INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To: THE SHAREHOLDERS OF
RIYAD BANK
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2021, and the related interim condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended 30 June 2021, and the interim condensed consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended and other explanatory notes (the "interim condensed consolidated financial statements").

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other regulatory matters

As required by Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note (18) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (18) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

Ernst & Young & Co.
Certified Public Accountants
P. O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Waleed G. Tawfiq
Certified Public Accountant
License No. 437

PricewaterhouseCoopers

P. O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

Mufaddal A. Ali
Certified Public Accountant
License No. 447

26 Dhul Hijjah 1442H
(5 August 2021)

RIYAD BANK
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED
30 JUNE 2021

riyad bank بنك الرياض

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)	30 June 2020 (Unaudited)
ASSETS		**SAR'000**	SAR'000	SAR'000
Cash and balances with Saudi Central Bank (SAMA)		**40,854,055**	41,954,124	28,055,280
Due from banks and other financial institutions, net		**7,878,052**	13,624,476	17,581,596
Positive fair value of derivatives	6	**1,352,264**	1,558,957	1,816,184
- Investment at fair value through income statement (FVIS)	7 i)	**747,665**	1,101,133	845,992
- Investment at amortised cost, net	7 ii)	**33,444,454**	33,290,075	32,870,668
- Investments at fair value through other comprehensive income(FVOCI)	7 iii)	**22,929,524**	22,058,598	20,245,286
Investments, net	7	**57,121,643**	56,449,806	53,961,946
Loans and advances, net	8	**204,742,536**	191,346,635	187,650,666
Other assets		**1,924,371**	1,702,893	2,675,778
Investment in associates		**663,110**	699,151	695,417
Other real estate		**298,786**	324,054	332,534
Property, equipment and right of use assets, net		**2,431,512**	2,427,811	2,313,961
Total assets		**317,266,329**	310,087,907	295,083,362
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		**43,122,772**	41,788,903	31,373,934
Negative fair value of derivatives	6	**1,463,207**	1,640,934	1,968,036
Customer deposits	9	**202,452,996**	203,039,336	199,986,608
Debt securities in issue	10	**8,710,117**	5,684,008	5,683,099
Other liabilities		**16,966,440**	13,579,628	15,285,747
Total liabilities		**272,715,532**	265,732,809	254,297,424
Shareholders' equity				
Share capital		**30,000,000**	30,000,000	30,000,000
Statutory reserve		**7,680,879**	7,680,879	6,502,130
Other reserves		**2,069,230**	1,745,649	352,006
Retained earnings		**4,800,688**	4,928,570	3,931,802
Total shareholders' equity		**44,550,797**	44,355,098	40,785,938
Total liabilities and shareholders' equity		**317,266,329**	310,087,907	295,083,362

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Note	For the three month period ended 30 June		For the six month period ended 30 June	
		2021	2020	**2021**	2020
		SAR'000	SAR'000	**SAR'000**	SAR'000
Special commission income		**2,327,096**	2,534,157	**4,627,158**	5,142,538
Special commission expense		**181,072**	418,405	**385,330**	1,037,468
Net special commission income		**2,146,024**	2,115,752	**4,241,828**	4,105,070
Fee and commission income		**752,371**	481,519	**1,447,077**	1,266,616
Fee and commission expense		**235,466**	158,779	**475,749**	371,918
Fee and commission income, net		**516,905**	322,740	**971,328**	894,698
Exchange income, net		**89,291**	139,068	**175,590**	252,124
Trading income, net		**80,775**	98,536	**109,086**	177,308
Dividend income		**33,780**	32,623	**63,311**	58,616
Gains (losses) on disposal of non-trading investments, net		**89,792**	(1,609)	**209,797**	100,052
Other operating income		**21,524**	1,836	**30,981**	6,557
Total operating income, net		**2,978,091**	2,708,946	**5,801,921**	5,594,425
Salaries and employee-related expenses		**509,115**	463,146	**1,018,401**	974,022
Rent and premises-related expenses		**46,133**	40,977	**89,367**	86,670
Depreciation of property, equipment and right of use assets		**119,517**	123,795	**243,374**	238,595
Other general and administrative expenses		**324,431**	219,789	**589,561**	457,974
Other operating expenses		**12,345**	13,322	**53,023**	29,163
Total operating expenses before impairment charge		**1,011,541**	861,029	**1,993,726**	1,786,424
Impairment charge for credit losses and other financial assets, net	8.4	**237,626**	612,085	**484,408**	920,214
Impairment charge for investments, net		**10,566**	33,649	**66,036**	33,953
Total operating expenses, net		**1,259,733**	1,506,763	**2,544,170**	2,740,591
Net operating income		**1,718,358**	1,202,183	**3,257,751**	2,853,834
Share in (losses) earnings of associates, net		**(8,759)**	(7,137)	**(19,535)**	646
Income for the period before zakat		**1,709,599**	1,195,046	**3,238,216**	2,854,480
Zakat for the period		**198,000**	132,000	**373,000**	315,000
Net income for the period		**1,511,599**	1,063,046	**2,865,216**	2,539,480
Basic and diluted earnings per share (in SAR)	17	**0.50**	0.35	**0.96**	0.85

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	For the three month period ended 30 June		For the six month period ended 30 June	
	2021	2020	**2021**	2020
	SAR'000	SAR'000	**SAR'000**	SAR'000
Net income for the period	**1,511,599**	1,063,046	**2,865,216**	2,539,480
Other comprehensive income (OCI):				
a) Items that will be reclassified to interim condensed consolidated statement of income in subsequent periods				
- Fair value through other comprehensive income (FVOCI- debt instruments)				
- Net change in fair value	**108,025**	1,578,929	**(149,125)**	(361,247)
- Net amounts transferred to interim condensed consolidated statement of income	**(79,567)**	13,376	**(170,827)**	(73,146)
- Net changes in allowance for expected credit losses (ECL) of debt instruments	**5,659**	15,016	**65,764**	16,661
- Net change in fair value of cash flow hedge	**2,942**	-	**(10,077)**	-
b) Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods				
- Net change in fair value of equity instruments at fair value through other comprehensive income (FVOCI- equity instruments)	**274,396**	318,234	**594,748**	(257,272)
Other comprehensive income (loss) for the period	**311,455**	1,925,555	**330,483**	(675,004)
Total comprehensive income for the period	**1,823,054**	2,988,601	**3,195,699**	1,864,476

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For the six month period ended 30 June 2021 & 2020

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
30 June 2021						
Balance at the beginning of the period	**30,000,000**	**7,680,879**	**1,745,649**	**4,928,570**	**-**	**44,355,098**
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	**-**	**-**	**594,748**	**-**	**-**	**594,748**
- FVOCI -debt instruments	**-**	**-**	**(149,125)**	**-**	**-**	**(149,125)**
Net amount reclassified to the interim condensed consolidated statement of income for FVOCI -debt instruments	**-**	**-**	**(170,827)**	**-**	**-**	**(170,827)**
Net changes in allowance for expected credit losses on FVOCI -debt instruments	**-**	**-**	**65,764**	**-**	**-**	**65,764**
Net change in fair value of cash flow hedge	**-**	**-**	**(10,077)**	**-**	**-**	**(10,077)**
Net income for the period	**-**	**-**	**-**	**2,865,216**	**-**	**2,865,216**
Total comprehensive income	**-**	**-**	**330,483**	**2,865,216**	**-**	**3,195,699**
Disposal of FVOCI-equity instruments	**-**	**-**	**(6,902)**	**6,902**	**-**	**-**
Final proposed dividends - 2020 (note 16)	**-**	**-**	**-**	**(1,500,000)**	**1,500,000**	**-**
Final dividends declared - 2020 (note 16)	**-**	**-**	**-**	**-**	**(1,500,000)**	**(1,500,000)**
Interim dividend - 2021 (note 16)	**-**	**-**	**-**	**(1,500,000)**	**-**	**(1,500,000)**
Balance at the end of the period	**30,000,000**	**7,680,879**	**2,069,230**	**4,800,688**	**-**	**44,550,797**
30 June 2020						
Balance at the beginning of the period	30,000,000	6,502,130	1,027,108	1,392,224	1,650,000	40,571,462
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	-	-	(257,272)	-	-	(257,272)
- FVOCI -debt instruments	-	-	(361,247)	-	-	(361,247)
Net amount reclassified to the interim condensed consolidated statement of income for FVOCI -debt instruments	-	-	(73,146)	-	-	(73,146)
Net changes in allowance for expected credit losses on FVOCI -debt instruments	-	-	16,661	-	-	16,661
Net income for the period	-	-	-	2,539,480	-	2,539,480
Total comprehensive income	-	-	(675,004)	2,539,480	-	1,864,476
Disposal of FVOCI-equity instruments	-	-	(98)	98	-	-
Final dividend - 2019	-	-	-	-	(1,650,000)	(1,650,000)
Balance at the end of the period	30,000,000	6,502,130	352,006	3,931,802	-	40,785,938

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Note	For the six month period ended 30 June 2021 SAR'000	2020 SAR'000
OPERATING ACTIVITIES			
Income for the period before zakat		**3,238,216**	2,854,480
Adjustments to reconcile net income for the period to net cash from operating activities:			
Accretion of discounts and amortisation of premium on non-FVIS instruments, net		**(8,488)**	(7,290)
Gains on non-trading investments, net		**(209,797)**	(100,052)
Gains on trading investments, net		**(4,949)**	(15,298)
Dividend income		**(63,311)**	(58,616)
Depreciation of property, equipment and right of use assets		**243,374**	238,595
Share in losses (earnings) of associates, net		**19,535**	(646)
Impairment charge for investments, net		**66,036**	33,953
Impairment charge for credit losses and other financial assets, net	8.4	**484,408**	920,214
		3,765,024	3,865,340
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**(84,075)**	(1,014,321)
Due from banks and other financial institutions maturing after three months from date of acquisition		**(791,000)**	519,088
Positive fair value of derivatives		**206,693**	(1,207,337)
Investments at FVIS		**342,053**	199,642
Loans and advances, net		**(13,874,617)**	(14,542,059)
Other real estate		**25,268**	(99,477)
Other assets		**(92,008)**	(1,890,975)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**1,333,869**	18,249,454
Negative fair value of derivatives		**(177,727)**	1,318,810
Customer deposits		**(586,340)**	5,468,709
Other liabilities		**2,266,844**	1,831,395
		(7,666,016)	12,698,269
Zakat paid		**(686,565)**	-
Net cash (used in) from operating activities		**(8,352,581)**	12,698,269
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		**37,323,437**	20,014,361
Purchase of investments not held as FVIS instruments		**(37,770,305)**	(21,280,619)
Purchase of property and equipment, net		**(233,163)**	(154,278)
Advance against purchase of property and equipment		**(125,000)**	-
Net cash used in investing activities		**(805,031)**	(1,420,536)
FINANCING ACTIVITIES			
Lease payments		**(90,832)**	(37,168)
Debt securities in issue, net	10	**3,026,109**	1,626,500
Dividend paid		**(1,493,644)**	(1,643,424)
Net cash from (used in) financing activities		**1,441,633**	(54,092)
Net (decrease) increase in cash and cash equivalents		**(7,715,979)**	11,223,641
Cash and cash equivalents at beginning of the period		**44,965,596**	23,472,740
Cash and cash equivalents at end of the period	12	**37,249,617**	34,696,381
Special commission received during the period		**4,305,055**	5,027,847
Special commission paid during the period		**547,643**	1,063,480
Supplemental non-cash information			
Net changes in fair value and transfers to interim condensed consolidated statement of income		**264,720**	(691,665)
Right of use (ROU) assets		**(13,912)**	(196,353)
Right of use (ROU) lease liabilities		**(68,242)**	143,102

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

1. GENERAL

Riyad Bank (the "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to 23 November 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to 18 November 1957G) through its 341 licensed branches (30 June 2020: 341 licensed branches) in the Kingdom of Saudi Arabia, a branch in London, United Kingdom, an agency in Houston, United States, and a representative office in Singapore. The registered address of the Bank's Head Office is as follows:

Granada Oasis - A1 Tower
Riyadh - Al Shuhada District
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

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

The interim condensed consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries, a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (formed with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; d) Curzon Street Properties Limited incorporated in the Isle of Man; e) Riyad Financial Markets incorporated in the Cayman Islands - a netting and bankruptcy jurisdiction country, to execute derivative transactions with international counterparties on behalf of Riyad Bank; and f) Esnad Al-Riyadh - a limited liability company registered in the Kingdom of Saudi Arabia to provide human resources services to the Group. These entities together with the Bank, are collectively referred to as "the Group".

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the six months period ended 30 June 2021 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). The interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and therefore should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2020.

The consolidated financial statements of the Group as at and for the year ended December 31, 2021, were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. The interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and amounts are rounded to the nearest thousand.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the financial statements of the subsidiaries which 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 ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date that control ceases.

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed 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 Group acts as a Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary relief that address the impact on financial reporting when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

For further details, please refer note 20 to these interim condensed consolidated financial statements.

Accounting Standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after January 1, 2021. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements of the Group.

- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- IFRS 17, 'Insurance contracts', as amended in June 2020

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2020, except for the adoption of amended standards explained in note 4.

6. DERIVATIVES

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	30 June 2021 (Unaudited)			31 December 2020 (Audited)			30 June 2020 (Unaudited)		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Held for trading:									
Special commission rate swaps	**1,277,156**	**(1,171,999)**	**54,015,537**	1,436,648	(1,210,717)	46,191,559	1,741,029	(1,501,457)	46,809,546
Forward foreign exchange contracts	**73,648**	**(32,687)**	**20,029,373**	118,908	(78,021)	24,759,998	75,155	(44,848)	28,303,061
Held as fair value hedges:									
Special commission rate swaps	**1,460**	**(251,845)**	**3,108,297**	-	(352,196)	3,253,728	-	(421,731)	3,395,315
Held as cash flow hedges:									
Special commission rate swaps	**-**	**(6,676)**	**925,000**	3,401	-	925,000	-	-	-
Total	**1,352,264**	**(1,463,207)**	**78,078,207**	1,558,957	(1,640,934)	75,130,285	1,816,184	(1,968,036)	78,507,922

7. INVESTMENTS, NET

Investments by type of securities

SAR'000	Domestic			International			Total		
	30 June 2021	31 December 2020	30 June 2020	**30 June 2021**	31 December 2020	30 June 2020	**30 June 2021**	31 December 2020	30 June 2020
i) Investment at FVIS									
Mutual Funds	**747,665**	1,101,133	845,992	**-**	-	-	**747,665**	1,101,133	845,992
Total	**747,665**	1,101,133	845,992	**-**	-	-	**747,665**	1,101,133	845,992
ii) Investment at amortised cost, net									
Fixed rate securities	**26,426,931**	24,925,136	24,445,060	**334,613**	935,799	654,649	**26,761,544**	25,860,935	25,099,709
Floating rate securities	**6,682,910**	7,178,921	7,770,959	**-**	250,219	-	**6,682,910**	7,429,140	7,770,959
Total	**33,109,841**	32,104,057	32,216,019	**334,613**	1,186,018	654,649	**33,444,454**	33,290,075	32,870,668
iii) Investments at FVOCI, net									
Fixed rate securities	**-**	-	-	**18,872,121**	18,539,730	17,250,419	**18,872,121**	18,539,730	17,250,419
Equities	**3,354,890**	2,846,303	2,452,534	**702,513**	672,565	542,333	**4,057,403**	3,518,868	2,994,867
Total	**3,354,890**	2,846,303	2,452,534	**19,574,634**	19,212,295	17,792,752	**22,929,524**	22,058,598	20,245,286
Total	**37,212,396**	36,051,493	35,514,545	**19,909,247**	20,398,313	18,447,401	**57,121,643**	56,449,806	53,961,946

Above investments include sukuks amounting to SAR 15.6 billion as at 30 June 2021 (31 December 2020: SAR 16.7 billion and 30 June 2020: SAR 16.5 billion).

As at 30 June 2021, the loss allowance on the investments held at amortised cost, amounted to SAR 16.4 million (31 December 2020: SAR 16.1 million and 30 June 2020: SAR 30.7 million) and these relate to stage 1 & stage 2 exposures. During the six month period ended 30 June 2021 the stage 2 provisions increased by SAR 8.0 million due to stage migration resulting from rating deterioration.

As at 30 June 2021, the loss allowance on the investments at FVOCI, net, amounted to SAR 166.1 million (31 December 2020: SAR 100.3 million and 30 June 2020: SAR 74.5 million). During the six month period ended 30 June 2021 the increase in the loss allowance was mainly in stage 2 provisions, which increased by SAR 57.9 million while the increase in stage 1 and stage 3 provisions were SAR 3.3 million and SAR 4.5 million respectively.

8. LOANS AND ADVANCES, NET

8.1 Loans and advances held at amortised cost

These comprise the following:

30 June 2021 (Unaudited) SAR'000	**Overdraft**	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Others**	**Total**
Performing loans and advances-gross	**5,292,005**	**686,103**	**68,115,568**	**131,082,270**	**507,947**	**205,683,893**
Non-performing loans and advances	**316,434**	**21,157**	**728,519**	**2,786,545**	**1,663**	**3,854,318**
Total loans and advances	**5,608,439**	**707,260**	**68,844,087**	**133,868,815**	**509,610**	**209,538,211**
Allowance for impairment	**(199,826)**	**(31,685)**	**(802,014)**	**(3,761,022)**	**(1,128)**	**(4,795,675)**
Loans and advances, net	**5,408,613**	**675,575**	**68,042,073**	**130,107,793**	**508,482**	**204,742,536**

31 December 2020 (Audited) SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	6,432,126	679,634	63,426,847	121,300,756	389,349	192,228,712
Non-performing loans and advances	327,012	30,482	1,105,749	2,186,669	2,024	3,651,936
Total loans and advances	6,759,138	710,116	64,532,596	123,487,425	391,373	195,880,648
Allowance for impairment	(217,061)	(29,830)	(998,568)	(3,287,425)	(1,129)	(4,534,013)
Loans and advances, net	6,542,077	680,286	63,534,028	120,200,000	390,244	191,346,635

30 June 2020 (Unaudited) SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	7,684,867	673,286	61,118,479	119,472,452	519,763	189,468,847
Non-performing loans and advances	227,203	-	372,863	1,341,003	2,259	1,943,328
Total loans and advances	7,912,070	673,286	61,491,342	120,813,455	522,022	191,412,175
Allowance for impairment	(213,867)	(37,064)	(1,047,518)	(2,458,885)	(4,175)	(3,761,509)
Loans and advances, net	7,698,203	636,222	60,443,824	118,354,570	517,847	187,650,666

Loans and advances, net, include non-conventional banking products of SAR 133.8 billion as at 30 June 2021 (31 December 2020: SAR 122.9 billion and 30 June 2020: SAR 116.6 billion).

8.2 The movement in the allowance for impairment of loans and advances to customers is as follows:

SAR'000	**For the six month period ended 30 June 2021 (Unaudited)**	For the year-ended 31 December 2020 (Audited)	For the six month period ended 30 June 2020 (Unaudited)
Balance at the beginning of the period/ year	**4,534,013**	2,755,866	2,755,866
Provided during the period/ year	**314,664**	2,319,696	1,153,016
Bad debts written off against provision during the period/ year	**(53,002)**	(541,549)	(147,373)
Balance at the end of the period/ year	**4,795,675**	4,534,013	3,761,509

8.3 An analysis of changes in loss allowance for total loans and advances is, as follows:

ECL on total loans and advances (SAR'000)

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2021	**1,026,381**	**945,452**	**2,562,180**	**4,534,013**
Transfer to 12-month ECL	**156,251**	**(26,594)**	**(129,657)**	**-**
Transfer to lifetime ECL - not credit impaired	**(6,847)**	**48,009**	**(41,162)**	**-**
Transfer to lifetime ECL - credit impaired	**(1,240)**	**(38,227)**	**39,467**	**-**
Net re-measurement of loss allowance*	**(250,375)**	**240,663**	**271,374**	**261,662**
Balance as at 30 June 2021	**924,170**	**1,169,303**	**2,702,202**	**4,795,675**

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	449,757	509,207	1,796,902	2,755,866
Transfer to 12-month ECL	100,178	(39,992)	(60,186)	-
Transfer to lifetime ECL - not credit impaired	(13,793)	48,191	(34,398)	-
Transfer to lifetime ECL - credit impaired	(3,768)	(285,630)	289,398	-
Net re-measurement of loss allowance*	396,103	357,454	252,086	1,005,643
Balance as at 30 June 2020	928,477	589,230	2,243,802	3,761,509

* Includes charge-offs (consumer loans and credit cards) and write-offs (commercial, overdrafts, mortgages and others).

8. LOANS AND ADVANCES, NET (continued)

8.4 Impairment charges for credit losses and other financial assets, net as reflected in the interim condensed consolidated statement of income are detailed as follows:

	For the three month period ended 30 June		For the six month period ended 30 June	
SAR'000	**2021 (Unaudited)**	2020 (Unaudited)	**2021 (Unaudited)**	2020 (Unaudited)
Impairment charge for credit losses, net	**229,321**	569,989	**478,716**	873,393
Impairment charge for other financial assets, net	**8,305**	42,096	**5,692**	46,821
Total	**237,626**	612,085	**484,408**	920,214

9. CUSTOMER DEPOSITS

Customer deposits comprise the following:

SAR'000	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)	30 June 2020 (Unaudited)
Demand	**109,943,693**	116,760,934	117,843,825
Saving	**1,222,480**	1,054,476	878,971
Time	**72,873,615**	67,075,543	56,497,088
Others	**18,413,208**	18,148,383	24,766,724
Total	**202,452,996**	203,039,336	199,986,608

Customer Time deposits include non-conventional banking deposits of SAR 35,635 million as at 30 June 2021 (31 December 2020: SAR 25,992 million and 30 June 2020: SAR 21,916 million).

10. DEBT SECURITIES IN ISSUE

During February 2021, the Bank successfully issued SAR denominated Tier 2 capital-eligible sukuk amounting to SAR 3 billion. The sukuks carry special commission rate of 6 month SAIBOR plus 150 basis points and have a term of 10 years, callable at year 5, subject to terms and conditions of the sukuk.

11. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

a) The Group's credit related commitments and contingencies are as follows:

SAR'000	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)	30 June 2020 (Unaudited)
Letters of credit	**10,690,874**	9,073,317	7,719,068
Letters of guarantee	**65,259,728**	62,522,328	62,310,931
Acceptances	**2,296,024**	2,497,502	2,420,487
Irrevocable commitments to extend credit	**15,370,804**	12,435,189	11,407,099
Total	**93,617,430**	86,528,336	83,857,585

b) The breakdown of allowance for impairment of credit related commitments and contingencies by stages is as follows:

SAR'000	**12 Months ECL**	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total**
Balance at 30 June 2021 (Unaudited)	**46,075**	**17,898**	**220,780**	**284,753**
Balance at 31 December 2020 (Audited)	47,346	39,174	198,864	285,384
Balance at 30 June 2020 (Unaudited)	70,748	45,694	139,543	255,985

Other liabilities as at 30 June 2021, include write-off reserves amounting to SAR 571 million (31 December 2020: SAR 577 million and 30 June 2020: SAR 581 million).

12. CASH AND CASH EQUIVALENTS

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

	30 June 2021 (Unaudited) SAR'000	31 December 2020 (Audited) SAR'000	30 June 2020 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	**30,360,799**	31,544,430	17,414,259
Due from banks and other financial institutions maturing within three months from date of acquisition	**6,888,818**	13,421,166	17,282,122
Total	**37,249,617**	44,965,596	34,696,381

13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

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.

Following are the financial instruments carried at fair value in the interim condensed consolidated financial statements.

Fair value and fair value hierarchy

30 June 2021 SAR'000 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
- Positive fair value of derivatives	**-**	**1,352,264**	**-**	**1,352,264**
- Investments held at FVIS	**747,665**	**-**	**-**	**747,665**
- Investments held at FVOCI	**22,467,563**	**-**	**461,961**	**22,929,524**
Financial liabilities measured at fair value				
- Negative fair value of derivatives	**-**	**1,463,207**	**-**	**1,463,207**

31 December 2020 SAR'000 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
- Positive fair value of derivatives	-	1,558,957	-	1,558,957
- Investments held at FVIS	1,101,133	-	-	1,101,133
- Investments held at FVOCI	21,603,888	-	454,710	22,058,598
Financial liabilities measured at fair value				
- Negative fair value of derivatives	-	1,640,934	-	1,640,934

30 June 2020 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
- Positive fair value of derivatives	-	1,816,184	-	1,816,184
- Investments held at FVIS	845,992	-	-	845,992
- Investments held at FVOCI	19,858,774	-	386,512	20,245,286
Financial liabilities measured at fair value				
- Negative fair value of derivatives	-	1,968,036	-	1,968,036

13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Reconciliation of movement in Level 3	**For the six month period ended 30 June 2021 (Unaudited) SAR'000**	For the year ended 31 December 2020 (Audited) SAR'000	For the six month period ended 30 June 2020 (Unaudited) SAR'000
Opening balance	**454,710**	392,722	392,722
Total gains or losses, net:			
- recognised in interim condensed consolidated statement of income	**(543)**	16,399	(29)
- recognised in interim condensed consolidated statement of other comprehensive income	**-**	(1,218)	(6,181)
Purchases	**7,794**	46,807	-
Closing balance	**461,961**	454,710	386,512

There were no transfers between the fair value hierarchy levels during the current or prior period.

The fair values of on-balance sheet financial instruments, except for loans and advances and investments held at amortised cost are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of customer deposits, debt securities in issue, cash and balances with SAMA, due from and due to banks and other financial institutions, other assets and other liabilities which are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks and other financial institutions, other assets and other liabilities.

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. The estimated fair values of loans and advances was SAR 214.6 billion as at 30 June 2021 (31 December 2020: SAR 201.5 billion and 30 June 2020: SAR 195 billion).

The estimated fair values of investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. The estimated fair values of these investments was SAR 33.9 billion as at 30 June 2021 (31 December 2020: SAR 33.3 billion and 30 June 2020: SAR 33.9 billion).

14. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group’s primary business is conducted in the Kingdom of Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, the representative office and the agency are not material to the Group’s overall interim condensed consolidated financial statements and as a result have not been separately disclosed. The transactions between the Group's operating segments are recorded as per the Group's transfer pricing system.There are no other material items of income or expenses between the operating segments.

14. OPERATING SEGMENTS (continued)

The Group's reportable segments under IFRS 8 are as follows:

Retail banking

Deposits, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

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

Corporate banking

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investment

Principally providing money market, trading and treasury services as well as the management of the Group's investment portfolios.

The Group's total assets and liabilities at 30 June 2021 and 2020 and its total operating income, total operating expenses and income before zakat for the six months periods then ended, by operating segments, are as follows:

30 June 2021

SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	**82,117,240**	**2,066,852**	**141,610,214**	**91,472,023**	**317,266,329**
Total liabilities	**98,271,921**	**634,229**	**150,562,268**	**23,247,114**	**272,715,532**
Total operating income, net of which	**1,902,880**	**426,362**	**2,248,260**	**1,224,419**	**5,801,921**
- Net special commission income	**1,840,544**	**87,976**	**1,648,742**	**664,566**	**4,241,828**
- Fee and commission income, net	**71,675**	**328,822**	**568,812**	**2,019**	**971,328**
Inter segment revenues	**4,757**	**84,888**	**(188,244)**	**98,599**	**-**
Total operating expenses, net of which	**1,184,294**	**113,363**	**1,090,116**	**156,397**	**2,544,170**
- Depreciation of property, equipment and right of use assets	**183,942**	**12,320**	**37,181**	**9,931**	**243,374**
- Impairment (reversal) charge for credit losses and other financial assets, net	**(127,895)**	**-**	**606,239**	**6,064**	**484,408**
- Impairment charge for investments, net	**-**	**-**	**-**	**66,036**	**66,036**
Share in losses of associates, net	**-**	**-**	**-**	**(19,535)**	**(19,535)**
Income for the period before zakat	**718,586**	**312,999**	**1,158,144**	**1,048,487**	**3,238,216**

30 June 2020

SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	74,012,495	2,167,032	137,403,079	81,500,756	295,083,362
Total liabilities	85,723,925	278,012	144,902,508	23,392,979	254,297,424
Total operating income, net of which	1,834,685	313,524	2,133,942	1,312,274	5,594,425
- Net special commission income	1,734,925	82,334	1,571,003	716,808	4,105,070
- Fee and commission income, net	102,608	217,637	558,914	15,539	894,698
Inter segment revenues	72,518	79,483	(276,381)	124,380	-
Total operating expenses, net of which	1,300,021	95,297	1,240,068	105,205	2,740,591
- Depreciation of property, equipment and right of use assets	186,062	11,028	34,662	6,843	238,595
- Impairment charge for credit losses and other financial assets, net	104,107	-	809,670	6,437	920,214
- Impairment charge for investment, net	-	-	-	33,953	33,953
Share in earnings of associates, net	-	-	-	646	646
Income for the period before zakat	534,664	218,227	893,874	1,207,715	2,854,480

15. FINANCIAL RISK MANAGEMENT

Credit risk

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 Group uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Group uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation, etc.

The Group attempts to control credit risk by appropriate credit structuring, credit review process, post-disbursal monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group 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 Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Concentration risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /service sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting any particular category of concentration.

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Group 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 recurrently, 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 Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

16. DIVIDENDS AND ZAKAT

On 23 March 2021, the shareholders in the Ordinary General Assembly meeting approved the distribution of dividends to shareholders for 2020. The amount of such dividend amounted to SAR 1,500 million (SAR 0.50 per share) and the distribution date for the dividend was 6 April 2021.

Further the Bank on 21 June 2021, announced the distribution of dividends for the first half of 2021 amounting to SAR 1,500 million (SAR 0.50 per share).

Under the SAMA COVID-19 support initiatives, the banks in Kingdom of Saudi Arabia (KSA) received long term interest free deposits from SAMA. The nature and purpose of these deposits are defined as monetary policy tool from the Government of KSA to the banks in KSA and hence these deposits have been exempted from scope of zakatable financing source of the Bank.
During the period ended 30 June 2021, the above treatment has been confirmed by the Zakat, Tax and Customs Authority (ZATCA). Based on the new regulations, the Bank has estimated provision for zakat liability for the period ended 30 June 2021 at SAR 373 million (30 June 2020: SAR 315 million).

17. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the period ended 30 June 2021 and 2020 are calculated by dividing the net income for the period by 3,000 million outstanding shares.

18. CAPITAL ADEQUACY

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

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group's business plans along with economic conditions which directly and indirectly affects its business environment.
SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	30 June 2021	31 December 2020	30 June 2020
	(Unaudited)	(Audited)	(Unaudited)
Risk weighted assets	**SAR Millions**	SAR Millions	SAR Millions
Credit	**258,264**	245,887	244,210
Operational	**19,182**	18,367	17,575
Market	**3,071**	3,880	4,678
Total Pillar-I Risk Weighted Assets	**280,517**	268,134	266,463
Eligible capital			
Tier I Capital	**44,540**	44,352	40,786
Tier II Capital	**9,700**	6,779	6,720
Total Tier I and II Capital	**54,240**	51,131	47,506
Tier I Capital Adequacy Ratio %	**15.9%**	16.5%	15.3%
Total Capital Adequacy Ratio %	**19.3%**	19.1%	17.8%

19. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience multiple wave of infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak.

The Group continues to evaluate the current situation through conducting stress-testing scenarios on expected movements of key macroeconomic indicators (eg: oil prices, GDP etc.) and their impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices. The steps taken by management includes periodic review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the Government and SAMA support relief programs.

The prevailing economic conditions which are severely affected by the ongoing pandemic, require the Group to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Group in the estimation of expected credit losses and revisions to the scenario probabilities currently being used by the Group in ECL estimation. In 2020, the Group made certain adjustments to the macroeconomic factors and scenario weightings.

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

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Group has therefore recognised overlays of SAR 328.5 million for corporate financing as at 30 June 2021. These have been based on a sector-based analysis and other post model adjustments performed by the Group depending on the impacted portfolios.

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 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA in March 2020 and with a number of extensions to the program subsequently announced, the Group is required to defer payments on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Group has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 30 September 2021, and increasing the facility tenors accordingly. The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk.

Further to the above, SAMA on 22 June 2021 announced the extension of the DPP for three additional months from 1 July 2021 to 30 September 2021, for MSMEs that are still affected by the COVID-19 precautionary measures. SAMA clarified that for this extension MSMEs will be subject to the assessment by the banks to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines issued by SAMA on 23 June 2021. The Group has performed an assessment to determine the pool of customers eligible for deferment and accordingly has deferred the installment falling due from July 1, 2021 to September 30, 2021 amounting to SAR 321 million and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SAR 6.4 million.

19. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

The accounting impact of changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. Under the DPP, the resulting total modification losses amounted to SAR 1,024 million of which SAR 392 million has been recorded during six month period ended 30 June 2021 (30 June 2020: SAR 335.8 million).

During the six months period ended 30 June 2021, SAR 493 million (30 June 2020: SAR 157 million) has been recognized in the statement of income relating to unwinding of modification losses.

In order to compensate the related cost that the Group is expected to incur under the SAMA and other public authorities program, during 2020 the Group received profit free deposits from SAMA amounting to SAR 19.9 billion with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA that the government grant primarily relates to compensation for the modification 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. The management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2020, total income of SAR 632 million had been recognised in the statement of income with the remaining amount deferred. Grant income amounting to SAR 28 million arose on the profit free deposit amounting to SAR 9.3 billion received during the six-month period ended 30 June 2021. During the six months period ended 30 June 2021, a total of SAR 275.4 million (30 June 2020: SAR 336 million) has been recognised in the statement of income with respect to related deposits with an aggregate of SAR 352 million deferred grant income as at 30 June 2021 (30 June 2020: SAR 335 million).

As at 30 June 2021, the Group has participated in SAMA's funding for lending and facility guarantee programs and the accounting impact for the period is immaterial.

Furthermore, during the six months period ended 30 June 2021, the Group has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SAR 17 million.

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

In this regard, during Q2 2020, the Bank received SAR 6.3 billion 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 day 1 fair valuation gain of SAR 97 million which has been fully recognised by the Bank till date. This deposit has been repaid during the quarter ended 30 June 2021.

20. 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. 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 1 January 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 with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. The LIBOR administrator, ICE Benchmark Administration, is consulting on ceasing publication of all sterling LIBOR ICE Swap Rate for all tenors by the end of 2021, leaving just six months for firms to remove their remaining reliance on these benchmarks.

The Bank of England and the Financial Conduct Authority (FCA) have set out clear expectations for regulated firms to remove their reliance on LIBOR in all new business and in legacy contracts, where feasible. The primary way for market participants to have certainty over the economic terms of their contracts is to actively transition them away from LIBOR.

On 5 March 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

Regulatory authorities and public and private sector working groups in several jurisdictions, including the International Swaps and Derivatives Association (ISDA), the Sterling Risk-Free Rates Working Group, the Working Group on Euro Risk-Free Rates, and the Alternative Reference Rates Committee (ARRC), have been discussing alternative benchmark rates to replace the IBORs. These working groups are also considering how to support a transition to alternative rates and the development of new products referencing them.

These reforms are expected to cause some interest rate benchmarks to either perform differently to the way that they do currently or to disappear. The Group currently has limited number of contracts which reference USD & GBP LIBOR and extend beyond 2021, including swaps which will transition under the ISDA protocols.

During 2020 the Bank has established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference LIBOR to transition them to the alternate benchmarks as applicable, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, policies, risk management and valuation models, as well as managing related accounting implications. Further, the number and types of contracts which require updates as part of the transition have been finalized. As at 30 June 2021, changes required to systems, processes, policies, and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD and GBP LIBOR are: updating systems and processes which capture USD & GBP LIBOR referenced contracts; amendments to those contracts,

As at 30 June 2021, Bank's exposure to LIBOR -USD maturing after 30 June 2023 amounted to SAR 7.8 billion for loans and advances and SAR 25.0 billion for notional amount of derivatives.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period presentation.

22. BOARD OF DIRECTORS APPROVAL

The condensed interim consolidated financial statements were authorised for issue by the Board of Directors on 18 Dhul-Hijjah 1442H (corresponding to 28 July 2021).