



THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three month period ended March 31, 2020

(Unaudited)



KPMG Al Fozan & Partners
Certified Public Accountants



Independent Auditors' Report on Review of the Interim Condensed Consolidated Financial Statements to the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of **The Saudi Investment Bank** ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2020, and the interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*", as 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 the International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Other Regulatory Matters

As required by the Saudi Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note 20 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 20 to the relevant analysis prepared by the Bank for its submission to SAMA and found no material inconsistencies.

For KPMG Al Fozan & Partners
Certified Public Accountants
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Hani Hamzah A. Bedairi
Certified Public Accountant
License No. 460



28 Ramadan 1441H
(21 May 2020)

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

Yousef A. AlMubarak
Certified Public Accountant
License No. 427

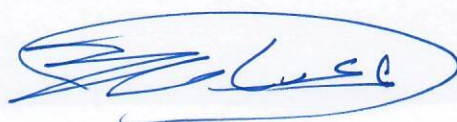


THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR'000

	Notes	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 Restated (Unaudited)
ASSETS				
Cash and balances with SAMA	5a	5,126,026	10,218,816	4,828,587
Due from banks and other financial institutions, net	6a,18	4,407,502	3,028,515	1,643,482
Investments	7a,18	27,379,544	26,175,480	26,092,515
Positive fair values of derivatives	15a,18	1,064,991	1,305,076	970,821
Loans and advances, net	8a,18	59,877,200	57,112,907	58,176,110
Investments in associates	9a	1,010,490	994,298	955,260
Other real estate		446,678	457,679	683,818
Property and equipment, net	10a	1,110,965	1,134,495	1,142,668
Information Technology intangible assets, net	10b	259,266	254,336	221,818
Other assets, net	11a	122,218	132,994	117,226
Total assets		100,804,880	100,814,596	94,832,305
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	18	16,696,202	13,788,191	11,142,713
Customers' deposits	12,18	67,641,798	69,058,054	63,824,206
Negative fair values of derivatives	15a,18	285,051	315,519	168,615
Term loans	13,18	2,011,256	2,011,626	2,012,770
Subordinated debt	14,18	-	-	2,028,336
Other liabilities	11c,26b	1,678,699	1,634,199	1,768,837
Total liabilities		88,313,006	86,807,589	80,945,477
Equity				
Share capital	23a	7,500,000	7,500,000	7,500,000
Statutory reserve		4,988,000	4,988,000	4,928,000
Treasury shares	24	(1,041,067)	(1,041,067)	(787,536)
Other reserves	7e	(1,320,704)	329,977	22,256
Retained earnings	26b	365,645	230,097	439,108
Shareholders' equity		10,491,874	12,007,007	12,101,828
Tier I Sukuk	22	2,000,000	2,000,000	1,785,000
Total equity	26b	12,491,874	14,007,007	13,886,828
Total liabilities and equity		100,804,880	100,814,596	94,832,305

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.



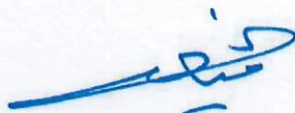


THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)
Amounts in SAR'000

		Three month period ended	
	Notes	Mar. 31, 2020	Mar. 31, 2019 Restated
Special commission income		914,164	995,038
Special commission expense		331,459	413,962
Net special commission income		582,705	581,076
Fee income from banking services, net		68,447	88,729
Exchange income, net		39,783	29,426
Dividend income		14	-
Unrealized fair value through profit and loss		(7,961)	2,179
Realized fair value through profit and loss		4,163	475
Gains on FVOCI debt securities, net		30,568	220
Other income		3	87
Total operating income		717,722	702,192
Salaries and employee-related expenses		176,743	154,000
Rent and premises related expenses		34,615	30,835
Depreciation and amortization		36,994	34,776
Other general and administrative expenses	25b	88,331	75,317
Operating expenses before provisions for credit and other losses		336,683	294,928
Provisions for credit and other losses	25a	224,977	77,220
Total operating expenses		561,660	372,148
Operating income		156,062	330,044
Share in earnings of associates	9a	17,068	20,852
Income before provisions for Zakat and Income tax		173,130	350,896
Provisions for Zakat and Income tax	23c	22,416	69,448
Net income	26a	150,714	281,448
Basic and diluted earnings per share (expressed in SAR per share)	19b	0.20	0.38

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

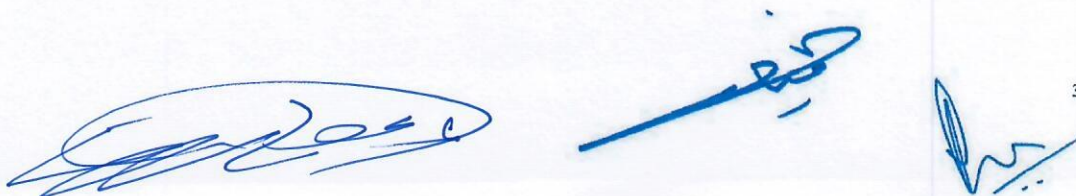




THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
Amounts in SAR'000

	Notes	Three month period ended	
		Mar. 31, 2020	Mar. 31, 2019 Restated
Net income	26a	150,714	281,448
Other comprehensive income			
Items that cannot be reclassified to the interim consolidated statement of income in subsequent periods:			
Net change in fair value of equity investments held at fair value through other comprehensive income		(12,496)	(5,776)
Net change in present value of defined benefit obligations due to change in actuarial assumptions		-	1,951
Items that can be reclassified to the interim consolidated statement of income in subsequent periods:			
Net change in fair value of debt securities held at fair value through other comprehensive income		(1,606,741)	218,640
Fair value gains transferred to interim consolidated statement of income on disposal of debt securities		(30,568)	(220)
Share in other comprehensive loss of associates	9a	(876)	(283)
Total other comprehensive income (loss)		(1,650,681)	214,312
Total comprehensive income (loss)		(1,499,967)	495,760

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.



INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Continued (Unaudited)

Three month period ended March 31, 2019 (SAR'000)							
Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk
Balances at the beginning of the period as previously reported (Audited)	7,500,000	4,928,000	(787,536)	(192,056)	205,268	11,653,676	1,785,000
Retroactive effect of other adjustments	-	-	-	-	(32,608)	(32,608)	-
Balances at the beginning of the period as restated	7,500,000	4,928,000	(787,536)	(192,056)	172,660	11,621,068	1,785,000
Net income	-	-	-	-	281,448	281,448	-
Total other comprehensive income	-	-	-	214,312	-	214,312	-
Total comprehensive income	-	-	-	214,312	281,448	495,760	-
Tier I Sukuk costs	-	-	-	-	(15,000)	(15,000)	-
Balances at the end of the period	7,500,000	4,928,000	(787,536)	22,256	439,108	12,101,828	1,785,000
							13,886,828

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
Amounts in SAR'000

		Three month period ended	
	Notes	Mar. 31, 2020	Mar. 31, 2019 Restated
OPERATING ACTIVITIES			
Net income	26a	150,714	281,448
Adjustments to reconcile net income to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		6,571	10,996
Net change in accrued special commission income		89,522	(3,846)
Net change in accrued special commission expense		(147,835)	14,404
Net change in deferred loan fees		(2,160)	(7,786)
Gains on FVOCI debt securities, net		(30,568)	(220)
Unrealized fair value through profit and loss		7,961	(2,179)
Realized fair value through profit and loss		(4,163)	(475)
Depreciation and amortization		36,994	34,776
Gain on sales of property, equipment, and intangibles		-	(87)
Gain on sale of other real estate		(3)	-
Provisions for credit and other losses	25a	224,977	77,220
Share in earnings of associates	9a	(17,068)	(20,852)
		<u>314,942</u>	<u>383,399</u>
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		47,886	(59,490)
Due from banks and other financial institutions maturing after three months from acquisition date		94,790	(25,793)
Loans and advances		(3,098,611)	1,225,644
Positive fair values of derivatives		236,507	266,143
Other real estate		11,004	-
Other assets		17,285	(234,189)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		2,974,259	(1,463,116)
Customers' deposits		(1,303,773)	109,646
Negative fair values of derivatives		(37,073)	(331,731)
Other liabilities		<u>22,023</u>	<u>89,599</u>
		(720,761)	(39,888)
Zakat and Income tax payments, net		-	(161,272)
Net cash used in operating activities		<u>(720,761)</u>	<u>(201,160)</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		940,113	220,599
Purchases of investments		(3,749,606)	(1,451,797)
Dividends received from associates	9a	-	77,675
Acquisitions of property, equipment, and intangibles		(25,017)	(29,180)
Proceeds from sales of property, equipment, and intangibles		-	350
Net cash used in investing activities		<u>(2,834,510)</u>	<u>(1,182,353)</u>

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

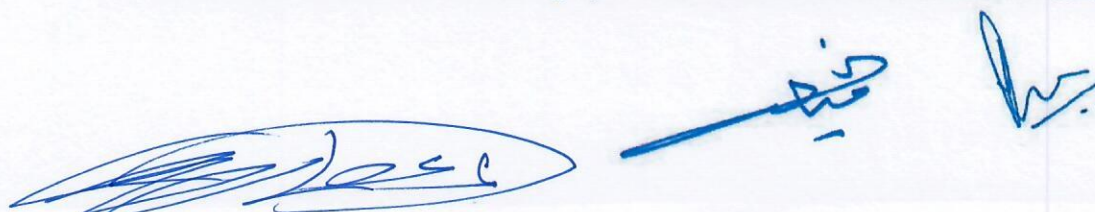
THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS - Continued (Unaudited)
Amounts in SAR'000

	<u>Notes</u>	<u>Three month period ended</u>	
		<u>Mar. 31,</u>	<u>Mar. 31,</u>
		<u>2020</u>	<u>2019</u>
			<u>Restated</u>
FINANCING ACTIVITY			
Tier I Sukuk costs		(15,166)	(15,000)
Net cash used in financing activity		<u>(15,166)</u>	<u>(15,000)</u>
Net decrease in cash and cash equivalents		<u>(3,570,437)</u>	<u>(1,398,513)</u>
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		9,613,154	4,503,172
Net decrease in cash and cash equivalents		<u>(3,570,437)</u>	<u>(1,398,513)</u>
Cash and cash equivalents at the end of the period	5b	<u>6,042,717</u>	<u>3,104,659</u>
Supplemental special commission information			
Special commission received		<u>927,036</u>	<u>991,192</u>
Special commission paid		<u>402,977</u>	<u>391,345</u>
Supplemental non-cash information			
Total other comprehensive income (loss)		<u>(1,650,681)</u>	<u>214,312</u>

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.



THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia ("KSA"). The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 52 branches (December 31, 2019: 52 branches; and March 31, 2019: 52 branches) in KSA. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P.O. Box 3533
Riyadh 11481, KSA

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

2. Basis of preparation

These interim condensed consolidated financial statements as of and for the three month period ended March 31, 2020 have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2019.

The interim condensed consolidated financial statements as of and for the three month period ended March 31, 2019 were prepared in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and Income tax (relating to the application of IAS 12 - *Income Taxes* and IFRIC 21 - *Levies* in so far as these relate to Zakat and Income tax).

On July 17, 2019, SAMA issued instructions ("the SAMA Instructions") to banks in KSA to account for Zakat and Income tax in the interim consolidated statement of income. This aligns with IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in KSA and with the other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA"). Accordingly, the Group changed its accounting treatment for Zakat and Income tax by retroactively adjusting the impact in line with International Accounting Standard 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, as disclosed in note 4. The effects of this change are disclosed in note 26.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand, except where indicated herein.

The preparation of these 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, liabilities and income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2019.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on May 20, 2020.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

3. Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group" in these interim condensed consolidated financial statements):

- a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in KSA under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory and custody services relating to financial securities;
- b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in KSA under commercial registration No.1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The primary objective of the Company is to hold title deeds as collateral on behalf of the Bank for real estate related lending transactions;
- c) "Saudi Investment First Company", a limited liability company, which is registered in KSA under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. During 2019, the commercial registration of the Company has been de-registered. However, the Company is in the process of completing other formalities for certain regulatory authorities to complete the liquidation; and
- d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank.

References to the Bank hereafter in these interim condensed consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the interim condensed consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group obtains control and until the date when the Group ceases to control the investee. Specifically, the Group controls an investee if and only if the Group has:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the three month periods ended March 31, 2020 and 2019

3. Basis of consolidation – continued

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the interim condensed consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

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

4. Summary of significant accounting policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019 and the interim condensed consolidated financial statements for the three month period ended March 31, 2019 except for the policies explained below:

Zakat and Income tax

As described in note 2, the basis of preparation was changed from the period ended June 30, 2019 as a result of the SAMA Instructions dated July 17, 2019. Previously, Zakat and Income tax were recognized in equity as per SAMA circular no. 381000074519 dated April 11, 2017. With the issuance of the SAMA Instructions, Zakat and Income tax is required to be recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for Zakat and Income tax retroactively.

The Group is subject to Zakat and Income tax in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provisions for Zakat and Income tax are charged to the consolidated statement of income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the three month periods ended March 31, 2020 and 2019

4. Summary of significant accounting policies – continued

Management periodically evaluates positions taken in Zakat and Income tax returns with respect to situations in which applicable Zakat and Income tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the GAZT. Adjustments arising from final assessments are recorded in the period in which such assessments are made.

Since Zakat is not accounted for similar to Income tax, no deferred Zakat is calculated.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Upon the retroactive application of the new Zakat and Income tax policy, the Group also adopted IFRIC Interpretation 23 which addresses the accounting for Income tax when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether uncertain tax treatments are considered separately;
- The assumptions about the examination of tax treatments by taxation authorities;
- How taxable profit, tax bases, unused tax losses, unused tax credits and tax rates are determined; and
- How changes in facts and circumstances are considered.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is followed.

The Group applies judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group has considered whether it has any uncertain tax positions including transfer pricing. The Group determines, based on its tax compliance and transfer pricing studies that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the GAZT. The Interpretation did not have an impact on the interim condensed consolidated financial statements of the Group.

Government grants

Grants from governments are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market commission rate is treated as a government grant related to income. Below-market rate deposits are recognized and measured in accordance with IFRS 9 - *Financial Instruments*.

The benefit of the below-market rate of commission is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance*. The government grant is recognized in the interim consolidated statement of income on a systematic basis over the period in which the Group recognizes related costs for which the grant is intended to compensate.

Other Standards, amendments or interpretations

Other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2020, did not have a significant impact on the Group's interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

5. Cash and balances with SAMA and cash and cash equivalents

- a) Cash and balances with SAMA as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Cash on hand	820,599	892,087	719,340
Reverse repurchase agreements	783,000	6,025,000	940,000
Other balances, net	131,087	(137,497)	(107,473)
Cash and balances before statutory deposit (note 5b)	1,734,686	6,779,590	1,551,867
Statutory deposit	3,391,340	3,439,226	3,276,720
Cash and balances with SAMA	<u>5,126,026</u>	<u>10,218,816</u>	<u>4,828,587</u>

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day to day operations and therefore do not form a part of cash and cash equivalents.

- b) Cash and cash equivalents included in the interim consolidated statement of cash flows as of March 31, 2020 and 2019 and as of December 31, 2019 are comprised of the following:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit (note 5a)	1,734,686	6,779,590	1,551,867
Due from banks and other financial institutions maturing within three months from the date of acquisition	4,308,031	2,833,564	1,552,792
Cash and cash equivalents	<u>6,042,717</u>	<u>9,613,154</u>	<u>3,104,659</u>

6. Due from banks and other financial institutions, net

- a) Due from banks and other financial institutions, net as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Current accounts	390,867	373,345	286,049
Money market placements	4,018,449	2,657,258	1,359,594
Total due from banks and other financial institutions	4,409,316	3,030,603	1,645,643
Allowance for credit losses	(1,814)	(2,088)	(2,161)
Due from banks and other financial institutions, net	<u>4,407,502</u>	<u>3,028,515</u>	<u>1,643,482</u>

- b) The credit quality of due from banks and other financial institutions as of March 31, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Investment grade	4,407,231	3,027,595	1,643,046
Non-investment grade	2,085	3,008	2,597
Total due from banks and other financial institutions	<u>4,409,316</u>	<u>3,030,603</u>	<u>1,645,643</u>

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6. Due from banks and other financial institutions, net – continued

- c) The movement of the allowance for credit losses for the three month periods ended March 31, 2020 and 2019 and the year ended December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Balances at the beginning of the year/period	2,088	2,703	2,703
Provision for credit losses	(274)	(615)	(542)
Balances at the end of the year/period	<u>1,814</u>	<u>2,088</u>	<u>2,161</u>

- d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the three month periods ended March 31, 2020 and 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	1,730	358	-	2,088
Changes in exposures, re-measurement, and transfers	(164)	(110)	-	(274)
Balances at the end of the period	<u>1,566</u>	<u>248</u>	<u>-</u>	<u>1,814</u>

	Mar. 31, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	2,336	367	-	2,703
Changes in exposures, re-measurement, and transfers	(485)	(57)	-	(542)
Balances at the end of the period	<u>1,851</u>	<u>310</u>	<u>-</u>	<u>2,161</u>

7. Investments

- a) Investments as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Fixed rate debt securities	24,138,504	22,445,349	22,185,318
Floating rate debt securities	2,822,261	3,302,072	3,475,761
Total debt securities	26,960,765	25,747,421	25,661,079
Equities	254,271	262,799	255,977
Mutual funds	125,955	126,224	133,806
Other securities	38,553	39,036	41,653
Investments	<u>27,379,544</u>	<u>26,175,480</u>	<u>26,092,515</u>

Debt securities and equities are classified as FVOCI, and mutual funds and other securities are classified as FVTPL.

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7. Investments – continued

The Group's investments in equities include SAR 8.6 million as of March 31, 2020 (December 31, 2019: SAR 8.6 million, and March 31, 2019: SAR 8.6 million) which the Bank acquired in prior years in connection with the settlement of certain loans and advances.

The Group also holds strategic investments in equities totaling SAR 239.9 million as of March 31, 2020 (December 31, 2019: SAR 247.5 million, and March 31, 2019: SAR 244.8 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, SIMAH (the Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

As of March 31, 2020, investments include SAR 11.5 billion (December 31, 2019: SAR 10.8 billion, and March 31, 2019: SAR 7.8 billion) which have been pledged under repurchase agreements with other financial institutions.

- b) The credit quality of debt securities at FVOCI as of March 31, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Grades 1-6 and unrated	26,960,765	25,747,421	25,657,394
Grades 7-9	-	-	3,685
Total debt securities	<u>26,960,765</u>	<u>25,747,421</u>	<u>25,661,079</u>

- c) The movement of the allowance for credit losses for the three month periods ended March 31, 2020 and 2019 and for the year ended December 31, 2019 included in other reserves is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Balances at the beginning of the year/period	29,659	75,480	75,480
Provision for credit losses	1,024	(45,821)	(2,893)
Balances at the end of the year/period (note 7e)	<u>30,683</u>	<u>29,659</u>	<u>72,587</u>

- d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the three month periods ended March 31, 2020 and 2019 is summarized as follows:.

	Mar. 31, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	29,659	-	-	29,659
Changes in exposures, re-measurement, and transfers	1,024	-	-	1,024
Balances at the end of the period	<u>30,683</u>	<u>-</u>	<u>-</u>	<u>30,683</u>

	Mar. 31, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	71,794	3,686	-	75,480
Changes in exposures, re-measurement, and transfers	(2,892)	(1)	-	(2,893)
Balances at the end of the period	<u>68,902</u>	<u>3,685</u>	<u>-</u>	<u>72,587</u>

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7. Investments – continued

- e) Other reserves classified in shareholders' equity as of March 31, 2020 and 2019 and as of December 31, 2019 are comprised of the following:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Unrealized gains (losses) on revaluation of debt securities at FVOCI before allowance for credit losses	(1,279,410)	358,923	(7,662)
Allowance for credit losses on debt securities at FVOCI (note 7c)	30,683	29,659	72,587
Unrealized gains (losses) on revaluation of debt securities at FVOCI after allowance for credit losses	(1,248,727)	388,582	64,925
Unrealized losses on revaluation of equities held at FVOCI	(50,152)	(37,656)	(44,592)
Actuarial (losses) gains on defined benefit plans	(20,689)	(20,689)	1,951
Share of other comprehensive loss of associates	(1,136)	(260)	(28)
Other reserves	<u>(1,320,704)</u>	<u>329,977</u>	<u>22,256</u>

8. Loans and advances, net

- a) Loans and advances, net classified as held at amortized cost as of March 31, 2020 and 2019 and as of December 31, 2019 and are summarized as follows:

	Mar. 31, 2020 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	38,258,219	2,318,194	13,063,543	53,639,956
Stage 2	4,269,220	958,760	188,111	5,416,091
Stage 3	100,380	965,656	2,241	1,068,277
Total performing loans and advances	42,627,819	4,242,610	13,253,895	60,124,324
Non performing loans and advances	947,868	1,183,206	228,687	2,359,761
Total loans and advances	43,575,687	5,425,816	13,482,582	62,484,085
Allowance for credit losses	(1,058,544)	(1,198,869)	(349,472)	(2,606,885)
Loans and advances, net	<u>42,517,143</u>	<u>4,226,947</u>	<u>13,133,110</u>	<u>59,877,200</u>

	Dec. 31, 2019 (Audited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	35,908,695	2,002,370	13,248,652	51,159,717
Stage 2	4,165,102	628,792	204,961	4,998,855
Stage 3	553,103	430,102	2,464	985,669
Total performing loans and advances	40,626,900	3,061,264	13,456,077	57,144,241
Non performing loans and advances	947,868	1,164,385	261,998	2,374,251
Total loans and advances	41,574,768	4,225,649	13,718,075	59,518,492
Allowance for credit losses	(982,836)	(1,030,656)	(392,093)	(2,405,585)
Loans and advances, net	<u>40,591,932</u>	<u>3,194,993</u>	<u>13,325,982</u>	<u>57,112,907</u>

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8. Loans and advances, net – continued

	Mar. 31, 2019 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	30,426,801	3,443,689	14,393,251	48,263,741
Stage 2	6,767,767	1,836,555	265,699	8,870,021
Stage 3	1,099,248	634,491	14,581	1,748,320
Total performing loans and advances	38,293,816	5,914,735	14,673,531	58,882,082
Non performing loans and advances	126,214	713,895	262,344	1,102,453
Total loans and advances	38,420,030	6,628,630	14,935,875	59,984,535
Allowance for credit losses	(650,282)	(730,913)	(427,230)	(1,808,425)
Loans and advances, net	37,769,748	5,897,717	14,508,645	58,176,110

- b) The movement of the allowance for credit losses for the three month periods ended March 31, 2020 and 2019 and for the year ended December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Balances at the beginning of the year/period	2,405,585	1,795,576	1,795,576
Provision for credit losses	226,298	1,270,770	21,720
Write-offs, net	(24,998)	(660,761)	(8,871)
Balances at the end of the year/period	2,606,885	2,405,585	1,808,425

- c) A reconciliation from the opening to the closing balance of the allowance for credit losses for the three month periods ended March 31, 2020 and 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	379,511	184,512	1,841,562	2,405,585
Changes in exposures, re-measurement, and transfers (i)	99,149	22,454	104,695	226,298
Write-offs, net	-	-	(24,998)	(24,998)
Balances at the end of the period	478,660	206,966	1,921,259	2,606,885

	Mar. 31, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	339,621	135,456	1,320,499	1,795,576
Changes in exposures, re-measurement, and transfers	(29,688)	69,415	(18,007)	21,720
Write-offs, net	-	-	(8,871)	(8,871)
Balances at the end of the period	309,933	204,871	1,293,621	1,808,425

- i. Owing to the prevailing economic conditions, the Group has recognized an additional ECL provision of SAR 151.6 million during the three month period ended March 31, 2020 for its loans and advances portfolio as a result of adjustments to macroeconomic factors, scenario weightages and post-model overlays. Refer to Note 27 for details.

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9. Investments in associates

- a) Investments in associates include the Bank's ownership interest in American Express (Saudi Arabia) ("AMEX") of 50%, in Saudi ORIX Leasing Company ("ORIX") of 38%, and in Amlak International for Real Estate Finance Company ("AMLAK") of 32%. The movement of investments in associates for the three month periods ended March 31, 2020 and 2019, and for the year ended December 31, 2019, is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Balance at the beginning of the year / period	994,298	1,012,366	1,012,366
Share in earnings	17,068	88,156	20,852
Dividends	-	(105,709)	(77,675)
Share of other comprehensive loss	(876)	(515)	(283)
Balance at the end of the year / period	<u>1,010,490</u>	<u>994,298</u>	<u>955,260</u>

- b) The following table summarizes the associates' assets, liabilities, and equity as of March 31, 2020 and 2019, and income and expense for the three month periods then ended:

	Mar. 31, 2020 (Unaudited)			Mar. 31, 2019 (Unaudited)		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	755,508	1,103,863	3,502,160	844,586	1,239,968	3,215,436
Total liabilities	316,657	223,298	2,351,045	517,126	373,084	2,080,494
Equity	438,851	880,565	1,151,115	327,460	866,884	1,134,942
Total income	88,211	29,166	54,721	94,594	28,455	45,058
Total expenses	68,531	22,730	33,568	62,368	14,739	20,828

The head office of each associate company is located in Riyadh in KSA, with all operations conducted entirely in KSA.

10. Property and equipment, net and Information Technology intangible assets, net

- a) Property and equipment, net as of March 31, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Land and buildings	1,080,974	1,080,445	1,072,952
Leasehold improvements	178,149	177,916	162,827
Furniture, equipment and vehicles	404,967	404,412	492,662
Right of Use leased assets	308,307	306,889	259,260
Total cost	<u>1,972,397</u>	<u>1,969,662</u>	<u>1,987,701</u>
Less accumulated depreciation	<u>(865,533)</u>	<u>(838,974)</u>	<u>(849,971)</u>
Subtotal	<u>1,106,864</u>	<u>1,130,688</u>	<u>1,137,730</u>
Projects pending completion	4,101	3,807	4,938
Property and equipment, net	<u>1,110,965</u>	<u>1,134,495</u>	<u>1,142,668</u>

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10. Property and equipment, net and Information Technology intangible assets, net - continued

- b) Information Technology intangible assets, net as of March 31, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Software	411,667	404,825	328,095
Less accumulated amortization	(197,669)	(187,234)	(160,089)
Subtotal	213,998	217,591	168,006
Projects pending completion	45,268	36,745	53,812
Information Technology intangible assets, net	<u>259,266</u>	<u>254,336</u>	<u>221,818</u>

11. Other assets, net and other liabilities

- a) Other assets, net as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Customer and other receivables	40,035	31,736	40,452
Prepaid expenses	32,655	50,932	52,400
Others	50,021	50,712	24,861
Total other assets	122,711	133,380	117,713
Less allowance for credit losses	(493)	(386)	(487)
Other assets, net	<u>122,218</u>	<u>132,994</u>	<u>117,226</u>

- b) The movement of the allowance for credit losses for the three month periods ended March 31, 2020 and 2019 and for the year ended December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Balances at the beginning of the year / period	386	566	566
Provision for credit losses	107	(180)	(79)
Balances at the end of the year/period	<u>493</u>	<u>386</u>	<u>487</u>

- c) Other liabilities as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 Restated (Unaudited)
Zakat settlement liability, net	458,028	453,801	562,006
Lease liabilities	244,429	253,715	226,624
Allowance for credit losses for financial guarantee contracts	215,219	217,397	189,429
Employee end of service benefits	179,743	174,512	143,959
Accrued expenses and other provisions	147,460	98,477	89,604
Accrued Zakat and Income tax	110,915	88,486	249,529
Allowance for legal proceedings	73,279	73,528	76,207
Accrued salaries and employee related benefits	59,037	93,311	19,670
Customer related liabilities	56,561	80,632	63,360
Deferred fee income	11,335	12,095	11,739
Others	122,693	88,245	136,710
Total	<u>1,678,699</u>	<u>1,634,199</u>	<u>1,768,837</u>

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12. Customers' deposits

Customers' deposits as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Time deposits	37,388,934	39,969,344	32,176,553
Savings deposits	1,771,858	1,698,795	1,796,456
Total special commission bearing deposits	39,160,792	41,668,139	33,973,009
Demand deposits	27,043,641	25,865,987	28,797,621
Other deposits	1,437,365	1,523,928	1,053,576
Customers' deposits	<u>67,641,798</u>	<u>69,058,054</u>	<u>63,824,206</u>

13. Term loans

On June 19, 2016, the Bank entered into a five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

14. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt through a private placement of a Shariah compliant Tier II Sukuk in KSA.

The Sukuk carried a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk had a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

Where the original maturity date for the Sukuk was June 5, 2024, the Bank redeemed the Sukuk at the optional dissolution date of June 5, 2019 after receiving all required regulatory approvals.

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15. Derivatives

- a) The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts as of March 31, 2020 and 2019 and as of December 31, 2019. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period / year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the net positive fair value of the derivatives.

	Mar. 31, 2020 (Unaudited)			Dec. 31, 2019 (Audited)			Mar. 31, 2019 (Unaudited)		
	<u>Fair value</u>		Notional amount	<u>Fair value</u>		Notional amount	<u>Fair value</u>		Notional amount
	Positive	Negative		Positive	Negative		Positive	Negative	
Held for trading:									
Forward foreign exchange contracts	19,160	11,239	2,595,435	4,193	2,684	2,368,748	1,503	2,744	4,825,314
Foreign exchange options	-	-	-	267	267	750,320	1,224	1,224	750,000
Commission rate swaps	143,635	143,093	8,536,056	124,364	123,861	7,260,075	172,788	175,159	9,723,660
Commission rate options	291,321	291,314	9,078,614	278,528	278,521	9,080,979	256,126	256,126	9,096,140
Held as fair value hedges:									
Commission rate swaps	-	1,425,710	12,873,169	-	591,114	12,835,216	115,203	255,568	13,402,196
Associated company put option (note 15c)	413,743	-	-	421,243	-	-	417,991	-	-
Subtotal	867,859	1,871,356	33,083,274	828,595	996,447	32,295,338	964,835	690,821	37,797,310
CSA / EMIR cash margins	197,132	(1,586,305)	-	476,481	(680,928)	-	5,986	(522,206)	-
Total	1,064,991	285,051	33,083,274	1,305,076	315,519	32,295,338	970,821	168,615	37,797,310

- b) The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

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15. Derivatives - continued

As of March 31, 2020, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totaled SAR 1,783 million (December 31, 2019: SAR 1,157 million, and March 31, 2019: SAR 516.2 million). The EMIR net cash margins include initial margin payments made to counterparties.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted / offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously.

- c) The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in note 15a. The terms of the agreement give the Bank a put option and give the counter party a call option that is exercisable for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercise, based on pre-determined formulas included in the agreement.

16. Commitments, contingencies, and financial guarantee contracts

- a) The Group's credit-related commitments and contingencies as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Letters of credit	2,790,787	2,668,759	1,892,781
Letters of guarantee	8,877,804	8,916,676	8,503,270
Acceptances	936,422	831,725	652,790
Total financial guarantee contracts	12,605,013	12,417,160	11,048,841
Irrevocable commitments to extend credit	944,727	693,076	536,812
Credit-related commitments and contingencies	13,549,740	13,110,236	11,585,653

- b) The credit quality of financial guarantee contracts as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Stage 1	11,570,848	11,366,900	10,071,758
Stage 2	664,872	664,557	646,808
Stage 3	369,293	385,703	330,275
Total	12,605,013	12,417,160	11,048,841

- c) The movement of the allowance for credit losses for financial guarantee contracts for the three month periods ended March 31, 2020 and 2019 and for the year ended December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Balances at the beginning of the year/period	217,397	165,320	165,320
Provision for credit losses	(2,178)	52,077	24,108
Balances at the end of the year/period	215,219	217,397	189,428

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the three month periods ended March 31, 2020 and 2019

16. Commitments, contingencies, and financial guarantee contracts - continued

- d) A reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the three month periods ended March 31, 2020 and 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	109,335	26,675	81,387	217,397
Changes in exposures, re-measurement, and transfers	2,794	2,535	(7,507)	(2,178)
Balances at the end of the period	<u>112,129</u>	<u>29,210</u>	<u>73,880</u>	<u>215,219</u>

	Mar. 31, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	104,039	31,138	30,143	165,320
Changes in exposures, re-measurement, and transfers	20,221	6,759	(2,872)	24,108
Balances at the end of the period	<u>124,260</u>	<u>37,897</u>	<u>27,271</u>	<u>189,428</u>

- e) The Group is subject to legal proceedings in the ordinary course of business. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

17. Operating segments

- a) Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the measurement basis for the segment profit or loss. The Group's reportable segments are as follows:

Retail banking. Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking. Loans, deposits and other credit products for corporate and institutional customers.

Treasury and Investments. Money market, investments and treasury services, and investments in associates and related activities.

Asset management and brokerage. Dealing, managing, advising and custody of securities services.

Other. Support functions, special credit, and other management and control units.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

17. Operating segments - continued

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

- b) The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of March 31, 2020 and 2019, and its total operating income, expenses, and Income before provisions for Zakat and Income tax for the three month periods then ended, are as follows:

	Mar. 31, 2020 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	21,246,208	38,432,843	38,226,601	432,385	2,466,843	100,804,880
Total liabilities	20,312,612	9,532,491	57,782,730	36,591	648,582	88,313,006
Net special commission income	201,582	428,832	(49,036)	6,828	(5,501)	582,705
FTP net transfers	(8,146)	(161,971)	172,777	-	(2,660)	-
Net FTP contribution	193,436	266,861	123,741	6,828	(8,161)	582,705
Fee income (expense) from banking services, net	(5,000)	47,256	23,987	23,514	(21,310)	68,447
Other operating income (loss)	19,933	11,078	75,383	(1,313)	(38,511)	66,570
Total operating income (loss)	208,369	325,195	223,111	29,029	(67,982)	717,722
Direct operating expenses	65,334	15,627	10,017	19,295	-	110,273
Indirect operating expenses	97,356	45,282	83,772	-	-	226,410
Provisions for credit and other losses	19,845	204,275	747	110	-	224,977
Total operating expenses	182,535	265,184	94,536	19,405	-	561,660
Operating income (loss)	25,834	60,011	128,575	9,624	(67,982)	156,062
Share in earnings of associates	-	-	17,068	-	-	17,068
Income before provisions for Zakat and Income tax	25,834	60,011	145,643	9,624	(67,982)	173,130
Property, equipment, and intangibles additions	1,210	-	-	142	23,665	25,017
Depreciation and amortization	11,485	114	27	1,158	24,210	36,994

	Mar. 31, 2019 (Unaudited - Restated)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	23,404,699	35,117,559	33,821,956	390,320	2,097,771	94,832,305
Total liabilities	22,706,908	8,088,207	48,877,174	27,840	1,245,348	80,945,477
Net special commission income	198,562	463,261	(83,523)	5,594	(2,818)	581,076
FTP net transfers	(26,706)	(185,155)	213,867	-	(2,006)	-
Net FTP contribution	171,856	278,106	130,344	5,594	(4,824)	581,076
Fee income (expense) from banking services, net	15,692	40,371	40,129	11,319	(18,782)	88,729
Other operating income (loss)	15,332	9,810	31,098	727	(24,580)	32,387
Total operating income (loss)	202,880	328,287	201,571	17,640	(48,186)	702,192
Direct operating expenses	63,002	14,366	7,543	16,299	12,883	114,093
Indirect operating expenses	77,759	36,167	66,909	-	-	180,835
Provisions for credit and other losses	2,829	43,754	(4,190)	(78)	34,905	77,220
Total operating expenses	143,590	94,287	70,262	16,221	47,788	372,148
Operating income (loss)	59,290	234,000	131,309	1,419	(95,974)	330,044
Share in earnings of associates	-	-	20,852	-	-	20,852
Income (loss) before provisions for Zakat and Income tax	59,290	234,000	152,161	1,419	(95,974)	350,896
Property, equipment, and intangibles additions	1,789	-	-	776	26,615	29,180
Depreciation and amortization	11,909	172	39	1,352	21,304	34,776

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**Amounts in SAR'000****For the three month periods ended March 31, 2020 and 2019****18. Fair values of financial instruments**

- a) The Group measures certain financial instruments, such as derivatives, at fair value at each interim consolidated statement of financial position date.

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

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

The principal or the most advantageous market must be accessible to or by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Level 1. Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e. without modification or proxy);

Level 2. Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

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

For assets and liabilities that are recognized in the interim consolidated statement of financial position 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 financial reporting date.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External subject matter experts are involved from time to time for the valuation of certain assets. Involvement of external subject matter experts is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities on the basis of the nature, characteristics, and the related risks of the asset or liability, and the level of the fair value hierarchy as explained above.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

18. Fair values of financial instruments - continued

- b) The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy recorded at fair value as of March 31, 2020 and 2019 and as of December 31, 2019. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Mar. 31, 2020 (Unaudited)				
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	651,248	413,743	1,064,991
Investments at FVOCI	20,171,428	6,575,096	468,512	27,215,036
Investments at FVTPL	114,451	-	50,057	164,508
Total	<u>20,285,879</u>	<u>7,226,344</u>	<u>932,312</u>	<u>28,444,535</u>
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	285,051	-	285,051
Total	<u>-</u>	<u>285,051</u>	<u>-</u>	<u>285,051</u>
Dec. 31, 2019 (Audited)				
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	883,833	421,243	1,305,076
Investments at FVOCI	18,296,609	7,246,430	467,181	26,010,220
investments at FVTPL	114,664	-	50,596	165,260
Total	<u>18,411,273</u>	<u>8,130,263</u>	<u>939,020</u>	<u>27,480,556</u>
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	315,519	-	315,519
Total	<u>-</u>	<u>315,519</u>	<u>-</u>	<u>315,519</u>
Mar. 31, 2019 (Unaudited)				
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	552,830	417,991	970,821
Investments at FVOCI	18,285,246	7,159,184	472,626	25,917,056
Investments at FVTPL	133,806	-	41,653	175,459
Total	<u>18,419,052</u>	<u>7,712,014</u>	<u>932,270</u>	<u>27,063,336</u>
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	168,615	-	168,615
Total	<u>-</u>	<u>168,615</u>	<u>-</u>	<u>168,615</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**Amounts in SAR'000****For the three month periods ended March 31, 2020 and 2019****18. Fair values of financial instruments - continued**

The total amount of the changes in fair value recognized in the March 31, 2020 interim consolidated statement of income, which was estimated using valuation models, is SAR 7.5 million loss (March 31, 2019: NIL).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, commission rate options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and certain unquoted strategic investments in equities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 15c). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 84.5 million as of March 31, 2020 (March 31, 2019: SAR 121.3 million and December 31, 2019: SAR 90.4 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 39.7 million as of March 31, 2020 (March 31, 2019: SAR 39.6 million and December 31, 2019: SAR 41.6 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 34.9 million as of March 31, 2020 (March 31, 2019: SAR 26.0 million and December 31, 2019: SAR 37.4 million) due to estimating the fair value of the underlying investment.

In all respects, the Group's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are prudent to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Group's estimates of fair value.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

18. Fair values of financial instruments - continued

- c) The movement of the Level 3 fair values for the three month periods ended March 31, 2020 and 2019, and for the year ended December 31, 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Fair values at the beginning of the year/period	939,020	933,216	933,216
Net change in fair value	(6,708)	10,406	30
Investments sold	-	(4,602)	(976)
Fair values at the end of the year/period	<u>932,312</u>	<u>939,020</u>	<u>932,270</u>

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the three months period ended March 31, 2020 and 2019 and during the year ended December 31, 2019.

- d) The estimated fair values of financial assets and financial liabilities as of March 31, 2020, and 2019 and as of December 31, 2019 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each are summarized as follows:

	Mar. 31, 2020 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	4,407,502	4,407,502
Loans and advances, net	<u>59,877,200</u>	<u>65,687,598</u>
Total	<u>64,284,702</u>	<u>70,095,100</u>
Financial liabilities:		
Due to banks and other financial institutions	16,696,202	16,696,202
Customers' deposits	67,641,798	68,846,030
Term loans	<u>2,011,256</u>	<u>2,011,256</u>
Total	<u>86,349,256</u>	<u>87,553,488</u>
	Dec. 31, 2019 (Audited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	3,028,515	3,028,515
Loans and advances, net	<u>57,112,907</u>	<u>60,151,426</u>
Total	<u>60,141,422</u>	<u>63,179,941</u>
Financial liabilities:		
Due to banks and other financial institutions	13,788,191	13,788,191
Customers' deposits	69,058,054	68,224,293
Term loans	<u>2,011,626</u>	<u>2,011,626</u>
Total	<u>84,857,871</u>	<u>84,024,110</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

18. Fair values of financial instruments - continued

	Mar. 31, 2019 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,643,482	1,643,482
Loans and advances, net	58,176,110	60,042,602
Total	59,819,592	61,686,084
Financial liabilities:		
Due to banks and other financial institutions	11,142,713	11,142,713
Customers' deposits	63,824,206	62,378,395
Term loans	2,012,770	2,012,770
Subordinated debt	2,028,336	2,028,336
Total	79,008,025	77,562,214

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the interim condensed consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, and due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from and due to banks and other financial institutions.

19. Basic and diluted earnings per share

- Basic and diluted earnings per share is calculated by dividing net income adjusted for Tier I Sukuk costs by weighted average number of the issued and outstanding shares after giving effect to the purchase of 56.2 million and 18.7 million Treasury shares on September 27, 2018 and May 28, 2019 respectively.
- Details of basic and diluted earnings per share for the three month periods ended March 31, 2020 and 2019 are as follows:

	Mar. 31, 2020 (Unaudited)	Mar. 31, 2019 Restated (Unaudited)
Net income	150,714	281,448
Tier I Sukuk costs	(15,166)	(15,000)
Net income adjusted for Tier I Sukuk costs	135,548	266,448
Weighted average number of outstanding shares (in '000)	675,004	693,754
Basic and diluted earnings per share (SAR)	0.20	0.38

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

20. Capital adequacy

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

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

The following table summarizes the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital adequacy ratio percentages as of March 31, 2020 and 2019 and as of December 31, 2019. The Tier I capital amount as of March 31, 2019 presented below has been restated for the retroactive application of the new Zakat and Income tax policy and other adjustments as disclosed in notes 2, 4 and 26. The Tier I and Tier I plus Tier II ratios as of March 31, 2019 have also been adjusted accordingly.

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Credit Risk RWA	78,602,245	76,419,416	76,808,886
Operational Risk RWA	5,061,360	5,061,360	4,794,695
Market Risk RWA	2,296,497	1,380,148	2,095,625
Total Pillar- I RWA	<u>85,960,102</u>	<u>82,860,924</u>	<u>83,699,206</u>
Tier I Capital	13,289,093	14,482,246	14,362,067
Tier II Capital	805,362	648,296	2,645,896
Total Tier I plus Tier II Capital	<u>14,095,265</u>	<u>15,130,542</u>	<u>17,007,963</u>
Capital Adequacy Ratios:			
Tier I Ratio	<u>15.46%</u>	<u>17.48%</u>	<u>17.15%</u>
Tier I plus Tier II Ratio	<u>16.40%</u>	<u>18.26%</u>	<u>20.32%</u>

The Tier I and Tier II capital as of March 31, 2020 and 2019 and as of December 31, 2019 is comprised of the following:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
Total Equity	12,491,874	14,007,007	13,886,828
IFRS 9 transitional adjustment	822,556	493,534	493,534
Goodwill adjustment	(18,295)	(18,295)	(18,295)
Tier I Sukuk – restricted to 15% of Tier I Capital	(6,232)	-	-
Tier I Capital	<u>13,289,093</u>	<u>14,482,246</u>	<u>14,362,067</u>
Tier II Subordinated debt	-	-	2,000,000
Qualifying general provisions, net	805,362	648,296	645,896
Tier II Capital	<u>805,362</u>	<u>648,296</u>	<u>2,645,896</u>
Tier I plus Tier II Capital	<u>14,095,265</u>	<u>15,130,542</u>	<u>17,007,963</u>

Capital adequacy and the use of Regulatory capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total Regulatory capital to Risk Weighted Assets (RWA) at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**Amounts in SAR'000****For the three month periods ended March 31, 2020 and 2019****20. Capital adequacy - continued**

As of March 31, 2020 and 2019, and as of December 31, 2019, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

SAMA under its circular no. 391000029731 dated 15 Rabi Al Awwal 1439H (corresponding to December 3, 2017) on the ECL accounting transitional arrangement for regulatory capital, allowed banks to transition the Day 1 impact of IFRS 9 on regulatory capital over five years by using a dynamic approach to reflect the impact of the transition.

In April 2020, SAMA issued a guidance document entitled "Guidance on Accounting and Regulatory Treatment of COVID-19 - Extraordinary Support Measures". Under the guidance, banks have been allowed to add-back up to 100% of the Day 1 impact of IFRS 9 as a transitional adjustment amount to Common Equity Tier 1 (CET1) for the two year periods comprising 2020 and 2021. The add-back amount is then required to be phased-out on a straight-line basis over the subsequent 3 years. In this respect, the Group has opted to apply the transitional adjustment, and has included the Day 1 impact of IFRS 9 in its Tier I regulatory capital. As a result, the IFRS 9 transitional adjustment add back has increased to SAR 822.5 million as of March 31, 2020.

b) The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually);
- Capital Structure (Quarterly);
- Liquidity Coverage Ratio (Quarterly);
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

21. Related party disclosures

a) In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia and during 2019, SAMA issued rules on Banks exposures to Related Parties. In February 2020, SAMA revised the Related Parties Rules for Banks. These rules specify the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's related party identification and disclosure of transactions policy complies with the rules and guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and its management;
- Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

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21. Related party disclosures - continued

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, CEO, GMs, their deputies, CFO, Managers of key departments, officers of risk management, Internal audit, and Compliance functions, and similar positions in the Financial Institution, in addition to incumbents of any other positions determined by SAMA.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

Relatives include spouses, children, parents, grandparents, siblings, grandchildren, and offspring to whom a member of management of either the Bank, principal shareholder, or affiliate, might control or influence or by whom they might be controlled or influenced, because of the family relationship.

- b) The balances as of March 31, 2020 and 2019 and as of December 31, 2019, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2020 <u>(Unaudited)</u>	Dec. 31, 2019 <u>(Audited)</u>	Mar. 31, 2019 <u>(Unaudited)</u>
Management of the Bank, their relatives and/or their affiliated entities:			
Loans and advances	294,712	363,327	31,264
Customers' deposits	88,014	1,084,621	273,352
Tier I Sukuk	7,000	7,000	-
Commitments and contingencies	6,831	88,145	100
Investments	-	400,727	-
Principal shareholders of the Bank and its management:			
Loans and advances	-	-	13
Customers' deposits	811,646	2,448,755	4,895,164
Subordinated debt	-	-	700,000
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:			
Loans and advances	992,924	873,967	577,855
Customers' deposits	254,861	63,155	1,829,043
Tier I Sukuk	2,000	2,000	-
Commitments and contingencies	112,761	62,764	207,059
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:			
Customers' deposits and other liabilities	197,971	176,722	2,507

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21. Related party disclosures – continued

- c) Income and expense for the three month periods ended March 31, 2020 and 2019, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2020 (Unaudited)	Mar. 31, 2019 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:		
Special commission income	351	80
Special commission expense	15	379
Fee income from banking services	10	11
Principal shareholders of the Bank and its management:		
Special commission expense	293	7,936
Rent and premises-related expenses (Building rental)	1,912	1,913
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:		
Special commission income	7,689	7,080
Special commission expense	23	1,481
Fee income from banking services	795	549
Board of Directors and other Board Committee member remuneration	1,528	1,464

The information presented for three month period ended March 31, 2019 and the year ended December 31, 2019 does not reflect the requirements of the new related party rules issued during 2020 and therefore is not comparable to the information presented for March 31, 2020.

22. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the program on the dates indicated as of March 31, 2020 and 2019 and as of December 31, 2019:

	Mar. 31, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Mar. 31, 2019 (Unaudited)
November 16, 2016	500,000	500,000	500,000
June 6, 2017	285,000	285,000	285,000
March 21, 2018	1,000,000	1,000,000	1,000,000
April 15, 2019	215,000	215,000	-
Total	2,000,000	2,000,000	1,785,000

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

The applicable profit rate on the Tier I Sukuk is payable 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 a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

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23. Zakat and Income tax

- a) The Bank's share capital and percentages of ownership as of March 31, 2020 and 2019 and as of December 31, 2019 are summarized as follows in SAR millions. The Bank's Zakat and Income tax calculations and corresponding accruals and payments of Zakat and Income tax are based on the below ownership percentages:

	Mar. 31, 2020 (Unaudited)		Dec. 31, 2019 (Audited)		Mar. 31, 2019 (Unaudited)	
	Amount	%	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0	6,750.0	90.0
Foreign shareholders:						
Mizuho Corporate Bank Limited	-	-	-	-	187.5	2.5
Treasury shares (note 24)	750.0	10.0	750.0	10.0	562.5	7.5
Total	7,500.0	100.0	7,500.0	100.0	7,500.0	100.0

- b) The Bank has filed the required Zakat and Income tax returns with the GAZT which are due on April 30 each year, through the year ended December 31, 2018. The Bank's Zakat and Income tax calculations and corresponding accruals and payments for Zakat and Income tax are based on the ownership percentages disclosed in note 23a.

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

- c) As described in notes 2 and 4, the Group retroactively amended its accounting policy relating to Zakat and Income tax effective June 30, 2019. The new policy requires provisions for Zakat and Income tax to be recognized in the interim consolidated statement of income. Provisions for Zakat and Income tax for the three month periods ended March 31, 2020 and 2019 is summarized as follows:

	Three month period ended	
	Mar. 31, 2020	Mar. 31, 2019
Provisions for Zakat	22,416	59,438
Provisions for Income tax	-	10,010
Provisions for Zakat and Income tax	22,416	69,448

- d) During 2018, the Bank agreed to settle prior year Zakat assessments with the GAZT through 2018 except for the year 2005. The settlement totaled SAR 775 million. The outstanding balance of approximately SAR 496 million is payable in equal annual instalments on December 1, 2020 and on December 1 of each year thereafter through the year 2023.
- e) Certain Income tax and Withholding tax assessments are outstanding for the years 2005 to 2009. The Bank, in consultation with its professional tax and Zakat advisors, has filed appeals for the above assessments with the GAZT, and while management is confident of a favourable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes.

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24. Treasury shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (JP Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million, exclusive of transaction costs and estimated Income tax. The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury shares purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase another 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab, 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totaling SAR 1,041.1 million presented as a reduction of shareholders' equity.

25. Operating expenses

- a) Provisions for credit and other losses for the three month periods ended March 31, 2020 and 2019 is summarized as follows:

	Mar. 31, 2020 (Unaudited)	Mar. 31, 2019 (Unaudited)
Provisions for credit losses:		
Due from banks and other financial institutions (note 6c)	(274)	(542)
Investments (note 7c)	1,024	(2,893)
Loans and advances (note 8b)	226,298	21,720
Financial guarantee contracts (note 16c)	(2,178)	24,108
Other assets (note 11b)	107	(79)
Provisions for credit losses	224,977	42,314
Provisions for real estate losses	-	34,906
Provisions for credit and other losses	224,977	77,220

- b) Other general and administrative expenses totaling SAR 75.3 million for the three month period ended March 31, 2019 include non-recurring expenses totaling SAR 16.6 million.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three month periods ended March 31, 2020 and 2019

26. Effect of the retroactive application of the new Zakat and Income tax Policy and other adjustments

- a) A summary of the net effect of the retroactive application of the new Zakat and Income tax policy and other adjustments, as explained in note 4, made to the interim consolidated statement of income for the three month period ended March 31, 2019 is summarized below:

	Three month period ended March 31, 2019
Net income as previously reported	359,906
Effect of the retroactive application of the new Zakat and Income tax Policy	(83,818)
Effect of other adjustments	5,360
Net income as restated	<u>281,448</u>

The basic earnings per share for the three month period ended March 31, 2019 as a result of the retroactive application of the new Zakat and Income tax Policy reduced by SAR 0.12 per share.

The change has had no impact on the interim consolidated statement of financial position as of March 31, 2019 as the impact of deferred income tax was not considered significant. No deferred income tax was accounted for as of December 31, 2019 due to change in ownership percentages of the Bank during the year ended December 31, 2019 (see note 23a).

- b) A summary of the net effect on other liabilities, retained earnings and total equity resulting from the retroactive effect of other adjustments as of March 31, 2019 is summarized below:

	Other liabilities	Retained earnings	Total equity
Balance as previously reported as of March 31, 2019	1,741,589	466,356	13,914,076
Retroactive effect of other adjustments as of March 31, 2019	<u>27,248</u>	<u>(27,248)</u>	<u>(27,248)</u>
Balances as restated as of March 31, 2019	<u>1,768,837</u>	<u>439,108</u>	<u>13,886,828</u>

Other liabilities as of March 31, 2019 were adjusted by SAR 27.24 million to reflect the prior period effect of a correction in the calculation of accrued zakat liability for the Group and an adjustment to the zakat liability of an associate company, which was not accounted for as at March 31, 2019, with a corresponding decrease in total equity by the same amount.

27. Impact of COVID-19 on ECL and SAMA Programs

In March 2020, the World Health Organization ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread around the globe. Governments worldwide have taken steps to contain the spread of COVID-19. This outbreak has also affected the GCC region including KSA. KSA in particular has implemented the closure of its borders, issued social distancing guidelines and has enforced country wide lockdowns and curfews.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000**For the three month periods ended March 31, 2020 and 2019****27. Impact of COVID-19 on ECL and SAMA Programs - continued**

Oil prices are also significantly volatile, owing not just to demand issues arising from the pandemic, but also due to excess supply driven by production volume which had predated the pandemic. The Group has evaluated the financial impact of the pandemic by conducting stress testing scenarios on expected movements of oil prices and the resulting impact on key credit, liquidity, operational, solvency and performance indicators. The steps taken by the management in response to the pandemic include reviews of credit exposures across economic sectors and regions and by counterparties. This also includes assessment of adequacy of collateral, timely review and customer credit rating actions and appropriately restructuring loans, where required. These actions have also taken into consideration the impacts of government and SAMA support relief programs.

The pandemic and the prevailing economic conditions also require the Group to revise certain inputs and assumptions used for the determination of ECL allowance. These primarily revolve around adjusting macroeconomic indicators used by the Group in estimation of ECL and revisions to the scenario probabilities in ECL allowance estimation. The adjustments to macroeconomic factors and scenario weightages resulted in an additional ECL provision of SAR 24.9 million for the three month period ended March 31, 2020. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. Determining the financial impact of the pandemic requires judgement and the Group will continue to reassess its position and the related impact on a regular basis.

The Group has also recognized an additional ECL provision of SAR 126.7 million as a post-model overlay adjustment for the three month period ended March 31, 2020 for its loans and advances portfolio. These have been based on a sector-based assessment performed by the Group for the impacted portfolios. The Group will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA support programs and initiatives

In response to the pandemic, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide support to Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H (corresponding to March 15, 2017). The PSFSP mainly encompasses the following programs:

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

As part of the deferred payments program, the Group is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment deferrals are considered as short-term liquidity support to address borrower's potential cash flow issues. The Group has effected the payment deferrals for instalments falling due within the period from March 14, 2020 to September 14, 2020 for a period of six months without increasing the facility tenor. The accounting impact of these payment deferrals has been assessed and are treated as per the requirements of IFRS 9 as a modification in the terms of arrangement. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk. This has resulted in the Group recognizing a day 1 modification loss of SAR 76.6 million for the three month period ended March 31, 2020 which is included in special commission income.

In order to compensate for the related costs that the Group is expected to incur under the SAMA support programs and initiatives, the Group has received a SAR 1.05 billion commission free deposit from SAMA. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a gain of SAR 101.3 million, of which SAR 76.6 million has been recognized immediately in special commission income for three month period ended March 31, 2020, with the remaining amount deferred and included in other liabilities. Management has exercised certain judgements in the recognition and measurement of this grant income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**Amounts in SAR'000****For the three month periods ended March 31, 2020 and 2019****27. Impact of COVID-19 on ECL and SAMA Programs - continued**

As of March 31, 2020, the Group is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, the POS and e-commerce service fee programs have had an immaterial impact on the interim condensed consolidated financial statements as of and for the three month period ended March 31, 2020.

In April 2020, SAMA issued a guidance document entitled "Guidance on Accounting and Regulatory Treatment of COVID-19 - Extraordinary Support Measures". The Group has considered the guidance issued in the preparation of its interim condensed consolidated financial statements and will further evaluate the impact in the second quarter of 2020 accordingly.

Health care sector support

In recognition of the significant efforts that the healthcare workers are putting in to safeguard the health of citizens and residents in response to the pandemic, the Group has voluntarily postponed loan payments for three months for all public and private health care workers who have credit facilities with the Group. This has resulted in the Group recognizing a day 1 modification loss of SAR 8.9 million for the three month period ended March 31, 2020 which has been included in special commission income.
