directors through the Board Audit Committee. In addition, IAG provides advisory services and has adopted a Quality Assurance & Improvement Program (QAIP) that covers all activities within the Internal Audit Group.

To ensure Internal Audit's independency, the Chief Internal Auditor is assigned to manage the Internal Audit Group, reports functionally to the Board Audit Committee, and administratively to the Managing Director and CEO. The Internal Audit Group has full and unrestricted access to all the Bank's systems, records, physical assets and to all involved employees; however, is subject to strict responsibility for the protection and confidentiality of records and information.

The Internal Audit Group performs its work in accordance with a risk-based audit methodology, following the rules and regulations issued by the legislative and regulatory bodies in the Kingdom of Saudi Arabia and The International Professional Practices Framework (IPPF) issued by The Institute of Internal Auditors (IIA). Hence, Internal Audit performs audits/reviews to examine and evaluate the effectiveness and efficiency of risk management, internal controls, governance and other activities in the Bank, in addition to assessing the quality of performance while exercising their responsibilities towards achieving the Bank's strategic goals and objectives. Moreover, the Internal Audit Group submits the final reports to the relevant departments and Senior Management, where the audit observations are discussed, and corrective actions and respective target dates of implementation are agreed.

Internal Audit provides a quarterly activity report to the Audit Committee, which also monitors timely closure of reported issues by the Management as per the agreed timelines.

**C. Compliance Group (CPG):**

In light of the increasing focus and attention on compliance to the regulatory requirements of the Central Bank of Saudi Arabia and the relevant international developments, with the need to activate the policy and culture of compliance in all activities, tasks and work of the bank to protect its interests, and coordinate efforts to reduce non-compliance with the requirements, regulations and instructions, In addition to strengthen and protecting confidence in the integrity and reputation of the bank and maintaining it and providing the best levels of security and protection for customers and shareholders. The Banque Saudi Fransi, represented by the Compliance Group, sought during the year 2020 to exert the utmost due diligence in applying compliance in all the work and tasks assigned to it related to the bank, its customers and its employees, and it paid great attention to this aspect by urging the adherence to ethical and professional behavior Instructions and guidelines for the bank's employees, taking into account the values of Banque Saudi Fransi and the Kingdom's Vision 2030.

The year of 2020 was full of challenges and difficulties compared to previous years, not only at the level of the Compliance Group, but at the level of the bank and the banking sector, as countries were exposed to the Coronavirus (COVID19) pandemic that has spread in the world since the beginning of the year 2020, which has a direct noticeable impact on the performance of markets and various Economic, health and social sectors and activities, and despite the favorable conditions for the Coronavirus (COVID19) pandemic, the bank was able to overcome these difficulties and challenges with the highest quality and commitment in performance and the implementation of supervisory and regulatory requirements.

The Compliance Group, during the year 2020, made many initiatives and changes at the level of restructuring the group, as it submitted reports of the Anti-Bribery and Corruption Department directly to the Chief Compliance Officer in order to give it sufficient authority and independence to conduct its daily business and tasks, as well as changing the name of the Anti-Money Laundering and Terrorism Financing Unit to the Department Combating financial crimes, in line with international best practices. The duties and work of the Anti-Financial Fraud Control Department have also been transferred to the Compliance Group, in implementation of the relevant supervisory instructions. The Compliance Group has reviewed several policies and procedures to reflect local and international best practices. As well as launching many initiatives, for example (ask the Compliance, Compliance hotline, holding workshops to find appropriate solutions "service obstacle", as well as updating the Know Your Customer program, anti-bribery and corruption policy and issuing the Compliance program policy against money laundering and financing Terrorism and Punishments).

In addition, Compliance launched a questionnaire at the bank level during the past year to find and assess the level of understanding and awareness of bank employees on the role of commitment and the level of communication with all employees and the various sectors of the bank. In addition to the awareness and training campaigns led by the Compliance group and specialized courses for many different business sectors.

In order to reach the strategic objectives of the Compliance group, one of its priorities was to work to achieve the supervisory and organizational commitment at the bank level, where the policies and procedures related to the whistle blower were reviewed and developed, and at the level of combating financial crimes and money laundering through study, examination and analysis cases of suspected money laundering and detection, and taking appropriate measures regarding them, informing the competent authorities about them (inside and outside the bank) and following them up, correcting accounts in violation of the regulations and instructions, with developing corrective plans to deal with them, providing and developing highly efficient programs and systems to monitor them, in addition to preparing quarterly and annual reports to give a detailed perception of the bank's top management about the tasks and achievements, which in turn reflects the quality and professionalism of the work outputs and its effectiveness.

The Compliance group had a major role and effective contribution to achieving the strategic objectives of Banque Saudi Fransi towards the initiatives of developing financial technology and technology, digitizing the current banking operations related (products, services, activities) and implementing and launching the main technical banking system of the Fransi Banque. The Compliance Group also actively seeks to maintain a high level of good and distinguished relationship with the supervisory and regulatory authorities of the financial and banking sector, which aims to speed up the bank's response to the changes and continuous requirements to achieve a high level of effective supervisory compliance in the bank in general.

In the fourth quarter of each year, the Chief Compliance Officer prepares the annual Compliance plan for the following year, as it contains all the main activities and tasks that will be implemented, namely, new effective initiatives, technical projects, digitization, and periodic reviews of tasks and business in the bank in its various sectors, playing the main role with high efficiency as a line the second defense in the bank, with the aim of implementing compliance with regulations, instructions and best practices in order to avoid the risks of non-compliance, awareness and continuous training. The annual plan is approved and submitted to the Compliance Committee and the Review Committee for approval and proceeding with its implementation.

**D. Risk Management Group (RMG):**

The key function of the Risk Management Group is to effectively oversee internal control at the Bank level, thus contributing to the Bank's strategic directions, which includes identifying, reducing, controlling and reporting all types of risks, including behavioral risks.

In this regard, the Risk Management Group works closely with all the Bank's internal stakeholders to ensure an appropriate control system that operates effectively and continuously. Based on the nature of the continuous development of banking services, the Risk Management Group continuously seeks to close gaps, address risks and strengthen the internal control systems.

**E. Results of reviewing the effectiveness of internal controls:**

The Audit Committee reviews the reports related to the Bank's internal control, mainly reports issued by the Internal Audit, Risk Management and Compliance Group. Moreover, meetings are conducted with the Bank's Group heads, through Internal Audit, to discuss matters regarding their Groups' performance, outstanding audit observations and the current progress in applying respective corrective actions. In addition, the results of any newly published and/or amended regulations issued by the legislative and regulatory bodies, key amendments to the accounting policies and International Financial Reporting Standards (IFRS) are also discussed during the Audit Committee meetings, either with the Bank's officials and/or with the external auditors, to ensure their application. Additionally, the Audit Committee updates the Board of Directors on a quarterly basis, on the effectiveness and efficiency of the Bank's internal controls and controls adopted to remedy any outstanding issues.

Based on the aforementioned, the current control environment and the annual reviews on the efficiency and effectiveness of control tools, the Audit Committee believes that the controls and procedures that constitutes the current Internal Control Framework are **'sufficient'**. The Internal Control Framework is continuously monitored and updated in order to manage any changes or developments that may affect the work environment.

## (37) Principles applied by the Bank in the area of corporate governance:

The Bank-in general-complies with all regulations and instructions issued by regulatory authorities on governance, such as the main principles of governance in banks operating in the Kingdom of Saudi Arabia issued by the Saudi Central Bank, the Corporate Governance Regulations issued by the Capital Markets Authority, and the Companies Law issued by the Ministry of Commerce. The Bank shall update the Articles of Association of the Bank, the regulations of the Board and its committees, and the Governance Manual, as well as its policies and procedures in accordance with these regulations and any updates or instructions issued in respect of governance.

Moreover, BSF has been awarded with the Corporate Governance Index Excellence Award designed for listed companies on the Saudi Stock Exchange from the Corporate Governance Center at Alfaisal University as a result of the Bank's commitment to apply best practices of good governance.

### (38) Ethical principles and professional foundations of the Banque Saudi Fransi:

The Principles of Conduct and Business Ethics document of Banque Saudi Fransi has been updated to comply with SAMA's Instructions issued No. 67/72203 related to the principles of conduct and business ethics in financial institutions that aim to enhance job discipline, integrity, transparency, objectivity, efficiency, loyalty and effectiveness in the behavior of financial institutions employees.

This document includes the principles that govern the work process, which employees representing the bank, whether directly or indirectly, must adhere to, including but not limited to the following:

**First: Code of Conduct and Professional Ethics:**

- Commitment to working hours, integrity, good manners in personal dealings.
- Combatting financial and administrative corruption crimes and the employees' duties to accomplish that.
- Dealing with conflict of interest such as giving and receiving gifts, working for others and personal investment.
- Maintaining Confidentiality and Mechanisms for Disclosure of Information.
- Reporting Actual or Potential Violations.
- Safe and Contraband-Free Workplace
- Fair dealings.
- Protection of Bank Assets.
- Validity of Financial Records and Reports.
- Compliance with Laws, Regulations, Directives and Policies.

**Second: Acceptable Use Policies of Computer, E-mail and Internet Services:**

Includes an extract of the cyber security acceptable use policy where all Banque Saudi Fransi users are responsible for complying with the cyber security policies, standards and procedures, including the acceptable use policy, unacceptable uses, and control and monitoring standards. It is the responsibility of the directors of the concerned departments or the director of the Information Security Department, in consultation with the Human Resources Group and the Regulatory Control Service, to assess non-compliance with these policies. Violations of these policies will be thoroughly examined and action will be taken based on the degree and seriousness of the violation.

**Third: Consequences of failure to adhere to the principles of conduct and work ethics:**

It is the responsibility of the Bank to verify the implementation of its Code of Conduct and Professional Ethics and to monitor and control any violations thereof. If the Bank employees do not adhere to these principles, the necessary measures will be taken and penalties shall be imposed in accordance with the internal work regulations and penalties of Banque Saudi Fransi.

### (39) Details of the Bank's social contributions:

BSF is a viable player in the Saudi society, where our commitment to operating with integrity and providing innovative ideas are central elements to our culture and are reflected across our businesses. We are a key enabler in creating good jobs, supporting local communities and, ultimately, securing the future of individuals and families across the Kingdom.

BSF thrives to expand the role of corporate social responsibility to maintain a sustainability mindset. This is showcased via the bank's strategy of pledging to achieve UNPD's Sustainable Development Goals (SDGs), issuing the Sustainability Excellence report that manifests BSF ESG framework, and aligning objectives and achievements to Saudi Vision 2030. This stance is reinforced by the bank's commitment to advance the development of environmental, social, and governance projects, and to contribute in supporting social and charitable activities and programs.

During 2020, the bank engaged with a wide range of activities to support the local community in facing the hardship of the global pandemic. This is while continuing to aid those in need, and supporting charities that aim at elevating the lives of challenged individuals and families. The bank has also expanded its positioning in supporting females in the workplace by sponsoring the W20, and ringing the bell with Tadawul on gender equality and female inclusion in the financial sector.

**BSF participation in 2020:**

| PROGRAM NAME |
|---|
| High contribution to the Social Fund for COVID-19 relief<br>(Ministry of Human Resource & Social Development) |
| Health Endowment Fund during COVID-19 pandemic (Ministry of Health) |
| Awareness Campaigns (internally & externally) |
| W20 Sponsorship (Associating social campaign for women inclusion) |
| Ring the bell for Gender Equality and Women Inclusion in the financial sector (in association with Tadawul & the United Nations) |
| Jood Aleskan donation by BSF employees |
| Social donations on behalf of our clients instead of the yearly Ramadan gift |
| Signing of an agreement with the Social Development Bank to support "Zood" program (Saving as a way of life) in support of Vision 2030 |
| Donation to the Autism Center of Excellence |

**Government related initiatives:**

Agriculture Development Fund "ADF":

- BSF signed a collaboration agreement with ADF to finance the funds beneficiaries for the purpose of supporting food security in the kingdom;
- BSF was the biggest contributor in this program by providing facilities for the beneficiaries of the program, worth up to 500 million in 2020 to support Food Security initiative.

Tourism Development Fund "TDF":

- BSF was one of the first banks in signing a collaboration agreement with TDF to support tourism industry in Saudi through financing TDF beneficiaries.

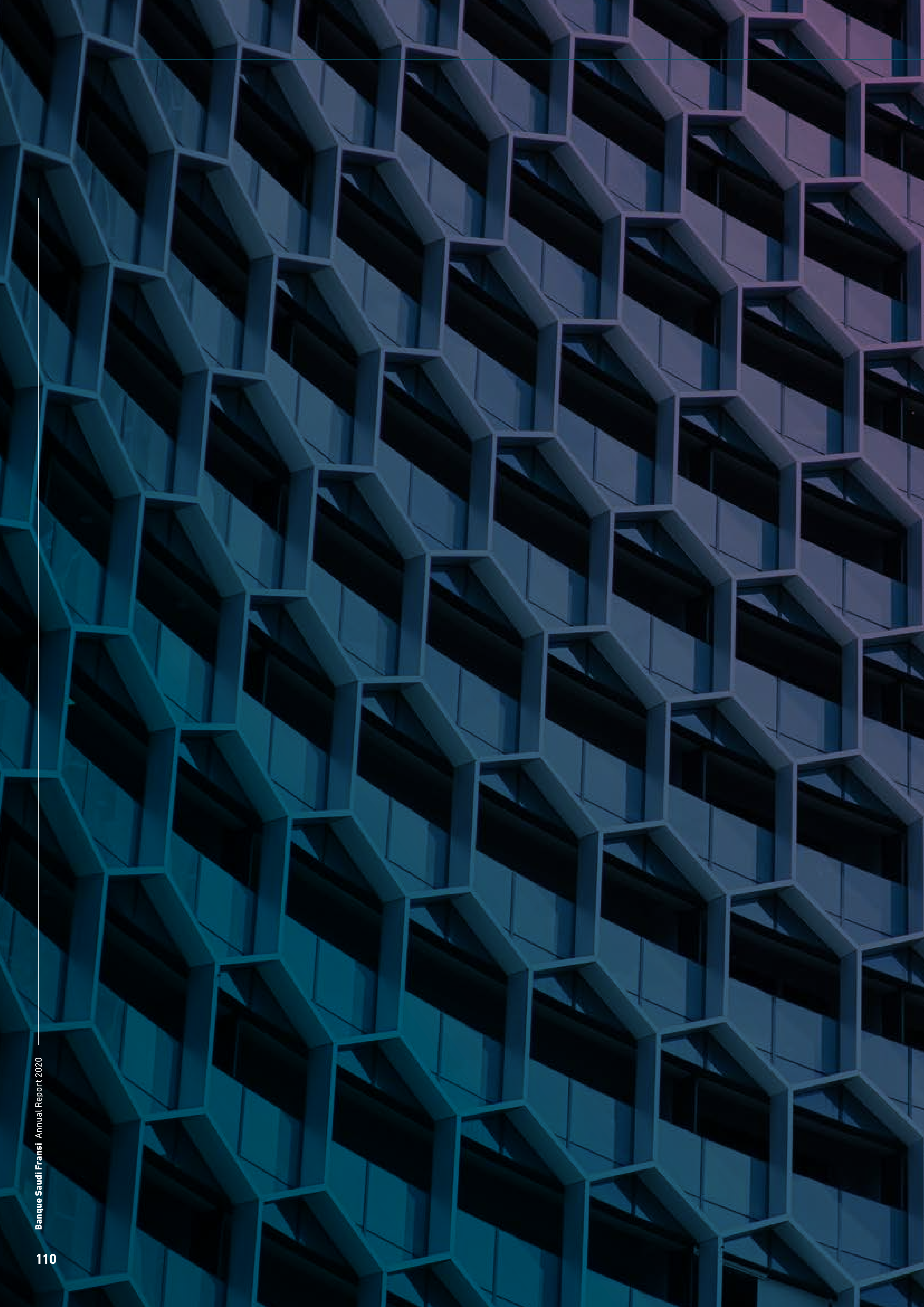
**(40) Communication with shareholders:**

In accordance with the instructions issued by the regulatory and supervisory authorities, the Bank is keen to ensure that shareholders fully exercise their rights and urges them to actively participate and submit their inquiries during the General Assembly meetings. A telephone number and e-mail are also posted on the Bank's home page to receive inquiries from shareholders. The Bank also publishes any significant developments of the Bank through the Tadawul website, in accordance with the instructions issued in this regard. The Bank's representatives continuously participate in meetings and conferences with investors and shareholders.

**(41) Number of company's requests of shareholders records, including dates and reasons:**

| | APPLICATION DATE | APPLICATION REASONS |
|---|---|---|
| 1 | 01/01/2020 | Other |
| 2 | 06/01/2020 | Other |
| 3 | 13/01/2020 | Other |
| 4 | 20/01/2020 | Other |
| 5 | 27/01/2020 | Other |
| 6 | 03/02/2020 | Other |
| 7 | 10/02/2020 | Other |
| 8 | 17/02/2020 | Other |
| 9 | 24/02/2020 | Other |
| 10 | 09/03/2020 | Other |
| 11 | 16/03/2020 | Other |
| 12 | 23/03/2020 | Other |
| 13 | 31/03/2020 | Corporate procedures |
| 14 | 11/05/2020 | Other |
| 15 | 13/05/2020 | General Assembly |
| 16 | 17/05/2020 | Dividends file |
| 17 | 01/06/2020 | Other |
| 18 | 22/06/2020 | Other |
| 19 | 30/06/2020 | Other |
| 20 | 06/07/2020 | Other |
| 21 | 13/07/2020 | Other |
| 22 | 20/07/2020 | Other |
| 23 | 27/07/2020 | Other |
| 24 | 10/08/2020 | Other |
| 25 | 17/08/2020 | Other |
| 26 | 24/08/2020 | Other |
| 27 | 31/08/2020 | Other |
| 28 | 07/09/2020 | Other |
| 29 | 14/09/2020 | Other |
| 30 | 21/09/2020 | Other |
| 31 | 29/09/2020 | Other |
| 32 | 30/09/2020 | Other |
| 33 | 05/10/2020 | Other |
| 34 | 12/10/2020 | Other |
| 35 | 19/10/2020 | Other |
| 36 | 26/10/2020 | Other |
| 37 | 02/11/2020 | Other |
| 38 | 09/11/2020 | Other |
| 39 | 16/11/2020 | Other |
| 40 | 23/11/2020 | Other |
| 41 | 30/11/2020 | Other |
| 42 | 07/12/2020 | Other |
| 43 | 14/12/2020 | Other |
| 44 | 21/12/2020 | Other |
| 45 | 28/12/2020 | Other |
| 46 | 31/12/2020 | Other |

In conclusion, the Board of Directors of the Banque Saudi Fransi expresses its sincere thanks and appreciation to the Custodian of the Two Holy Mosques, His Highness the Crown Prince and to our rational government. We extend our thanking to the Ministry of Finance, the Ministry of Commerce, the Saudi Central Bank and the Capital Market Authority for their continuous help and support towards raising the level of banking services. We also thank our valued shareholders and customers of the Bank for their trust, which is respected and appreciated. The Board of Directors also thanks all employees of the Bank for their sincere efforts.



# Financial Statements

# Independent auditors' report to the shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements which include significant accounting policies and other explanatory information.

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

### Basis for opinion

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

### Key audit matters

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

| KEY AUDIT MATTER | HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER |
|---|---|
| **Expected credit loss allowance against loans and advances** | |
| As at 31 December 2020, the gross loans and advances of the Group were SAR 135 billion against which an expected credit loss ("ECL") allowance of SAR 4.7 billion was maintained.<br><br>We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular and hence has increased the levels of judgement needed to determine the ECL. The key areas of judgement include:<br><br>1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of:<br>(a) exposures with a significant increase in credit risk ("SICR") since their origination; and<br>(b) individually impaired/defaulted exposures.<br><br>The Group has applied additional judgements to identify and estimate the likelihood of borrowers that may have experienced SICR notwithstanding the various government support programs that resulted in deferrals to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves. | – We obtained and updated our understanding of management's assessment of ECL allowance against loans and advances including the Group's internal rating model, accounting policy, model methodology including any key changes made in light of the COVID-19 pandemic.<br><br>– We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9.<br><br>– We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over:<br>• the ECL model, including governance over the model and its validation (where applicable) including approval of key assumptions and post model adjustments, if any;<br>• the classification of borrowers into various stages and timely identification of SICR and the determination of default/individually impaired exposures;<br>• the IT systems and applications underpinning the ECL model; and<br>• the integrity of data inputs into the ECL model. |

| KEY AUDIT MATTER | HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER |
|---|---|
| 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages.<br><br>3. The need to apply overlays using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model.<br><br>Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020.<br><br>*Refer to the summary of significant accounting policy note 3.2 (E) for the impairment of financial assets; note 2 (e) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7 which contains the disclosure of impairment against loans and advances; and note 31 (c) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.* | – For a sample of customers, we assessed:<br>• the internal ratings determined by management based on the Group's internal rating model and considered these assigned ratings in light of external market conditions and available industry information in particular, with reference to the impacts of the COVID-19 pandemic and also assessed that these were consistent with the ratings used as input in the ECL model;<br>• the staging as identified by management; and<br>• management's computations for ECL.<br><br>– We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's loan portfolio including for customers who were eligible for deferral of instalments under government support programs with specific focus on customers operating in sectors most affected by the COVID-19 pandemic.<br><br>– We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise.<br><br>– We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic.<br><br>– We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020.<br><br>– Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in overlays.<br><br>– We assessed the adequacy of disclosures in the consolidated financial statements. |

# Independent auditors' report to the shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company) continued

## Report on the audit of the consolidated financial statements (continued)

### Key audit matters (continued)

| KEY AUDIT MATTER | HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER |
|---|---|
| **Valuation of derivative financial instruments** | |
| The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); currency, special commission rate and equity options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations.<br><br>The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flow or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, impact the hedge accounting as well.<br><br>We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modelling techniques and valuation inputs that are not market observable.<br><br>*Refer to the basis of preparation note 2 (e) to the consolidated financial statements which sets out the critical accounting judgements, estimates and assumptions regarding fair value measurement; the summary of significant accounting policies note 3.2 (M) for the accounting policy relating to derivative financial instruments and hedge accounting; and note 11 which discloses the derivative positions as at the reporting date.* | – We assessed the design and implementation, and tested the operating effectiveness, of the key controls over management's process for valuation of derivatives and hedge accounting, including the testing of relevant automated controls covering the fair valuation process for derivatives.<br><br>– We selected a sample of derivatives and:<br>• Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations;<br>• Assessed the key inputs to the valuation models;<br>• Performed independent valuations of the derivatives and compared the result with management's valuation;<br>• Checked the hedge effectiveness performed by the Group and the related hedge accounting; and<br>• Assessed the adequacy of disclosures around the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements. |

| KEY AUDIT MATTER | HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER |
|---|---|
| **SAMA support program and related government grant** | |
| In response to the COVID-19 pandemic, the Saudi Central Bank (SAMA) launched a number of initiatives including the liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME"). The PSFSP included deferred payments program whereby the Bank deferred the instalment payable by MSMEs during a period from 14 March 2020 to 31 March 2021.<br><br>In order to compensate the Group with respect to the losses incurred in connection with the above PSFSP and the liquidity support programme, the Group has received various interest/profit free deposits of varying maturities. The difference between market value of deposits calculated using market rates of deposits of similar size and tenure and the interest/profit free deposits has been considered as a government grant and accounted for in accordance with the International Accounting Standard 20: *Government Grants* ("IAS 20").<br><br>As of 31 December 2020, the Bank has received SAR 9.2 billion under the various SAMA support programs.<br><br>We considered the accounting treatment of the SAMA support programme and government grant as a key audit matter because:<br><br>1. These represent significant events and material transactions that occurred during the period and thereby required significant auditors' attention; and<br><br>2. the recognition and measurement of government grant involved significant management judgement including but not limited to:<br>• determining the appropriate discount rate to be used to calculate the grant income on the deposit; and<br>• identifying the objective of each individual deposit to determine the timing of recognition of the grant.<br><br>*Refer to the significant accounting policy note 3.2 (G) to the consolidated financial statements relating to government grant accounting, note 2 (e) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to government grant recognition and note 40 which contains the disclosure of SAMA support programmes and details of the government grant received over the year from SAMA.* | – We obtained an understanding of the various programs and initiatives taken by SAMA and assessed the objectives of the various deposits received by the Group in order to assess whether the IAS 20 criteria were met for government grant recognition.<br><br>– We tested the accuracy of the government grant computation (including discount rate used) and assessed the basis for the timing of recognition of the government grant being at a point in time or over a period thereby matching the expense/ related costs for which the government grant was intended to compensate.<br><br>– We assessed the disclosures included by management in the consolidated financial statements in relation to government grant as required by IAS 20. |

# Independent auditors' report to the shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company) continued

## Report on the audit of the consolidated financial statements (continued)

**Other information included in the Group's 2020 annual report**

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

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

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

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

**Responsibilities of the management and those charged with governance for the Consolidated Financial Statements**

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

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

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

**Auditors' responsibilities for the audit of the consolidated financial statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on other legal and regulatory requirements**

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

# Consolidated Statement of Financial Position

As at December 31, 2020 and 2019

| SAR '000 | NOTES | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with SAMA | 4 | **10,548,399** | 9,117,336 |
| Due from banks and other financial institutions | 5 | **4,026,997** | 3,742,090 |
| Investments held at fair value through profit or loss | 6 | **144,603** | 75,412 |
| Investments held at fair value through other comprehensive income | 6 | **11,733,158** | 9,260,915 |
| Investments held at amortised cost | 6 | **25,800,880** | 22,117,452 |
| Positive fair value of derivatives | 11 | **6,909,046** | 4,606,551 |
| Loans and advances, net | 7 | **130,564,835** | 125,725,096 |
| Investment in associate | 8 | **9,695** | 9,695 |
| Property, equipment and right of use assets, net | 9 | **1,440,170** | 1,324,567 |
| Other real estate, net | | **384,181** | 406,151 |
| Deferred tax | 27 | **–** | 42,937 |
| Other assets, net | 10 | **2,511,620** | 1,720,375 |
| **Total assets** | | **194,073,584** | 178,148,577 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Due to SAMA | 12 | **9,129,625** | 1,300 |
| Due to banks and other financial institutions | 13 | **7,662,588** | 2,370,840 |
| Customers' deposits | 14 | **127,111,644** | 132,837,502 |
| Negative fair value of derivatives | 11 | **5,096,458** | 3,069,406 |
| Other liabilities | 16 | **6,437,324** | 6,922,811 |
| **Total liabilities** | | **155,437,639** | 145,201,859 |
| **Equity** | | | |
| Share capital | 17 | **12,053,572** | 12,053,572 |
| Statutory reserve | 18 | **12,053,572** | 12,053,572 |
| General reserve | 18 | **982,857** | 982,857 |
| Other reserves | 19 | **1,188,115** | 812,222 |
| Retained earnings | | **7,433,263** | 5,945,881 |
| Proposed dividend | 26 | **–** | 1,199,679 |
| Treasury shares | 36 | **(75,434)** | (101,065) |
| **Equity attributable to the shareholders of the Bank** | | **33,635,945** | 32,946,718 |
| Tier 1 Sukuk | 15 | **5,000,000** | – |
| **Total equity** | | **38,635,945** | 32,946,718 |
| **Total liabilities and equity** | | **194,073,584** | 178,148,577 |

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

# Consolidated Statement of Income

For the years ended December 31, 2020 and 2019

| SAR '000 | NOTES | 2020 | 2019 |
|---|---|---|---|
| Special commission income | 21 | **6,284,791** | 7,369,530 |
| Special commission expense | 21 | **1,044,403** | 2,163,853 |
| **Net special commission income** | | **5,240,388** | 5,205,677 |
| Fee and commission income | 22 | **1,523,127** | 1,504,211 |
| Fee and commission expense | 22 | **441,311** | 364,705 |
| **Net fee and commission income** | | **1,081,816** | 1,139,506 |
| Exchange income, net | | **378,891** | 335,504 |
| Trading income, net | 23 | **167,885** | 92,163 |
| Dividend income | | **1,180** | 2,442 |
| Gains on FVOCI/non-trading investments, net | | **10,423** | 31,456 |
| Other operating income | 24 | **164,011** | 65,802 |
| **Total operating income** | | **7,044,594** | 6,872,550 |
| Salaries and employee related expenses | 29 | **1,418,703** | 1,329,250 |
| Rent and premises related expenses | | **69,626** | 75,796 |
| Depreciation and amortization | 9 | **210,254** | 211,284 |
| Other operating and general and administrative expenses | | **665,507** | 670,834 |
| **Total operating expenses before impairment charge** | | **2,364,090** | 2,287,164 |
| Impairment charge for expected credit losses, net | 7 | **2,816,322** | 1,008,567 |
| Impairment reversal for investments, financial assets and others, net | 7 | **(146,054)** | (42,323) |
| **Total operating expenses, net** | | **5,034,358** | 3,253,408 |
| **Net income for the year before zakat and income tax** | | **2,010,236** | 3,619,142 |
| Zakat and income tax for the year | 27 | **464,025** | 504,176 |
| **Net income for the year after zakat and income tax** | | **1,546,211** | 3,114,966 |
| Basic and diluted earnings per share (SAR) | 25 | **1.24** | 2.60 |

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

As at December 31, 2020 and 2019

| SAR '000 | NOTES | 2020 | 2019 |
|---|---|---|---|
| **Net income for the year after zakat and income tax** | | **1,546,211** | 3,114,966 |
| **Other comprehensive income/(loss):** | | | |
| **Items that cannot be recycled back to consolidated statement of income in subsequent periods** | | | |
| **Movement in Equity instruments at fair value through other comprehensive income** | | | |
| Net change in the fair value | 19 | **35,007** | (8,584) |
| Loss transferred to retained earning | 19 | **–** | 1,202 |
| **Items that can be recycled back to consolidated statement of income in subsequent periods** | | | |
| **Debt instruments at fair value through other comprehensive income** | | | |
| Net change in the fair value | 19 | **85,750** | 116,762 |
| Income transferred to consolidated statement of income | 19 | **(10,423)** | (31,456) |
| **Cash flow hedge** | | | |
| Net change in the fair value | 19 | **834,615** | 1,006,117 |
| (Income)/loss transferred to consolidated statement of income | 19 | **(569,056)** | 46,485 |
| **Total other comprehensive income for the year** | | **375,893** | 1,130,526 |
| **Total comprehensive income for the year** | | **1,922,104** | 4,245,492 |

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the years ended December 31, 2020 and 2019

| SAR '000 | NOTES | SHARE CAPITAL | STATUTORY RESERVE | GENERAL RESERVE | RETAINED EARNINGS | OTHER RESERVES: FVOCI | OTHER RESERVES: CASH FLOW HEDGE | PROPOSED DIVIDEND | TREASURY SHARES | TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS | TIER 1 SUKUK | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | | | | | |
| **Balance at the beginning of the year** | | **12,053,572** | **12,053,572** | **982,857** | **5,945,881** | **68,138** | **744,084** | **1,199,679** | **(101,065)** | **32,946,718** | **–** | **32,946,718** |
| Net income for the year after zakat and income tax | | – | – | – | 1,546,211 | – | – | – | – | 1,546,211 | – | 1,546,211 |
| Net change in the fair value | 19 | – | – | – | – | 120,757 | 834,615 | – | – | 955,372 | – | 955,372 |
| Net amount transferred to consolidated statement of income | 19 | – | – | – | – | (10,423) | (569,056) | – | – | (579,479) | – | (579,479) |
| Total comprehensive income for the year | | – | – | – | 1,546,211 | 110,334 | 265,559 | – | – | 1,922,104 | – | 1,922,104 |
| Final dividend paid for 2019 | 26 | – | – | – | – | – | – | (1,199,679) | – | (1,199,679) | – | (1,199,679) |
| Tier 1 Sukuk issued | 15 | – | – | – | – | – | – | – | – | – | 5,000,000 | 5,000,000 |
| Tier 1 Sukuk related cost | | – | – | – | (58,829) | – | – | – | – | (58,829) | – | (58,829) |
| Net change in treasury shares | 36 | – | – | – | – | – | – | – | 25,631 | 25,631 | – | 25,631 |
| **Balance at the end of the year** | | **12,053,572** | **12,053,572** | **982,857** | **7,433,263** | **178,472** | **1,009,643** | **–** | **(75,434)** | **33,635,945** | **5,000,000** | **38,635,945** |
| 2019 | | | | | | | | | | | | |
| Balance at the beginning of the year | | 12,053,572 | 12,053,572 | 982,857 | 5,249,613 | (9,786) | (308,518) | 958,081 | (117,441) | 30,861,950 | – | 30,861,950 |
| Impact of adopting IFRS 16 as at January 01, 2019 | | – | – | – | (62,666) | – | – | – | – | (62,666) | – | (62,666) |
| Restated balance as at January 01, 2019 | | 12,053,572 | 12,053,572 | 982,857 | 5,186,947 | (9,786) | (308,518) | 958,081 | (117,441) | 30,799,284 | – | 30,799,284 |
| Net income for the year after zakat and income tax | | – | – | – | 3,114,966 | – | – | – | – | 3,114,966 | – | 3,114,966 |
| Net change in the fair value | 19 | – | – | – | – | 108,178 | 1,006,117 | – | – | 1,114,295 | – | 1,114,295 |
| Loss on disposal of FVOCI investment – equity | 19 | – | – | – | – | 1,202 | – | – | – | 1,202 | – | 1,202 |
| Net amount transferred to consolidated statement of income | 19 | – | – | – | – | (31,456) | 46,485 | – | – | 15,029 | – | 15,029 |
| Total comprehensive income for the year | | – | – | – | 3,114,966 | 77,924 | 1,052,602 | – | – | 4,245,492 | – | 4,245,492 |
| Loss on disposal of FVOCI investment – equity | 19 | – | – | – | (1,202) | – | – | – | – | (1,202) | – | (1,202) |
| Final net dividend paid for 2018 | | – | – | – | – | – | – | (958,081) | – | (958,081) | – | (958,081) |
| Interim net dividend paid for 2019 | 26 | – | – | – | (1,155,151) | – | – | – | – | (1,155,151) | – | (1,155,151) |
| Final proposed net dividend for 2019 | 26 | – | – | – | (1,199,679) | – | – | 1,199,679 | – | – | – | – |
| Net change in treasury shares | 36 | – | – | – | – | – | – | – | 16,376 | 16,376 | – | 16,376 |
| Balance at the end of the year | | 12,053,572 | 12,053,572 | 982,857 | 5,945,881 | 68,138 | 744,084 | 1,199,679 | (101,065) | 32,946,718 | – | 32,946,718 |

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.



# Consolidated Statement of Cash Flows

For the years ended December 31, 2020 and 2019

| SAR '000 | NOTE | 2020 | 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net income for the year before zakat and income tax** | | **2,010,236** | 3,619,142 |
| **Adjustments to reconcile net income before zakat and income tax to net cash from/(used in) operating activities:** | | | |
| Accretion of discounts/(premium) on investments not held as FVTPL, net | | **72,817** | (72,443) |
| Gains on FVOCI | | **(10,423)** | (31,456) |
| Depreciation and amortization | 9 | **210,254** | 211,284 |
| Gains on disposal of property, equipment and right of use assets, net | | **(293)** | (432) |
| Impairment charge for credit losses, net | 7 | **2,816,322** | 1,008,567 |
| Impairment reversal for investments, financial assets and others, net | | **(146,054)** | (42,323) |
| Long term incentive scheme provision | | **25,631** | 16,376 |
| Valuation loss on other real estate, net | | **1,001** | 57,358 |
| Change in fair value of financial instruments | | **–** | 22 |
| **Operating income before changes in operating assets and liabilities** | | **4,979,491** | 4,766,095 |
| **Net (increase)/decrease in operating assets:** | | | |
| Statutory deposit with SAMA | 4 | **(119,067)** | 303,442 |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | | **1,350,000** | 3,377,000 |
| Investments held as FVTPL, trading | | **(69,191)** | 281,336 |
| Loans and advances | | **(7,656,061)** | (6,102,029) |
| Other assets | | **(2,743,921)** | (2,040,350) |
| **Net increase/(decrease) in operating liabilities:** | | | |
| Due to SAMA, banks and other financial institutions, net | | **14,420,073** | 226,659 |
| Customers' deposits | | **(5,725,858)** | (15,530,502) |
| Other liabilities | | **1,792,976** | 2,458,417 |
| | | **6,228,442** | (12,259,932) |
| Zakat and income tax paid | | **(702,159)** | (669,227) |
| **Net cash generated from/(used in) operating activities** | | **5,526,283** | (12,929,159) |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sales and maturities of investment not held as FVTPL | | **18,387,572** | 9,023,082 |
| Purchase of investments not held as FVTPL | | **(24,995,303)** | (12,186,738) |
| Purchase of property and equipment | | **(272,400)** | (122,444) |
| Dividend received from subsidiaries | | **500,000** | – |
| Proceeds from sale of property and equipment | | **430** | 1,118 |
| **Net cash used in investing activities** | | **(6,379,701)** | (3,284,982) |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid | 26 | **(1,199,679)** | (2,113,232) |
| Repayment of debt securities and sukuks | | **–** | (2,000,000) |
| Tier 1 Sukuk Issuance | | **5,000,000** | – |
| **Net cash from/(used in) financing activities** | | **3,800,321** | (4,113,232) |
| **Increase/(decrease) in cash and cash equivalents** | | **2,946,903** | (20,327,373) |
| Cash and cash equivalents at the beginning of the year | | **3,662,506** | 23,989,879 |
| **Cash and cash equivalents at the end of the year** | 28 | **6,609,409** | 3,662,506 |
| Special commission received during the year | | **6,341,488** | 7,472,392 |
| Special commission paid during the year | | **1,429,151** | 2,144,156 |
| **Supplemental non-cash information** | | | |
| Net changes in fair value and transfers to consolidated statement of income | | **375,893** | 1,130,526 |

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 and 2019

## 1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 04, 1977). The Bank formally commenced its activities on Muharram 01, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 04, 1410H (corresponding to September 05, 1989), through its 87 branches (2019: 87 branches) in the Kingdom of Saudi Arabia, employing 2,881 people (2019: 2,998 people).

The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The consolidated financial statements of the Bank comprise the financial statement of Banque Saudi Fransi and its wholly owned subsidiaries (collectively referred to as the "Group"), Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank also owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi for Finance Leasing and Sofinco Saudi Fransi having 100% share in equity. The Bank owns 100% (95% direct ownership and 5% indirect ownership through its subsidiary) share in Sakan Real Estate Financing. These subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Bank also formed subsidiaries, BSF Markets Limited and BSF Sukuk Limited registered in Cayman Islands having 100% share in equity. The objective of BSF Markets Limited company is derivative trading and Repo activities.

The Bank has investment in an associate and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria.

## 2. Basis of preparation

### a) Statement of compliance

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

### b) Basis of measurement and presentation

The consolidated financial statements are prepared on a going concern basis under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), FVOCI investments, liabilities for cash-settled-share based payments and defined benefit obligations. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise adjusted to record changes in fair value attributable to the risks that are being hedged.

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

### c) Going concern

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

### d) Functional and presentation currency

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

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**2. Basis of preparation** continued

**e) Critical accounting judgments, estimates and assumptions**

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

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine, which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Group continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Group has made various accounting estimates in these consolidated financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at December 31, 2020 about future events that the Group believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties, which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecasts since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these consolidated financial statements.

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

Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

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

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

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

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:
- The Bank's internal credit grading model, which assigns Probability of Default (PD) to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at default (EAD) and Loss given default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

ii) Fair value Measurement (note 34)

iii) Impairment of FVOCI equity and debt investments (note 31)

iv) Classification of investments at Amortised Cost (note 6)

v) Deferred tax assets (note 27)

vi) Determination of control over investees

vii) Depreciation and amortization

viii) Define benefit plan

ix) Government grant (note 12 & 40)

## 3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

### 3.1 Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective January 01, 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual consolidated financial statements.

#### New standards, interpretations and amendments to accounting standards adopted by the Group

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020. The management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

**i) Amendments to IFRS 3: Definition of a Business**

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

**ii) Amendments to IAS 1 and IAS 8: Definition of Material**

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the consolidated financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

**iii) Amendments to References to the Conceptual Framework in IFRS Standards**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**3. Summary of significant accounting policies** continued

**3.1 Change in accounting policies** continued

**New standards, interpretations and amendments to accounting standards adopted by the Group** continued

**iv) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform**

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

– **Phase 1**

The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from January 01, 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

– **Phase 2**

The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after January 01, 2021 and early application is permitted. Now that the Phase 2 amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programs to implement the new requirements. The Phase 2 amendments introduce new areas of judgement, the Group needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Group will have to assess and implement required updates in the financial reporting systems and processes, to gather and present the information required.

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

The Bank's exposure at the year end and other related details are explained further in note 39.

**v) Amendments to IFRS 16: Leases for COVID-19 rent related concessions applicable for the period beginning on or after June 01, 2020**

On May 28, 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after June 01, 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

**Accounting Standards issued but not yet effective**

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Group's accounting year beginning on or after January 01, 2021 are listed below. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements.

**i) IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.**

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach)
- a simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after January 01, 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

**ii) Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January 01, 2022**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement
- that a right to defer must exist at the end of the reporting period
- that classification is unaffected by the likelihood that an entity will exercise its deferral right
- that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 01, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

**iii) Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)**

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

**iv) Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (note 39)**

**v) Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)**

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 01, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

**vi) Reference to Conceptual Framework (Amendments to IFRS 3)**

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 01, 2022 and apply prospectively.

### 3.2 Accounting policies

#### A. Classification of financial assets

On initial recognition, a financial asset is classified into following categories: amortized cost, FVOCI or FVTPL.

**Financial asset at amortized cost**

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

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

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**3. Summary of significant accounting policies** continued

**3.2 Accounting policies** continued

A. Classification of financial assets continued

**Financial Asset at Fair value through other comprehensive income (FVOCI)**

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss.

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

**Financial asset at Fair value through profit or loss (FVTPL)**

All other financial assets are classified at FVTPL.

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

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

**Business model assessment**

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank changes the classification of the remaining financial assets held in that business model.

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

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

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

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

- contingent events that would change the amount and timing of cash flows
- leverage features
- prepayment and extension terms
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements) and
- features that modify consideration of the time value of money e.g. periodical reset of interest rates.

**Designation at FVTPL**

At initial recognition, the Bank has irrevocably designated certain financial assets at FVTPL to eliminate or significantly reduces the accounting mismatch. Before January 01, 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

### B. Classification of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate (EIR).

### C. Derecognition

**Financial assets**

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

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

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

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

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

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

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

**Financial liabilities**

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

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 3. Summary of significant accounting policies continued

### 3.2 Accounting policies continued

#### D. Modifications of financial assets and financial liabilities

**Financial assets**

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

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

**Financial liabilities**

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

"If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss. The Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent."

#### E. Impairment

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

- financial assets that are debt instruments
- lease receivables
- financial guarantee contracts issued
- loan commitments issued
- bank balances
- related party balances

Equity instruments are not subject to impairment under IFRS 9.

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

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

**Measurement of ECL**

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

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

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

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer
- a breach of contract such as a default or past due event
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:
- the market's assessment of creditworthiness as reflected in the bond yields
- the rating agencies' assessments of creditworthiness
- the country's ability to access the capital markets for new debt issuance
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

**Presentation of allowance for ECL in the statement of financial position**
Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

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

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 3. Summary of significant accounting policies continued

**3.2Accounting policies** continued

### F. Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

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

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments:
– the Bank recognizes loss allowance (Refer note 7 "Impairment Disclosures);

### G. Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in statement of consolidated income on a systematic basis over the periods in which the bank recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Bank. Where the customer is the ultimate beneficiary, the Bank only records the respective receivable and payable amounts.

### H. Revenue/expenses recognition

**Special commission income and expenses**

Special commission income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or the amortized cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

**Measurement of amortized cost and special commission income and expense**

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

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

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

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

### I. Rendering of services

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

The Bank has concluded that revenue from rendering of various services related to Share trading and fund management, Trade finance, Corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for fee services related to credit card, the Bank recognizes revenue over the period of time.

### J. Customer Loyalty Program

The Bank offers customer loyalty program (reward points/air miles herein referred to as "reward points"), which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand alone selling price. The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

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

### K. Basis of consolidation

The consolidated financial statements comprises of the financial statements of the Bank and its subsidiaries (the Group) i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi for Finance Leasing, Sakan real estate financing, Sofinco Saudi Fransi, BSF Markets Limited and BSF Sukuk Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:
- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 3. Summary of significant accounting policies continued

### 3.2 Accounting policies continued

### K. Basis of consolidation continued

Balances between the Bank and its subsidiaries including any income and expenses arising from intra-group transactions are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**(i) List of significant subsidiaries**

The table below provides details of the major subsidiaries of the Group:

| NAME OF THE SUBSIDIARY | PRINCIPAL PLACE OF BUSINESS | OWNERSHIP INTEREST 2020 | OWNERSHIP INTEREST 2019 |
|---|---|---|---|
| Saudi Fransi Capital | K.S.A | **100%** | 100% |
| Saudi Fransi Insurance Agency | K.S.A | **100%** | 100% |
| Saudi Fransi for Finance Leasing | K.S.A | **100%** | 100% |
| Sakan Real Estate Financing | K.S.A | **100%** | 100% |

Apart from the above subsidiaries, the Bank also owns BSF Markets Limited and BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands. Sofinco Saudi Fransi has no material impact on the Group financial statements.

All subsidiaries are 100% owned by the Group hence no non-controlling interest is recognised in these consolidated financial statements.

**(ii) Significant restriction**

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

### L. Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments. The Bank's shares of its associates' post-acquisition profits or losses are recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Bank ceases to equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset.

### M. Derivatives financial instruments and hedge accounting

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

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

**(i) Derivatives held for trading**

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

**(ii) Embedded derivatives**

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

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

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

For financial assets, the requirements are whether the financial asset contains contractual terms that give rise on specified date to cashflows that are SPPI, and consequently the accounting of embedded derivatives are not applicable to financial assets.

**(iii) Hedge accounting**

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair value hedges

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

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method, (the hedge item is also fair-valued). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**3. Summary of significant accounting policies** continued

**3.2 Accounting policies** continued

**M. Derivatives financial instruments and hedge accounting** continued

Cash flow hedges

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

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

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in "other comprehensive income" is transferred immediately to the consolidated statement of income for the period.

**N. Foreign currencies**

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end denominated in foreign currencies are translated into Saudi Arabian Riyals at rates of exchange prevailing at the reporting date.

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

All differences arising on non-trading activities are taken to other non-operating income in the statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity.

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

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI; and
- qualifying cash flow hedges to the extent that the hedge is effective.

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

As at the reporting date, the assets and liabilities of foreign operations are translated into Saudi Arabian Riyals at the rate of exchange as at the statement of financial position date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognized in other comprehensive income.

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

When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the statement of income.

### O. Offsetting financial instruments

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

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

### P. Exchange income/(loss)

Exchange income/loss is recognised as discussed in foreign currencies policy above.

### Q. Fees and commission income

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

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

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

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

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

### R. Dividend income

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

### S. Trading income/(loss)

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

Results arising from trading activities include all gains and losses from changes in fair values, related special commission income or expense including dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

### T. Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank. These assets are continued to measure in accordance with related accounting policies for investments held as FVTPL, FVOCI and other investments held at amortized cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Due to SAMA" or "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 3. Summary of significant accounting policies continued

### 3.2 Accounting policies continued

#### U. Settlement and trade date accounting

All regular way purchases and sales of financial assets are recognized and derecognized in the consolidated statement of financial position on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value which is recognized from the trade date.

Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or follow convention in the market place.

All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

#### V. Fair value measurement

The Group measures financial instruments, such as, derivatives and equity instruments and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 34.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of front office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- calibration of model valuations;
- a review and approval process for new models and changes to models involving Risk Division

To dynamically address valuation issues, within the Market Risk Committee, which is held every quarter, a Valuation Sub-Committee may be held to review and determine by consensus adjustments of valuation methodologies at the request of the Market Risk Committee members.

The Market Risk Committee comprises of the Managing Director & Chief Executive Officer, the Chief Investment Officer, the Chief Financial Officer, the Treasurer, the Head of Institutional Banking Group, the Chief Risk Officer and the Head of Market Risk.

### W. Deposits, debt securities issued and subordinated liabilities

From January 01, 2019, when the Bank designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve.

On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

### X. Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the statement of income. Gains or losses on disposal are recognised in the statement of income.

**Collateral valuation**

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

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

**Collateral repossessed**

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 3. Summary of significant accounting policies continued

### 3.2 Accounting policies continued

#### Y. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

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

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

| | |
|---|---|
| Buildings | 33 years |
| Leasehold improvements | Over the lease period or economic life whichever is shorter |
| Furniture, equipment and vehicles | 4 to 10 years |
| Software programme and automation project | 2 to 5 years |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

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

#### Z. Provisions

Provisions are recognised when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

**Provisions for liabilities and charges**

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

#### AA. Accounting for leases

**Right of Use Asset/Lease Liabilities**

On initial recognition, at inception of the contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the group and the group can direct the usage of such assets.

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

**Right of Use Assets**

Bank apply cost model, and measure right of use asset at cost;

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

**Lease Liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

I. increasing the carrying amount to reflect interest on the lease liability
II. reducing the carrying amount to reflect the lease payments made and;
III. re-measuring the carrying amount to reflect any re-assessment or lease modification

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

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

### AB. Cash and cash equivalents

For the purpose of the statement of cash flows, "cash and cash equivalents" include notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

### AC. End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into account the provision of the Saudi Arabian Labor Law.

### AD. Short term employee benefits

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

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### AE. Treasury shares and share based payment to employee

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid. Any gains or losses on disposal of such shares are reflected under equity and are not recognised in the consolidated statement of income.

These stocks are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its employee share-based payment plans.

The Bank has adopted the equity- settled share based payments to employees. The Bank recognises a cost/expense over the vesting period and a corresponding entry to equity and measurement is based on the grant-date fair value of the equity instruments granted. Market and non-vesting conditions are reflected in the initial measurement of fair value with no subsequent true-up if the conditions are not satisfied.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 3. Summary of significant accounting policies continued

### 3.2 Accounting policies continued

### AF. Zakat and income tax

**Income Tax**

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

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

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

**Deferred income tax**

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

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

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

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

**Zakat**

The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

### AG. Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the consolidated financial statements.

### AH. Islamic banking products

In addition to the conventional banking products, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board, as follows:

**High level definitions of non-commission based banking products**

i) **Murabaha** is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

ii) **Mudarabah** is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

iii) **Istisna'a** is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

iv) **Ijarah** is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

v) **Musharaka** is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

vi) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

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

### AI. Tier 1 Sukuk

The Group classifies Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Group for payment of profit as part of equity.

The related initial costs and distributions thereon are recognised directly in the consolidated statement of changes in equity under retained earnings.

## 4. Cash and balances with SAMA

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Cash on hand | **965,457** | 995,416 |
| Statutory deposit | **7,965,987** | 7,846,920 |
| Money market placements | **1,616,955** | 275,000 |
| **Total** | **10,548,399** | 9,117,336 |

In accordance with the Banking Control Law and regulations issued by Saudi Central Bank (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customer demand, savings, time and other deposits, calculated on average balance. The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

# Notes to the Consolidated Financial Statements
continued

For the year ended December 31, 2020 and 2019

## 5. Due from banks and other financial institutions

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Current accounts | **4,027,436** | 2,157,485 |
| Money market placements | **–** | 1,584,978 |
| Less: impairment | **(439)** | (373) |
| **Total** | **4,026,997** | 3,742,090 |

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies.

The above includes Shariah based balances as below:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Tawaraq | – | 650,000 |
| **Total** | – | 650,000 |

The following table shows the gross carrying amount of the due from banks and other financial institutions.

| | DECEMBER 31, 2020 | | | |
|---|---|---|---|---|
| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
| Balance as at January 01, 2020 | **3,734,954** | **7,509** | **–** | **3,742,463** |
| Transfer from 12-month ECL | **(31,932)** | **31,932** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **314,150** | **(29,177)** | **–** | **284,973** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **4,017,172** | **10,264** | **–** | **4,027,436** |

| | DECEMBER 31, 2019 | | | |
|---|---|---|---|---|
| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
| Balance as at January 01, 2019 | 15,749,084 | 192,297 | – | 15,941,381 |
| Transfer from 12-month ECL | (58) | 58 | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | (12,014,072) | (184,846) | – | (12,198,918) |
| Write-offs | – | – | – | – |
| Balance as at December 31, 2019 | 3,734,954 | 7,509 | – | 3,742,463 |

The following table shows reconciliations from the opening to the closing balance of impairment on due from banks and other financial institutions.

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance as at January 01, 2020 | **333** | **40** | **–** | **373** |
| Transfer from 12-month ECL | **(142)** | **142** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **188** | **(122)** | **–** | **66** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **379** | **60** | **–** | **439** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance as at January 01, 2019 | 825 | 2,027 | – | 2,852 |
| Transfer from 12-month ECL | (1) | 1 | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | (491) | (1,988) | – | (2,479) |
| Write-offs | – | – | – | – |
| Balance as at December 31, 2019 | 333 | 40 | – | 373 |

## 6. Investments, net

### a) Investments held at fair value through profit or loss

Investments by type of securities

| SAR '000 | DOMESTIC 2020 | DOMESTIC 2019 | INTERNATIONAL 2020 | INTERNATIONAL 2019 | TOTAL 2020 | TOTAL 2019 |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **24,096** | – | **64,533** | 20,218 | **88,629** | 20,218 |
| Floating-rate securities | **55,974** | 55,194 | **–** | – | **55,974** | 55,194 |
| **Total** | **80,070** | 55,194 | **64,533** | 20,218 | **144,603** | 75,412 |

**The analysis of the composition of investments is as follows:**

| SAR '000 | 2020 QUOTED | 2020 UNQUOTED | 2020 TOTAL | 2019 QUOTED | 2019 UNQUOTED | 2019 TOTAL |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **88,629** | **–** | **88,629** | 20,218 | – | 20,218 |
| Floating-rate securities | **53,972** | **2,002** | **55,974** | 53,170 | 2,024 | 55,194 |
| **Investments at FVTPL** | **142,601** | **2,002** | **144,603** | 73,388 | 2,024 | 75,412 |

### b) Investments held at fair value through other comprehensive income

Investments by type of securities

| SAR '000 | DOMESTIC 2020 | DOMESTIC 2019 | INTERNATIONAL 2020 | INTERNATIONAL 2019 | TOTAL 2020 | TOTAL 2019 |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **6,802,862** | 2,815,958 | **1,410,585** | 2,805,037 | **8,213,447** | 5,620,995 |
| Floating-rate securities | **3,231,070** | 3,520,214 | **67,673** | – | **3,298,743** | 3,520,214 |
| Equities | **201,611** | 83,843 | **19,357** | 35,863 | **220,968** | 119,706 |
| **Total** | **10,235,543** | 6,420,015 | **1,497,615** | 2,840,900 | **11,733,158** | 9,260,915 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**6. Investments, net** continued

**b) Investments held at fair value through other comprehensive income** continued

**The analysis of the composition of investments is as follows:**

| SAR '000 | 2020 QUOTED | 2020 UNQUOTED | 2020 TOTAL | 2019 QUOTED | 2019 UNQUOTED | 2019 TOTAL |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **8,213,447** | **–** | **8,213,447** | 5,620,995 | – | 5,620,995 |
| Floating-rate securities | **1,066,631** | **2,232,112** | **3,298,743** | 1,046,660 | 2,473,554 | 3,520,214 |
| Equities | **195,888** | **25,080** | **220,968** | 78,120 | 41,586 | 119,706 |
| **Investments at FVOCI, net** | **9,475,966** | **2,257,192** | **11,733,158** | 6,745,775 | 2,515,140 | 9,260,915 |

**The following table shows the type of assets:**

| SAR '000 | DOMESTIC 2020 | DOMESTIC 2019 | INTERNATIONAL 2020 | INTERNATIONAL 2019 | TOTAL 2020 | TOTAL 2019 |
|---|---|---|---|---|---|---|
| Debt instruments | **10,033,932** | 6,336,172 | **1,478,258** | 2,805,037 | **11,512,190** | 9,141,209 |
| Equity investments | **201,611** | 83,843 | **19,357** | 35,863 | **220,968** | 119,706 |
| **Total** | **10,235,543** | 6,420,015 | **1,497,615** | 2,840,900 | **11,733,158** | 9,260,915 |

The Group designated investments disclosed in the following table as equity securities at FVOCI on initial recognition. The FVOCI designation was made because the equity investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale and there are no plans to dispose of these investments in the short or medium term. This designation is irrevocable.

**c) Investments held at amortised cost**

**Investments by type of securities**

| SAR '000 | DOMESTIC 2020 | DOMESTIC 2019 | INTERNATIONAL 2020 | INTERNATIONAL 2019 | TOTAL 2020 | TOTAL 2019 |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **21,775,557** | 16,268,214 | **–** | – | **21,775,557** | 16,268,214 |
| Floating-rate securities | **3,472,932** | 4,734,400 | **–** | – | **3,472,932** | 4,734,400 |
| Other | **552,391** | 1,114,838 | **–** | – | **552,391** | 1,114,838 |
| **Total** | **25,800,880** | 22,117,452 | **–** | – | **25,800,880** | 22,117,452 |

**The analysis of the composition of investments is as follows:**

| SAR '000 | 2020 QUOTED | 2020 UNQUOTED | 2020 TOTAL | 2019 QUOTED | 2019 UNQUOTED | 2019 TOTAL |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **18,067,995** | **3,707,562** | **21,775,557** | 12,557,945 | 3,710,269 | 16,268,214 |
| Floating-rate securities | **3,472,932** | **–** | **3,472,932** | 4,734,400 | – | 4,734,400 |
| Other | **–** | **552,391** | **552,391** | – | 1,114,838 | 1,114,838 |
| **Investments held at amortized cost, net** | **21,540,927** | **4,259,953** | **25,800,880** | 17,292,345 | 4,825,107 | 22,117,452 |

**d) The reconciliations from the opening to the closing balance of gross carrying value of Debt instrument**

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| **Debt instrument investments** | | | | |
| Balance at January 01 | **31,280,745** | **–** | **–** | **31,280,745** |
| Transfer from 12-month ECL | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **6,047,717** | **–** | **–** | **6,047,717** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **37,328,462** | **–** | **–** | **37,328,462** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Debt instrument investments | | | | |
| Balance at January 01 | 27,920,474 | – | 187,500 | 28,107,974 |
| Transfer from 12-month ECL | – | – | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Transfer from lifetime ECL credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | 3,360,271 | – | – | 3,360,271 |
| Write-offs | – | – | (187,500) | (187,500) |
| Balance as at December 31, 2019 | 31,280,745 | – | – | 31,280,745 |

## Amortized cost

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **22,127,595** | **–** | **–** | **22,127,595** |
| Transfer from 12-month ECL | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **3,679,828** | **–** | **–** | **3,679,828** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **25,807,423** | **–** | **–** | **25,807,423** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 22,408,755 | – | 187,500 | 22,596,255 |
| Transfer from 12-month ECL | – | – | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | (281,160) | – | – | (281,160) |
| Write-offs | – | – | (187,500) | (187,500) |
| Balance as at December 31, 2019 | 22,127,595 | – | – | 22,127,595 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**6. Investments, net** continued

**d The reconciliations from the opening to the closing balance of gross carrying value of Debt instrument** continued

FVOCI

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **9,153,150** | **–** | **–** | **9,153,150** |
| Transfer from 12-month ECL | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **2,367,889** | **–** | **–** | **2,367,889** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **11,521,039** | **–** | **–** | **11,521,039** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 5,511,719 | – | – | 5,511,719 |
| Transfer from 12-month ECL | – | – | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | 3,641,431 | – | – | 3,641,431 |
| Write-offs | – | – | – | – |
| Balance as at December 31, 2019 | 9,153,150 | – | – | 9,153,150 |

**e) The reconciliations from the opening to the closing balance of ECL on Debt instruments:**

An analysis of changes is loss allowance for Debt instruments is as follows:

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Debt instrument investments | | | | |
| Balance at January 01 | **22,084** | **–** | **–** | **22,084** |
| Transfer from 12-month ECL | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **(6,692)** | **–** | **–** | **(6,692)** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **15,392** | **–** | **–** | **15,392** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| **Debt instrument investments** | | | | |
| Balance at January 01 | 40,375 | – | 187,500 | 227,875 |
| Transfer from 12-month ECL | – | – | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Transfer from lifetime ECL credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | (18,291) | – | – | (18,291) |
| Write-offs | – | – | (187,500) | (187,500) |
| Balance as at December 31, 2019 | 22,084 | – | – | 22,084 |

An analysis of changes is loss allowance by each class of Debt instruments by products, is as follows:

## Amortized cost

| SAR '000 | DECEMBER 31, 2020 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **10,143** | **–** | **–** | **10,143** |
| Transfer from 12-month ECL | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **(3,600)** | **–** | **–** | **(3,600)** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **6,543** | **–** | **–** | **6,543** |

| SAR '000 | DECEMBER 31, 2019 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 35,029 | – | 187,500 | 222,529 |
| Transfer from 12-month ECL | – | – | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | (24,886) | – | – | (24,886) |
| Write-offs | – | – | (187,500) | (187,500) |
| Balance as at December 31, 2019 | 10,143 | – | – | 10,143 |

## FVOCI

| SAR '000 | DECEMBER 31, 2020 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **11,941** | **–** | **–** | **11,941** |
| Transfer from 12-month ECL | **–** | **–** | **–** | **–** |
| Transfer from lifetime ECL not credit impaired | **–** | **–** | **–** | **–** |
| Net charge/(reversal) for the year | **(3,092)** | **–** | **–** | **(3,092)** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **8,849** | **–** | **–** | **8,849** |

| SAR '000 | DECEMBER 31, 2019 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 5,346 | – | – | 5,346 |
| Transfer from 12-month ECL | – | – | – | – |
| Transfer from lifetime ECL not credit impaired | – | – | – | – |
| Net charge/(reversal) for the year | 6,595 | – | – | 6,595 |
| Write-offs | – | – | – | – |
| Balance as at December 31, 2019 | 11,941 | – | – | 11,941 |

### f) Investment securities are classified as follows:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Investment at amortized cost | **25,807,423** | 22,127,595 |
| Investments at FVOCI – Debt instruments | **11,521,039** | 9,153,150 |
| Investments at FVOCI – Equity/ other investments | **220,968** | 119,706 |
| Investment at FVTPL – Debt instruments | **144,603** | 75,412 |
| Allowance for impairment | **(15,392)** | (22,084) |
| **Total** | **37,678,641** | 31,453,779 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 6. Investments, net continued

### g) Investments by type of securities

| SAR '000 | DOMESTIC 2020 | DOMESTIC 2019 | INTERNATIONAL 2020 | INTERNATIONAL 2019 | TOTAL 2020 | TOTAL 2019 |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **28,605,757** | 20,336,581 | **1,476,684** | 2,830,431 | **30,082,441** | 23,167,012 |
| Floating-rate securities | **6,766,379** | 7,065,884 | **67,680** | – | **6,834,059** | 7,065,884 |
| Equities | **201,611** | 83,843 | **19,357** | 35,863 | **220,968** | 119,706 |
| Other | **556,565** | 1,123,261 | **–** | – | **556,565** | 1,123,261 |
| Allowance for impairment | **(13,821)** | (16,908) | **(1,571)** | (5,176) | **(15,392)** | (22,084) |
| **Total** | **36,116,491** | 28,592,661 | **1,562,150** | 2,861,118 | **37,678,641** | 31,453,779 |

### h) The analysis of the composition of investments is as follows:

| SAR '000 | 2020 QUOTED | 2020 UNQUOTED | 2020 TOTAL | 2019 QUOTED | 2019 UNQUOTED | 2019 TOTAL |
|---|---|---|---|---|---|---|
| Fixed-rate securities | **26,374,521** | **3,707,920** | **30,082,441** | 18,200,178 | 3,710,628 | 21,910,806 |
| Floating-rate securities | **4,595,334** | **2,238,725** | **6,834,059** | 5,841,606 | 2,480,484 | 8,322,090 |
| Equities | **195,888** | **25,080** | **220,968** | 78,145 | 41,561 | 119,706 |
| Other | **–** | **556,565** | **556,565** | – | 1,123,261 | 1,123,261 |
| | **31,165,743** | **6,528,290** | **37,694,033** | 24,119,929 | 7,355,934 | 31,475,863 |
| Allowance for impairment | **(6,251)** | **(9,141)** | **(15,392)** | (13,663) | (8,421) | (22,084) |
| **Total** | **31,159,492** | **6,519,149** | **37,678,641** | 24,106,266 | 7,347,513 | 31,453,779 |

### i) The analysis of investments by counterparty is as follows:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Government and quasi government | **33,090,633** | 27,746,859 |
| Corporate | **2,368,994** | 2,728,494 |
| Banks and other financial institutions | **2,219,014** | 978,426 |
| **Total** | **37,678,641** | 31,453,779 |

### j) Shariah based investments:

Investment securities designated as at FVOCI:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Debt instruments** | | |
| Sukuk | **5,975,322** | 4,891,764 |
| Allowance for impairment | **(7,032)** | (6,710) |
| **Total** | **5,968,290** | 4,885,054 |

Investments held at amortised cost:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Debt instruments** | | |
| Sukuk | **15,519,408** | 5,054,318 |
| Other | **556,565** | 1,123,260 |
| Allowance for impairment | **(5,648)** | (8,900) |
| **Total** | **16,070,325** | 6,168,678 |

Trading Investment securities include Islamic related products of SAR 136 million (2019: SAR 72 million).

## 7. Loans and advances, net

### a) Loans and advances are classified as follows:

Held to Amortized cost

| SAR '000 | 2020 OVERDRAFT & COMMERCIAL LOANS | CREDIT CARDS | CONSUMER LOANS | TOTAL |
|---|---|---|---|---|
| Performing loans and advances – gross | **108,514,110** | **451,388** | **22,525,757** | **131,491,255** |
| Non performing loans and advances, net | **3,539,025** | **45,048** | **182,517** | **3,766,590** |
| **Total loans and advances** | **112,053,135** | **496,436** | **22,708,274** | **135,257,845** |
| Allowance for impairment | **(4,277,421)** | **(85,124)** | **(330,465)** | **(4,693,010)** |
| **Loans and advances held at amortised cost, net** | **107,775,714** | **411,312** | **22,377,809** | **130,564,835** |

| SAR '000 | 2019 OVERDRAFT & COMMERCIAL LOANS | CREDIT CARDS | CONSUMER LOANS | TOTAL |
|---|---|---|---|---|
| Performing loans and advances – gross | 107,970,558 | 455,017 | 17,590,312 | 126,015,887 |
| Non performing loans and advances, net | 3,126,851 | 59,068 | 231,578 | 3,417,497 |
| Total loans and advances | 111,097,409 | 514,085 | 17,821,890 | 129,433,384 |
| Allowance for impairment | (3,239,150) | (96,829) | (372,309) | (3,708,288) |
| Loans and advances held at amortised cost, net | 107,858,259 | 417,256 | 17,449,581 | 125,725,096 |

The above includes Shariah based loans and advances as below:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Overdraft & Commercial loans** | | |
| Tawaraq | **46,122,000** | 38,859,818 |
| Murabaha | **20,300,162** | 21,638,928 |
| Others | **5,924,288** | 7,078,065 |
| Allowance for impairment | **(2,112,998)** | (1,799,639) |
| **Total** | **70,233,452** | 65,777,172 |

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Credit Card & Consumer loans** | | |
| Tawaraq | **13,488,168** | 10,358,056 |
| Murabaha | **6,164,558** | 4,532,848 |
| Others | **2,853,269** | 2,574,785 |
| Allowance for impairment | **(320,471)** | (357,362) |
| **Total** | **22,185,524** | 17,108,327 |

### b) The reconciliations from the opening to the closing balance of gross carrying value of Loans and advances

An analysis of changes in gross carrying value for Loans and Advances is, as follows:

| SAR '000 | DECEMBER 31, 2020 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **113,985,696** | **12,005,667** | **3,442,021** | **129,433,384** |
| Transfer from 12-month ECL | **(6,127,649)** | **5,761,073** | **366,576** | **–** |
| Transfer from lifetime ECL not credit impaired | **3,606,550** | **(5,889,652)** | **2,283,102** | **–** |
| Transfer from Lifetime ECL credit impaired | **79,204** | **19,329** | **(98,533)** | **–** |
| Net charge/(reversal) for the year | **7,283,911** | **547,742** | **(175,592)** | **7,656,061** |
| Write-offs | **–** | **–** | **(1,831,600)** | **(1,831,600)** |
| **Balance as at December 31, 2020** | **118,827,712** | **12,444,159** | **3,985,974** | **135,257,845** |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 7. Loans and advances, net continued

**b) The reconciliations from the opening to the closing balance of gross carrying value of Loans and advances** continued

| SAR '000 | DECEMBER 31, 2019 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 107,715,746 | 13,351,076 | 3,625,166 | 124,691,988 |
| Transfer from 12-month ECL | (4,858,135) | 3,808,885 | 1,049,250 | – |
| Transfer from lifetime ECL not credit impaired | 4,547,527 | (5,438,265) | 890,738 | – |
| Transfer from Lifetime ECL credit impaired | 74,566 | 10,839 | (85,405) | – |
| Net charge/(reversal) for the year | 6,505,992 | 273,132 | (677,095) | 6,102,029 |
| Write-offs | – | – | (1,360,633) | (1,360,633) |
| Balance as at December 31, 2019 | 113,985,696 | 12,005,667 | 3,442,021 | 129,433,384 |

An analysis of changes in gross carrying value by each class of financial instrument is, as follows:

### Overdraft & Commercial loans

| SAR '000 | DECEMBER 31, 2020 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **96,523,160** | **11,447,398** | **3,126,851** | **111,097,409** |
| Transfer from 12-month ECL | **(5,879,314)** | **5,631,290** | **248,024** | **–** |
| Transfer from lifetime ECL not credit impaired | **3,443,715** | **(5,655,813)** | **2,212,098** | **–** |
| Transfer from Lifetime ECL credit impaired | **2,023** | **16** | **(2,039)** | **–** |
| Net charge/(reversal) for the year | **2,065,731** | **762,439** | **(167,545)** | **2,660,625** |
| Write-offs | **–** | **–** | **(1,704,899)** | **(1,704,899)** |
| **Balance as at December 31, 2020** | **96,155,315** | **12,185,330** | **3,712,490** | **112,053,135** |

| SAR '000 | DECEMBER 31, 2019 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 96,128,877 | 11,415,153 | 3,257,188 | 110,801,218 |
| Transfer from 12-month ECL | (4,579,452) | 3,628,098 | 951,354 | – |
| Transfer from lifetime ECL not credit impaired | 3,486,286 | (4,225,299) | 739,013 | – |
| Transfer from Lifetime ECL credit impaired | 580 | – | (580) | – |
| Net charge/(reversal) for the year | 1,486,869 | 629,446 | (555,413) | 1,560,902 |
| Write-offs | – | – | (1,264,711) | (1,264,711) |
| Balance as at December 31, 2019 | 96,523,160 | 11,447,398 | 3,126,851 | 111,097,409 |

### Credit Cards

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **415,507** | **25,974** | **72,604** | **514,085** |
| Transfer from 12-month ECL | **(28,728)** | **9,492** | **19,236** | **–** |
| Transfer from lifetime ECL not credit impaired | **13,817** | **(26,814)** | **12,997** | **–** |
| Transfer from Lifetime ECL credit impaired | **3,462** | **615** | **(4,077)** | **–** |
| Net charge/(reversal) for the year | **11,026** | **11,123** | **8,301** | **30,450** |
| Write-offs | **–** | **–** | **(48,099)** | **(48,099)** |
| **Balance as at December 31, 2020** | **415,084** | **20,390** | **60,962** | **496,436** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 350,495 | 106,284 | 80,568 | 537,347 |
| Transfer from 12-month ECL | (21,535) | 9,830 | 11,705 | – |
| Transfer from lifetime ECL not credit impaired | 61,764 | (77,450) | 15,686 | – |
| Transfer from Lifetime ECL credit impaired | 5,537 | 1,378 | (6,915) | – |
| Net charge/(reversal) for the year | 19,246 | (14,068) | (329) | 4,849 |
| Write-offs | – | – | (28,111) | (28,111) |
| Balance as at December 31, 2019 | 415,507 | 25,974 | 72,604 | 514,085 |

### Consumer Loans

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **17,047,029** | **532,295** | **242,566** | **17,821,890** |
| Transfer from 12-month ECL | **(219,607)** | **120,291** | **99,316** | **–** |
| Transfer from lifetime ECL not credit impaired | **149,018** | **(207,025)** | **58,007** | **–** |
| Transfer from Lifetime ECL credit impaired | **73,719** | **18,698** | **(92,417)** | **–** |
| Net charge/(reversal) for the year | **5,207,154** | **(225,820)** | **(16,348)** | **4,964,986** |
| Write-offs | **–** | **–** | **(78,602)** | **(78,602)** |
| **Balance as at December 31, 2020** | **22,257,313** | **238,439** | **212,522** | **22,708,274** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 11,236,374 | 1,829,639 | 287,410 | 13,353,423 |
| Transfer from 12-month ECL | (257,148) | 170,957 | 86,191 | – |
| Transfer from lifetime ECL not credit impaired | 999,477 | (1,135,516) | 136,039 | – |
| Transfer from Lifetime ECL credit impaired | 68,449 | 9,461 | (77,910) | – |
| Net charge/(reversal) for the year | 4,999,877 | (342,246) | (121,353) | 4,536,278 |
| Write-offs | – | – | (67,811) | (67,811) |
| Balance as at December 31, 2019 | 17,047,029 | 532,295 | 242,566 | 17,821,890 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 7. Loans and advances, net continued

**c) Movement in allowance for impairment of credit losses are classified as follows:**

An analysis of changes in loss allowance for Loans and Advances is, as follows:

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **680,944** | **981,444** | **2,045,900** | **3,708,288** |
| Transfer from 12-month ECL | **(81,788)** | **72,861** | **8,927** | **–** |
| Transfer from lifetime ECL not credit impaired | **78,873** | **(416,420)** | **337,547** | **–** |
| Transfer from Lifetime ECL credit impaired | **33,090** | **8,016** | **(41,106)** | **–** |
| Net charge/(reversal) for the year | **(131,762)** | **729,628** | **2,218,456** | **2,816,322** |
| Write-offs | **–** | **–** | **(1,831,600)** | **(1,831,600)** |
| **Balance as at December 31, 2020** | **579,357** | **1,375,529** | **2,738,124** | **4,693,010** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 657,515 | 1,009,654 | 2,393,185 | 4,060,354 |
| Transfer from 12-month ECL | (40,309) | 28,932 | 11,377 | – |
| Transfer from lifetime ECL not credit impaired | 166,707 | (188,998) | 22,291 | – |
| Transfer from Lifetime ECL credit impaired | 33,774 | 5,767 | (39,541) | – |
| Net charge/(reversal) for the year | (136,743) | 126,089 | 1,019,221 | 1,008,567 |
| Write-offs | – | – | (1,360,633) | (1,360,633) |
| Balance as at December 31, 2019 | 680,944 | 981,444 | 2,045,900 | 3,708,288 |

An analysis of changes in loss allowance by each class of financial instrument is, as follows:

### Overdraft & Commercial loans

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **549,654** | **958,551** | **1,730,945** | **3,239,150** |
| Transfer from 12-month ECL | **(76,191)** | **70,556** | **5,635** | **–** |
| Transfer from lifetime ECL not credit impaired | **69,362** | **(400,307)** | **330,945** | **–** |
| Transfer from Lifetime ECL credit impaired | **911** | **7** | **(918)** | **–** |
| Net charge/(reversal) for the year | **(116,797)** | **731,387** | **2,128,580** | **2,743,170** |
| Write-offs | **–** | **–** | **(1,704,899)** | **(1,704,899)** |
| **Balance as at December 31, 2020** | **426,939** | **1,360,194** | **2,490,288** | **4,277,421** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 571,694 | 975,305 | 2,084,807 | 3,631,806 |
| Transfer from 12-month ECL | (38,062) | 27,521 | 10,541 | – |
| Transfer from lifetime ECL not credit impaired | 147,795 | (165,276) | 17,481 | – |
| Transfer from Lifetime ECL credit impaired | 261 | – | (261) | – |
| Net charge/(reversal) for the year | (132,034) | 121,001 | 883,088 | 872,055 |
| Write-offs | – | – | (1,264,711) | (1,264,711) |
| Balance as at December 31, 2019 | 549,654 | 958,551 | 1,730,945 | 3,239,150 |

## Credit Cards

| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| | DECEMBER 31, 2020 | | | |
| Balance at January 01 | **15,698** | **8,722** | **72,409** | **96,829** |
| Transfer from 12-month ECL | **(2,437)** | **590** | **1,847** | **–** |
| Transfer from lifetime ECL not credit impaired | **3,297** | **(7,631)** | **4,334** | **–** |
| Transfer from Lifetime ECL credit impaired | **2,030** | **363** | **(2,393)** | **–** |
| Net charge/(reversal) for the year | **469** | **3,097** | **32,828** | **36,394** |
| Write-offs | **–** | **–** | **(48,099)** | **(48,099)** |
| **Balance as at December 31, 2020** | **19,057** | **5,141** | **60,926** | **85,124** |

| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| | DECEMBER 31, 2019 | | | |
| Balance at January 01 | 17,240 | 3,278 | 60,257 | 80,775 |
| Transfer from 12-month ECL | (508) | 221 | 287 | – |
| Transfer from lifetime ECL not credit impaired | 2,354 | (2,682) | 328 | – |
| Transfer from Lifetime ECL credit impaired | 2,898 | 855 | (3,753) | – |
| Net charge/(reversal) for the year | (6,286) | 7,050 | 43,401 | 44,165 |
| Write-offs | – | – | (28,111) | (28,111) |
| Balance as at December 31, 2019 | 15,698 | 8,722 | 72,409 | 96,829 |

## Consumer Loans

| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| | DECEMBER 31, 2020 | | | |
| Balance at January 01 | **115,592** | **14,171** | **242,546** | **372,309** |
| Transfer from 12-month ECL | **(3,160)** | **1,715** | **1,445** | **–** |
| Transfer from lifetime ECL not credit impaired | **6,214** | **(8,482)** | **2,268** | **–** |
| Transfer from Lifetime ECL credit impaired | **30,149** | **7,646** | **(37,795)** | **–** |
| Net charge/(reversal) for the year | **(15,434)** | **(4,856)** | **57,048** | **36,758** |
| Write-offs | **–** | **–** | **(78,602)** | **(78,602)** |
| **Balance as at December 31, 2020** | **133,361** | **10,194** | **186,910** | **330,465** |

| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| | DECEMBER 31, 2019 | | | |
| Balance at January 01 | 68,581 | 31,071 | 248,121 | 347,773 |
| Transfer from 12-month ECL | (1,739) | 1,190 | 549 | – |
| Transfer from lifetime ECL not credit impaired | 16,558 | (21,040) | 4,482 | – |
| Transfer from Lifetime ECL credit impaired | 30,615 | 4,912 | (35,527) | – |
| Net charge/(reversal) for the year | 1,577 | (1,962) | 92,732 | 92,347 |
| Write-offs | – | – | (67,811) | (67,811) |
| Balance as at December 31, 2019 | 115,592 | 14,171 | 242,546 | 372,309 |

The movement in the allowance for impairment charge for investments and other financial assets for the year ended December 31, is as follows:

| SAR '000 | NOTE | 2020 | 2019 |
|---|---|---|---|
| Impairment (reversal)/charge on due from banks, net | 5 | **66** | (2,479) |
| Impairment (reversal)/charge on off statement of financial position, net | 16 | **(145,067)** | (21,792) |
| Impairment reversal on amortized cost, net | 6 (e) | **(3,600)** | (24,886) |
| Impairment charge/(reversal) on FVOCI, net | 6 (e) | **(3,092)** | 6,595 |
| Impairment charge/(reversal) on other assets, net | | **5,639** | 239 |
| **Total** | | **(146,054)** | (42,323) |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 7. Loans and advances, net continued

**d) Loans and advances include finance lease receivables, which are analyzed as follows:**

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Gross receivable from finance leases** | | |
| Less than 1 year | **1,188,855** | 1,130,795 |
| 1 to 5 years | **2,231,657** | 2,625,584 |
| More than 5 years | **5,768,800** | 6,632,622 |
| Unearned future finance income on finance lease | **(636,275)** | (750,396) |
| **Net receivable from finance leases** | **8,553,037** | 9,638,605 |
| Allowance for impairment | **(104,444)** | (142,492) |
| **Total** | **8,448,593** | 9,496,113 |

## 8. Investment in associate

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Balance at January 01 | **9,695** | 9,695 |
| Share of earnings | **–** | – |
| Allowance for impairment | **–** | – |
| **Balance as at December 31** | **9,695** | 9,695 |

Investment in associate represents 27% shareholding in the Banque BEMO Saudi Fransi (2019: 27%).

The Bank's share of Banque Bemo Saudi Fransi – Syria financial statements:

| | BANQUE BEMO SAUDI FRANSI – SYRIA | |
|---|---|---|
| SAR '000 | 2020 | 2019 |
| Total assets | **528,362** | 746,650 |
| Total liabilities | **467,675** | 673,190 |
| Total equity | **60,187** | 73,460 |
| Total income | **65,354** | 37,899 |
| Total expenses | **30,608** | 31,931 |

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

| SAR '000 | LAND AND BUILDINGS | LEASEHOLD IMPROVEMENTS | FURNITURE, EQUIPMENT & VEHICLES | COMPUTER AND SOFTWARE | TOTAL |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at January 01, 2019 | 744,777 | 600,572 | 569,694 | 1,047,809 | 2,962,852 |
| Additions during the year | 18,350 | 10,370 | 21,798 | 71,926 | 122,444 |
| Disposals and retirements | (2,382) | (21,612) | (4,077) | (67,373) | (95,444) |
| Balance as at December 31, 2019 | 760,745 | 589,330 | 587,415 | 1,052,362 | 2,989,852 |
| Additions during the year | **4,496** | **9,081** | **23,687** | **235,136** | **272,400** |
| Disposals and retirements | **(5)** | **(7,876)** | **(3,828)** | **(26,058)** | **(37,767)** |
| **Balance as at December 31, 2020** | **765,236** | **590,535** | **607,274** | **1,261,440** | **3,224,485** |
| **Accumulated depreciation and impairment losses** | | | | | |
| Balance as at January 01, 2019 | 337,151 | 548,582 | 483,732 | 903,018 | 2,272,483 |
| Depreciation and amortization charge | 25,880 | 22,495 | 23,825 | 75,752 | 147,952 |
| Disposals and retirements | (1,811) | (21,612) | (3,962) | (67,373) | (94,758) |
| Balance as at December 31, 2019 | 361,220 | 549,465 | 503,595 | 911,397 | 2,325,677 |
| Depreciation and amortization charge | **24,581** | **18,342** | **18,436** | **76,345** | **137,704** |
| Disposals and retirements | **(5)** | **(7,876)** | **(3,792)** | **(25,957)** | **(37,630)** |
| **Balance as at December 31, 2020** | **385,796** | **559,931** | **518,239** | **961,785** | **2,425,751** |
| **Net book value** | | | | | |
| **As at December 31, 2020** | **379,440** | **30,604** | **89,035** | **299,655** | **798,734** |
| As at December 31, 2019 | 399,525 | 39,865 | 83,820 | 140,965 | 664,175 |

Leasehold improvements as at December 31, 2020 include work in progress amounting to SAR 18 million (2019: SAR 12 million). Computer and software include software having a net book value of SAR 104 million (2019: SAR 76 million).

### Right-of-use assets

| | 2020 | | |
|---|---|---|---|
| SAR '000 | LAND & BUILDING | FURNITURE, EQUIPMENT & VEHICLES | TOTAL |
| Balance at January 01 | **656,556** | **3,836** | **660,392** |
| Add: Additions | **60,186** | **3,334** | **63,520** |
| Less: Disposals | **9,869** | **57** | **9,926** |
| Depreciation and amortization | **67,824** | **4,726** | **72,550** |
| **Balance as at December 31, 2020** | **639,049** | **2,387** | **641,436** |

| | 2019 | | |
|---|---|---|---|
| SAR '000 | LAND & BUILDING | FURNITURE, EQUIPMENT & VEHICLES | TOTAL |
| Balance at January 01 | 666,874 | 8,161 | 675,035 |
| Add: Additions | 50,663 | 7 | 50,670 |
| Less: Disposals | 1,959 | 22 | 1,981 |
| Depreciation and amortization | 59,022 | 4,310 | 63,332 |
| Balance as at December 31, 2019 | 656,556 | 3,836 | 660,392 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

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

The following table shows the net book value of property, equipment and right of use assets:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Net book value** | | |
| Fixed Assets | **798,734** | 664,175 |
| Right-of-use assets | **641,436** | 660,392 |
| **Total** | **1,440,170** | 1,324,567 |

The following table shows depreciation and amortization of property, equipment and right of use assets:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Depreciation and amortization** | | |
| Fixed Assets | **137,704** | 147,952 |
| Right-of-use assets | **72,550** | 63,332 |
| **Total** | **210,254** | 211,284 |

### 10. Other assets

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Accounts receivable | **869,920** | 708,249 |
| Collateral received on derivatives | **1,403,740** | 591,952 |
| Others | **237,960** | 420,174 |
| **Total** | **2,511,620** | 1,720,375 |

### 11. Derivatives

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

**a) Swaps**

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

**b) Forwards and futures**

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

**c) Forward rate agreements**

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

**d) Options**

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

### Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, 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 favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The Bank also holds structured derivative which are fully back to back in accordance with the Bank's risk management strategy.

### Held for hedging purposes

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

The Board of Directors have established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors have also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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

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

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

### Cash flow hedges

The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

| SAR '000 | WITHIN 1 YEAR | 1-3 YEARS | 3-5 YEARS | OVER 5 YEARS |
|---|---|---|---|---|
| **2020** | | | | |
| Cash inflows (assets) | **964,125** | **935,369** | **280,851** | **–** |
| Cash out flows (liabilities) | **(388,148)** | **(345,323)** | **(202,323)** | **–** |
| Net cash inflow | **575,977** | **590,046** | **78,528** | **–** |
| 2019 | | | | |
| Cash inflows (assets) | 1,422,004 | 1,796,338 | 552,450 | – |
| Cash out flows (liabilities) | (953,419) | (1,024,577) | (347,229) | – |
| Net cash inflow | 468,585 | 771,761 | 205,221 | – |

The net gain/(loss) on cash flow hedges transferred to the consolidated statement of income during the year was as follows:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Special commission income | **1,072,046** | 1,464,149 |
| Special commission expense | **(502,990)** | (1,510,634) |
| **Net gain/(loss) on cash flow hedges transferred to consolidated statement of income** | **569,056** | (46,485) |



# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

### 11. Derivatives continued

The following tables show the positive and negative fair values of derivative financial instruments held, together with their notional amounts analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

| | | | | NOTIONAL AMOUNTS BY TERM TO MATURITY | | | | |
|---|---|---|---|---|---|---|---|---|
| DERIVATIVE FINANCIAL INSTRUMENTS SAR '000 | POSITIVE FAIR VALUE | NEGATIVE FAIR VALUE | NOTIONAL AMOUNT TOTAL | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | MONTHLY AVERAGE |
| **2020** | | | | | | | | |
| **Held for trading** | | | | | | | | |
| Commission rate swaps | **4,554,278** | **4,222,635** | **199,290,260** | **13,239,134** | **29,738,887** | **127,888,968** | **28,423,271** | **182,145,903** |
| Commission rate futures and options | **744,023** | **744,023** | **34,996,063** | **409,149** | **3,950,120** | **26,195,573** | **4,441,221** | **45,627,465** |
| Forward foreign exchange contracts | **242,504** | **121,796** | **32,777,959** | **16,194,974** | **8,025,272** | **6,991,533** | **1,566,180** | **29,157,531** |
| Currency options | **944** | **944** | **67,743** | **22,055** | **45,688** | **–** | **–** | **54,941** |
| Others | **2,616** | **2,616** | **61,357** | **23,121** | **38,236** | **–** | **–** | **67,557** |
| **Held as cash flow hedges** | | | | | | | | |
| Commission rate swaps | **1,364,681** | **4,444** | **32,571,544** | **2,896,544** | **7,903,500** | **21,771,500** | **–** | **35,808,513** |
| **Total** | **6,909,046** | **5,096,458** | **299,764,926** | **32,784,977** | **49,701,703** | **182,847,574** | **34,430,672** | **292,861,910** |

| | | | | NOTIONAL AMOUNTS BY TERM TO MATURITY | | | | |
|---|---|---|---|---|---|---|---|---|
| DERIVATIVE FINANCIAL INSTRUMENTS SAR '000 | POSITIVE FAIR VALUE | NEGATIVE FAIR VALUE | NOTIONAL AMOUNT TOTAL | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | MONTHLY AVERAGE |
| 2019 | | | | | | | | |
| Held for trading | | | | | | | | |
| Commission rate swaps | 2,441,789 | 2,375,872 | 174,362,942 | 17,712,296 | 21,800,979 | 116,905,641 | 17,944,026 | 163,993,329 |
| Commission rate futures and options | 629,181 | 629,181 | 51,141,161 | 51,387 | 9,252,601 | 35,116,223 | 6,720,950 | 55,851,254 |
| Forward foreign exchange contracts | 96,965 | 23,392 | 24,160,021 | 14,611,504 | 6,914,915 | 1,860,789 | 772,813 | 22,495,992 |
| Currency options | 427 | 427 | 8,784 | 360 | – | 8,424 | – | 240,976 |
| Others | 27,299 | 27,299 | 164,619 | 123,840 | 40,779 | – | – | 539,424 |
| Held as cash flow hedges | | | | | | | | |
| Commission rate swaps | 1,410,890 | 13,235 | 51,800,640 | 10,198,000 | 6,480,000 | 35,122,640 | – | 54,880,395 |
| Total | 4,606,551 | 3,069,406 | 301,638,167 | 42,697,387 | 44,489,274 | 189,013,717 | 25,437,789 | 298,001,370 |

Derivative portfolio include Shariah based derivatives with notional amount of SAR 22,518 million (2019: SAR 24,005 million).

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

| SAR '000 DESCRIPTION OF HEDGED ITEMS | FAIR VALUE | COST | RISK | HEDGING INSTRUMENT | POSITIVE FAIR VALUE | NEGATIVE FAIR VALUE |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Floating commission rate investments** | **3,897,280** | **3,783,544** | **Cash flow** | **Commission rate swap** | **113,736** | **–** |
| **Floating commission rate loans** | **30,034,501** | **28,788,000** | **Cash flow** | **Commission rate swap** | **1,250,945** | **4,444** |
| 2019 | | | | | | |
| Floating commission rate investments | 4,130,432 | 4,019,640 | Cash flow | Commission rate swap | 110,792 | – |
| Floating commission rate loans | 49,067,863 | 47,781,000 | Cash flow | Commission rate swap | 1,300,098 | 13,235 |

The Bank has posted SAR 1,404 million (2019: SAR 592 million) and received SAR 915 million (2019: SAR 942 million) collaterals under Credit Support Annex (CSA) agreements and European Market Infrastructure Regulation (EMIR).

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Group are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Group to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counter party.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

## 12. Due to SAMA

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Current accounts | **67,594** | 1,300 |
| Government grant (note 40) | **9,214,101** | – |
| Modification impact, net | **(152,070)** | – |
| **Total** | **9,129,625** | 1,300 |

The table below shows a summary of government grant along with the maturity dates:

| DATE OF RECEIPT | FINAL MATURITY DATE | PRINCIPAL AMOUNT SAR '000 |
|---|---|---|
| March 29, 2020 | March 29, 2023 | **525,127** |
| March 29, 2020 | December 29, 2024 | **474,873** |
| May 11, 2020 | February 11, 2025 | **785,000** |
| May 21, 2020 | February 20, 2025 | **869,000** |
| June 04, 2020 | June 06, 2021 | **4,612,111** |
| July 16, 2020 | April 16, 2025 | **489,403** |
| September 30, 2020 | January 04, 2024 | **1,448,255** |
| December 23, 2020 | September 20, 2022 | **10,332** |
| **Total** | | **9,214,101** |

## 13. Due to banks and other financial institutions

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Current accounts | **342,230** | 553,116 |
| Money market deposits | **7,320,358** | 1,817,724 |
| **Total** | **7,662,588** | 2,370,840 |

Due to banks and other financial institutions include Islamic related products of SAR Nil million (2019: SAR Nil million).

## 14. Customers' deposits

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Demand | **79,860,073** | 67,732,501 |
| Saving | **753,054** | 591,825 |
| Time | **40,442,288** | 59,478,938 |
| Other | **6,056,229** | 5,034,238 |
| **Total** | **127,111,644** | 132,837,502 |

Other customers' deposits include SAR 3,799 million (2019: SAR 3,036 million) related to margins held for irrevocable commitments.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 14. Customers' deposits continued

Time deposits include Shariah approved customer deposits as below:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Murabaha | **17,453,471** | 19,125,900 |
| **Total** | **17,453,471** | 19,125,900 |

Customers' deposits include foreign currency deposits as follows:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Demand | **7,664,520** | 7,436,209 |
| Saving | **23,964** | 18,200 |
| Time | **3,490,519** | 12,349,220 |
| Other | **2,851,133** | 1,948,430 |
| **Total** | **14,030,136** | 21,752,059 |

Foreign currency deposits mainly include deposits in USD amounting to SAR 9,482 million (2019: SAR 17,443 million).

## 15. Tier 1 Sukuk

During 2020, the Bank through a Shariah compliant arrangement issued Tier 1 Sukuk (the "Sukuk"), amounting to SAR 5 billion. The issuance was approved by the regulatory authorities and the Board of Directors of the Bank.

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

The applicable profit rate is 4.5% per annum from date of issue up to 2025 and is subjected to reset every 5 years. The applicable profit on the Sukuks is payable quarterly in arrears on each periodic distribution date, except upon the occurrence of a non payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

## 16. Other liabilities

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Accounts payable and accrued expenses | **2,416,407** | 2,424,115 |
| Collateral received on derivatives | **915,153** | 942,139 |
| Zakat liability for prior years | **725,121** | 966,828 |
| Lease liability | **702,162** | 711,888 |
| ECL provision on off statement of financial position | **410,871** | 555,938 |
| Others | **1,267,610** | 1,321,903 |
| **Total** | **6,437,324** | 6,922,811 |

The following table shows the gross carrying amount of off balance sheet items:

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **28,908,401** | **1,336,396** | **684,563** | **30,929,360** |
| Transfer from 12-month ECL | **(1,041,807)** | **1,014,003** | **27,804** | **–** |
| Transfer from lifetime ECL not credit impaired | **1,526,942** | **(1,632,856)** | **105,914** | **–** |
| Net charge/(reversal) for the year | **1,647,228** | **802,672** | **119,522** | **2,569,422** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **31,040,764** | **1,520,215** | **937,803** | **33,498,782** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 26,690,788 | 1,600,403 | 691,669 | 28,982,860 |
| Transfer from 12-month ECL | (1,405,534) | 1,046,678 | 358,856 | – |
| Transfer from lifetime ECL not credit impaired | 405,966 | (479,096) | 73,130 | – |
| Net charge/(reversal) for the year | 3,217,181 | (831,589) | (439,092) | 1,946,500 |
| Write-offs | – | – | – | – |
| Balance as at December 31, 2019 | 28,908,401 | 1,336,396 | 684,563 | 30,929,360 |

Movement of ECL provision on off statement of financial position:

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | **42,107** | **25,629** | **488,202** | **555,938** |
| Transfer from 12-month ECL | **(2,172)** | **2,164** | **8** | **–** |
| Transfer from lifetime ECL not credit impaired | **8,500** | **(8,560)** | **60** | **–** |
| Net charge/(reversal) for the year | **(22,866)** | **(8,206)** | **(113,995)** | **(145,067)** |
| Write-offs | **–** | **–** | **–** | **–** |
| **Balance as at December 31, 2020** | **25,569** | **11,027** | **374,275** | **410,871** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Balance at January 01 | 44,176 | 44,057 | 489,497 | 577,730 |
| Transfer from 12-month ECL | (1,479) | 1,475 | 4 | – |
| Transfer from lifetime ECL not credit impaired | 2,175 | (2,577) | 402 | – |
| Net charge/(reversal) for the year | (2,765) | (17,326) | (1,701) | (21,792) |
| Write-offs | – | – | – | – |
| Balance as at December 31, 2019 | 42,107 | 25,629 | 488,202 | 555,938 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 17. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2019: 1,205 million shares of SAR 10 each).

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

| SAR '000 | 2020 (%) | 2019 (%) | 2020 | 2019 |
|---|---|---|---|---|
| Saudi shareholders | **91.0** | 87.0 | **10,968,751** | 10,485,269 |
| Credit Agricole Corporate and Investment Bank (CA-CIB) | **–** | 4.0 | **–** | 483,482 |
| RAM Holdings I Ltd. | **9.0** | 9.0 | **1,084,821** | 1,084,821 |
| **Total** | **100** | 100 | **12,053,572** | 12,053,572 |

## 18. Statutory and general reserve

In accordance with Saudi Arabian Banking Control Law and the By-Laws of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, the Bank has reached the required limits and no further transfers are required from the net income for the year ended December 31, 2020 (2019: SAR Nil). The statutory reserve is not available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings in the prior years.

## 19. Other reserves

| SAR '000 | CASH FLOW HEDGES | FVOCI INVESTMENTS | TOTAL |
|---|---|---|---|
| **2020** | | | |
| **Balance at January 01** | **744,084** | **68,138** | **812,222** |
| Net change in fair value | **834,615** | **120,757** | **955,372** |
| Transfer to consolidated statement of income | **(569,056)** | **(10,423)** | **(579,479)** |
| Disposal of equity – FVOCI | **–** | **–** | **–** |
| Net movement during the year | **265,559** | **110,334** | **375,893** |
| **Balance as at December 31, 2020** | **1,009,643** | **178,472** | **1,188,115** |
| 2019 | | | |
| Balance at January 01 | (308,518) | (9,786) | (318,304) |
| Net change in fair value | 1,006,117 | 108,178 | 1,114,295 |
| Transfer to consolidated statement of income | 46,485 | (31,456) | 15,029 |
| Disposal of equity – FVOCI | – | 1,202 | 1,202 |
| Net movement during the year | 1,052,602 | 77,924 | 1,130,526 |
| Balance as at December 31, 2019 | 744,084 | 68,138 | 812,222 |

Other reserves represent the net unrealized revaluation gains/(losses) of cash flow hedges and FVOCI. These reserves are not available for distribution.

## 20. Commitments and contingencies

### a) Legal proceedings

As at December 31, 2020 there were 54 (2019: 47) legal proceedings outstanding against the Bank. No material provision has been made as the related legal advice indicates that it is unlikely that any significant loss will arise.

### b) Capital commitments

As at December 31, 2020 the Bank had capital commitments of SAR 100 million (2019: SAR 92 million) in respect of buildings and equipment purchases.

### c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank 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.

### i) The contractual maturity structure for the Bank's commitments and contingencies is as follows:

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Letters of credit | **4,085,130** | **3,151,502** | **1,118,861** | **–** | **8,355,493** |
| Letters of guarantee | **10,851,329** | **18,190,497** | **10,003,114** | **452,760** | **39,497,700** |
| Acceptances | **1,409,804** | **704,592** | **78,068** | **–** | **2,192,464** |
| Irrevocable commitments to extend credit | **366,377** | **284,102** | **5,508,216** | **6,800** | **6,165,495** |
| **Total** | **16,712,640** | **22,330,693** | **16,708,259** | **459,560** | **56,211,152** |
| 2019 | | | | | |
| Letters of credit | 1,110,084 | 6,239,163 | 1,483,770 | – | 8,833,017 |
| Letters of guarantee | 5,968,798 | 22,178,207 | 9,271,363 | 510,446 | 37,928,814 |
| Acceptances | 637,151 | 1,500,016 | 108,932 | – | 2,246,099 |
| Irrevocable commitments to extend credit | 56,243 | 1,022,714 | 3,537,809 | – | 4,616,766 |
| Total | 7,772,276 | 30,940,100 | 14,401,874 | 510,446 | 53,624,696 |

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank was SAR 99,024 million (2019: SAR 89,038 million).

Commitment and contingencies balance related to Shariah based products were SAR 5,460 million (2019: SAR 3,953 million).

### ii) The analysis of commitments and contingencies by counterparty is as follows:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Government and quasi government | **86,122** | 644,470 |
| Corporate | **51,780,738** | 48,799,930 |
| Banks and other financial institutions | **4,307,744** | 4,130,350 |
| Other | **36,548** | 49,946 |
| **Total** | **56,211,152** | 53,624,696 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 20. Commitments and contingencies continued

### d) Assets pledged

Securities pledged under repurchase agreements with other banks are government bonds. Other non-government bonds are also pledged under repurchase agreements. Assets pledged as collateral with other financial institutions for security are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| SAR '000 | ASSETS | RELATED LIABILITIES | ASSETS | RELATED LIABILITIES |
| FVOCI | **3,292,500** | **3,283,512** | 1,895,273 | 1,801,663 |
| Amortised Cost | **1,041,000** | **997,336** | – | – |
| **Total** | **4,333,500** | **4,280,848** | 1,895,273 | 1,801,663 |

## 21. Special commission income and expense

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Special commission income** | | |
| Investments | | |
| – FVOCI | **254,264** | 219,285 |
| – Amortised Cost | **583,145** | 693,533 |
| | **837,409** | 912,818 |
| Due from SAMA, banks and other financial institutions | **69,754** | 386,613 |
| Loans and advances | **5,377,628** | 6,070,099 |
| **Total** | **6,284,791** | 7,369,530 |
| **Special commission expense** | | |
| Due to SAMA, banks and other financial institutions | **93,170** | 82,277 |
| Customers' deposits | **951,233** | 2,040,817 |
| Debt securities and sukuks | **–** | 40,759 |
| **Total** | **1,044,403** | 2,163,853 |
| **Net special commission income** | **5,240,388** | 5,205,677 |

Net Special commission income related to Islamic related products were SAR 1,700 million (2019: SAR 1,466 million).

## 22. Fees and commission income, net

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Fees and commission income | | |
| – Share trading, brokerage, fund management and corporate finance | **411,521** | 281,332 |
| – Trade finance | **394,455** | 441,304 |
| – Loans and syndication management fees | **283,186** | 341,976 |
| – Card products | **303,530** | 311,315 |
| – Other banking services | **130,435** | 128,284 |
| **Total fees and commission income** | **1,523,127** | 1,504,211 |
| Fees and commission expense | | |
| – Share trading and brokerage | **99,229** | 47,566 |
| – Card products | **284,927** | 272,459 |
| – Other banking services | **57,155** | 44,680 |
| **Total fees and commission expense** | **441,311** | 364,705 |
| **Fees and commission income, net** | **1,081,816** | 1,139,506 |

Unamortized balance of commission received in advance SAR 474 million (2019: SAR 559 million)

### 23. Trading income, net

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Derivatives, net | **153,585** | 77,734 |
| Securities, net | **14,300** | 14,429 |
| **Total** | **167,885** | 92,163 |

### 24. Other operating income

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Gains on disposal of property and equipment | **394** | 543 |
| Recoveries of written off loans | **93,471** | 61,222 |
| Other | **70,146** | 4,037 |
| **Total** | **164,011** | 65,802 |

### 25. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2020 and 2019 are calculated on a weighted average basis by dividing the net income adjusted for Tier I Sukuk costs for the year by 1,200 million shares after excluding treasury shares consisting of 5.7 million shares as of December 31, 2020 (December 31, 2019: 5.7 million shares).

### 26. Gross dividend

The Board of Directors have proposed final net dividend of SAR Nil million (2019: SAR 1,200 million) i.e. SAR Nil (2019: SAR 1.00) net per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared interim net dividend of SAR Nil million (2019: SAR 1,155 million) i.e. SAR Nil (2019: SAR 1.00) net per share.

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Interim net dividend | **–** | 1,155,151 |
| Final proposed net dividend | **–** | 1,199,679 |
| **Total** | **–** | 2,354,830 |

### 27. Zakat and Income Tax

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

**a) Saudi shareholders**

Zakat attributable to Saudi Shareholders for the year amounted to SAR 381 million (2019: SAR 391 million) which is deducted from their share of dividend.

**b) Non-Saudi shareholders**

Income tax payable on the current year's share of income is approximately SAR 40 million (2019: SAR 106 million). The share of dividend of non-Saudi shareholder is paid after deducting the related taxes due as described above.

CACIB sold its remaining shares in the Bank during 2020. After the sale of these shares, it is expected that the Bank is not subjected to Income Tax and 100 percent of its shareholding is considered Zakatable.

#### Zakat Settlement

The Bank has calculated Zakat accruals for the year 2020 based on the new Zakat rules for financing activities in accordance with MR 2215 dated March 14, 2019 corresponding to Rajab 07, 1440H.

As a major event, in the year 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 1,510.67 million for previous years and until the end of the financial year 2017. The settlement agreement requires the Bank to settle 20% of the agreed Zakat Liability in 2018 and the remaining to be settled over the period of five years, accordingly the Bank has adjusted Zakat & Income Taxes for the previous years and until the end of financial year 2017, through its Retained Earnings. The Bank has settled SAR 786 million up to December 31, 2020.

As a result of the settlement agreement, the Bank has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat & Income Tax.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 27. Zakat and Income Tax continued

**b) Non-Saudi shareholders** continued

### Zakat Reconciliation

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Zakat for the year | **380,931** | 391,248 |
| **Zakat charge for the current year** | **380,931** | 391,248 |

### Tax Reconciliation

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Income tax for the year | **40,157** | 106,294 |
| Deferred tax | **42,937** | 6,634 |
| **Income tax charge for the current year** | **83,094** | 112,928 |

## 27. Zakat and Income Tax continued

### Deferred Tax

The deferred tax arises on end of service benefits, impairment allowance on off-balance expected credit losses and other items

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Opening deferred tax asset | **42,937** | 49,571 |
| Reversal of temporary differences | **(4,282)** | (2,533) |
| Impact of change in shareholding | **(38,655)** | (4,101) |
| **Deferred tax expense** | **(42,937)** | (6,634) |
| **Balance as at December 31** | **–** | 42,937 |

## 28. Cash and cash equivalents

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

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Cash and balances with SAMA excluding statutory deposit (note 4) | **2,582,412** | 1,270,416 |
| Due from banks and other financial institutions with a maturity of three months or less from the date of acquisition | **4,026,997** | 2,392,090 |
| **Total** | **6,609,409** | 3,662,506 |

Due from banks and other financial institutions maturing after three months from the date of acquisition were SAR Nil million (2019: SAR 1,350 million).

## 29. Employees compensation practices

| SAR '000<br>CATEGORIES OF EMPLOYEES | 2020<br>NUMBER OF EMPLOYEES | FIXED COMPENSATION | VARIABLE COMPENSATION | TOTAL COMPENSATION | FORMS OF PAYMENT |
|---|---|---|---|---|---|
| Senior executives | **17** | **43,426** | **36,260** | **79,686** | **Cash** |
| Employees engaged in risk taking activities | **359** | **205,062** | **86,449** | **291,511** | **Cash** |
| Employees engaged in control functions | **365** | **125,510** | **21,637** | **147,147** | **Cash** |
| Other employees | **2,140** | **486,128** | **93,012** | **579,140** | **Cash** |
| **Total** | **2,881** | **860,126** | **237,358** | **1,097,484** | |

| SAR '000<br>CATEGORIES OF EMPLOYEES | 2019<br>NUMBER OF EMPLOYEES | FIXED COMPENSATION | VARIABLE COMPENSATION | TOTAL COMPENSATION | FORMS OF PAYMENT |
|---|---|---|---|---|---|
| Senior executives | 17 | 39,706 | 33,051 | 72,757 | Cash |
| Employees engaged in risk taking activities | 383 | 221,584 | 84,401 | 305,985 | Cash |
| Employees engaged in control functions | 372 | 125,204 | 23,769 | 148,973 | Cash |
| Other employees | 2,226 | 484,206 | 83,286 | 567,492 | Cash |
| Total | 2,998 | 870,700 | 224,507 | 1,095,207 | |

Number of employees represents only the closing balance.

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Total compensation | **1,097,484** | 1,095,207 |
| Other employee related costs | **321,219** | 234,043 |
| **Total salaries and employee related costs** | **1,418,703** | 1,329,250 |

The above table includes deferred variable compensation of SAR 18.4 million (2019: SAR 20.3 million).

There are certain benefits paid to employees under various schemes that are recorded under special commission and fee expenses.

**Senior executives:**
This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD.

**Employees engaged in risk taking activities:**
This comprises managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank. This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

**Employees engaged in control functions:**
This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Corporate Governance, Legal, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

**Other employees:**
This includes all other employees of the Bank, excluding those already reported under the above categories.

**Governance of Compensation**
The Board of Directors of the Bank, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

**NCCOM: Terms of Reference**
a) Overseeing the compensation system's design and operation on behalf of the Board of Directors;
b) Preparing the Compensation Policy and placing it before the Board for approval;
c) Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;
d) Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
e) Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
f) Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
g) Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;
h) Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
i) Performing any other related tasks to comply with the regulatory requirements.
j) Considering the suitability of candidates for membership of the Board in accordance with the By-Laws of the Bank and approved policies and standards;
k) Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
l) Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
m) Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
n) Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;
o) Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;
p) Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of the Bank;
q) Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;
r) Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**29. Employees compensation practices** continued

**Incentives Oversight Committee (IOC): Terms of Reference**

a) The IOC ensures that all incentive plans are properly balanced for risk and reflective of the Bank's compensation philosophy, policy, strategic objectives and incentive system as determined by the NRC and business unit goals;
b) The IOC is responsible for making recommendations to the NRC on all changes to the existing incentive plans in the Bank as well as the addition or removal of any incentive plan. The Board is ultimately responsible for the approval of all incentive plans in the Bank which will be based on the recommendation of the NRC;
c) The IOC is responsible for establishing the processes for incentive plan administration and payments; and
d) The IOC monitors incentive plan results against a set defined KPI's on a quarterly basis and alerts management in case of potential disconnects between performance results and planned incentive payments.

**Salient Features of the Banks Compensation Policy**

The Bank utilizes 4 key Reward Principles which are aligned to the Bank's overall strategic direction. The 4 Rewards Principles underpin the design and execution of the Bank's compensation policy and practices:

1st Reward Principle: Pay for Performance:

The Bank's policy ensures, through fixed and variable forms of compensation, the recognition of high performance and the differentiation between varying levels of performance at the Bank's different levels: individual, group/division and bank-wide, based on the seniority of the role within the Bank, whilst also ensuring the independency of the control functions.

2nd Reward Principle: Flexibility:

The Bank's compensation policy is flexible enough in order to facilitate an internal job market, and flexible enough in order to cater to the evolving requirements of the Bank in an evolving banking industry.

3rd Reward Principle: Competitiveness:

The Bank monitors market trends closely and reviews its compensation against a selected peer group of banks. This is to ensure that the Bank remains able to attract, engage and retain the required talent.

4th Reward Principle: Risk Alignment:

The Bank's compensation policy ensures that the correct risk mitigation measures are applied, such as: variable compensation deferral and clawback arrangements, as appropriate.

**General description**

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into accounts the provision of the Saudi Arabian Labor Law. The actuarial gains/losses for the year ended December 31, 2020, are not material to the consolidated financial statements taken as a whole.

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

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

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Defined benefit obligation at the beginning of the year** | **440,882** | 452,753 |
| Current service cost charge for the year | **37,763** | 43,007 |
| Interest cost | **12,626** | 16,551 |
| Benefits paid | **(40,005)** | (57,283) |
| Unrecognized actuarial gain | **2,610** | (14,146) |
| **Defined benefit obligation at the end of the year** | **453,876** | 440,882 |

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Charge for the year** | | |
| Current service cost | **37,763** | 43,007 |
| Interest cost | **12,626** | 16,551 |
| **Total** | **50,389** | 59,558 |

| PRINCIPAL ACTUARIAL ASSUMPTIONS (IN RESPECT OF THE EMPLOYEE BENEFIT SCHEME) | 2020 | 2019 |
|---|---|---|
| Discount rate | **2.5% p.a** | 3.0% p.a |
| Expected rate of salary increase | **3.0% p.a** | 3.5% p.a |
| Normal retirement age | **58 years** | 58 years |

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

**Sensitivity of actuarial assumptions**
The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2020 and 2019 to the discount rate, salary escalation rate, withdrawal assumptions and mortality rates.

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Discount rate – decrease by 0.5% | **476,311** | 459,806 |
| Future salary growth – increase by 0.5% | **476,078** | 459,617 |
| Retirement age – increase by one year | **454,526** | 442,682 |

Expected maturity analysis of discounted defined benefit obligation for the end of service plan is as follows:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Less than 1 year | **48,583** | 39,822 |
| 1 to 5 years | **103,829** | 44,737 |
| Above 5 years | **301,464** | 356,323 |
| **Total** | **453,876** | 440,882 |

## 30.Operating segments

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

**a) The Bank's reportable segments under IFRS 8 are as follows:**
**Retail Banking** – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

**Corporate Banking** – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

**Treasury** – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

**Investment banking and brokerage** – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by chief decision maker. Segment profit is used to measure performance, as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**30.Operating segments** continued

**a) The Bank's reportable segments under IFRS 8 are as follows:** continued

The Bank's total assets and liabilities as at December 31, 2020 and 2019, its total operating income and expenses and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

| SAR '000 | RETAIL BANKING | CORPORATE BANKING | TREASURY | INVESTMENT BANKING AND BROKERAGE | TOTAL |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Total assets | **29,086,054** | **102,506,558** | **61,050,037** | **1,430,935** | **194,073,584** |
| Loans and advances, net | **27,914,895** | **101,297,248** | **–** | **1,352,692** | **130,564,835** |
| Total liabilities | **74,966,550** | **54,368,111** | **24,680,827** | **1,422,151** | **155,437,639** |
| Customers' deposits | **74,388,681** | **52,722,963** | **–** | **–** | **127,111,644** |
| Total operating income | **1,810,727** | **2,926,420** | **1,945,676** | **361,771** | **7,044,594** |
| Total operating expenses before impairment charge | **1,202,260** | **633,624** | **304,946** | **223,260** | **2,364,090** |
| Impairment charges for financial assets, net | **271,087** | **2,396,969** | **(3,030)** | **5,242** | **2,670,268** |
| Net income for the year before zakat and income tax | **337,380** | **(104,173)** | **1,643,760** | **133,269** | **2,010,236** |
| Net special commission income | **1,561,596** | **2,273,280** | **1,356,033** | **49,479** | **5,240,388** |
| Fees and commission income, net | **170,554** | **612,128** | **(13,158)** | **312,292** | **1,081,816** |
| Exchange income, net | **25,164** | **3,043** | **350,684** | **–** | **378,891** |
| Trading income, net | **–** | **–** | **167,885** | **–** | **167,885** |
| Inter-segment revenue | **1,030,744** | **302,143** | **(1,332,887)** | **–** | **–** |
| Depreciation and amortization | **149,636** | **38,753** | **18,740** | **3,125** | **210,254** |
| 2019 | | | | | |
| Total assets | 23,704,697 | 103,245,226 | 49,633,429 | 1,565,225 | 178,148,577 |
| Loans and advances, net | 22,391,351 | 101,842,279 | – | 1,491,466 | 125,725,096 |
| Total liabilities | 70,547,235 | 64,397,001 | 8,748,442 | 1,509,181 | 145,201,859 |
| Customers' deposits | 70,386,729 | 62,450,773 | – | – | 132,837,502 |
| Total operating income | 1,884,766 | 3,059,771 | 1,634,338 | 293,675 | 6,872,550 |
| Total operating expenses before impairment charge | 1,104,693 | 634,758 | 367,497 | 180,216 | 2,287,164 |
| Impairment charges for financial assets, net | 277,497 | 682,921 | 5,826 | – | 966,244 |
| Net income for the year before zakat and income tax | 502,576 | 1,742,092 | 1,261,015 | 113,459 | 3,619,142 |
| Net special commission income | 1,563,868 | 2,355,136 | 1,223,783 | 62,890 | 5,205,677 |
| Fees and commission income, net | 213,750 | 698,998 | (4,027) | 230,785 | 1,139,506 |
| Exchange income, net | 46,802 | 3,008 | 285,694 | – | 335,504 |
| Trading income, net | – | – | 92,163 | – | 92,163 |
| Inter-segment revenue | 1,079,552 | 248,011 | (1,327,563) | – | – |
| Depreciation and amortization | 129,704 | 55,854 | 22,112 | 3,614 | 211,284 |

**b) The Bank's credit exposure by operating segments is as follows:**

| SAR '000 | RETAIL BANKING | CORPORATE BANKING | TREASURY | INVESTMENT BANKING AND BROKERAGE | TOTAL |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Balance Sheet assets | **27,981,059** | **101,950,150** | **50,579,184** | **1,352,717** | **181,863,110** |
| Commitments and contingencies | **232,461** | **33,266,321** | **–** | **–** | **33,498,782** |
| Derivatives | **–** | **–** | **7,127,961** | **–** | **7,127,961** |
| 2019 | | | | | |
| Balance Sheet assets | 22,456,683 | 103,027,147 | 42,077,259 | 1,491,491 | 169,052,580 |
| Commitments and contingencies | 244,591 | 30,684,769 | – | – | 30,929,360 |
| Derivatives | – | – | 5,513,287 | – | 5,513,287 |

Credit exposure comprises the carrying value of balance sheet assets excluding cash, property and equipment, positive fair value of derivative, deferred tax, other assets & other real estate. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

## 31. Financial Risk Management

### Credit Risk

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Committee, which has the responsibility to monitor the overall risk process within the Bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports to the Supervisory Board.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in 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 Bank assesses the probability of default of counterparties using internal rating tools with an overlay of credit assessment, where necessary. In addition the Bank also uses external ratings from major rating agencies where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify, to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank 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, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank 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 geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank 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 business. It also takes collateral/security when appropriate. The Bank 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 adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in market conditions and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to notes 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 20. The information on Banks maximum credit exposure by business segment is given in note 30.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**31. Financial Risk Management** continued

**Credit Risk** continued

The Bank's internal credit rating grades:

| RATING GRADE | DESCRIPTION | PD-RANGE | MID-POINT |
|---|---|---|---|
| **Performing** | | | |
| A+ | Exceptional | 0-0.02% | 0.0030% |
| A | Excellent | 0-0.02% | 0.0100% |
| B+ | Very Good | 0.02%-0.04% | 0.0221% |
| B | Good | 0.04%-0.08% | 0.0585% |
| C+ | Very Satisfactory | 0.08%-0.16% | 0.1464% |
| C | Satisfactory | 0.16%-0.32% | 0.3047% |
| C- | Fairly Satisfactory | 0.32%-0.64% | 0.5333% |
| D+ | Pass | 0.64%-0.85% | 0.8059% |
| D | Mediocre | 0.88%-1.28% | 1.2213% |
| D- | Very Mediocre | 1.28%-2.56% | 2.1793% |
| E+ | Weak | 2.56%-5.12% | 4.8860% |
| E | Special Mention | 5.12%-15.0% | 10.9544% |
| E- | Special Mention | 15.0%-40.0% | 24.8933% |
| **Non-Performing** | | | |
| F | Standard | 100.00% | 100.00% |
| Z | Doubtful | 100.00% | 100.00% |
| Y | Loss | 100.00% | 100.00% |

**Geographical concentration**

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure of derivatives is as follows:

| SAR '000 | SAUDI ARABIA | MIDDLE EAST | EUROPE | NORTH AMERICA | OTHER COUNTRIES | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Assets** | | | | | | |
| **Cash and balances with SAMA** | | | | | | |
| Cash in hand | **965,457** | **–** | **–** | **–** | **–** | **965,457** |
| Balances with SAMA | **9,582,942** | **–** | **–** | **–** | **–** | **9,582,942** |
| **Due from banks and other financial institutions** | | | | | | |
| Current account | **–** | **239,598** | **667,821** | **3,067,299** | **52,279** | **4,026,997** |
| Money market placements | **–** | **–** | **–** | **–** | **–** | **–** |
| **Investments, net** | | | | | | |
| Held as FVTPL | **80,070** | **64,533** | **–** | **–** | **–** | **144,603** |
| FVOCI | **10,235,542** | **1,314,716** | **121,293** | **–** | **61,607** | **11,733,158** |
| Investments held at amortised cost | **25,800,880** | **–** | **–** | **–** | **–** | **25,800,880** |
| **Investment in associate** | **–** | **9,695** | **–** | **–** | **–** | **9,695** |
| **Positive fair value of derivatives** | | | | | | |
| Held for trading | **2,171,951** | **581,330** | **2,659,503** | **2,052** | **129,529** | **5,544,365** |
| Held as cash flow hedges | **175,362** | **51,415** | **1,046,130** | **–** | **91,774** | **1,364,681** |
| **Loans and advances, net** | | | | | | |
| Over draft and commercial loans | **106,191,518** | **1,584,196** | **–** | **–** | **–** | **107,775,714** |
| Credit cards | **411,304** | **–** | **–** | **–** | **8** | **411,312** |
| Consumer loans | **22,377,809** | **–** | **–** | **–** | **–** | **22,377,809** |
| **Property, equipment and right of use assets, net** | **1,440,170** | **–** | **–** | **–** | **–** | **1,440,170** |
| **Other assets, deferred tax and other real estate** | **1,492,665** | **49,356** | **1,326,886** | **–** | **26,894** | **2,895,801** |
| **Total assets** | **180,925,670** | **3,894,839** | **5,821,633** | **3,069,351** | **362,091** | **194,073,584** |

| SAR '000 | SAUDI ARABIA | MIDDLE EAST | EUROPE | NORTH AMERICA | OTHER COUNTRIES | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Liabilities** | | | | | | |
| **Due to SAMA, banks and other financial institutions** | | | | | | |
| Current accounts | 67,594 | 211,611 | 92,157 | 36,200 | 2,262 | 409,824 |
| Money market deposits | 10,662,746 | 1,435,916 | 4,013,364 | – | 270,363 | 16,382,389 |
| **Customers' deposits** | | | | | | |
| Demand | 79,657,180 | 98,253 | 3,349 | 28 | 101,263 | 79,860,073 |
| Time | 40,353,188 | 89,100 | – | – | – | 40,442,288 |
| Saving | 753,054 | – | – | – | – | 753,054 |
| Other | 6,055,391 | 765 | 73 | – | – | 6,056,229 |
| **Negative fair value of derivatives** | | | | | | |
| Held for trading | 1,045,624 | 171,010 | 3,760,102 | 1,923 | 113,355 | 5,092,014 |
| Held as cash flow hedges | 1,835 | – | 2,059 | – | 550 | 4,444 |
| **Other liabilities** | 5,611,258 | 22,184 | 775,433 | – | 28,449 | 6,437,324 |
| **Total liabilities** | 144,207,870 | 2,028,839 | 8,646,537 | 38,151 | 516,242 | 155,437,639 |
| **Commitments and contingencies** | | | | | | |
| Letters of credit | 7,889,925 | 200,652 | 93,750 | 2,212 | 168,954 | 8,355,493 |
| Letters of guarantee | 35,765,001 | 451,388 | 3,004,900 | 198,782 | 77,629 | 39,497,700 |
| Acceptances | 2,190,416 | 184 | – | – | 1,864 | 2,192,464 |
| Irrevocable commitments to extend credit | 5,858,302 | 307,193 | – | – | – | 6,165,495 |
| **Total** | 51,703,644 | 959,417 | 3,098,650 | 200,994 | 248,447 | 56,211,152 |
| **Maximum Credit exposure (stated at credit equivalent amounts)** | | | | | | |
| **Derivatives** | 3,081,040 | 2,655,676 | 1,206,280 | 7,255 | 177,710 | 7,127,961 |
| **Total** | 3,081,040 | 2,655,676 | 1,206,280 | 7,255 | 177,710 | 7,127,961 |
| **Commitments and contingencies exposure** | | | | | | |
| Letters of credit | 4,059,729 | 40,130 | 18,750 | 442 | 33,791 | 4,152,842 |
| Letters of guarantee | 22,370,407 | 261,495 | 1,517,359 | 99,391 | 46,471 | 24,295,123 |
| Acceptances | 2,190,417 | 183 | – | – | 1,864 | 2,192,464 |
| Irrevocable commitments to extend credit | 2,704,756 | 153,597 | – | – | – | 2,858,353 |
| **Total** | 31,325,309 | 455,405 | 1,536,109 | 99,833 | 82,126 | 33,498,782 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**31. Financial Risk Management** continued

**Geographical concentration** continued

| SAR '000 | SAUDI ARABIA | MIDDLE EAST | EUROPE | NORTH AMERICA | OTHER COUNTRIES | TOTAL |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| Assets | | | | | | |
| Cash and balances with SAMA | | | | | | |
| Cash in hand | 995,416 | – | – | – | – | 995,416 |
| Balances with SAMA | 8,121,920 | – | – | – | – | 8,121,920 |
| Due from banks and other financial institutions | | | | | | |
| Current account | – | 94,350 | 853,248 | 1,173,804 | 35,815 | 2,157,217 |
| Money market placements | 1,080,457 | 304,024 | – | 200,392 | – | 1,584,873 |
| Investments, net | | | | | | |
| Held as FVTPL | 55,194 | 12,664 | – | – | 7,554 | 75,412 |
| FVOCI | 6,420,015 | 790,542 | 119,528 | 1,870,702 | 60,128 | 9,260,915 |
| Investments held at amortised cost | 22,117,452 | – | – | – | – | 22,117,452 |
| Investment in associate | – | 9,695 | – | – | – | 9,695 |
| Positive fair value of derivatives | | | | | | |
| Held for trading | 1,149,458 | 293,043 | 981,804 | 120,714 | 650,642 | 3,195,661 |
| Held as cash flow hedges | 169,536 | 67,739 | 657,268 | 425,073 | 91,274 | 1,410,890 |
| Loans and advances, net | | | | | | |
| Over draft and commercial loans | 105,828,376 | 1,388,259 | 351,910 | – | 289,714 | 107,858,259 |
| Credit cards | 417,247 | – | – | – | 9 | 417,256 |
| Consumer loans | 17,449,581 | – | – | – | – | 17,449,581 |
| Property, equipment and right of use assets, net | 1,324,567 | – | – | – | – | 1,324,567 |
| Other assets, deferred tax and other real estate | 1,530,438 | – | 511,200 | 127,822 | 3 | 2,169,463 |
| Total assets | 166,659,657 | 2,960,316 | 3,474,958 | 3,918,507 | 1,135,139 | 178,148,577 |

| SAR '000 | SAUDI ARABIA | MIDDLE EAST | EUROPE | NORTH AMERICA | OTHER COUNTRIES | TOTAL |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| Liabilities | | | | | | |
| Due to SAMA, banks and other financial institutions | | | | | | |
| Current accounts | 1,300 | 461,639 | 58,980 | 29,492 | 3,005 | 554,416 |
| Money market deposits | – | 9,821 | 908,968 | 898,935 | – | 1,817,724 |
| Customers' deposits | | | | | | |
| Demand | 67,423,708 | 97,509 | 4,405 | 109 | 206,770 | 67,732,501 |
| Time | 59,359,866 | 119,072 | – | – | – | 59,478,938 |
| Saving | 591,823 | – | – | – | 2 | 591,825 |
| Other | 5,033,580 | 585 | 73 | – | – | 5,034,238 |
| Negative fair value of derivatives | | | | | | |
| Held for trading | 845,083 | 71,239 | 1,021,893 | 319,375 | 798,581 | 3,056,171 |
| Held as cash flow hedges | – | 38 | 10,834 | 2,363 | – | 13,235 |
| Other liabilities | 5,897,291 | – | 446,839 | 477,029 | 101,652 | 6,922,811 |
| Total liabilities | 139,152,651 | 759,903 | 2,451,992 | 1,727,303 | 1,110,010 | 145,201,859 |
| Commitments and contingencies | | | | | | |
| Letters of credit | 8,333,751 | 193,131 | 103,026 | – | 203,109 | 8,833,017 |
| Letters of guarantee | 34,420,006 | 564,340 | 2,568,506 | 242,317 | 133,645 | 37,928,814 |
| Acceptances | 2,211,704 | 3,418 | 947 | – | 30,030 | 2,246,099 |
| Irrevocable commitments to extend credit | 4,100,980 | 515,786 | – | – | – | 4,616,766 |
| Total | 49,066,441 | 1,276,675 | 2,672,479 | 242,317 | 366,784 | 53,624,696 |
| Maximum Credit exposure (stated at credit equivalent amounts) | | | | | | |
| Derivatives | 2,392,265 | 637,089 | 2,332,141 | 25,612 | 126,180 | 5,513,287 |
| Total | 2,392,265 | 637,089 | 2,332,141 | 25,612 | 126,180 | 5,513,287 |
| Commitments and contingencies exposure | | | | | | |
| Letters of credit | 3,817,973 | 38,626 | 20,605 | – | 40,622 | 3,917,826 |
| Letters of guarantee | 20,977,809 | 306,353 | 1,321,316 | 133,275 | 71,236 | 22,809,989 |
| Acceptances | 2,211,704 | 3,418 | 947 | – | 30,030 | 2,246,099 |
| Irrevocable commitments to extend credit | 1,697,553 | 257,893 | – | – | – | 1,955,446 |
| Total | 28,705,039 | 606,290 | 1,342,868 | 133,275 | 141,888 | 30,929,360 |

b) The distributions by geographical concentration of impaired loans and advances and impairment for credit losses are as follows:

| | SAUDI ARABIA | |
|---|---|---|
| SAR '000 | 2020 | 2019 |
| **Non performing loans and advances, net** | | |
| Overdraft & Commercial loans | **3,539,025** | 3,126,851 |
| Credit Cards | **45,048** | 59,068 |
| Consumer Loans | **182,517** | 231,578 |
| **Total** | **3,766,590** | 3,417,497 |
| **Lifetime ECL credit impaired** | | |
| Overdraft & Commercial loans | **2,490,288** | 1,730,945 |
| Credit Cards | **60,926** | 72,409 |
| Consumer Loans | **186,910** | 242,546 |
| **Total** | **2,738,124** | 2,045,900 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

### 31. Financial Risk Management continued

#### c) Credit quality analysis

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

**1. Due from Bank and Other financial institutions**

| | DECEMBER 31, 2020 | | | |
|---|---|---|---|---|
| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
| Investment grade | **4,015,331** | **–** | **–** | **4,015,331** |
| Non-investment grade | **213** | **10,264** | **–** | **10,477** |
| Unrated | **1,628** | **–** | **–** | **1,628** |
| **Carrying amount** | **4,017,172** | **10,264** | **–** | **4,027,436** |

| | DECEMBER 31, 2019 | | | |
|---|---|---|---|---|
| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
| Investment grade | 3,703,022 | 3,381 | – | 3,706,403 |
| Non-investment grade | 31,932 | 3,049 | – | 34,981 |
| Unrated | – | 1,079 | – | 1,079 |
| Carrying amount | 3,734,954 | 7,509 | – | 3,742,463 |

**2. Loans and advances to customers at amortized cost**

| | DECEMBER 31, 2020 | | | |
|---|---|---|---|---|
| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
| **Loans and advances to customers at amortized cost** | | | | |
| Very strong quality including sovereign (A+ to B) | **16,468,413** | **42,803** | **–** | **16,511,216** |
| Good quality (C+ to C) | **43,367,075** | **793,814** | **–** | **44,160,889** |
| Satisfactory quality (C- to E+) | **36,319,357** | **6,090,368** | **–** | **42,409,725** |
| Unrated | **22,548,254** | **249,300** | **12,200** | **22,809,754** |
| Special mention (E to E-) | **124,613** | **5,267,874** | **207,184** | **5,599,671** |
| Impaired | **–** | **–** | **3,766,590** | **3,766,590** |
| **Carrying amount** | **118,827,712** | **12,444,159** | **3,985,974** | **135,257,845** |

| | DECEMBER 31, 2019 | | | |
|---|---|---|---|---|
| SAR '000 | 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
| Loans and advances to customers at amortized cost | | | | |
| Very strong quality including sovereign (A+ to B) | 19,187,487 | 6 | – | 19,187,493 |
| Good quality (C+ to C) | 43,406,075 | 369,566 | – | 43,775,641 |
| Satisfactory quality (C- to E+) | 32,219,262 | 4,867,617 | – | 37,086,879 |
| Unrated | 16,722,300 | 266,130 | – | 16,988,430 |
| Special mention (E to E-) | 2,450,572 | 6,502,348 | 24,524 | 8,977,444 |
| Impaired | – | – | 3,417,497 | 3,417,497 |
| Carrying amount | 113,985,696 | 12,005,667 | 3,442,021 | 129,433,384 |

The following table sets out information about the credit quality of Loans and advances to customers at amortized cost on a product basis.

I. Overdraft & Commercial loans

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| **Loans and advances to customers at amortized cost: Overdraft & Commercial loans** | | | | |
| Very strong quality including sovereign (A+ to B) | **16,468,413** | **42,803** | **–** | **16,511,216** |
| Good quality (C+ to C) | **43,367,075** | **793,814** | **–** | **44,160,889** |
| Satisfactory quality (C- to E+) | **36,319,357** | **6,090,368** | **–** | **42,409,725** |
| Special mention (E to E-) | **470** | **5,258,345** | **173,465** | **5,432,280** |
| Impaired | **–** | **–** | **3,539,025** | **3,539,025** |
| **Carrying amount** | **96,155,315** | **12,185,330** | **3,712,490** | **112,053,135** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Loans and advances to customers at amortized cost: Overdraft & Commercial loans | | | | |
| Very strong quality including sovereign (A+ to B) | 19,187,487 | 6 | – | 19,187,493 |
| Good quality (C+ to C) | 43,406,075 | 369,566 | – | 43,775,641 |
| Satisfactory quality (C- to E+) | 32,219,262 | 4,867,617 | – | 37,086,879 |
| Special mention (E to E-) | 1,710,336 | 6,210,209 | – | 7,920,545 |
| Impaired | – | – | 3,126,851 | 3,126,851 |
| Carrying amount | 96,523,160 | 11,447,398 | 3,126,851 | 111,097,409 |

II. Credit Cards

| SAR '000 | DECEMBER 31, 2020<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| **Loans and advances to customers at amortized cost: Credit Cards** | | | | |
| Unrated | **412,499** | **20,172** | **12,200** | **444,871** |
| Special mention (E to E-) | **2,585** | **218** | **3,714** | **6,517** |
| Impaired | **–** | **–** | **45,048** | **45,048** |
| **Carrying amount** | **415,084** | **20,390** | **60,962** | **496,436** |

| SAR '000 | DECEMBER 31, 2019<br>12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Loans and advances to customers at amortized cost: Credit Cards | | | | |
| Unrated | 320,536 | 1,248 | – | 321,784 |
| Special mention (E to E-) | 94,971 | 24,726 | 13,536 | 133,233 |
| Impaired | – | – | 59,068 | 59,068 |
| Carrying amount | 415,507 | 25,974 | 72,604 | 514,085 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**31. Financial Risk Management** continued

III. Consumer Loans

| SAR '000 | December 31, 2020 | | | |
|---|---|---|---|---|
| | 12 month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
| **Loans and advances to customers at amortized cost: Consumer Loans** | | | | |
| Unrated | 22,135,755 | 229,128 | – | 22,364,883 |
| Special mention (E to E-) | 121,558 | 9,311 | 30,005 | 160,874 |
| Impaired | – | – | 182,517 | 182,517 |
| **Carrying amount** | 22,257,313 | 238,439 | 212,522 | 22,708,274 |

| SAR '000 | December 31, 2019 | | | |
|---|---|---|---|---|
| | 12 month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
| Loans and advances to customers at amortized cost: Consumer Loans | | | | |
| Unrated | 16,401,764 | 264,882 | – | 16,666,646 |
| Special mention (E to E-) | 645,265 | 267,413 | 10,988 | 923,666 |
| Impaired | – | – | 231,578 | 231,578 |
| Carrying amount | 17,047,029 | 532,295 | 242,566 | 17,821,890 |

**Very strong quality:** Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

**Good quality:** Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

**Satisfactory quality:** Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

**Special mention:** Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

3. **Investments**

Amortized cost

| SAR '000 | December 31, 2020 | | | |
|---|---|---|---|---|
| | 12 month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
| **Debt investment securities at amortized cost** | | | | |
| Investment grade | 21,547,469 | – | – | 21,547,469 |
| Non-investment grade | – | – | – | – |
| Unrated | 4,259,954 | – | – | 4,259,954 |
| Individually impaired | – | – | – | – |
| **Carrying amount** | 25,807,423 | – | – | 25,807,423 |

| SAR '000 | December 31, 2019 | | | |
|---|---|---|---|---|
| | 12 month ECL | Lifetime ECL not credit impaired | Lifetime ECL credit impaired | Total |
| Debt investment securities at amortized cost | | | | |
| Investment grade | 17,293,706 | – | – | 17,293,706 |
| Non-investment grade | – | – | – | – |
| Unrated | 4,833,889 | – | – | 4,833,889 |
| Individually impaired | – | – | – | – |
| Carrying amount | 22,127,595 | – | – | 22,127,595 |

FVOCI

| SAR '000 | DECEMBER 31, 2020 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| **Debt investment securities at FVOCI** | | | | |
| Investment grade | **8,620,004** | **–** | **–** | **8,620,004** |
| Non-investment grade | **–** | **–** | **–** | **–** |
| Unrated | **2,901,035** | **–** | **–** | **2,901,035** |
| **Carrying amount** | **11,521,039** | **–** | **–** | **11,521,039** |

| SAR '000 | DECEMBER 31, 2019 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Debt investment securities at FVOCI | | | | |
| Investment grade | 5,950,668 | – | – | 5,950,668 |
| Non-investment grade | – | – | – | – |
| Unrated | 3,202,482 | – | – | 3,202,482 |
| Carrying amount | 9,153,150 | – | – | 9,153,150 |

### 4. Commitment and contingencies

| SAR '000 | DECEMBER 31, 2020 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| **Commitments and contingencies** | | | | |
| Very strong quality including sovereign (A+ to B) | **7,096,697** | **–** | **–** | **7,096,697** |
| Good quality (C+ to C) | **11,361,751** | **20,067** | **–** | **11,381,818** |
| Satisfactory quality (C- to E+) | **12,582,316** | **732,122** | **–** | **13,314,438** |
| Special mention (E to E-) | **–** | **768,026** | **–** | **768,026** |
| Impaired | **–** | **–** | **937,803** | **937,803** |
| **Carrying amount** | **31,040,764** | **1,520,215** | **937,803** | **33,498,782** |

| SAR '000 | DECEMBER 31, 2019 12 MONTH ECL | LIFETIME ECL NOT CREDIT IMPAIRED | LIFETIME ECL CREDIT IMPAIRED | TOTAL |
|---|---|---|---|---|
| Commitments and contingencies | | | | |
| Very strong quality including sovereign (A+ to B) | 9,282,188 | – | – | 9,282,188 |
| Good quality (C+ to C) | 9,632,082 | 1,000 | – | 9,633,082 |
| Satisfactory quality (C- to E+) | 9,994,131 | 869,982 | – | 10,864,113 |
| Special mention (E to E-) | – | 465,414 | – | 465,414 |
| Impaired | – | – | 684,563 | 684,563 |
| Carrying amount | 28,908,401 | 1,336,396 | 684,563 | 30,929,360 |

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

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Investment securities** | | |
| Investment grade | **142,601** | 73,388 |
| Non-investment grade | **–** | – |
| Unrated | **2,002** | 2,024 |
| **Total carrying amount** | **144,603** | 75,412 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**31. Financial Risk Management** continued

**d) Amounts arising from ECL – Significant increase in credit risk**

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
– defining an absolute threshold rating for stage 2 assets
– days past due count
– slippage in rating notches
– change in PD % since origination for Retail assets

The Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

**Determining whether credit risk has increased significantly**

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modeling, the remaining lifetime PD is determined to have increased significantly.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Such qualitative indicators include forbearance, shortfall in collateral value, covenant breaches and deterioration in credit quality of guarantors.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
– the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
– the criteria do not align with the point in time when an asset becomes 30 days past due; and
– there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

**Consideration due to COVID-19:**

In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer note 40 for further details). The exercise of the deferment option by a customer, in its own, is not consider by the Bank as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

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

**Credit risk grades**

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

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

| CORPORATE EXPOSURES | RETAIL EXPOSURES | ALL EXPOSURES |
|---|---|---|
| – Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes.<br>– Data from credit reference agencies, press articles, changes in external credit ratings<br>– Quoted bond and credit default swap (CDS) prices for the borrower where available<br>– Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities | – Internally collected data and customer behavior – e.g. utilization of credit card facilities<br>– Affordability metrics<br>– External data from credit reference agencies including industry-standard credit scores | – Payment record – this includes overdue status as well as a range of variables about payment ratios<br>– Utilization of the granted limit<br>– Requests for and granting of forbearance<br>– Existing and forecast changes in business, financial and economic conditions |

### i) Generating the term structure of PD

Credit Risk grades mapped to probabilities, Credit transition probabilities and Macroeconomic inputs determine the term structure of Probability of Default. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information derived from external credit reference agencies is also used.

The Bank employs analytical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. Forward looking predictions of key macro-economic indicators e.g. GDP growth, inflation, unemployment or CDS spreads are translated analytically into the impact on Risk Factors, especially PD. For most of corporate portfolio exposures, key macro-economic indicators include: GDP, government debt, expectation of stock market return/volatility and interest rate forecast. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices. While for retail portfolio, key macro-economic indicators include: government debt, government revenue and expenditure, investment (as a % of GDP) and inflation.

Based on advice from the Bank's Classification and Impairment Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**31. Financial Risk Management** continued

**d) Amounts arising from ECL – Significant increase in credit risk** continued

**ii) Determining whether credit risk has increased significantly**

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

This is assessed by defining an absolute threshold rating for stage 2 assets, days past due count, slippage in rating notches, change in PD % since origination for Retail assets and qualitative measures specific to each exposure class, which is enshrined in the Board approved Staging Policy.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due though technical rebuttals on a case by case basis is possible exceptionally. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

**iii) Modified financial assets**

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

The Bank computes the gross carrying amounts using Cash-flows for both the pre-modified Terms and post-modification terms with original Interest Rate as EIR. If the difference in the gross carrying amounts is more than the set threshold, the asset will be de-recognised and will be re-recognised as POCI (assuming that the modification is being undertaken in connection with forbearance or a defaulted exposure).

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of special commission income payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

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

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

### iv) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Bank considers indicators that are:

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

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

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

### v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly by its view on the future evolving macroeconomic environment. Based on advice from Classification and Impairment Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and losses. The economic scenarios used as at December 31 included the following ranges of key indicators.

| ECONOMIC INDICATORS | 2020 | 2019 |
|---|---|---|
| General government debt to GDP ratio | **Upside 41.21** | Upside 11.94 |
| | **Base case 46.74** | Base case 20.54 |
| | **Downside 63.22** | Downside 39.43 |
| Tadawul All Share Index | **Upside 9,676** | Upside 10,801 |
| | **Base case 8,983** | Base case 9,701 |
| | **Downside 6,301** | Downside 7,299 |
| Government Bond Yields 1 Year | **Upside 1.18** | Upside 2.89 |
| | **Base case 1.07** | Base case 2.26 |
| | **Downside 0.78** | Downside -0.05 |

**Consideration due to COVID-19:**

### i. Types of forward looking:

During the course of the year, the Bank updated its forward-looking variables (key economic drivers) used in the macroeconomic model. Please refer to the table above for details.

### ii. Scenario assumptions:

As at December 31, 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

### 31. Financial Risk Management continued

### d) Amounts arising from ECL – Significant increase in credit risk continued

### iii. Probability weightings

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

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years. To account for the impact of COVID-19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

| | FORECAST CALENDAR YEARS USED IN 2020 ECL MODEL | | | FORECAST CALENDAR YEARS USED IN 2019 ECL MODEL | | |
|---|---|---|---|---|---|---|
| ECONOMIC INDICATORS | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| General government debt to GDP ratio | **46.74** | **49.29** | **51.59** | 21.70 | 22.95 | 24.54 |
| Tadawul All Share Index | **8,983** | **9,699** | **9,949** | 10,522 | 10,382 | 10,589 |
| Government Bond Yields 1 Year | **1.07** | **1.32** | **2.03** | 2.83 | 3.70 | 3.99 |

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

| SAR '000 | DUE FROM BANK AND OTHER FINANCIAL INSTITUTIONS | DEBT INSTRUMENT AT AC | DEBT INSTRUMENT AT FVOCI | LOANS AND ADVANCES | OFF STATEMENT OF FINANCIAL POSITION | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Most likely (base case) | **439** | **6,543** | **8,849** | **4,681,408** | **410,505** | **5,107,744** |
| More optimistic (upside) | **439** | **6,543** | **8,849** | **4,650,127** | **409,682** | **5,075,640** |
| More pessimistic (downside) | **439** | **6,543** | **8,849** | **4,754,331** | **412,549** | **5,182,711** |
| **Closing provision** | **439** | **6,543** | **8,849** | **4,693,010** | **410,871** | **5,119,712** |
| 2019 | | | | | | |
| Most likely (base case) | 373 | 10,143 | 11,941 | 3,696,055 | 555,669 | 4,274,181 |
| More optimistic (upside) | 373 | 10,143 | 11,941 | 3,680,895 | 555,115 | 4,258,467 |
| More pessimistic (downside) | 373 | 10,143 | 11,941 | 3,753,527 | 557,119 | 4,333,103 |
| Closing provision | 373 | 10,143 | 11,941 | 3,708,288 | 555,938 | 4,286,683 |

**COVID-19 overlays:**

The prevailing economic conditions do require the Bank to continue to revise certain inputs and assumptions used for the determination of ECL. These primarily revolve around either adjusting macroeconomic factors used by the Bank in the estimation of ECL or revisions to the scenario probabilities currently being used by the Bank. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management's ECL assessment includes sector-based analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognised overlays of SAR 436 million as at December 31, 2020. The Bank will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

### vi) Measurement of ECL

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

a. probability of default (PD);
b. loss given default (LGD);
c. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models, regulatory inputs (e.g. in case of LGD) and other historical data. They are adjusted to reflect forward-looking information as described above.

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective commission rate as the discounting factor.

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options for indeterminate maturity products) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms. The portfolios for which external benchmark information represents a significant input into measurement of ECL is Non Retail portfolio where the Bank has used LGD estimates as per BASEL guidelines.

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

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

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

| ASSUMPTIONS SENSITIZED<br>SAR '000 | PL IMPACT (2020) |
|---|---|
| **Macro-economic factors:** | |
| Decrease in $10 oil price per barrel | **69,128** |
| Decrease in $20 oil price per barrel | **126,794** |
| Decrease in GDP by 15% | **100,077** |
| Decrease in Tadawul Stock Index 33% | **95,845** |
| **Scenario weightages:** | |
| Base scenario sensitized by +/- 5% with corresponding change in downside | **3,662** |
| Base scenario increase by +/- 5% with corresponding change in upside | **1,519** |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**31. Financial Risk Management** continued

**d) Amounts arising from ECL – Significant increase in credit risk** continued

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Banking sector is subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

**Consideration due to COVID-19:**

The PD, EAD and LGD models are subject to the Bank's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

During the period, the Bank has made following material changes in its ECL methodology to reflect the validation exercise undertaken by the Bank:

a. the Bank has re-developed its macro-economic PD model based on appropriate internal and external data and validated for precision, with the assistance of Moody's Analytics.
b. the Corporate and SME models were re-estimated on a wider default dataset on robust statistical principles, expert judgment and Governance and pre-implementation validation indicated robust discriminatory power and calibration of the models.

**Ageing of loans and advances (past due but not impaired)**

| | 2020 | | | |
|---|---|---|---|---|
| SAR '000 | OVERDRAFT & COMMERCIAL LOANS | CREDIT CARDS | CONSUMER LOANS | TOTAL |
| From 1 day to 30 days | **146,430** | **32,780** | **413,735** | **592,945** |
| From 31 days to 90 days | **17,657** | **13,675** | **146,537** | **177,869** |
| From 91 days to 180 days | **40,247** | **–** | **–** | **40,247** |
| More than 180 days | **387,566** | **–** | **–** | **387,566** |
| **Loans and advances held at amortised cost, net** | **591,900** | **46,455** | **560,272** | **1,198,627** |

| | 2019 | | | |
|---|---|---|---|---|
| SAR '000 | OVERDRAFT & COMMERCIAL LOANS | CREDIT CARDS | CONSUMER LOANS | TOTAL |
| From 1 day to 30 days | 257,964 | 33,110 | 685,677 | 976,751 |
| From 31 days to 90 days | 109,611 | 8,878 | 241,197 | 359,686 |
| From 91 days to 180 days | 149,627 | – | – | 149,627 |
| More than 180 days | 352,502 | – | – | 352,502 |
| Loans and advances held at amortised cost, net | 869,704 | 41,988 | 926,874 | 1,838,566 |

### e) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

| SAR '000 | PERFORMING | NON PERFORMING, NET | ALLOWANCE FOR IMPAIRMENT LOSSES | LOANS AND ADVANCES, NET |
|---|---|---|---|---|
| **2020** | | | | |
| Government and quasi Government | **6,159,963** | **–** | **(5,582)** | **6,154,381** |
| Banks and other financial institutions | **2,179,128** | **–** | **(7,312)** | **2,171,816** |
| Agriculture and fishing | **2,653,154** | **50,857** | **(46,103)** | **2,657,908** |
| Manufacturing | **19,155,010** | **970,849** | **(912,067)** | **19,213,792** |
| Mining and quarrying | **964,647** | **–** | **(1,255)** | **963,392** |
| Electricity, water, gas and health services | **10,700,531** | **21,636** | **(29,659)** | **10,692,508** |
| Building and construction | **11,554,215** | **466,159** | **(840,635)** | **11,179,739** |
| Commerce | **23,648,718** | **1,583,490** | **(1,599,383)** | **23,632,825** |
| Transportation and communication | **5,040,286** | **3,878** | **(15,070)** | **5,029,094** |
| Services | **15,006,172** | **119,841** | **(559,320)** | **14,566,693** |
| Consumer loans and credit cards | **22,977,145** | **227,565** | **(415,589)** | **22,789,121** |
| Others | **11,452,286** | **322,315** | **(261,035)** | **11,513,566** |
| **Total** | **131,491,255** | **3,766,590** | **(4,693,010)** | **130,564,835** |
| 2019 | | | | |
| Government and quasi Government | 5,016,656 | – | (3,125) | 5,013,531 |
| Banks and other financial institutions | 2,255,428 | – | (14,284) | 2,241,144 |
| Agriculture and fishing | 1,723,212 | 56,793 | (54,321) | 1,725,684 |
| Manufacturing | 20,235,685 | 602,930 | (724,029) | 20,114,586 |
| Mining and quarrying | 2,178,620 | – | (14,152) | 2,164,468 |
| Electricity, water, gas and health services | 11,122,151 | 38,381 | (71,563) | 11,088,969 |
| Building and construction | 9,656,235 | 954,696 | (815,621) | 9,795,310 |
| Commerce | 24,264,354 | 878,492 | (974,013) | 24,168,833 |
| Transportation and communication | 6,004,584 | 12,922 | (40,591) | 5,976,915 |
| Services | 14,551,688 | 78,197 | (253,871) | 14,376,014 |
| Consumer loans and credit cards | 18,045,329 | 290,646 | (469,138) | 17,866,837 |
| Others | 10,961,945 | 504,440 | (273,580) | 11,192,805 |
| Total | 126,015,887 | 3,417,497 | (3,708,288) | 125,725,096 |

### f) Collateral

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

The amount of collateral held as security for loans that are credit-impaired as at December 31, are as follows:

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Collateral coverage – less than 50% | **1,706,572** | 2,544,622 |
| Collateral coverage – 51 to 70% | **176,593** | 122,513 |
| Collateral coverage – more than 70% | **1,883,425** | 750,362 |
| **Total** | **3,766,590** | 3,417,497 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 32.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, Foreign Exchange rates and Equity prices. The Bank classifies Market Risk exposures into either Trading or non-trading or Banking Book.

Market Risk within Trading & Banking Book is managed and monitored using various indicators such as Value at Risk, Stress Testing and Sensitivities analysis.

**a) Market Risk – Trading book**

The Board has set limits for the acceptable level of risks in managing the Trading Book. In order to manage the Market Risk in Trading Book, the Bank applies on a daily basis a VAR methodology in order to assess the Market Risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses 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.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days. A specific process of VAR back testing is performed on a daily basis.

The 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 however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

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

The Bank's VaR related information for the year ended December 31, 2020 and 2019 are follows:

| SAR '000 | FOREIGN EXCHANGE RATE | SPECIAL COMMISSION RATE RISK | OVERALL TRADING |
|---|---|---|---|
| **2020** | | | |
| VaR as at December 31, 2020 | **83** | **4,032** | **4,037** |
| Average VaR for 2020 | **113** | **3,406** | **3,396** |
| Maximum VaR for 2020 | **691** | **6,483** | **6,476** |
| Minimum VaR for 2020 | **7** | **1,066** | **1,046** |
| 2019 | | | |
| VaR as at December 31, 2019 | 11 | 1,097 | 1,093 |
| Average VaR for 2019 | 83 | 1,454 | 1,451 |
| Maximum VaR for 2019 | 552 | 2,720 | 2,703 |
| Minimum VaR for 2019 | 8 | 733 | 706 |

Overall Trading VaR incorporates compensation effect of positions coming from realized P&L in foreign currencies.

**b) Market risk non- trading book**

Market risk on non-trading book mainly arises from the special commission rate, foreign currency exposures and equity price changes.

### i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2020 and 2019, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI financial assets, including the effect of any associated hedges as at December 31, 2020 and 2019 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | SENSITIVITY OF EQUITY | | | | |
| SAR '000 CURRENCY | BPS CHANGE | SENSITIVITY OF SPECIAL COMMISSION INCOME | 6 MONTHS OR LESS | OVER 6 MONTHS TO 1 YEAR | OVER 1 YEAR TO 5 YEARS | OVER 5 YEARS | TOTAL |
| **USD** | **+100** | **9,974** | **(340)** | **(3,593)** | **(53,048)** | **(7,132)** | **(64,113)** |
| | **-100** | **(40,857)** | **340** | **3,593** | **53,048** | **7,132** | **64,113** |
| **SAR** | **+100** | **128,000** | **(8,600)** | **(30,989)** | **(393,791)** | **(124,564)** | **(557,944)** |
| | **-100** | **(236,593)** | **8,600** | **30,989** | **393,791** | **124,564** | **557,944** |

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | SENSITIVITY OF EQUITY | | | | |
| SAR '000 CURRENCY | BPS CHANGE | SENSITIVITY OF SPECIAL COMMISSION INCOME | 6 MONTHS OR LESS | OVER 6 MONTHS TO 1 YEAR | OVER 1 YEAR TO 5 YEARS | OVER 5 YEARS | TOTAL |
| USD | +100 | (66,069) | (956) | (1,079) | (3,066) | (1) | (5,102) |
| | -100 | 66,038 | 956 | 1,079 | 3,066 | 1 | 5,102 |
| SAR | +100 | 103,436 | (8,452) | (4,598) | (187,136) | (53,580) | (253,766) |
| | -100 | (103,477) | 8,452 | 4,598 | 187,136 | 53,580 | 253,766 |

**Special commission rate sensitivity of assets, liabilities and derivatives**

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**32. Market Risk** continued

**b) Market risk non-trading book** continued

i) **Special commission rate risk** continued

The following table summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets, liabilities, and derivative instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NON COMMISSION | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Assets** | | | | | | |
| **Cash and balances with SAMA** | | | | | | |
| Cash in hand | – | – | – | – | 965,457 | 965,457 |
| Balances with SAMA | 1,616,955 | – | – | – | 7,965,987 | 9,582,942 |
| **Due from banks and other financial institutions** | | | | | | |
| Current account | – | – | – | – | 4,026,997 | 4,026,997 |
| Money market placements | – | – | – | – | – | – |
| **Investments, net** | | | | | | |
| Held as FVTPL | 55,974 | – | 78,161 | 10,468 | – | 144,603 |
| Held as FVOCI, net | 877,510 | 2,821,111 | 6,784,775 | 1,028,794 | 220,968 | 11,733,158 |
| Held at amortised cost, net | 3,473,506 | 562,150 | 19,642,130 | 2,123,094 | – | 25,800,880 |
| **Investment in associate** | – | – | – | – | 9,695 | 9,695 |
| **Positive fair value of derivatives** | | | | | | |
| Held for trading | 122,672 | 237,243 | 3,694,274 | 1,244,112 | 246,064 | 5,544,365 |
| Held as cash flow hedges | 77,827 | 192,736 | 1,094,118 | – | – | 1,364,681 |
| **Loans and advances, net** | | | | | | |
| Credit cards and consumer loans | 192,493 | 609,831 | 10,848,023 | 10,911,209 | 227,565 | 22,789,121 |
| Over draft and commercial loans | 35,333,096 | 42,507,411 | 14,971,470 | 7,262,351 | 7,701,386 | 107,775,714 |
| **Property, equipment and right of use assets, net** | – | – | – | – | 1,440,170 | 1,440,170 |
| **Other assets, deferred tax and other real estate** | – | – | – | – | 2,895,801 | 2,895,801 |
| **Total assets** | 41,750,033 | 46,930,482 | 57,112,951 | 22,580,028 | 25,700,090 | 194,073,584 |

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NON COMMISSION | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Liabilities and equity** | | | | | | |
| **Due to SAMA, banks and other financial institutions** | | | | | | |
| Current accounts | – | – | – | – | 409,824 | 409,824 |
| Money market deposits | 6,577,343 | 743,015 | – | – | 9,062,031 | 16,382,389 |
| **Customers' deposits** | | | | | | |
| Demand | – | – | – | – | 79,860,073 | 79,860,073 |
| Saving | 753,054 | – | – | – | – | 753,054 |
| Time | 29,434,111 | 11,003,972 | 4,205 | – | – | 40,442,288 |
| Other | – | – | – | – | 6,056,229 | 6,056,229 |
| **Negative fair value of derivatives** | | | | | | |
| Held for trading | 143,517 | 223,642 | 3,539,534 | 1,059,965 | 125,356 | 5,092,014 |
| Held as cash flow hedges | – | – | 4,444 | – | – | 4,444 |
| **Other liabilities** | – | – | – | – | 6,437,324 | 6,437,324 |
| **Total equity** | – | – | – | – | 38,635,945 | 38,635,945 |
| **Total liabilities and equity** | 36,908,025 | 11,970,629 | 3,548,183 | 1,059,965 | 140,586,782 | 194,073,584 |
| **commission rate sensitivity** – On statement of financial position | 4,842,008 | 34,959,853 | 53,564,768 | 21,520,063 | (114,886,692) | – |
| **commission rate sensitivity** – Off statement of financial position | (77,264,528) | 8,657,375 | 63,109,003 | 5,498,150 | – | – |
| **Total commission rate sensitivity gap** | (72,422,520) | 43,617,228 | 116,673,771 | 27,018,213 | (114,886,692) | – |
| **Cumulative commission rate sensitivity gap** | (72,422,520) | (28,805,292) | 87,868,479 | 114,886,692 | – | – |

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NON COMMISSION | TOTAL |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| Assets | | | | | | |
| Cash and balances with SAMA | | | | | | |
| Cash in hand | – | – | – | – | 995,416 | 995,416 |
| Balances with SAMA | 275,000 | – | – | – | 7,846,920 | 8,121,920 |
| Due from banks and other financial institutions | | | | | | |
| Current account | – | – | – | – | 2,157,217 | 2,157,217 |
| Money market placements | 1,284,873 | 300,000 | – | – | – | 1,584,873 |
| Investments, net | | | | | | |
| Held as FVTPL | 9,954 | 65,458 | – | – | – | 75,412 |
| Held as FVOCI, net | 799,634 | 2,852,495 | 5,317,506 | 171,574 | 119,706 | 9,260,915 |
| Held at amortised cost, net | 4,950,362 | 6,388,055 | 9,923,516 | 855,519 | – | 22,117,452 |
| Investment in associate | – | – | – | – | 9,695 | 9,695 |
| Positive fair value of derivatives | | | | | | |
| Held for trading | 2,684,512 | 386,458 | – | – | 124,691 | 3,195,661 |
| Held as cash flow hedges | 1,205,826 | 205,064 | – | – | – | 1,410,890 |
| Loans and advances, net | | | | | | |
| Credit cards and consumer loans | 414,838 | 570,783 | 9,673,945 | 7,185,815 | 21,456 | 17,866,837 |
| Over draft and commercial loans | 64,448,642 | 31,316,608 | 6,903,514 | 3,837,526 | 1,351,969 | 107,858,259 |
| Property, equipment and right of use assets, net | – | – | – | – | 1,324,567 | 1,324,567 |
| Other assets, deferred tax and other real estate | – | – | – | – | 2,169,463 | 2,169,463 |
| Total assets | 76,073,641 | 42,084,921 | 31,818,481 | 12,050,434 | 16,121,100 | 178,148,577 |

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NON COMMISSION | TOTAL |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| Liabilities and equity | | | | | | |
| Due to SAMA, banks and other financial institutions | | | | | | |
| Current accounts | – | – | – | – | 554,416 | 554,416 |
| Money market deposits | 914,118 | 903,606 | – | – | – | 1,817,724 |
| Customers' deposits | | | | | | |
| Demand | – | – | – | – | 67,732,501 | 67,732,501 |
| Saving | 591,825 | – | – | – | – | 591,825 |
| Time | 38,374,670 | 21,103,184 | 1,084 | – | – | 59,478,938 |
| Other | – | – | – | – | 5,034,238 | 5,034,238 |
| Negative fair value of derivatives | | | | | | |
| Held for trading | 2,736,788 | 268,265 | – | – | 51,118 | 3,056,171 |
| Held as cash flow hedges | 6,668 | 6,567 | – | – | – | 13,235 |
| Other liabilities | – | – | – | – | 6,922,811 | 6,922,811 |
| Total equity | – | – | – | – | 32,946,718 | 32,946,718 |
| Total liabilities and equity | 42,624,069 | 22,281,622 | 1,084 | – | 113,241,802 | 178,148,577 |
| commission rate sensitivity – On statement of financial position | 33,449,572 | 19,803,299 | 31,817,397 | 12,050,434 | (97,120,702) | – |
| commission rate sensitivity – Off statement of financial position | (29,331,322) | (137,562) | 29,498,239 | (29,355) | – | – |
| Total commission rate sensitivity gap | 4,118,250 | 19,665,737 | 61,315,636 | 12,021,079 | (97,120,702) | – |
| Cumulative commission rate sensitivity gap | 4,118,250 | 23,783,987 | 85,099,623 | 97,120,702 | – | – |

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

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

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 32. Market Risk continued

### b) Market risk non-trading book continued

#### ii) Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board 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 table below shows the currencies to which the Bank has a significant exposure as at December 31, 2020 and 2019 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in 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.

| SAR '000 | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| CURRENCY EXPOSURES | CHANGE IN CURRENCY RATE IN % | EFFECT ON NET INCOME | EFFECT ON EQUITY | CHANGE IN CURRENCY RATE IN % | EFFECT ON NET INCOME | EFFECT ON EQUITY |
| **USD** | **+5** | **56,694** | **–** | +5 | 17,136 | 543 |
| **EUR** | **– 3** | **(24)** | **–** | – 3 | (12) | – |

There is no material impact on equity and net income due to change in other foreign currencies.

#### iii) Currency Position

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

| SAR '000 | 2020 LONG/(SHORT) | 2019 LONG/(SHORT) |
|---|---|---|
| US Dollar | **1,222,500** | 362,816 |
| Euro | **813** | 397 |
| Pound Sterling | **3,006** | 596 |
| Other | **21,466** | 15,680 |
| **Total** | **1,247,785** | 379,489 |

#### iv) Equity Price Risk

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

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

| SAR '000 | 2020 | | 2019 | |
|---|---|---|---|---|
| MARKET INDICES | CHANGE IN EQUITY PRICE % | EFFECT ON MARKET VALUE | CHANGE IN EQUITY PRICE % | EFFECT ON MARKET VALUE |
| Tadawul | **+5** | **9,794** | +5 | 3,906 |
| Tadawul | **-5** | **(9,794)** | -5 | (3,906) |

There is no material impact on market value due to change in prices of listed international securities.

## 33. Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving deposits, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits.
In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities.

**a) Maturity analysis of assets and liabilities**

The following table summarizes the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the final contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes all demand, saving and other deposit balances have been shown in no fixed maturity.

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NO FIXED MATURITY | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Assets** | | | | | | |
| **Cash and balances with SAMA** | | | | | | |
| Cash in hand | – | – | – | – | 965,457 | 965,457 |
| Balances with SAMA | 1,616,955 | – | – | – | 7,965,987 | 9,582,942 |
| **Due from banks and other financial institutions** | | | | | | |
| Current account | – | – | – | – | 4,026,997 | 4,026,997 |
| Money market placements | – | – | – | – | – | – |
| **Investments, net** | | | | | | |
| Held as FVTPL | – | 2,002 | 132,133 | 10,468 | – | 144,603 |
| Held as FVOCI, net | 133,618 | 416,319 | 9,472,714 | 1,489,539 | 220,968 | 11,733,158 |
| Held at amortised cost, net | 400,823 | 562,149 | 19,942,340 | 4,895,568 | – | 25,800,880 |
| **Investment in associate** | – | – | – | – | 9,695 | 9,695 |
| **Positive fair value of derivatives** | | | | | | |
| Held for trading | 229,426 | 248,631 | 3,761,722 | 1,304,586 | – | 5,544,365 |
| Held as cash flow hedges | 77,827 | 192,736 | 1,094,118 | – | – | 1,364,681 |
| **Loans and advances, net** | | | | | | |
| Credit cards and consumer loans | 164,167 | 614,581 | 10,934,021 | 10,930,067 | 146,285 | 22,789,121 |
| Over draft and commercial loans | 17,830,851 | 20,590,172 | 28,969,896 | 39,207,078 | 1,177,717 | 107,775,714 |
| **Property, equipment and right of use assets, net** | – | – | – | – | 1,440,170 | 1,440,170 |
| **Other assets, deferred tax and other real estate** | – | – | – | – | 2,895,801 | 2,895,801 |
| **Total assets** | 20,453,667 | 22,626,590 | 74,306,944 | 57,837,306 | 18,849,077 | 194,073,584 |

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NO FIXED MATURITY | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Liabilities and equity** | | | | | | |
| **Due to SAMA, banks and other financial institutions** | | | | | | |
| Current accounts | – | – | – | – | 409,824 | 409,824 |
| Money market deposits | 6,425,486 | 5,355,126 | 4,601,777 | – | – | 16,382,389 |
| **Customers' deposits** | | | | | | |
| Demand | – | – | – | – | 79,860,073 | 79,860,073 |
| Saving | – | – | – | – | 753,054 | 753,054 |
| Time | 28,482,086 | 4,128,568 | 7,703,709 | – | 127,925 | 40,442,288 |
| Other | – | – | – | – | 6,056,229 | 6,056,229 |
| **Negative fair value of derivatives** | | | | | | |
| Held for trading | 197,504 | 252,509 | 3,546,173 | 1,095,828 | – | 5,092,014 |
| Held as cash flow hedges | – | – | 4,444 | – | – | 4,444 |
| **Other liabilities** | 22,175 | 241,707 | 714,272 | 397,957 | 5,061,213 | 6,437,324 |
| **Total equity** | – | – | – | – | 38,635,945 | 38,635,945 |
| **Total liabilities and equity** | 35,127,251 | 9,977,910 | 16,570,375 | 1,493,785 | 130,904,263 | 194,073,584 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

**33. Liquidity Risk** continued

**a) Maturity analysis of assets and liabilities** continued

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NO FIXED MATURITY | TOTAL |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| Assets | | | | | | |
| Cash and balances with SAMA | | | | | | |
| Cash in hand | – | – | – | – | 995,416 | 995,416 |
| Balances with SAMA | 275,000 | – | – | – | 7,846,920 | 8,121,920 |
| Due from banks and other financial institutions | | | | | | |
| Current account | – | – | – | – | 2,157,217 | 2,157,217 |
| Money market placements | 1,284,873 | 300,000 | – | – | – | 1,584,873 |
| Investments, net | | | | | | |
| Held as FVTPL | 7,944 | 12,599 | 54,869 | – | – | 75,412 |
| Held as FVOCI, net | 125,333 | 257,754 | 7,973,582 | 784,540 | 119,706 | 9,260,915 |
| Held at amortised cost, net | 1,480,361 | 6,388,055 | 10,623,517 | 3,625,519 | – | 22,117,452 |
| Investment in associate | – | – | – | – | 9,695 | 9,695 |
| Positive fair value of derivatives | | | | | | |
| Held for trading | 71,163 | 411,825 | 2,047,420 | 665,253 | – | 3,195,661 |
| Held as cash flow hedges | 57,972 | 105,553 | 1,247,365 | – | – | 1,410,890 |
| Loans and advances, net | | | | | | |
| Credit cards and consumer loans | 106,769 | 570,783 | 9,741,170 | 7,185,815 | 262,300 | 17,866,837 |
| Over draft and commercial loans | 14,232,457 | 24,533,682 | 27,708,454 | 38,435,340 | 2,948,326 | 107,858,259 |
| Property, equipment and right of use assets, net | – | – | – | – | 1,324,567 | 1,324,567 |
| Other assets, deferred tax and other real estate | – | – | – | – | 2,169,463 | 2,169,463 |
| Total assets | 17,641,872 | 32,580,251 | 59,396,377 | 50,696,467 | 17,833,610 | 178,148,577 |

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NO FIXED MATURITY | TOTAL |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| Liabilities and equity | | | | | | |
| Due to SAMA, banks and other financial institutions | | | | | | |
| Current accounts | – | – | – | – | 554,416 | 554,416 |
| Money market deposits | 914,118 | 903,606 | – | – | – | 1,817,724 |
| Customers' deposits | | | | | | |
| Demand | – | – | – | – | 67,732,501 | 67,732,501 |
| Saving | – | – | – | – | 591,825 | 591,825 |
| Time | 34,801,540 | 11,955,428 | 12,597,826 | – | 124,144 | 59,478,938 |
| Other | – | – | – | – | 5,034,238 | 5,034,238 |
| Negative fair value of derivatives | | | | | | |
| Held for trading | 50,122 | 398,735 | 2,005,851 | 601,463 | – | 3,056,171 |
| Held as cash flow hedges | – | 1,640 | 11,595 | – | – | 13,235 |
| Other liabilities | – | 290,344 | 938,973 | 449,399 | 5,244,095 | 6,922,811 |
| Total equity | – | – | – | – | 32,946,718 | 32,946,718 |
| Total liabilities and equity | 35,765,780 | 13,549,753 | 15,554,245 | 1,050,862 | 112,227,937 | 178,148,577 |

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The cumulative maturities of commitments & contingencies are given in note 20 (i) of the consolidated financial statements.

**b) Analysis of financial liabilities by remaining undiscounted contractual maturities**

The following table summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2020 and 2019 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| SAR '000 | WITHIN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | OVER 5 YEARS | NO FIXED MATURITY | TOTAL |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Due to SAMA, banks and other financial institutions** | | | | | | |
| Current accounts | **–** | **–** | **–** | **–** | **409,824** | **409,824** |
| Money market deposits | **6,431,724** | **5,356,632** | **4,601,777** | **–** | **–** | **16,390,133** |
| **Customers' deposits** | | | | | | |
| Demand | **–** | **–** | **–** | **–** | **79,860,073** | **79,860,073** |
| Saving | **–** | **–** | **–** | **–** | **753,054** | **753,054** |
| Time | **28,554,534** | **4,155,888** | **7,741,617** | **–** | **127,925** | **40,579,964** |
| Other | **–** | **–** | **–** | **–** | **6,056,229** | **6,056,229** |
| **Total** | **34,986,258** | **9,512,520** | **12,343,394** | **–** | **87,207,105** | **144,049,277** |
| 2019 | | | | | | |
| Due to SAMA, banks and other financial institutions | | | | | | |
| Current accounts | – | – | – | – | 554,416 | 554,416 |
| Money market deposits | 912,713 | 916,645 | – | – | – | 1,829,358 |
| Customers' deposits | | | | | | |
| Demand | – | – | – | – | 67,732,501 | 67,732,501 |
| Saving | – | – | – | – | 591,825 | 591,825 |
| Time | 34,510,522 | 12,232,529 | 12,740,299 | – | 124,144 | 59,607,494 |
| Other | – | – | – | – | 5,034,238 | 5,034,238 |
| Total | 35,423,235 | 13,149,174 | 12,740,299 | – | 74,037,124 | 135,349,832 |

## 34. Fair values of financial assets and liabilities

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

– in the accessible principal market for the asset or liability, or
– in the absence of a principal market, in the most advantages accessible market for the asset or liability

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 34. Fair values of financial assets and liabilities continued

### Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

### Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions and analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Banks Market Risk Committee in order to take appropriate actions accordingly.

### Determination of fair value and fair value hierarchy

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

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

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

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

| SAR '000 | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| **2020** | | | | |
| **Financial assets** | | | | |
| Derivative financial instruments | **–** | **6,909,046** | **–** | **6,909,046** |
| Financial investments designated at FVTPL | | | | |
| – Fixed rate securities | **88,629** | **–** | **–** | **88,629** |
| – Floating rate securities | **–** | **55,974** | **–** | **55,974** |
| Total | **88,629** | **55,974** | **–** | **144,603** |
| Financial investments at FVOCI | | | | |
| – Fixed rate securities | **7,009,701** | **1,203,746** | **–** | **8,213,447** |
| – Floating rate securities | **67,673** | **3,231,070** | **–** | **3,298,743** |
| – Equity | **195,888** | **–** | **25,080** | **220,968** |
| Total | **7,273,262** | **4,434,816** | **25,080** | **11,733,158** |
| **Total** | **7,361,891** | **11,399,836** | **25,080** | **18,786,807** |
| **Financial Liabilities** | | | | |
| Derivative financial instruments negative fair value | **–** | **5,096,458** | **–** | **5,096,458** |
| **Total** | **–** | **5,096,458** | **–** | **5,096,458** |
| 2019 | | | | |
| Financial assets | | | | |
| Derivative financial instruments | – | 4,606,551 | – | 4,606,551 |
| Financial investments designated at FVTPL | | | | |
| – Fixed rate securities | 20,218 | – | – | 20,218 |
| – Floating rate securities | – | 55,194 | – | 55,194 |
| Total | 20,218 | 55,194 | – | 75,412 |
| Financial investments at FVOCI | | | | |
| – Fixed rate securities | 5,620,995 | – | – | 5,620,995 |
| – Floating rate securities | – | 3,520,214 | – | 3,520,214 |
| – Equity | 78,120 | 34,602 | 6,984 | 119,706 |
| Total | 5,699,115 | 3,554,816 | 6,984 | 9,260,915 |
| Total | 5,719,333 | 8,216,561 | 6,984 | 13,942,878 |
| Financial Liabilities | | | | |
| Derivative financial instruments negative fair value | – | 3,069,406 | – | 3,069,406 |
| Total | – | 3,069,406 | – | 3,069,406 |

During the year, there have been no transfers in between level 1, level 2 and level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

**Financial investments classified as FVOCI**

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Balance at the beginning of the year** | **6,984** | 6,984 |
| Transfer from level 2 | **34,602** | – |
| Additions during the year | **9,000** | – |
| Change in the value | **(25,506)** | – |
| **Balance at the end of the year** | **25,080** | 6,984 |

The fair values of on-statement of financial position financial instruments, except for loans and advances and financial instruments held at amortized cost are not significantly different from the carrying values included in the consolidated financial statements. The fair values of commission bearing customers' deposits, debt securities, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 34. Fair values of financial assets and liabilities continued

**Financial investments classified as FVOCI** continued

The estimated fair values of the investments held at amortized cost are based on quoted market prices when available or pricing models when used in case of bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

The fair values of investments held at amortized cost are SAR 26,337 million (2019: 22,154 million) against carrying value of SAR 25,801 million (2019: 22,117 million).

The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances (level 3 instruments) after adjusting internal credit spread which is SAR 134,194 million (2019: SAR 129,161 million). The carrying values of those loans and advances are SAR 130,565 million (2019: SAR 125,725 million).

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

**Impact of COVID-19 on assessment of fair value of the Bank's unquoted investments:**

The COVID-19 lead management to expand the inputs and analysis to support the current fair value methodology for its unquoted investments. The Bank used following additional criteria, in the absence of recent pricing activity and based on availability of information with the Bank:
– review of performance of investments against budgets in the period before COVID-19 and following onset of COVID-19 related lockdowns and restrictions;
– cost reduction and cash flow measures put in place by the investee management to limit COVID-19 impact; and
– trajectory of the businesses through the recovery period following COVID-19 lockdown period and impact on long-term revenue generating potential.

The revised procedures and ongoing COVID-19 impact has not led to a change in the fair value of the Bank's unquoted investments.

## 35. Related party transactions and balances

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on 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 December 31, 2020 and 2019 resulting from such transactions included in the consolidated financial statements are as follows:**

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Associates** | | |
| Investments | **9,695** | 9,695 |
| Due to banks and other financial institutions | **8,283** | 8,017 |
| **Directors, auditors, senior management and major shareholders' and their affiliates** | | |
| Loans and advances | **11,233,546** | 11,975,396 |
| Investments | **801,864** | 430,870 |
| Due from banks and other financial institutions | **–** | 500,000 |
| Other assets | **10** | 7 |
| Customers' deposits | **2,004,973** | 8,416,294 |
| Due to banks and other financial institutions | **1,500,000** | 8,017 |
| Other liabilities | **13,774** | 9,096 |
| Derivatives at fair value, net | **105,030** | 47,457 |
| Commitments and contingencies | **2,661,188** | 3,998,308 |

**Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:**

| SAR '000 | 2020 | 2019 |
|---|---|---|
| **Special commission income** | | |
| – Directors, auditors, senior management and major shareholders' and their affiliates | **342,962** | 617,739 |
| Total Special commission income | **342,962** | 617,739 |
| **Special commission expense** | | |
| – Directors, auditors, senior management and major shareholders' and their affiliates | **89,372** | 360,012 |
| – Associates | **145** | 187 |
| Total Special commission expense | **89,517** | 360,199 |
| Fees, commission income and others, net | **22,242** | (52,718) |
| Directors' fees | **9,250** | 9,141 |
| Other general and administrative expenses | **109,999** | 93,438 |

**The total amount of salaries and employee related benefits to senior management personnel are as follows:**

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Short term benefit | **69,426** | 62,971 |
| Long term benefit (deferral bonus) | **10,260** | 9,786 |
| Long term incentive plan | **13,776** | 11,347 |
| Termination benefit | **–** | 1,031 |
| **Total** | **93,462** | 85,135 |

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

## 36.Treasury Shares

The Bank acquired treasury shares as authorised by the Board under its Long Term Incentive (LTI) plan, which will grant the appreciation award of the Banks share performance to eligible employees as per LTI plan. The eligible employees will benefit from the appreciation in value of the Bank shares over the vesting period. The LTI plan has been commenced on grant date. The Bank has offered eligible employees the option for equity ownership opportunities.

The significant features of these plans are as follows:

| NATURE OF PLAN | LONG TERM INCENTIVE PLAN | LONG TERM INCENTIVE PLAN | LONG TERM INCENTIVE PLAN |
|---|---|---|---|
| Number of outstanding plan | 1 | 1 | 1 |
| Grant date | May 15, 2018 | March 31, 2019 | March 31, 2020 |
| Maturity date | January 01, 2021 | April 01, 2022 | April 01, 2023 |
| Grant price – SAR | 23.096 | 35.95 | 33.265 |
| Vesting period | 2.6 years | 3 years | 3 years |
| Vesting conditions | Employees remain in service and meets required service criteria | Employees remain in service and meets required service criteria | Employees remain in service, meets performance and service criteria |
| Method of settlement | Appreciation in equity | Equity | Equity |
| Valuation model | Black-Scholes | Black-Scholes | Monte-Carlo |
| Fair value per share on grant date – SAR | 33.906 | 42.37 | 23.297 |

The share performance will be granted under a service condition along with market condition associated with them. The total amount of expense recognized in these consolidated financial statements in respect of the above plans for the year is SAR 25.6 million (2019: SAR 16.4 million).

| | 2020 | 2019 |
|---|---|---|
| Number of shares allocated for LTI calculation at the beginning of the year | **2,157,219** | 4,130,000 |
| Vested/forfeited during the year | **(214,832)** | (3,130,000) |
| Allocated during the year, net | **1,638,401** | 1,157,219 |
| **Number of shares allocated for LTI calculation at the year end** | **3,580,788** | 2,157,219 |

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 37. Capital Adequacy

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum level.

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective from January 01, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated basis, calculated under the Basel III framework.

The RWAs, total capital and related ratios as at December 31, 2020 and 2019 are calculated using the framework and the methodologies defined under the Basel III framework.

| SAR '000 | 2020 | 2019 |
|---|---|---|
| Credit Risk RWA | **170,312,433** | 163,698,148 |
| Operational Risk RWA | **12,952,525** | 12,701,788 |
| Market Risk RWA | **3,967,483** | 2,164,647 |
| Total RWA | **187,232,441** | 178,564,583 |
| Tier I Capital | **38,489,177** | 32,720,359 |
| Tier II Capital | **1,884,995** | 1,568,513 |
| Total Tier I & II Capital | **40,374,172** | 34,288,872 |
| Capital Adequacy Ratio % | | |
| Tier I ratio | **20.56%** | 18.32% |
| Tier I + Tier II ratio | **21.56%** | 19.20% |

## 38. Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services. Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. However, the Bank's share of these funds is included in the FVOCI investments and fees earned are disclosed under related party transactions.

The value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 13,385 million (2019: SAR 8,661 million). The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset value of SAR 2,070 million (2019: SAR 2,015 million).

## 39. IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase (1) – The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues.

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR).

Under these temporary exceptions, interbank offered rates (IBOR) are assumed to continue unaltered for the purposes of hedge accounting until such time as the uncertainty is resolved. The application of this set of temporary exceptions is mandatory for accounting periods starting on or after January 01, 2020. Significant judgement will be required in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply.

The Bank has established a steering committee to oversee the Bank's IBOR transition journey supported by working group. The steering committee is updated on monthly basis on the overall progress of the project including key achievements. The transition is primarily divided into phase 1 and phase 2. Phase 1 includes Gap and impact assessment on account of IBOR transition and phase 2 will involve remediation of gap identified in phase 1 and execution of communication strategy around IBOR decommissioning. Communication strategy involve communication of the IBOR transition to the customers, assisting them in taking informed and timely decision. Further, the Bank currently anticipates that the areas of significant change will be amendments to the contractual terms of LIBOR-referenced floating-rate debts, Derivatives and update of hedge designations.

The Bank has cash flow hedge accounting relationships that are exposed to different IBORs, predominantly, Saudi IBOR and US Dollar LIBOR. Many of the existing derivatives, loans, bonds and other financial instruments designated in relationships referencing these benchmarks will transition to new risk-free rates ('RFRs') in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Bank's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors.

The table below shows the Bank's exposure at the year end to significant IBORs subject to reform. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

| SAR '000<br>DECEMBER 31, 2020 | NON-DERIVATIVE FINANCIAL ASSETS – CARRYING VALUE | NON-DERIVATIVE FINANCIAL LIABILITIES CARRYING VALUE | DERIVATIVES NOMINAL AMOUNT |
|---|---|---|---|
| **SIBOR SAR** | **47,868,219** | **7,367,018** | **94,784,628** |
| **LIBOR USD** | **3,650,163** | **332,486** | **117,509,178** |
| **LIBOR EUR** | **–** | **–** | **428,021** |
| **Total** | **51,518,382** | **7,699,504** | **212,721,827** |

## 40. SAMA support programs and initiatives

**Private Sector Financing Support Program ("PSFSP")**

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

- Deferred payments program;
- Funding for lending program;
- Facility guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14, 2020 for a period of six months and then further deferring the installments falling due within the period from September 15, 2020 to December 14, 2020 for a period of three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income.

Further to the above, SAMA extended the deferred payment program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from December 15, 2020 to March 31, 2021 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Bank recognizing an additional modification loss of SAR 33 million.

As a result of the above program and related extensions, the Bank has deferred the payments of SAR 4,163 million on MSMEs portfolio and accordingly, has recognised total modification losses of SAR 124 million during the year. The total exposures (funded credit facilities) against these customers amounted to SAR 10,802 million as at the year end.

# Notes to the Consolidated Financial Statements continued

For the year ended December 31, 2020 and 2019

## 40. SAMA support programs and initiatives continued

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

The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has taken SAR 436 million of overlays to reflect potential further credit deterioration, of which the Bank has booked SAR 235 million incremental total ECL for the MSME portfolio having total exposure of SAR 13,510 million.

If the balance of COVID-19 support packages in stage 1 move to stage 2, an additional ECL provisions would be provided during 2021 based on the credit facility – level assessment and the ability to repay amounts due after the deferral period ends.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 4,592 million of profit free deposit in number of tranches from SAMA during the year ended December 31, 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 404 million, of which SAR 124 million has been recognised in the statement of income and SAR 280 million has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended December 31, 2020, SAR 21 million has been charged to the statement of income relating to unwinding of the day 1 income.

As at December 31, 2020, the Bank has participated in SAMA's Loan guarantee programs, which is not material for the financial statements as a whole. The Bank has received SAR Nil million from SAMA for providing concessional financing to eligible MSMEs under Loan guarantee programs as of December 31, 2020.

Furthermore, during the year ended December 31, 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SAR 69 million.

**SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion**

In line with its monetary and financial stability mandate, SAMA injected an amount of SAR 50 billion in order to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

In this regard, during the year ended December 31, 2020, the Bank received SAR 4,612 million profit free deposit with one year maturity. Management has determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 90 million, of which SAR 80 million has been recognised in the statement of income for the year ended December 31, 2020 and with the remaining amount deferred.

**Bank's initiative – Health care sector support**

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognising a day 1 modification loss of SAR 23 million during the year ended December 31, 2020, which was presented as part of net financing income. As the three month period for this voluntarily postponed payments ended; therefore, the Bank has completely unwounded the impact during the year ended December 31, 2020.

## 41. Comparative figures

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

## 42. Board of Directors approval

The consolidated financial statements were approved by the Board of Directors on February 07, 2021 corresponding to Jumada Al Aakhir 25, 1442H.

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