
BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH
PERIODS ENDED 30 JUNE 2023**



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Kingdom of Saudi Arabia
License No. 25



Ernst & Young Professional Services
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Independent Auditors' Review Report on the Interim Condensed Consolidated Financial Statements
To the Shareholders of Bank AlJazira
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Bank AlJazira ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2023, and the related interim condensed consolidated statements of income, and comprehensive income for the three-month and six-month periods ended 30 June 2023, and the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes (collectively referred to as the "interim condensed consolidated financial statements"). The Board of Directors 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") that is 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" that is 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 that are 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 that is endorsed in the Kingdom of Saudi Arabia.

Other regulatory matter

As required by the 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.

PricewaterhouseCoopers
Certified Public Accountants

Waleed A. Alhidiri
Certified Public Accountant
License Number 559



16 Muharam 1445
3 August 2023

Ernst & Young Professional Services

Rashid S. Roshod
Certified Public Accountant
License Number 366



Bank AlJazira

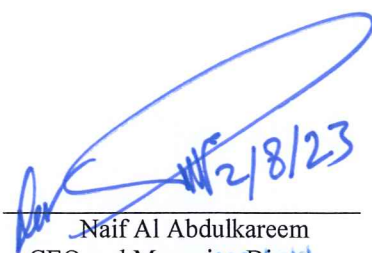
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | 30 June 2023 (Unaudited) SR'000 | 31 December 2022 (Audited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|--|-------|--|--|--|
| | Notes | | | |
| ASSETS | | | | |
| Cash and balances with Saudi Central Bank (SAMA) | 15 | 6,560,359 | 6,243,221 | 12,176,416 |
| Due from banks and other financial institutions, net | | 3,543,943 | 1,688,803 | 2,455,830 |
| Investments, net | 5 | 36,339,567 | 34,634,053 | 32,040,728 |
| Positive fair value of Shari'ah compliant derivatives | 9 | 385,886 | 312,642 | 103,431 |
| Financing, net | 6 | 74,941,711 | 70,599,009 | 65,574,744 |
| Other assets | | 871,813 | 581,039 | 550,914 |
| Investment in an associate | 7 | 234,089 | 217,871 | 213,890 |
| Other real estate, net | | 498,249 | 505,785 | 505,404 |
| Property, equipment and right of use assets, net | | 1,068,121 | 1,066,374 | 1,028,192 |
| Total assets | | 124,443,738 | 115,848,797 | 114,649,549 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES | | | | |
| Due to banks and other financial institutions | | 12,096,869 | 12,116,687 | 9,914,552 |
| Customers' deposits | 8 | 92,081,539 | 86,022,839 | 86,583,652 |
| Negative fair value of Shari'ah compliant derivatives | 9 | 218,987 | 199,006 | 107,451 |
| Subordinated Sukuk | 10 | 2,003,527 | 2,002,819 | 1,997,668 |
| Other liabilities | | 1,774,979 | 1,898,405 | 2,193,927 |
| Total liabilities | | 108,175,901 | 102,239,756 | 100,797,250 |
| EQUITY | | | | |
| Share capital | 11 | 8,200,000 | 8,200,000 | 8,200,000 |
| Statutory reserve | | 3,194,545 | 3,194,545 | 2,917,273 |
| Other reserves | 12 | (519,010) | (755,297) | (402,093) |
| Retained earnings | | 1,517,302 | 1,094,793 | 1,262,119 |
| Equity attributable to shareholders of the Bank | | 12,392,837 | 11,734,041 | 11,977,299 |
| Tier 1 Sukuk | 13 | 3,875,000 | 1,875,000 | 1,875,000 |
| Total equity | | 16,267,837 | 13,609,041 | 13,852,299 |
| Total liabilities and equity | | 124,443,738 | 115,848,797 | 114,649,549 |



Tarek Al-Kasabi
Chairman



Naif Al Abdulkareem
CEO and Managing Director

Group Head
Corporate & Institutional Banking Group



Hani Noori
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2023

| | Notes | For the three-month period ended | | For the six-month period ended | |
|---|-------|----------------------------------|----------------|--------------------------------|------------------|
| | | 30 June 2023 | 30 June 2022 | 30 June 2023 | 30 June 2022 |
| | | SR'000 | SR'000 | SR'000 | SR'000 |
| | | | Restated | | Restated |
| Income from investments and financing | | 1,500,491 | 876,156 | 2,833,331 | 1,745,094 |
| Return on deposits and financial liabilities | | (934,871) | (244,779) | (1,709,179) | (385,118) |
| Net financing and investment income | | 565,620 | 631,377 | 1,124,152 | 1,359,976 |
| Fees from banking services - income | | 237,333 | 232,493 | 466,643 | 475,135 |
| Fees from banking services - expense | | (106,998) | (113,408) | (206,913) | (222,595) |
| Fees from banking services, net | | 130,335 | 119,085 | 259,730 | 252,540 |
| Exchange income, net | | 54,167 | 47,065 | 104,520 | 89,435 |
| Net gain/(loss) on fair value through statement of income (FVIS) financial instruments | | 6,490 | 6,565 | (7,999) | 2,766 |
| Dividend income | | 40,415 | 840 | 78,590 | 1,834 |
| Net (loss)/gain on de-recognition of financial assets at fair value through other comprehensive income (FVOCI) – debt | | (365) | (1,036) | 4,325 | 3,818 |
| Net gain on de-recognition of financial assets at amortised cost | | 8,160 | 30 | 8,160 | 24,841 |
| Other operating income | | 2,908 | 2,997 | 20,120 | 57,883 |
| Total operating income | | 807,730 | 806,923 | 1,591,598 | 1,793,093 |
| Salaries and employee-related expenses | | 254,255 | 246,849 | 512,156 | 500,154 |
| Rent and premises-related expenses | | 13,406 | 15,041 | 27,332 | 29,149 |
| Depreciation and amortisation | | 46,707 | 47,602 | 92,647 | 97,249 |
| Other general and administrative expenses | | 145,611 | 148,472 | 298,949 | 301,475 |
| Other operating expenses | | 3,272 | 16,064 | 7,138 | 20,903 |
| Total operating expenses before impairment charge | | 463,251 | 474,028 | 938,222 | 948,930 |
| Impairment charge for financing and other financial assets, net | 6 (b) | 52,177 | 39,582 | 112,176 | 133,596 |
| Total operating expenses | | 515,428 | 513,610 | 1,050,398 | 1,082,526 |
| Net operating income | | 292,302 | 293,313 | 541,200 | 710,567 |
| Share in net income of an associate | | 5,549 | 2,459 | 6,624 | 2,677 |
| Net income for the period before zakat and income tax | | 297,851 | 295,772 | 547,824 | 713,244 |
| Zakat and income tax | | | | | |
| Zakat | | (35,506) | (36,209) | (80,047) | (75,725) |
| Income tax | | (1,740) | (1,742) | (3,137) | (4,848) |
| Net income for the period | | 260,605 | 257,821 | 464,640 | 632,671 |
| Basic and diluted earnings per share for the period (expressed in SR per share) | 11 | 0.27 | 0.29 | 0.52 | 0.72 |

Tarek Al Kacabi
Chairman

Naif Al Abdulkareem
CEO and Managing Director

Hani Noori
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2023

| | <u>Notes</u> | For the three-month period ended | | For the six-month period ended | |
|--|--------------|-------------------------------------|------------------|-----------------------------------|------------------|
| | | 30 June 2023 | 30 June 2022 | 30 June 2023 | 30 June 2022 |
| | | <u>SR'000</u> | <u>SR'000</u> | <u>SR'000</u> | <u>SR'000</u> |
| Net income for the period | | <u>260,605</u> | <u>257,821</u> | <u>464,640</u> | <u>632,671</u> |
| Other comprehensive income / (loss): | | | | | |
| <i>Items that will be reclassified to interim condensed consolidated statement of income in subsequent periods:</i> | | | | | |
| Cash flow hedges: | | | | | |
| - Effective portion of change in the fair value | 12 | 103,694 | 113,056 | 47,836 | 174,242 |
| - Net amount transferred to interim condensed consolidated statement of income | 12 | (1,762) | (1,187) | (3,526) | (53,842) |
| Net changes in fair value of investments classified as at FVOCI- debt | 12 | (37,897) | (281,246) | 179,453 | (382,198) |
| <i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods</i> | | | | | |
| Net changes in fair value of investments classified as at FVOCI- equity | 12 | 7,992 | (12,745) | 2,691 | (25,743) |
| Share in other comprehensive income of an associate | 12 | 9,833 | - | 9,833 | - |
| Total other comprehensive income / (loss) for the period | | <u>81,860</u> | <u>(182,122)</u> | <u>236,287</u> | <u>(287,541)</u> |
| Total comprehensive income for the period | | <u>342,465</u> | <u>75,699</u> | <u>700,927</u> | <u>345,130</u> |

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Sami Al Mehaid
Group Head

Corporate & Institutional Banking Group

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

| | Notes | Share capital SR'000 | Statutory reserve SR'000 | Other reserves SR'000 | Retained earnings SR'000 | Total shareholders' equity SR'000 | Tier 1 Sukuk SR'000 | Total Equity SR'000 |
|---|-------|-------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------------------|------------------------|------------------------|
| Balance at 1 January 2023 (audited) | | 8,200,000 | 3,194,545 | (755,297) | 1,094,793 | 11,734,041 | 1,875,000 | 13,609,041 |
| Net income for the period | | - | - | - | 464,640 | 464,640 | - | 464,640 |
| Other comprehensive income | 12 | - | - | 236,287 | - | 236,287 | - | 236,287 |
| Total comprehensive income for the period | | - | - | 236,287 | 464,640 | 700,927 | - | 700,927 |
| Tier 1 Sukuk issued | | - | - | - | - | - | 2,000,000 | 2,000,000 |
| Tier 1 Sukuk issuance costs | | - | - | - | (3,248) | (3,248) | - | (3,248) |
| Tier 1 Sukuk related costs | | - | - | - | (38,883) | (38,883) | - | (38,883) |
| Balance at 30 June 2023 (unaudited) | | 8,200,000 | 3,194,545 | (519,010) | 1,517,302 | 12,392,837 | 3,875,000 | 16,267,837 |
| Balance at 1 January 2022 (audited) | | 8,200,000 | 2,917,273 | (114,552) | 1,017,350 | 12,020,071 | 1,875,000 | 13,895,071 |
| Impact of adjustment | 4(a) | - | - | - | (61,073) | (61,073) | - | (61,073) |
| Balance at January 1, 2022 (audited)-restated | | 8,200,000 | 2,917,273 | (114,552) | 956,277 | 11,958,998 | 1,875,000 | 13,833,998 |
| Net income for the period | | - | - | - | 632,671 | 632,671 | - | 632,671 |
| Other comprehensive loss | 12 | - | - | (287,541) | - | (287,541) | - | (287,541) |
| Total comprehensive income for the period | | - | - | (287,541) | 632,671 | 345,130 | - | 345,130 |
| Tier 1 Sukuk issuance costs | | - | - | - | (946) | (946) | - | (946) |
| Tier 1 Sukuk related costs | | - | - | - | (38,883) | (38,883) | - | (38,883) |
| 2021 final dividend | | - | - | - | (287,000) | (287,000) | - | (287,000) |
| Balance at 30 June 2022 (unaudited)-restated | | 8,200,000 | 2,917,273 | (402,093) | 1,262,119 | 11,977,299 | 1,875,000 | 13,852,299 |

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

| | <u>Notes</u> | <u>For the six month period ended</u> | |
|---|--------------|---|------------------------------------|
| | | <u>30 June 2023 SR'000</u> | <u>30 June 2022 SR'000</u> |
| Net income for the period before zakat and income tax | | 547,824 | 713,244 |
| OPERATING ACTIVITIES | | | |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Net loss / (gain) on FVIS financial instruments | | 7,999 | (8,807) |
| Gain on investments held at amortised cost and FVOCI, net | | (12,485) | (28,659) |
| Dividend income | | (50,827) | - |
| Return on subordinated sukuk | | 74,495 | 28,524 |
| Depreciation and amortization | | 92,647 | 97,249 |
| Impairment charge for financing and other financial assets, net | 6 (b) | 112,176 | 133,596 |
| Provision for end of service benefit obligations | | 20,999 | 30,181 |
| Share in net income of an associate | | (6,624) | (2,677) |
| Net loss / (gain) on disposal / write off of property and equipment | | 24 | (51,304) |
| | | <u>786,228</u> | <u>911,347</u> |
| Net changes in operating assets: | | | |
| Statutory deposit with SAMA | | (51,967) | (231,727) |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | | (923,858) | (11,267) |
| Investments held at FVIS | | (23,168) | (656,852) |
| Positive fair value of Shari'ah compliant derivatives | | (73,244) | (91,373) |
| Financing | | (4,452,637) | (3,333,622) |
| Other real estate | | 7,536 | 2,339 |
| Other assets | | (290,774) | 470,429 |
| Net changes in operating liabilities: | | | |
| Due to banks and other financial institutions | | (19,818) | 3,504,472 |
| Customers' deposits | | 6,058,700 | 8,218,503 |
| Negative fair value of Shari'ah compliant derivatives | | 19,981 | (119,858) |
| Other liabilities | | <u>18,258</u> | <u>468,981</u> |
| | | <u>1,055,237</u> | <u>9,131,372</u> |
| End of service benefits paid | | (20,961) | (17,334) |
| Zakat and income tax paid | | (171,373) | (160,571) |
| Net cash from operating activities | | <u>862,903</u> | <u>8,953,467</u> |
| INVESTING ACTIVITIES | | | |
| Proceeds from sales and maturities of investments held at amortised cost and FVOCI | | 744,164 | 5,891,581 |
| Purchase of investments held at amortised cost and FVOCI | | (2,233,248) | (6,213,870) |
| Dividends received | | 50,827 | - |
| Acquisition of property and equipment | | (66,962) | (65,721) |
| Proceeds from sale of property and equipment | | 11 | 158,203 |
| Net cash used in investing activities | | <u>(1,505,208)</u> | <u>(229,807)</u> |

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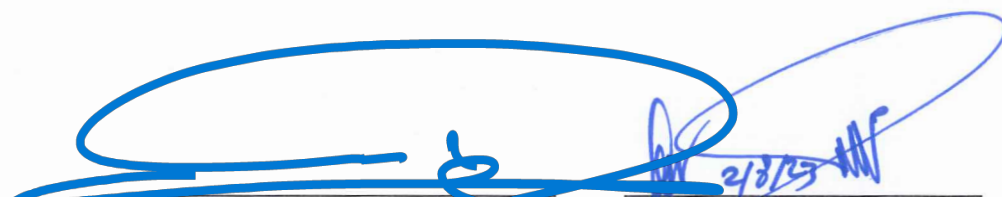
The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.


Bank AlJazira

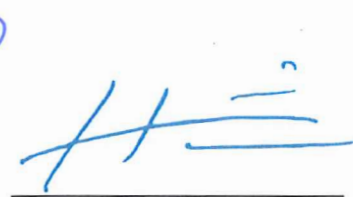
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023 (continued)

| | | For the six month period ended | |
|--|-------|-----------------------------------|---------------------------|
| | Notes | 30 June 2023 SR'000 | 30 June 2022 SR'000 |
| FINANCING ACTIVITIES | | | |
| Issue of Tier 1 Sukuk | | 2,000,000 | - |
| Payment of sukuk related issuance costs | | (1,381) | (3,971) |
| Payment of return on Tier 1 and Tier 2 sukuku | | (110,923) | (61,775) |
| Dividends paid | | (60) | (276,154) |
| Payment for principal portion of lease liabilities | | (43,187) | (40,888) |
| Net cash generated from / (used in) financing activities | | 1,844,449 | (382,788) |
| Net change in cash and cash equivalents held | | 1,202,144 | 8,340,872 |
| Cash and cash equivalents at the beginning of the period | | 2,337,820 | 1,740,036 |
| Cash and cash equivalents at the end of the period | 15 | 3,539,964 | 10,080,908 |
| Income from investments and financing received during the period | | 2,486,484 | 1,494,855 |
| Return on deposits and financial liabilities paid during the period | | 1,520,355 | 253,220 |
| <u>Supplemental non-cash information</u> | | | |
| Right of use assets and Lease liabilities | | 27,467 | 10,239 |
| Net changes in fair value of cash flow hedges and transfers to the interim condensed consolidated statement of income | | 44,310 | 120,400 |


Tarek Al-Kasabi
Chairman


Naif Al Abdulkareem
CEO and Managing Director


Hani Noori
Chief Financial Officer

Sami Al Mehdid
Group Head
Corporate & Institutional Banking Group

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The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023

1. GENERAL

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira (the “Bank”) and its subsidiaries (collectively referred to as the “Group”). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated 12 Jumad Al-Thani 1395H (21 June 1975). The Bank commenced its business on 16 Shawwal 1396H (9 October 1976) with the takeover of The National Bank of Pakistan’s branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated 29 Rajab 1396H (27 July 1976) issued in Jeddah. The Bank is regulated by the Saudi Central Bank (SAMA). The Bank operates through its 82 branches (31 December 2022: 82 branches and 30 June 2022: 82 branches) and 54 Fawri Remittance Centers (31 December 2022: 54 and 30 June 2022: 54 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. The Bank’s Head Office is located at the following address:

Bank AlJazira
7724 King Abdulaziz Road - Al-Shatea District
Jeddah 23513 - 3551
P.O. Box 6277, Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari’ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna’a, Ijarah, Tawaraq, Musharaka, Wa’ad Fx and Sukuk which are approved and supervised by an independent Shari’ah Board established by the Bank. The Bank’s shares are listed on Saudi Exchange in the Kingdom of Saudi Arabia.

The details of the Bank’s subsidiaries are as follows:

| | | | Ownership (direct and indirect) 30 June 2023 | Ownership (direct and indirect) 31 December 2022 | Ownership (direct and indirect) 30 June 2022 |
|---|-------------------------------------|---|---|---|---|
| Subsidiaries | Country of incorporation | Nature of business | | | |
| AlJazira Capital Company | Kingdom of Saudi Arabia | Brokerage, margin financing and asset management | 100% | 100% | 100% |
| Aman Development and Real Estate Investment Company | Kingdom of Saudi Arabia | Holding and managing real estate collaterals on behalf of the Bank | 100% | 100% | 100% |
| Aman Insurance Agency Company (under liquidation – note (a) below) | Kingdom of Saudi Arabia | Acting as an agent for bancassurance activities on behalf of the Bank | 100% | 100% | 100% |
| AlJazira Securities Limited | Cayman Islands | Carryout Shari’ah compliant derivative and capital market transactions | 100% | 100% | 100% |
| BAJ Sukuk Tier 1 Limited | Cayman Islands | Trustee for issuance of Tier 1 capital certificates | 100% | 100% | 100% |

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

1. GENERAL (continued)

The details of the Bank's associate is as follows:

| | | | Ownership (direct and indirect) 30 June 2023 | Ownership (direct and indirect) 31 December 2022 | Ownership (direct and indirect) 30 June 2022 |
|--------------------------------------|-------------------------------------|---|---|---|---|
| | Country of incorporation | Nature of business | | | |
| Associate | | | | | |
| AlJazira Takaful Ta'awuni Company | Kingdom of Saudi Arabia | Fully Shari'ah compliant protection and saving products | 26.03% | 26.03% | 26.03% |

- a) During financial year 2021, Aman Insurance Agency Company (the Company) applied for its license renewal from Saudi Central Bank ("SAMA"), however, it was not renewed, as SAMA had issued rules governing bancassurance activities during May 2020 which require the banks to carry out Bancassurance business directly. This, as a result, restricted the ability of the Company to carry out business activities and therefore, management of the Company decided to initiate the winding up procedures which are in process as at 30 June 2023.
- b) The Group invests in structured entities with the objective to resell the investment in a short period after the establishment. Structured entities are consolidated when the relationship between the Group and the structured entity indicates that the Group has power over the relevant activities of the structured entity, is exposed to variable returns, and can use that power to affect the variable return exposure. In other cases, the Group may sponsor or have exposure to such an entity but not consolidate the entities.

As at 30 June 2023, the Group has a substantial ownership in these entities amounting to SR 905.63 million (31 December 2022: SR 976.23 million and 30 June 2022: SR 870.25 million). For all these investments, the Group analyses whether and to what extent it controls the investee and any underlying entities. A material structured entity is consolidated into the Group's financial statements where the Group controls the structured entity, as per the determination above criteria. As at 30 June 2023, Group's investments in material structured entities do not meet the above criteria of control. Accordingly, such investments are recorded as fair value through statement of income (FVIS) into these interim condensed consolidated financial statements.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the period ended 30 June 2023, have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022. The consolidated financial statements of the Group as at and for the year ended 31 December 2022, were prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

Bank AlJazira

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

2. BASIS OF PREPARATION (continued)

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation were consistent with those that were applied to the consolidated financial statements as at and for the year ended 31 December 2022, except for new amendments that are applicable from the period beginning 1 January 2023 as disclosed in note 4(b).

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SR) and are rounded off to the nearest thousands except where otherwise stated and the functional currency of the Bank is Saudi Riyal.

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management is in process of assessing the impact of the New Companies Law and will amend its by-laws for any changes to align the by-laws to the provisions of the Law. Consequently, the Bank shall present the amended by-laws to the shareholders in their Extraordinary / Annual General Assembly meeting for their ratification.

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the interim condensed financial statements of Bank AlJazira and its subsidiaries as set out in Note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank.

The interim condensed 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.

a) Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all of the following three criteria must be met:

- i. the Group has power over an entity;
- ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and
- iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

3. BASIS OF CONSOLIDATION (continued)

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Group in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c) Transactions eliminated on consolidation

Balances between the Group entities, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

d) Investment in an associate

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the interim condensed consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/ (losses) based on the latest available financial information) less impairment, if any.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'share in net income / (loss) of an associate' in the interim condensed consolidated statement of income.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

3. BASIS OF CONSOLIDATION (continued)

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

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. Several amendments apply for the first time in 2023 but do not have impact on these interim condensed consolidated financial statements of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

a) Implication of change in accounting treatment

During 2022, the Group carried out a reassessment of the timing of the recognition of fee received in connection with its financing portfolio. Accordingly, the Group analysed whether any such fee was an integral component of the effective profit rate of the corresponding financial asset via consideration of factors such as provision of distinct service or product, presence of a separate performance obligation and related contract costs. As a result, the Group identified certain fees that were required to be adjusted to the amortised cost of the related financing. The impact of such adjustment in prior periods was determined to be insignificant in relation to the financial statements as a whole. Therefore, the identified fees were adjusted from the carrying value of financing, net with a corresponding debit to retained earnings as at 1 January 2022, amounting to SR 61.07 million. Accordingly, the balances for financing as at 30 June 2022 as reported previously have been restated.

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

Following standard, interpretation or amendment are effective from the current year and are adopted by the Group, however, these does not have any significant impact on the interim condensed consolidated financial statements of the Group, unless otherwise stated below:

| Standard, interpretation, amendments | Description | Effective date |
|--|--|---|
| Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 | The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. | Annual periods beginning on or after 1 January 2023 |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS (continued)

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

| Standard, interpretation, amendments | Description | Effective date |
|---|---|--|
| Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction | These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. | Annual periods beginning on or after 1 January 2023. |
| IFRS 17, 'Insurance contracts', as amended in December 2021 | This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. | Annual periods beginning on or after 1 January 2023. |

c) Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments and revisions which are effective from periods on or after 1 January 2023. 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.

| Standard, interpretation, amendments | Description | Effective date |
|---|---|--|
| Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities | These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment. | Deferred until accounting periods starting not earlier than 1 January 2024 |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of Assets between an Investor and its Associate or Joint Ventures | Available for optional adoption/effective date deferred indefinitely 1 January 2024 |
| Amendment to IFRS 16, Lease Liability in a Sale and Leaseback | Lease Liability in a Sale and Leaseback amends IFRS 16 by adding subsequent measurement requirements for sale and leaseback transactions. | 1 January 2024 |
| Amendments to IAS 1, Non-current Liabilities with Covenants | Non-current Liabilities with Covenants amends IAS 1 Presentation of Financial Statements. The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current. | 1 January 2024 |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

5. INVESTMENTS

Investments are classified as follows:

| 30 June 2023 (Unaudited) | | | |
|------------------------------|-------------------|------------------|-------------------|
| SR'000 | | | |
| | Domestic | International | Total |
| i) FVIS | | | |
| Mutual funds | 61,003 | 1,096,146 | 1,157,149 |
| Equities – unquoted | - | 18,754 | 18,754 |
| | 61,003 | 1,114,900 | 1,175,903 |
| ii) FVOCI | | | |
| Equities – quoted | 170,226 | - | 170,226 |
| Equities – unquoted | 4,143 | 1,109 | 5,252 |
| Sukuk investments - equities | 1,914,596 | 197,868 | 2,112,464 |
| Sukuk investments - debt | 8,345,633 | - | 8,345,633 |
| | 10,434,598 | 198,977 | 10,633,575 |
| Allowance for impairment | (3,130) | - | (3,130) |
| | 10,431,468 | 198,977 | 10,630,445 |
| iii) Amortised cost | | | |
| Sukuk investments | 20,638,262 | 382,707 | 21,020,969 |
| Wakala floating rate notes | 3,521,964 | - | 3,521,964 |
| | 24,160,226 | 382,707 | 24,542,933 |
| Allowance for impairment | (9,370) | (344) | (9,714) |
| | 24,150,856 | 382,363 | 24,533,219 |
| Total | 34,643,327 | 1,696,240 | 36,339,567 |

| 31 December 2022 (Audited) | | | |
|------------------------------|-------------------|------------------|-------------------|
| SR'000 | | | |
| | Domestic | International | Total |
| i) FVIS | | | |
| Mutual funds | 25,856 | 1,129,785 | 1,155,641 |
| Equities – quoted | 5,093 | - | 5,093 |
| | 30,949 | 1,129,785 | 1,160,734 |
| ii) FVOCI | | | |
| Equities – quoted | 48,714 | - | 48,714 |
| Equities – unquoted | 4,143 | 1,093 | 5,236 |
| Sukuk investments - equities | 1,877,973 | 201,317 | 2,079,290 |
| Sukuk investments - debt | 8,072,243 | - | 8,072,243 |
| | 10,003,073 | 202,410 | 10,205,483 |
| Allowance for impairment | (6,457) | - | (6,457) |
| | 9,996,616 | 202,410 | 10,199,026 |
| iii) Amortised cost | | | |
| Sukuk investments | 19,766,370 | - | 19,766,370 |
| Wakala floating rate notes | 3,520,943 | - | 3,520,943 |
| | 23,287,313 | - | 23,287,313 |
| Allowance for impairment | (13,020) | - | (13,020) |
| | 23,274,293 | - | 23,274,293 |
| Total | 33,301,858 | 1,332,195 | 34,634,053 |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

5. INVESTMENTS (continued)

| | 30 June 2022 (Unaudited) | | |
|------------------------------|--------------------------|---------------|------------|
| | SR'000 | | |
| | Domestic | International | Total |
| i) FVIS | | | |
| Mutual funds | 6,222 | 926,229 | 932,451 |
| Equities – quoted | - | - | - |
| | 6,222 | 926,229 | 932,451 |
| ii) FVOCI | | | |
| Equities – unquoted | 4,143 | 698 | 4,841 |
| Sukuk investments - equities | 1,250,184 | 135,157 | 1,385,341 |
| Sukuk investments - debt | 6,938,248 | - | 6,938,248 |
| | 8,192,575 | 135,855 | 8,328,430 |
| Allowance for impairment | (1,529) | - | (1,529) |
| | 8,191,046 | 135,855 | 8,326,901 |
| iii) Amortised cost | | | |
| Sukuk investments | 18,876,654 | - | 18,876,654 |
| Wakala floating rate notes | 3,911,549 | - | 3,911,549 |
| | 22,788,203 | - | 22,788,203 |
| Allowance for impairment | (6,827) | - | (6,827) |
| | 22,781,376 | - | 22,781,376 |
| Total | 30,978,644 | 1,062,084 | 32,040,728 |

6. FINANCING, NET

The financing is classified as at amortized cost as follows:

| | SR'000 | | | | |
|---------------------------------|----------------|-------------------|-------------------|----------------|-------------------|
| | Credit cards | Consumer | Commercial | Others | Total |
| 30 June 2023 (Unaudited) | | | | | |
| Performing financing | 781,328 | 28,746,649 | 46,629,785 | 281,970 | 76,439,732 |
| Non-performing financing | 57,230 | 328,327 | 908,643 | 8,541 | 1,302,741 |
| | | | | | |
| Gross financing | 838,558 | 29,074,976 | 47,538,428 | 290,511 | 77,742,473 |
| Allowance for impairment | (75,467) | (218,414) | (2,502,373) | (4,508) | (2,800,762) |
| | | | | | |
| Financing, net | 763,091 | 28,856,562 | 45,036,055 | 286,003 | 74,941,711 |

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6. FINANCING, NET (continued)

Financing, net represents Shari'ah compliant products in respect of Murabaha agreements, Ijarah, Istisnaat, Musharaka and Tawarruq.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

6. FINANCING, NET (continued)

a) Movement in allowance for impairment is as follows:

| | 30 June 2023 (Unaudited) SR'000 | 31 December 2022 (Audited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|--|--|--|--|
| Balance at the beginning of the period / year | 2,718,645 | 2,637,997 | 2,637,997 |
| Impairment charge for financing | 167,671 | 572,113 | 255,136 |
| Bad debts written off | (37,948) | (307,235) | (26,959) |
| (Reversal) / (recoveries) of amounts previously provided | (47,606) | (184,230) | (99,243) |
| Balance at the end of the period / year | <u>2,800,762</u> | <u>2,718,645</u> | <u>2,766,931</u> |

b) Net impairment charge for financing and other financial assets for the period in the interim condensed consolidated statement of income comprised of:

| | 30 June 2023 (Unaudited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|--|--|--|
| Impairment charge for financing | 167,671 | 255,136 |
| (Reversal) / (recoveries) of amounts previously provided | (47,606) | (99,243) |
| (Recoveries) from debts previously written off | (10,129) | (23,612) |
| Net impairment charge for ECL in respect of due from banks and other financial institutions | 5,692 | 1,993 |
| Net impairment (reversal) / charge for ECL in respect of investments | (6,633) | 1,745 |
| Net impairment charge / (reversal) for ECL in respect of non-funded financing and credit related commitments | 3,181 | (2,423) |
| Impairment charge for financing and other financial assets, net | <u>112,176</u> | <u>133,596</u> |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

6. FINANCING, NET (continued)

- c) The following table explains changes in gross carrying amount of the financing to help explain their significance to the changes in the loss allowance.

| | 30 June 2023 (Unaudited) | | | |
|---|--------------------------|--|------------------------------------|-------------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2023 | 66,966,856 | 2,840,214 | 3,510,584 | 73,317,654 |
| Transfer to 12-month ECL | 88,765 | (80,262) | (8,503) | - |
| Transfer to lifetime ECL not credit – Impaired | (723,373) | 729,552 | (6,179) | - |
| Transfer to lifetime ECL credit impaired | (60,717) | (369,302) | 430,019 | - |
| New financial assets originated | 8,549,192 | 25,380 | 2,028 | 8,576,600 |
| Financial assets that have been derecognized | (3,711,934) | (75,466) | (24,076) | (3,811,476) |
| Changes in financing income accrual | 295,802 | - | - | 295,802 |
| Other movements | (638,280) | 94,826 | (54,705) | (598,159) |
| Write-offs | - | - | (37,948) | (37,948) |
| Gross carrying amount as at 30 June 2023 | 70,766,311 | 3,164,942 | 3,811,220 | 77,742,473 |
| 31 December 2022 (Audited) | | | | |
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2022 | 57,840,055 | 3,429,865 | 3,802,553 | 65,072,473 |
| Transfer to 12-month ECL | 260,875 | (125,628) | (135,247) | - |
| Transfer to lifetime ECL not credit – Impaired | (427,603) | 555,916 | (128,313) | - |
| Transfer to lifetime ECL credit impaired | (141,640) | (282,519) | 424,159 | - |
| New financial assets originated | 21,064,500 | 55,880 | 13,652 | 21,134,032 |
| Financial assets that have been derecognized | (12,081,784) | (567,555) | (104,549) | (12,753,888) |
| Changes in profit accrual | 312,209 | - | - | 312,209 |
| Other Movements | 140,244 | (225,745) | (54,436) | (139,937) |
| Write-offs | - | - | (307,235) | (307,235) |
| Gross carrying amount as at 31 December 2022 | 66,966,856 | 2,840,214 | 3,510,584 | 73,317,654 |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

6. FINANCING, NET (continued)

| | 30 June 2022 (Unaudited) | | | |
|--|--------------------------|---|------------------------------------|-------------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2022 | 57,840,055 | 3,429,865 | 3,802,553 | 65,072,473 |
| Transfer to 12-month ECL | 61,011 | (45,872) | (15,139) | - |
| Transfer to lifetime ECL not credit – Impaired | (233,547) | 246,959 | (13,412) | - |
| Transfer to lifetime ECL credit impaired | (98,726) | (70,885) | 169,611 | - |
| New financial assets originated | 11,488,797 | 219,333 | 1,373 | 11,709,503 |
| Financial assets that have been derecognized | (7,848,247) | (458,854) | (73,407) | (8,380,508) |
| Changes in financing income accrual | 93,462 | - | - | 93,462 |
| Other movements | 19,891 | (132,164) | (14,023) | (126,296) |
| Write-offs | - | - | (26,959) | (26,959) |
| Gross carrying amount as at 30 June 2022 | <u>61,322,696</u> | <u>3,188,382</u> | <u>3,830,597</u> | <u>68,341,675</u> |

Other movements mainly represent changes in exposures for customers where there has been no change in the stage during the period.

d) An analysis of changes in ECL for financing is, as follows:

| | 30 June 2023 (Unaudited) | | | |
|--|--------------------------|--|------------------------------------|------------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| ECL as at 1 January 2023 | 248,641 | 305,843 | 2,164,161 | 2,718,645 |
| Transfer to 12-month ECL | 4,928 | (1,116) | (3,812) | - |
| Transfer to lifetime ECL not credit – impaired | (6,037) | 8,811 | (2,774) | - |
| Transfer to lifetime ECL credit impaired | (401) | (202,243) | 202,644 | - |
| Net re-measurement of loss allowance | (5,379) | 53,923 | 66,029 | 114,573 |
| New financial assets originated | 30,533 | 377 | 1,054 | 31,964 |
| Financial assets that have been derecognized | (14,597) | (4,059) | (7,816) | (26,472) |
| Write-offs | - | - | (37,948) | (37,948) |
| ECL as at 30 June 2023 | <u>257,688</u> | <u>161,536</u> | <u>2,381,538</u> | <u>2,800,762</u> |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

6. FINANCING, NET (continued)

| | 31 December 2022 (Audited) | | | Total |
|---|----------------------------|--|------------------------------------|------------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | |
| | (SR'000) | | | |
| ECL as at 1 January 2022 | 170,741 | 222,807 | 2,244,449 | 2,637,997 |
| Transfer to 12-month ECL | 15,900 | (1,788) | (14,112) | - |
| Transfer to lifetime ECL not credit - impaired | (2,677) | 66,999 | (64,322) | - |
| Transfer to lifetime ECL credit impaired | (1,376) | (5,800) | 7,176 | - |
| Net re-measurement of loss allowance | 30,727 | 98,665 | 328,323 | 457,715 |
| New financial assets originated | 70,357 | 1,352 | 6,688 | 78,397 |
| Financial assets that have been derecognized | (35,031) | (76,392) | (36,806) | (148,229) |
| Write-offs | - | - | (307,235) | (307,235) |
| ECL as at 31 December 2022 | <u>248,641</u> | <u>305,843</u> | <u>2,164,161</u> | <u>2,718,645</u> |
| | | | | |
| | 30 June 2022 (Unaudited) | | | Total |
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | |
| | (SR'000) | | | |
| ECL as at 1 January 2022 | 170,741 | 222,807 | 2,244,449 | 2,637,997 |
| Transfer to 12-month ECL | 7,509 | (996) | (6,513) | - |
| Transfer to lifetime ECL not credit – impaired | (1,395) | 7,576 | (6,181) | - |
| Transfer to lifetime ECL credit impaired | (758) | (1,241) | 1,999 | - |
| Net re-measurement of loss allowance | (35,011) | 95,177 | 199,140 | 259,306 |
| New financial assets originated | 32,298 | 1,244 | 729 | 34,271 |
| Financial assets that have been derecognized | (21,509) | (74,881) | (41,294) | (137,684) |
| Write-offs | - | - | (26,959) | (26,959) |
| ECL as at 30 June 2022 | <u>151,875</u> | <u>249,686</u> | <u>2,365,370</u> | <u>2,766,931</u> |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company ("ATT"). The Group effectively holds 26.03% (31 December 2022: 26.03% and 30 June 2022: 26.03%) shareholding in ATT.

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT for the period ended 31 March 2023. ATT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of 30 June 2023 was SR 268.83 million (31 December 2022: SR 210.43 million and 30 June 2022: SR 231.90 million) based on Saudi Exchange (Tadawul) market price.

8. CUSTOMERS' DEPOSITS

| | 30 June 2023 (Unaudited) SR'000 | 31 December 2022 (Audited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|-----------------------------|--|--|--|
| Demand | 35,462,762 | 38,217,209 | 47,061,990 |
| Saving | 796,871 | 730,534 | 970,516 |
| Customers' time investments | 53,540,918 | 44,930,750 | 36,523,422 |
| Other | 2,280,988 | 2,144,346 | 2,027,724 |
| Total | 92,081,539 | 86,022,839 | 86,583,652 |

Customers' time investments comprise deposits received on Shari'ah Compliant (non-commission based) Murabaha and Wakala products.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

9. SHARIAH COMPLIANT DERIVATIVES

9.1 Nature/type of derivatives held

In the ordinary course of business, the Group utilizes the following Shari'ah compliant derivative financial instruments for both trading and strategic hedging purposes:

a) Swaps

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

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

9.2 Purpose of derivatives

a) Held for trading purposes

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

b) Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to profit rate risk and foreign exchange risk.

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

As part of its financial asset and liability management, the Group uses Shari'ah compliant derivatives for hedging purposes in order to adjust its own exposure to currency and profit rate risk. This is generally achieved by hedging specific transactions.

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9. SHARIAH COMPLIANT DERIVATIVES (continued)

9.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Cash flow hedges

The Group is exposed to variability in future cash flows on non-trading assets and liabilities which bear profit at a variable rate. The Group uses profit rate swaps as cash flow hedges of these profit rate risks.

The gains on cash flow hedges reclassified to the interim condensed consolidated statement of income during the period are as follows:

| | 30 June 2023 (Unaudited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|--|---------------------------------------|---------------------------------------|
| Income from investments and financing | 6,392 | 56,000 |
| Return on deposits and financial liabilities | (2,866) | (2,158) |
| Net gains on cash flow hedges reclassified to the interim condensed consolidated statement of income | 3,526 | 53,842 |

The cash flow hedges of profit rate swap were highly effective in offsetting the variability of return on investments, deposits and other financial liabilities.

Fair value gain on cash flow hedges amounting to SR 47.84 million (30 June 2022: SR 174.24 million) included in the interim condensed consolidated statement of comprehensive income comprised of net unrealized gain of SR 35.71 million (30 June 2022: net unrealized gain of SR 205.18 million) and realized gain of SR 12.13 million (30 June 2022: realized loss of SR 30.94 million) on terminated hedge relationships.

During the current and prior periods, the Group sold certain of its profit rate swaps used for cash flows hedges. However, the gain / (loss) would continue to be classified in interim condensed consolidated statement of comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain / (loss) will be reclassified to interim condensed consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the interim condensed consolidated statement of income i.e. when profit receipts / payments impact the interim condensed consolidated statement of income which is over the remaining maturity of financial instrument / hedge items.

9.3 Details of shar'iah compliant derivatives

The table below summarize the positive and negative fair values of the Group's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volume of 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 market risk.

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9. SHARIAH COMPLIANT DERIVATIVES (continued)

| 30 June 2023 (Unaudited) SR'000 | | | |
|--------------------------------------|---------------------|---------------------|-------------------|
| | Positive fair value | Negative fair value | Notional amount |
| Held for trading: | | | |
| Options | 7,850 | 7,850 | 576,870 |
| Profit rate swaps | 147,519 | 129,587 | 5,172,492 |
| Cross currency profit rate swaps | 411 | 8,440 | 1,875,000 |
| Currency swaps | 8,865 | 2,236 | 3,099,449 |
| Currency forwards (Wa'ad) | 1,805 | 75 | 478,479 |
| Total | 166,450 | 148,188 | 11,202,290 |
| Held as cash flow hedge: | | | |
| Profit rate swaps | 219,436 | 70,799 | 6,850,000 |
| Total | 385,886 | 218,987 | 18,052,290 |
| 31 December 2022 (Audited) SR'000 | | | |
| | Positive fair value | Negative fair value | Notional amount |
| Held for trading: | | | |
| Options | 6,505 | 6,505 | 578,753 |
| Profit rate swaps | 137,157 | 132,886 | 5,211,843 |
| Cross currency profit rate swaps | 411 | 7,635 | 1,875,000 |
| Currency swaps | 13,146 | 3,624 | 4,072,558 |
| Currency forwards (Wa'ad) | 6 | 63 | 4,932 |
| Total | 157,225 | 150,713 | 11,743,086 |
| Held as cash flow hedge: | | | |
| Profit rate swaps | 155,417 | 48,293 | 5,087,500 |
| Total | 312,642 | 199,006 | 16,830,586 |
| 30 June 2022 (Unaudited) SR'000 | | | |
| | Positive fair value | Negative fair value | Notional amount |
| Held for trading: | | | |
| Options | 1,277 | 1,277 | 31,231 |
| Profit rate swaps | 71,861 | 65,370 | 3,362,486 |
| Cross currency profit rate swaps | 411 | 21,893 | 1,875,000 |
| Currency swaps | 1,771 | 7,853 | 2,189,953 |
| Currency forwards (Wa'ad) | 2,205 | 138 | 297,814 |
| Total | 77,525 | 96,531 | 7,756,484 |
| Held as cash flow hedge: | | | |
| Profit rate swaps | 25,906 | 10,920 | 1,287,500 |
| Total | 103,431 | 107,451 | 9,043,984 |

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9. SHARIAH COMPLIANT DERIVATIVES (continued)

Held for trading profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 39.07 million (31 December 2022: SR 34.70 million and 30 June 2022: SR 29.72 million) and accrued payable amounting to SR 36.97 million (31 December 2022: SR 36.15 million and 30 June 2022: SR 29.62 million). Held as cash flow hedge profit rate swaps (positive fair value / negative fair value) include accrued receivable amounting to SR 49.57 million (31 December 2022: SR 32.68 million and 30 June 2022: SR 4.89 million) and accrued payable amounting to SR 40.63 (31 December 2022: SR 29.54 million and 30 June 2022: SR 7.88 million).

10. SUBORDINATED SUKUK

On 8 December 2021, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 155 basis point per annum and payable semi-annually in arrears on 8 December and 8 June each year until 8 December 2031, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after 8 December 2026 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with Saudi Exchange (Tadawul).

11. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (31 December 2022: 820 million shares of SR 10 each and 30 June 2022: 820 million shares of SR 10 each).

Basic earnings per share for the current and prior period is calculated by dividing the net income for the period attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk related costs) by the weighted average number of ordinary shares outstanding.

| | For the three month period ended | | For the six month period ended | |
|---|---|---|---|---|
| | 30 June 2023 (Unaudited) <u>SR'000</u> | 30 June 2022 (Unaudited) <u>SR'000</u> | 30 June 2023 (Unaudited) <u>SR'000</u> | 30 June 2022 (Unaudited) <u>SR'000</u> |
| Net income for the period attributable to ordinary shareholders (adjusted for Tier 1 sukuk related costs) | | | | |
| For basic and diluted earnings per share | <u>221,722</u> | <u>238,380</u> | <u>425,757</u> | <u>593,788</u> |
| Weighted-average number of ordinary shares | | | | |
| For basic and diluted earnings per share | <u>820,000,000</u> | <u>820,000,000</u> | <u>820,000,000</u> | <u>820,000,000</u> |
| Basic and diluted earnings per share (in SR) | <u>0.27</u> | <u>0.29</u> | <u>0.52</u> | <u>0.72</u> |

The calculations of basic and diluted earnings per share are same for the Bank.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

12. OTHER RESERVES

| 30 June 2023 (Unaudited) | | Fair value reserve – FVOCI debt SR' 000 | Fair value reserve – FVOCI equity SR' 000 | Actuarial gains SR' 000 | Share in OCI of associate SR' 000 | Total SR' 000 |
|--|-----------|--|--|-------------------------------|--|------------------|
| Cash flow hedges SR' 000 | | | | | | |
| Balance at beginning of the period | 73,235 | (789,195) | (81,637) | 42,300 | - | (755,297) |
| Net change in fair value – effective portion | 47,836 | 179,453 | 2,691 | - | - | 229,980 |
| Transfer to interim condensed consolidated statement of income (note 9.2(b)) | (3,526) | - | - | - | - | (3,526) |
| Net change in fair value | - | - | - | - | 9,833 | 9,833 |
| Net movement during the period | 44,310 | 179,453 | 2,691 | - | 9,833 | 236,287 |
| Balance at end of the period | 117,545 | (609,742) | (78,946) | 42,300 | 9,833 | (519,010) |
| | | | | | | |
| 31 December 2022 (Audited) | | Fair value reserve – FVOCI debt SR' 000 | Fair value reserve – FVOCI equity SR' 000 | Actuarial gains SR' 000 | Share in OCI of associate SR' 000 | Total SR' 000 |
| Cash flow hedges SR' 000 | | | | | | |
| Balance at beginning of the year | (106,891) | (41,949) | - | 34,288 | - | (114,552) |
| Net change in fair value – effective portion | 260,243 | (747,246) | (81,637) | - | - | (568,640) |
| Transfer to consolidated statement of income | (80,117) | - | - | - | - | (80,117) |
| Actuarial gains on employee benefit obligation | - | - | - | 8,012 | - | 8,012 |
| Net movement during the year | 180,126 | (747,246) | (81,637) | 8,012 | - | (640,745) |
| Balance at end of the year | 73,235 | (789,195) | (81,637) | 42,300 | - | (755,297) |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

12. OTHER RESERVES (continued)

| <u>30 June 2022 (Unaudited)</u> | Cash flow hedges <u>SR' 000</u> | Fair value reserve – FVOCI debt <u>SR' 000</u> | Fair value reserve – FVOCI equity <u>SR' 000</u> | Actuarial gains <u>SR' 000</u> | Total <u>SR' 000</u> |
|---|---------------------------------------|---|--|--------------------------------------|-------------------------|
| Balance at beginning of the period | (106,891) | (41,949) | - | 34,288 | (114,552) |
| Net change in fair value– effective portion | 174,242 | (382,198) | (25,743) | - | (233,699) |
| Transfer to interim condensed consolidated statement of income (note 9.2(b)) | (53,842) | - | - | - | (53,842) |
| Net movement during the period | 120,400 | (382,198) | (25,743) | - | (287,541) |
| Balance at end of the period | 13,509 | (424,147) | (25,743) | 34,288 | (402,093) |

13. TIER 1 SUKUK

During the year 2021, the Bank issued cross border Tier 1 Sukuk (the “Sukuk”) through a Shari’ah compliant arrangement (“the arrangement”) amounting to SR 1.875 billion (denominated in US Dollars). This arrangement was approved by the regulatory authorities and the Board of Directors of the Bank. The applicable profit rate is 3.95% per annum from date of issue up to June 2026 and is subject to reset every 5 years.

In addition to the Tier 1 Sukuk issued above, during June 2023, the Bank has completed the issuance of an SAR-denominated additional Tier 1 sukuk of SR 2 billion (which is part of additional Tier 1 Capital Sukuk Programme of SR 5 billion) by way of a private placement in Saudi Arabia. This arrangement was approved by the regulatory authorities and the Board of Directors of the Bank. The applicable profit rate is 6% per annum from date of issue up to June 2028 and is subject to reset every 5 years.

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 on the Sukuks is payable semi-annual 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.

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14. COMMITMENTS AND CONTINGENCIES

a) The Group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings as disclosed at 31 December 2022.

b) The Bank's credit related commitments and contingencies are as follows:

| | 30 June 2023 (Unaudited) SR'000 | 31 December 2022 (Audited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|--|--|--|--|
| Letters of credit | 2,721,581 | 2,819,060 | 1,307,881 |
| Letters of guarantee | 6,720,882 | 5,196,958 | 4,851,865 |
| Acceptances | 643,287 | 439,312 | 577,215 |
| Irrevocable commitments to extend credit | 1,127,382 | 949,976 | 853,065 |
| Total | 11,213,132 | 9,405,306 | 7,590,026 |
| Allowance for impairment [b(ii)] | (332,587) | (329,406) | (405,667) |
| Net exposure | 10,880,545 | 9,075,900 | 7,184,359 |

- b) (i) The following table explains changes in gross carrying amount of the credit related commitments and contingencies to help explain their significance to the changes in the credit loss allowance for the same portfolio.

| | 30 June 2023 (Unaudited) | | | |
|---|----------------------------|---|------------------------------------|-------------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2023 | 8,818,321 | 40,135 | 546,850 | 9,405,306 |
| Transfer to 12-month ECL | 2,038 | (2,038) | - | - |
| Transfer to lifetime ECL not credit – impaired | (9,891) | 9,891 | - | - |
| Transfer to lifetime ECL credit – impaired | - | - | - | - |
| New financial assets originated | 1,480,825 | 210,482 | 300 | 1,691,607 |
| Financial assets derecognised during the period | (913,472) | (2,591) | (14,675) | (930,738) |
| Other movements | 1,077,851 | (21,792) | (9,102) | 1,046,957 |
| Gross carrying amount as at 30 June 2023 | 10,455,672 | 234,087 | 523,373 | 11,213,132 |
| | | | | |
| | 31 December 2022 (Audited) | | | |
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2022 | 6,099,882 | 68,218 | 570,089 | 6,738,189 |
| Transfer to 12-month ECL | 19,778 | (18,220) | (1,558) | - |
| Transfer to lifetime ECL not credit – impaired | (103,451) | 103,451 | - | - |
| Transfer to lifetime ECL credit – impaired | (18,180) | 2,085 | 16,095 | - |
| New financial assets originated | 3,770,256 | 5,813 | - | 3,776,069 |
| Financial assets derecognised during the period | (351,241) | (36,096) | (32,436) | (419,773) |
| Other movements | (598,723) | (85,116) | (5,340) | (689,179) |
| Gross carrying amount as at 31 December 2022 | 8,818,321 | 40,135 | 546,850 | 9,405,306 |

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14. COMMITMENTS AND CONTINGENCIES (continued)

| | 30 June 2022 (Unaudited) | | | Total |
|---|--------------------------|-----------------------------------|------------------------------|------------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | |
| | (SR'000) | | | |
| Gross carrying amount as at 1 January 2022 | 6,099,882 | 68,218 | 570,089 | 6,738,189 |
| Transfer to 12-month ECL | 3,027 | (1,469) | (1,558) | - |
| Transfer to lifetime ECL not credit – impaired | - | - | - | - |
| Transfer to lifetime ECL credit – impaired | (5,751) | (1,253) | 7,004 | - |
| New financial assets originated | 1,432,389 | 8,304 | 402 | 1,441,095 |
| Financial assets derecognised during the period | (343,848) | (1,362) | (2,044) | (347,254) |
| Other movements | (254,113) | 12,717 | (608) | (242,004) |
| Gross carrying amount as at 30 June 2022 | <u>6,931,586</u> | <u>85,155</u> | <u>573,285</u> | <u>7,590,026</u> |

Other movements mainly represent changes in exposures for customers where there has been no change in the stage during the period.

- b)(ii) An analysis of changes in allowance for ECL for credit related commitments and contingencies is as follows:

| | 30 June 2023 (Unaudited) | | | Total |
|--|--------------------------|-----------------------------------|------------------------------|-----------------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | |
| | (SR'000) | | | |
| ECL as at 1 January 2023 | 21,713 | 174 | 307,519 | 329,406 |
| Transfer to 12-month ECL | 6 | (6) | - | - |
| Transfer to lifetime ECL not credit Impaired | (30) | 30 | - | - |
| Transfer to lifetime ECL credit impaired | - | - | - | - |
| Net re-measurement of loss allowance | 7,186 | 21 | 822 | 8,029 |
| New financial assets originated | 4,629 | 497 | 174 | 5,300 |
| Financial assets that have been derecognized | (3,229) | (2) | (6,917) | (10,148) |
| ECL as at 30 June 2023 | <u>30,275</u> | <u>714</u> | <u>301,598</u> | <u>332,587</u> |

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14. COMMITMENTS AND CONTINGENCIES (continued)

| | 31 December 2022(Audited) | | | |
|--|---------------------------|--|------------------------------------|----------------|
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| ECL as at 1 January 2022 | 13,569 | 8,153 | 386,368 | 408,090 |
| Transfer to 12-month ECL | 1,290 | (511) | (779) | - |
| Transfer to lifetime ECL not credit – Impaired | (105) | 105 | - | - |
| Transfer to lifetime ECL credit impaired | (99) | 1,042 | (943) | - |
| Net re-measurement of loss allowance | (1,562) | (1,180) | 22,115 | 19,373 |
| New financial assets originated | 9,460 | 11 | - | 9,471 |
| Financial assets that have been derecognized | (840) | (7,446) | (22,040) | (30,326) |
| Write offs / settlements | - | - | (77,202) | (77,202) |
| ECL as at 31 December 2022 | <u>21,713</u> | <u>174</u> | <u>307,519</u> | <u>329,406</u> |
| | 30 June 2022 (Unaudited) | | | |
| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
| | (SR'000) | | | |
| ECL as at 1 January 2022 | 13,569 | 8,153 | 386,368 | 408,090 |
| Transfer to 12-month ECL | 785 | (6) | (779) | - |
| Transfer to lifetime ECL not credit Impaired | - | - | - | - |
| Transfer to lifetime ECL credit impaired | (35) | (40) | 75 | - |
| Net re-measurement of loss allowance | (3,612) | 534 | (86) | (3,164) |
| New financial assets originated | 3,141 | 10 | 201 | 3,352 |
| Financial assets that have been derecognized | (557) | (45) | (2,009) | (2,611) |
| ECL as at 30 June 2022 | <u>13,291</u> | <u>8,606</u> | <u>383,770</u> | <u>405,667</u> |

- c) During 2018, the Bank reached a Settlement Agreement (the “Agreement”) with Zakat, Tax and Customs Authority [ZATCA] to comply with the directives provided by Royal Decree No. (26/M) dated 20 Rabi Al-Awaal 1440 H (28 November 2018) and the Ministerial Resolution No. 1260 dated 5 Rabi Al-Thani 1440 H (12 December 2018), in order to settle outstanding zakat liabilities for the years from 2006 to 2017 against a full and final payment of SR 551 million, payable in 6 instalments over a period of 5 years ending 1 December 2023. The Bank paid the first instalment of SR 110 million in December 2018 and four instalments of SR 88.2 million each during the month of November 2019, November 2020, November 2021 and November 2022 respectively. Under the Agreement, the Bank and ZATCA also agreed to settle zakat for the year 2018 in accordance with the settlement framework provided by the Royal Decree and the Ministerial Resolution. As a result of the Agreement, all zakat related disputes between the Bank and the ZATCA pertaining to the years 2006 to 2017 stand resolved. In addition, Tax related disputes between the Bank and the ZATCA pertaining to years up to 2018 also stand resolved.

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14. COMMITMENTS AND CONTINGENCIES (continued)

During the year 2020, the Bank received VAT assessment for the years 2018 and 2019 with an additional VAT of SR 39.3 million and associated delay fines amounting to SR 63.9 million. The Bank objected to the imposition of additional VAT and associated delay fines with the Tax Violation and Dispute Resolution Committee [TVDRRC] as a result of which one of the assessment point was dropped by ZATCA which resulted in a reduction of the overall liability to approximately SR 37 million. The Bank lodged another objection against the decision rendered by TVDRRC with the Tax Violation and Dispute Appeal Committee [TVDAC] on the remaining assessment points and awaits for the decision. Subsequently, however, the Bank decided to settle the additional tax of SR 39.3 million "under protest" in order to avail the amnesty so that associated delay fines are waived.

The Bank has filed its zakat and Income Tax returns with the ZATCA and paid zakat and income tax for the years up to and including the year 2022, except for the amounts agreed as a liability under the Agreement which will be paid to ZATCA as and when they fall due.

15. CASH AND CASH EQUIVALENTS

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

| | 30 June 2023 (Unaudited) SR'000 | 31 December 2022 (Audited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|---|--|--|--|
| Cash and balances with SAMA, excluding statutory deposit | 1,855,381 | 1,590,210 | 7,632,806 |
| Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition | 1,684,583 | 747,610 | 2,448,102 |
| Total | 3,539,964 | 2,337,820 | 10,080,908 |

The reconciliation of cash and cash equivalents to cash and balances with Saudi Central Bank is as follows:

| | 30 June 2023 (Unaudited) SR'000 | 31 December 2022 (Audited) SR'000 | 30 June 2022 (Unaudited) SR'000 |
|--|--|--|--|
| Cash and cash equivalents as per statement of cash flows | 3,539,964 | 2,337,820 | 10,080,908 |
| Statutory deposit | 4,704,978 | 4,653,011 | 4,543,610 |
| Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition | (1,684,583) | (747,610) | (2,448,102) |
| Cash and balances with SAMA | 6,560,359 | 6,243,221 | 12,176,416 |

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15. CASH AND CASH EQUIVALENTS (continued)

15.1 Below is a reconciliation of liabilities arising from financing activities:

| 30 June 2023 (Unaudited) | Subordinated Sukuk | Dividend Payable | lease liabilities against right of use assets |
|--|-----------------------|---------------------|---|
| | | (SR' 000) | |
| Balances as at 1 January 2023 | 2,002,819 | 66,730 | 222,001 |
| Changes from financing cash flows | | | |
| Payment of return on Subordinate Sukuk | (73,892) | - | - |
| Payment of leased liability - principal | - | - | (43,187) |
| Dividend paid | - | (60) | - |
| Other changes | | | |
| Increase due to additions | - | - | 27,467 |
| Payment of leased liability - profit | - | - | (4,601) |
| Financing cost | 73,624 | - | 4,601 |
| Amortisation of transaction cost | 870 | - | - |
| Other adjustments | 106 | - | - |
| Balances as at 30 June 2023 | 2,003,527 | 66,670 | 206,281 |
| | | | |
| 30 June 2022 (Unaudited) | Subordinated Sukuk | Dividend Payable | lease liabilities against right of use assets |
| | | (SR' 000) | |
| Balances as at 1 January 2022 | 1,994,685 | 43,153 | 289,865 |
| Changes from financing cash flows | | | |
| Payment of return on Subordinate Sukuk | (24,743) | - | - |
| Payment of leased liability - principal | - | - | (40,888) |
| Dividend paid | - | (276,154) | - |
| Other changes | | | |
| Increase due to additions | - | - | 10,239 |
| Payment of leased liability - profit | - | - | (5,250) |
| Financing cost | 27,653 | - | 5,250 |
| Amortisation of transaction cost | 871 | - | - |
| Other adjustments | (798) | - | - |
| Cash dividend declared | - | 287,000 | - |
| Balances as at 30 June 2022 | 1,997,668 | 53,999 | 259,216 |

16. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (Chief Executive Officer) in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the interim condensed consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

16. OPERATING SEGMENTS (continued)

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2022.

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

Personal banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury

Treasury includes money market, foreign exchange, trading and treasury services.

Brokerage and asset management

Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

Others

Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

The Group's total assets and liabilities at 30 June 2023 and 30 June 2022, its total operating income and expenses, and its net income for the six month periods then ended, by operating segment, are as follows:

| (SR'000) | <u>Personal banking</u> | <u>Corporate banking</u> | <u>Treasury</u> | <u>Brokerage and asset manageme nt</u> | <u>Others</u> | <u>Total</u> |
|---|-----------------------------|------------------------------|-----------------|--|------------------|--------------------|
| 30 June 2023 (Unaudited) | | | | | | |
| Total assets | 36,120,042 | 37,770,192 | 47,015,376 | 3,304,120 | 234,008 | 124,443,738 |
| Total liabilities | 53,171,812 | 37,305,492 | 15,814,523 | 1,884,155 | (81) | 108,175,901 |
| Total operating income | 810,010 | 424,763 | 341,931 | 158,701 | (143,807) | 1,591,598 |
| Of which: | | | | | | |
| - Net financing and investment income | 598,980 | 342,461 | 163,652 | 24,872 | (5,813) | 1,124,152 |
| - Fees from banking services, net | 110,459 | 59,417 | (2) | 120,403 | (30,547) | 259,730 |
| - Net (loss) / gain on FVIS financial instruments | (3,442) | (871) | 9,660 | (13,347) | 1 | (7,999) |
| Total operating expenses | (666,110) | (207,374) | (83,264) | (94,007) | 357 | (1,050,398) |
| Of which: | | | | | | |
| - Impairment charge for financing and other financial assets, net | (27,667) | (85,450) | 941 | - | - | (112,176) |
| - Depreciation and amortization | (70,705) | (9,723) | (8,591) | (3,627) | (1) | (92,647) |
| Share in net income of an associate | - | - | - | 946 | 5,678 | 6,624 |
| Net income / (loss) before zakat and income tax | 143,900 | 217,389 | 258,667 | 65,640 | (137,772) | 547,824 |

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16. OPERATING SEGMENTS (continued)

| (SR'000) | <u>Personal banking</u> | <u>Corporate banking</u> | <u>Treasury</u> | <u>Brokerage and asset managem ent</u> | <u>Others</u> | <u>Total</u> |
|---|-----------------------------|------------------------------|-----------------|--|---------------|--------------|
| 31 December 2022 (Audited) | | | | | | |
| Total assets | 35,719,471 | 33,694,784 | 43,412,881 | 2,803,871 | 217,790 | 115,848,797 |
| Total liabilities | 49,072,703 | 35,339,718 | 16,253,828 | 1,573,588 | (81) | 102,239,756 |
| 30 June 2022 (Unaudited) | | | | | | |
| Total assets | 34,650,353 | 29,710,542 | 47,488,020 | 2,586,892 | 213,742 | 114,649,549 |
| Total liabilities | 54,720,088 | 30,389,894 | 14,249,575 | 1,437,841 | (148) | 100,797,250 |
| Total operating income | 972,745 | 366,153 | 429,216 | 146,291 | (121,312) | 1,793,093 |
| Of which: | | | | | | |
| - Net financing and investment income | 716,143 | 318,870 | 302,507 | 28,747 | (6,291) | 1,359,976 |
| - Fees from banking services, net | 134,893 | 21,878 | 2,272 | 112,616 | (19,119) | 252,540 |
| - Net (loss) / gain on FVIS financial instruments | (839) | (212) | (183) | 4,000 | - | 2,766 |
| Total operating expenses | (656,846) | (249,617) | (87,508) | (90,251) | 1,696 | (1,082,526) |
| Of which: | | | | | | |
| - Impairment charge for financing and other financial assets, net | (5,591) | (126,260) | (1,745) | - | - | (133,596) |
| - Depreciation and amortization | (73,754) | (9,992) | (8,710) | (4,793) | - | (97,249) |
| Share in net income of an associate | - | - | - | 382 | 2,295 | 2,677 |
| Net income / (loss) before zakat and income tax | 315,899 | 116,536 | 341,708 | 56,422 | (117,321) | 713,244 |

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

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.

Determination of fair value and fair value hierarchy

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments"

For assets and liabilities that are recognised at fair value 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.

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period.

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

| | | 30 June 2023 (Unaudited) | | | |
|---|-----------------------|-----------------------------------|-------------------|----------------|-------------------|
| | | Fair Value (SR'000) | | | |
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets measured at fair value:</u> | | | | | |
| FVIS - Mutual funds | 1,157,149 | - | 1,157,149 | - | 1,157,149 |
| FVIS - Equities | 18,754 | - | - | 18,754 | 18,754 |
| FVOCI- Equities | 170,226 | 170,226 | - | - | 170,226 |
| FVOCI - Sukuk - equity | 2,112,464 | - | 2,112,464 | - | 2,112,464 |
| FVOCI - Sukuk - debt | 8,342,503 | - | 8,342,503 | - | 8,342,503 |
| Shari'ah compliant derivatives | 385,886 | - | 385,886 | - | 385,886 |
| Total | 12,186,982 | 170,226 | 11,998,002 | 18,754 | 12,186,982 |
| <u>Financial liabilities measured at fair value:</u> | | | | | |
| Shari'ah compliant derivatives | 218,987 | - | 218,987 | - | 218,987 |
| | | 31 December 2022 (Audited) | | | |
| | | Fair Value (SR'000) | | | |
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets measured at fair value:</u> | | | | | |
| FVIS - Mutual funds | 1,155,641 | - | 1,155,641 | - | 1,155,641 |
| FVIS - Equities | 5,093 | 5,093 | - | - | 5,093 |
| FVOCI- Equities | 48,714 | 48,714 | - | - | 48,714 |
| FVOCI - Sukuk - equity | 2,079,290 | - | 2,079,290 | - | 2,079,290 |
| FVOCI - Sukuk - debt | 8,065,786 | - | 8,065,786 | - | 8,065,786 |
| Shari'ah compliant derivatives | 312,642 | - | 312,642 | - | 312,642 |
| Total | 11,667,166 | 53,807 | 11,613,359 | - | 11,667,166 |
| <u>Financial liabilities</u> | | | | | |
| Shari'ah compliant derivatives | 199,006 | - | 199,006 | - | 199,006 |

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| | | 30 June 2022 (Unaudited) | | | |
|---|------------------|--------------------------|------------------|----------|------------------|
| | | Fair Value (SR'000) | | | |
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets measured at fair value:</u> | | | | | |
| FVIS - Mutual funds | 932,451 | - | 932,451 | - | 932,451 |
| FVIS - Equities | - | - | - | - | - |
| FVOCI - Sukuk - equity | 1,385,341 | - | 1,385,341 | - | 1,385,341 |
| FVOCI - Sukuk - debt | 6,936,719 | - | 6,936,719 | - | 6,936,719 |
| Shari'ah compliant derivatives | 103,431 | - | 103,431 | - | 103,431 |
| Total | 9,357,942 | - | 9,357,942 | - | 9,357,942 |
| <u>Financial liabilities measured at fair value:</u> | | | | | |
| Shari'ah compliant derivatives | 107,451 | - | 107,451 | - | 107,451 |

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, profit rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Profit rate swaps, wa'ad options and structured deposits are fair valued using forward profit rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between Levels 1 and 2 during the period. New investments acquired during the period / year are classified under the relevant levels. Level 3 includes recent investment in unquoted equities which will be subsequently fair valued considering the available information at the time of valuation.

Investments amounting to SR 5.25 million (31 December 2022: SR 5.24 million and 30 June 2022: SR 4.84 million) are carried at cost and, accordingly, are not fair valued.

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

- b) Following table represent fair values of financial assets and liabilities which are carried at amortised cost. There are no financial assets and liabilities where fair value is measurable as level 1 and level 3 fair value.

| | 30 June 2023 (Unaudited) (SR'000) | |
|--|--|-----------------------|
| | Amortised cost | Fair value Level 2 |
| <u>Financial assets:</u> | | |
| Due from banks and other financial institutions, net | 3,543,943 | 3,585,623 |
| Investment held at amortised cost, net | 24,533,219 | 24,217,223 |
| Financing, net | 74,941,711 | 75,053,796 |
| Total | 103,018,873 | 102,856,642 |
| <u>Financial liabilities:</u> | | |
| Due to banks and other financial institutions | 12,096,869 | 12,578,138 |
| Customers' deposits | 92,081,539 | 92,497,125 |
| Subordinated Sukuk | 2,003,527 | 2,003,527 |
| Total | 106,181,935 | 107,078,790 |
| | 31 December 2022 (Audited) (SR'000) | |
| | Amortised cost | Fair value Level 2 |
| <u>Financial assets:</u> | | |
| Due from banks and other financial institutions | 1,688,803 | 1,692,516 |
| Investment held at amortised cost - net | 23,274,293 | 22,813,597 |
| Financing, net | 70,599,009 | 70,428,515 |
| Total | 95,562,105 | 94,934,628 |
| <u>Financial liabilities:</u> | | |
| Due to banks and other financial institutions | 12,116,687 | 12,540,077 |
| Customers' deposits | 86,022,839 | 86,240,714 |
| Subordinated Sukuk | 2,002,819 | 2,002,819 |
| Total | 100,142,345 | 100,783,610 |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| | 30 June 2022 (Unaudited) (SR'000) | |
|--|--------------------------------------|-----------------------|
| | Amortised cost | Fair value Level 2 |
| <u>Financial assets:</u> | | |
| Due from banks and other financial institutions, net | 2,455,830 | 2,461,067 |
| Investment held at amortised cost, net | 22,781,376 | 22,571,659 |
| Financing, net | 65,574,744 | 66,219,632 |
| Total | 90,811,950 | 91,252,358 |
| <u>Financial liabilities:</u> | | |
| Due to banks and other financial institutions | 9,914,552 | 10,295,452 |
| Customers' deposits | 86,583,652 | 86,650,470 |
| Subordinated Sukuk | 1,997,668 | 1,997,668 |
| Total | 98,495,872 | 98,943,590 |

The fair value of the cash and balances with Saudi Central Bank, other assets and other liabilities approximate to their carrying amount. The fair values of level 2 financial instruments are estimated as at 30 June 2023 at the current applicable yield curve taking into account the counterparty risks and applicable market rate.

Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at 30 June 2023, 31 December 2022 and 30 June 2023, as well as the significant unobservable inputs used.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| Type | Accounting Classification | Valuation Technique | Significant unobservable Inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|--|---------------------------|--|---------------------------------|---|
| Mutual Fund units | FVIS | Fair valued using the NAV reports which reflect the quoted prices of underlying securities | Not applicable | Not applicable |
| Equities | FVIS | The subsidiary of the Bank has recently invested in unquoted equities which will be subsequently fair valued considering the available information at the time of valuation | Not applicable | Not applicable |
| Investment held at FVOCI – Sukuks (debt & equity) | FVOCI | Fair valued using the broker quoted prices or estimating present value by discounting cash flows using adjusted discount rate. | Not applicable | Not applicable |
| Forward exchange contracts (Wa'ad) and Profit rate swaps | FVIS | Forward exchange contracts (Wa'ad): Fair valued using discounted Notional techniques that use observable market data inputs for Foreign Exchange (FX) and yield curves Profit rate swaps: The fair value is determined by discounting the future cash flows using observable market data inputs for yield curves. | Not applicable | Not applicable |
| Due from banks and other financial institutions, Financing, Due to banks and other financial institutions, Customer Deposits | Amortised Cost | Market Data: Used observable market data inputs for yield curves. Fair value technique: The fair value is determined by discounting the future cash flows. A discounted cash flow is the product of: <ul style="list-style-type: none"> The anticipated nominal magnitude and sign of a cash flow. The accumulated discount over the amount of time remaining until the anticipated time of the cash flow, at a rate of discount. The fair value is determined only for the Customers' time investments. | Not applicable | Not applicable |
| Investment held at amortised cost - net | Amortised Cost | Fair valued using the quoted prices, where available or estimating present value by discounting cash flows using adjusted discount rate. | Not applicable | Not applicable |

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (continued)

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.

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum percentage.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its interim condensed consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

SAMA has issued its final guidelines regarding implementation of Basel III (post-crisis regulatory reforms) Framework effective 1 January 2023. The new framework has brought significant amendments in the computation of Pillar I risk weighted assets.

The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the new Basel III Framework (SAMA circular number 44047144) except for prior period figures which are based on Basel III regulations.

| | 30 June 2023 (Unaudited) | 31 December 2022 (Audited) | 30 June 2022 (Unaudited) |
|--------------------------------------|--------------------------------|----------------------------------|--------------------------------|
| | <u>SR'000</u> | <u>SR'000</u> | <u>SR'000</u> |
| Credit Risk RWA | 82,936,540 | 73,503,969 | 71,054,342 |
| Operational Risk RWA | 4,537,448 | 6,352,124 | 6,221,262 |
| Market Risk RWA | 2,453,068 | 3,883,308 | 3,129,933 |
| Total Pillar-I RWA | 89,927,056 | 83,739,401 | 80,405,537 |
| Common Equity Tier 1 (CET 1) Capital | 12,487,345 | 12,084,910 | 12,448,967 |
| Additional Tier 1 (AT1) Capital | 3,875,000 | 1,875,000 | 1,875,000 |
| Tier I Capital | 16,362,345 | 13,959,910 | 14,323,967 |
| Tier II Capital | 2,413,275 | 2,547,559 | 2,393,056 |
| Total Tier I and II Capital | 18,775,620 | 16,507,469 | 16,717,023 |
| Capital Adequacy Ratio (%) | | | |
| Common Equity Tier I Ratio | 13.89% | 14.43% | 15.48% |
| Tier I ratio | 18.20% | 16.67% | 17.81% |
| Total Tier I and II Capital | 20.88% | 19.71% | 20.79% |

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19. IBOR Transition (Profit Rate Benchmark Reforms)

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

Management had put in place a robust transition project for those contracts which reference LIBOR and to transition them to the alternate benchmarks as applicable. This transition project considered changes to systems, processes, risk management policies, and models, as well as accounting implications. Further, the Bank has actively approached customers for awareness and led communication and negotiations with affected counterparties. As of June 30, 2023, most of the impacted financial instruments have transitioned to alternate reference rate except for few legacy contracts and transactions which will be repriced after 30 June and will transition to alternate rate at the next repricing date. The Bank has no exposure to any other LIBOR rates.

The following table contains details of all of the financial instruments that the Group holds at June 30, 2023 which reference USD LIBOR and have not yet transitioned to an alternative profit rate benchmark. These contracts are in the process to be transitioned to SOFR.

Non-derivative assets and liabilities exposed to USD LIBOR

| | Carrying Value/Nominal Amount at June 30, 2023 | | Of which have yet to transition to an alternative benchmark profit rate as at June 30, 2023 | |
|---|---|-------------|---|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| | SR'000 | | | |
| <u>Measured at amortised cost</u> | | | | |
| Financing | 366,585 | | 366,585 | |
| Due to banks and other financial institutions | | 144,335 | | 144,335 |

Derivative assets and liabilities exposed to USD LIBOR

| | Carrying amount (SR '000) | | | Balance sheet line item(s) | Changes in fair value used for calculating hedge ineffectiveness | Notional amount directly impacted by IBOR reform |
|---------------------------|---------------------------|--------|-------------|----------------------------|--|--|
| | Notional | Assets | Liabilities | | | |
| Profit rate swaps-Trading | 1,624,510 | 29,483 | 29,930 | - | N/A | 1,624,510 |

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20. COMPARATIVE FIGURES

During the year ended 31 December 2022, pursuant to change in accounting treatment for recognition of processing fee received in connection with the Group's financing portfolio as more fully explained in note 4(a), the financing related fee and directly attributable expenses which were previously booked as fees were reclassified from "Fees from banking services" to "Income from investments and financings".

Further during the current period, for the purpose of better presentation, the derivatives related financing income and financing costs have been presented on a gross basis in line with presentation in the annual financial statements.

The impact of above reclassifications on the comparative information included in interim condensed consolidated statement of income and interim condensed consolidated statement of financial position is disclosed below.

Certain prior period amounts have been reclassified so as to align with the current period presentation. However, there was no impact of such reclassifications on the interim condensed consolidated statement of income and interim condensed consolidated statement of changes in equity.

| For the three month period ended 30 June 2022 | As originally reported | Impact of fee related adjustments (note 4(a)) | Impact of hedging derivatives income gross up SR'000 | Amounts reported after restatement |
|---|------------------------|---|--|------------------------------------|
| Income from investments and financings | 817,141 | 35,256 | 23,759 | 876,156 |
| Return on deposits and financial liabilities | (221,020) | - | (23,759) | (244,779) |
| Fees from banking services – income | 276,746 | (44,253) | - | 232,493 |
| Fees from banking services – expense | (122,405) | 8,997 | - | (113,408) |
| Fees from banking services, net | 154,341 | (35,256) | - | 119,085 |
| For the six month period ended 30 June 2022 | As originally reported | Impact of fee related adjustments (note 4(a)) | Impact of hedging derivatives income gross up SR'000 | Amounts reported after restatement |
| Income from investments and financings | 1,638,589 | 63,123 | 43,382 | 1,745,094 |
| Return on deposits and financial liabilities | (341,736) | - | (43,382) | (385,118) |
| Fees from banking services – income | 557,617 | (82,482) | - | 475,135 |
| Fees from banking services – expense | (241,954) | 19,359 | - | (222,595) |
| Fees from banking services, net | 315,663 | (63,123) | - | 252,540 |
| As at 30 June 2022 | | | | |
| Financing, net | 65,635,817 | (61,073) | - | 65,574,744 |
| Retained earnings | 1,323,192 | (61,073) | - | 1,262,119 |

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors of the Bank on 25 July 2023 (corresponding to 7 Muharram 1445H).