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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the “Bank”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated statement of financial position as of December 31, 2021, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes from 1 to 45.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (“IFRSs”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in the Kingdom of Saudi Arabia”).

Basis for Opinion

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

Key Audit Matters

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



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Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses over loans and advances</p> <p>As of December 31, 2021, the gross loans and advances of the Group were Saudi Riyals (SAR) 59,768 million (2020: SAR 56,829 million) against which an allowance for expected credit losses amounting to SAR 1,965 million (2020: SAR 1,755 million) was maintained.</p> <p>The determination of expected credit losses (“ECL”) involves significant estimation and management judgment and this has a material impact on the consolidated financial statements of the Group. Furthermore, the COVID-19 pandemic continues to pose challenges to business thus increasing the levels of judgment and uncertainty needed to determine the ECL. The key areas of judgment include:</p> <ol style="list-style-type: none"> 1. Categorisation of loans and advances in Stage 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> (a) exposures with a significant increase in credit risk (“SICR”) since their origination; and (b) individually impaired / default exposures. <p>In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months (‘12 month ECL’), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the loans and advances (‘Lifetime ECL’).</p> <p>The Group has applied additional judgments to identify and estimate the likelihood of borrowers that may have experienced SICR notwithstanding the various government support programs that resulted in deferral of instalments to certain counterparties. These deferrals were not deemed to have triggered SICR by themselves.</p>	<p>We obtained and updated our understanding of management’s process for the assessment of allowance for ECL against loans and advances as required by IFRS 9 “Financial Instruments”, the Group’s allowance for ECL policy and the ECL modelling methodology including any key changes made during the year.</p> <p>We compared the Group’s allowance for ECL policy and ECL methodology with the requirements of IFRS 9.</p> <p>We evaluated the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over:</p> <ul style="list-style-type: none"> • the ECL modelling process, including governance over the models, its validation during the year, including approval of key assumptions and post model adjustments; • the classification of loans and advances into Stages 1,2 and 3, timely identification of SICR and determination of default or individually impaired exposures; • the IT systems and applications supporting the ECL model; and • the integrity of data inputs into the ECL model. <p>For a sample of customers, we assessed:</p> <ul style="list-style-type: none"> • the internal ratings determined by the management based on the Group’s internal rating model and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the continued impacts of the COVID-19 pandemic, and also assessed that these were consistent with the ratings used as inputs in the ECL model; and • management’s computation of ECL. • management’s assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.



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Key audit matter	How our audit addressed the key audit matter
<p>2. Assumptions used in the ECL model for determining probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”), including but not limited to, assessment of the financial condition of the borrowers, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages.</p> <p>3. The need to apply post model overlays using expert credit judgement to reflect all relevant risk factors especially relating to ongoing COVID-19 pandemic, that might not have been captured by the ECL model.</p> <p>We considered this as a key audit matter as the application of these judgments and estimates, particularly in light of COVID-19 pandemic, continues to result in greater estimation uncertainty and the associated audit risk around ECL calculation as of December 31, 2021.</p> <p><i>Refer to the summary of significant accounting policies note 3(c)(vi) relating to impairment of financial assets, note 2(d)(i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 and note 32 which contains the disclosure of impairment against loans and advances, details of credit quality analysis and key assumptions and factors considered in the determination of ECL, and note 41 for the impact of COVID -19 on ECL.</i></p>	<p>We assessed the appropriateness of the Group’s criteria for determination of SICR and identification of “default” or “individually impaired” exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group’s loan portfolio, with specific focus on customers operating in sectors most affected by the COVID-19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the SAMA regulation and eligible definition for the effected customers and industry as at 31 December 2021.</p> <p>We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise.</p> <p>We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic.</p> <p>We tested the completeness and accuracy of data supporting the ECL calculation as at 31 December 2021.</p> <p>Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights; and of assumptions used in post model overlays.</p> <p>We assessed the adequacy of related disclosures in the consolidated financial statements.</p>



Independent Auditors’ Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investments held as fair value through other comprehensive income (FVOCI) which are not traded in an active market</p> <p>Investments held as FVOCI comprise a portfolio of corporate bonds, Sukuks and equity instruments. These instruments are measured at fair value with the corresponding unrealized fair value changes recognised in other comprehensive income.</p> <p>While the majority of the fair values of the Group’s investments were obtained directly from active markets as of December 31, 2021, the Group held an amount of SAR 1,542 million (2020: SAR 4,160 million) of unquoted investments. The fair value of these investments is determined through the application of valuation techniques, which often involve the exercise of judgment by management and the use of assumptions and estimates.</p> <p>Estimation uncertainty exists for those investments not traded in an active market and where the internal modelling techniques use:</p> <ul style="list-style-type: none"> • significant observable valuation inputs (i.e. level 2 investments); and • significant unobservable valuation inputs (i.e. level 3 investments). <p>Estimation uncertainty is particularly high for level 3 investments. The business disruptions and economic impacts of COVID-19 pandemic have further raised the degree of estimation uncertainty involved in fair valuing unquoted investments.</p> <p>In the Group’s accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments, and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data.</p>	<p>We evaluated the design and implementation and tested the operating effectiveness of key controls over management’s processes for performing valuations of investments classified as FVOCI which are not traded in an active market.</p> <p>We reviewed the methodology and assessed the appropriateness of valuation models and inputs used by management to value the investments held as FVOCI through involving our valuation experts.</p> <p>We tested the valuation of a sample of FVOCI investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation, such as comparable entity data and liquidity discounts, by benchmarking them with external data.</p> <p>We assessed the adequacy of related disclosures in the consolidated financial statements.</p>



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Key audit matter	How our audit addressed the key audit matter
<p>The valuation of the Group's investments held as FVOCI in level 2 and level 3 categories is considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management.</p> <p><i>Refer to the summary of significant accounting policies note 3(c)(ii), note 2(d)(ii) which explains critical judgments and estimates for fair value measurement and note 33 which explains the investment valuation methodology used by the Group.</i></p>	
<p>Valuation of derivative financial instruments</p> <p>The Group has entered into various commission rate swaps, commission rate options, foreign exchange forward contracts and foreign exchange options which are over the counter ("OTC") derivatives. The valuation of these contracts is subjective, and is determined through the application of valuation techniques that involves the exercise of judgment and the use of assumptions and estimates.</p> <p>These derivatives are held for trading purposes; however, certain commission rate swaps are categorized as fair value hedges in the consolidated financial statements. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in the case of hedge ineffectiveness, can also impact the hedge accounting.</p> <p>Due to the significance of the derivative financial instruments and related estimation and uncertainty, we have assessed the valuation of derivative financial instruments as a key audit matter.</p> <p><i>Refer to the summary of significant accounting policies note 3(f) which explains derivative financial instruments and hedge accounting, note 2(d)(ii) which explains critical judgments and estimates for fair value measurement, note 11 which discloses the derivative positions and note 33 which explains the fair values of financial assets and liabilities.</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives.</p> <p>We selected a sample of derivatives and performed the following:</p> <ul style="list-style-type: none"> • tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • checked the accuracy and appropriateness of the key inputs to the valuation models; • involved our valuation experts to perform an independent valuation of the derivatives and compared the results with management's valuation; and • checked hedge effectiveness performed by the Group and the related hedge accounting. <p>We assessed the adequacy of related disclosures in the consolidated financial statements.</p>



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Key audit matter	How our audit addressed the key audit matter
<p>Valuation of associated company put option</p> <p>The Group’s derivatives as of December 31, 2021 includes a put option with a positive fair value of SAR 164 million (2020: SAR 337 million).</p> <p>This put option is embedded within the agreement (“the Agreement”) with the other shareholder in an associated company, and gives the Group an option to sell its share in the associated company to the other shareholder based on a strike price determined in accordance with the Agreement.</p> <p>In accordance with the Group’s accounting policy, this put option is segregated from the Agreement and is measured at its fair value.</p> <p>The Group uses an option pricing model to fair value the put option, which requires certain inputs which are not observable in the current market. These inputs include historical results of the associated company and other inputs which require management’s judgment, 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.</p> <p>This is considered as a key audit matter as the valuation of this put option, as mentioned above, requires management to exercise significant judgment.</p> <p><i>Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(f) which explains the accounting policy for derivative financial instruments and hedge accounting, note 2(d)(ii) which explains critical judgments and estimates for fair value measurement, note 11 which explains the put option positions and note 33 which explains the fair values of financial assets and liabilities.</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of controls over the valuation of the associate company put option.</p> <p>We inspected the Agreement to obtain an understanding of the principal terms of the put option.</p> <p>We considered the put option valuation performed by the management and assessed the methodology and key assumptions used by the management.</p> <p>We involved our valuation experts to assess the reasonableness of the valuation of the associated company put option determined by the management.</p> <p>We assessed the adequacy of related disclosures in the consolidated financial statements.</p>



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Other Information

Management is responsible for the other information in the Group's annual report. The other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance (i.e the Board of Directors of the Bank).

Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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



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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of the most significance in the audit of the consolidated financial statements for the year ended December 31, 2021 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended December 31, 2021.

for KPMG Professional Services

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