IMPORTANT NOTICE

THE ATTACHED OFFERING CIRCULAR (THE OFFERING CIRCULAR) MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW)) AND ARE OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached Offering Circular, whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of this Offering Circular. In reading, accessing or making any other use of this Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in this Offering Circular, including any modifications made to them from time to time, each time you receive any information from BAJ Sukuk Tier 1 Limited (the Trustee), Bank AlJazira (the Bank) or the Joint Lead Managers (as defined below) as a result of such access. You acknowledge that this electronic transmission and the delivery of the Offering Circular is confidential and intended only for you and you agree you will not reproduce or publish this electronic transmission or forward the Offering Circular to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR SOLICITATION OF AN OFFER TO BUY IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THIS OFFERING CIRCULAR HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (REGULATION S)) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE JOINT LEAD MANAGERS (AS DEFINED BELOW) AND MAY NOT BE Reproduced IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

The distribution in the United Kingdom (the UK) of this Offering Circular and any other marketing materials relating to the Certificates is being addressed to, or directed at: (A) if the distribution of the Certificates is being effected by a person who is not an authorised person under the Financial Services and Markets Act 2000, as amended (the FSMA), only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Financial Promotion Order); (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the Promotion of CISs Order); (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; and (iii)
any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order (all such persons together being referred to as Relevant Persons). Persons of any other description in the UK may not receive and should not act or rely on this Offering Circular or any other marketing materials in relation to the Certificates.

Potential investors in the UK in the Certificates are advised that all, or most, of the protections afforded by the UK regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the UK Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

CONFIRMATION OF YOUR REPRESENTATION: By accepting this electronic communication and accessing, reading or making any other use of this Offering Circular, you shall be deemed to have represented to each of Alinma Investment Company, AJazira Capital Company and J.P. Morgan Securities plc (together, the Joint Lead Managers), the Trustee and the Bank that: (i) you understand and agree to the terms set out herein; (ii) you are a Relevant Person; (iii) you are not a U.S. person (within the meaning of Regulation S), or acting for the account or benefit of a U.S. person, and, to the extent that you purchase the Certificates described herein, you will be doing so pursuant to Regulation S, and that the electronic mail address that you have given is not located in the United States (including the State and District of Columbia), its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands); (iv) you are a person who is permitted under applicable law and regulation to receive this Offering Circular; (v) you consent to delivery of such Offering Circular and any supplements thereto by electronic transmission; (vi) you will not transmit this Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person; (vii) if you are a person in Hong Kong, you are a “professional investor” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) and any rules made under the SFO and (viii) you acknowledge that you will make your own assessment regarding any credit, investment, legal, Shariah, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Certificates.

This Offering Circular may not be distributed in the Kingdom of Saudi Arabia (the Kingdom) except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations (the Rules on the Offer of Securities and Continuing Obligations) issued by the Board of the Capital Market Authority (the CMA).

The CMA does not make any representation as to the accuracy or completeness of this Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. Prospective purchasers of the Certificates offered hereby should conduct their own due diligence on the accuracy of the information relating to the Certificates. If you do not understand the contents of the Offering Circular you should consult an authorised financial adviser.

The Certificates are being offered by way of an offer restricted to sophisticated investors. To qualify as an offer restricted to sophisticated investors, the Certificates may only be offered and sold in the Kingdom in accordance with Article 9 of the Rules on the Offer of Securities and Continuing Obligations. In accordance with Article 11(a)(2) of the Rules on the Offer of Securities and Continuing Obligations, the CMA has been notified about the offering of the Certificates.
The Saudi Central Bank (SAMA) does not make any representation as to the accuracy or completeness of this Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. In particular, prospective purchasers of the Certificates agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Certificates for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event. See “Risk Factors–The circumstances triggering a Write-down are unpredictable” and “Risk Factors–Certificateholders’ right to receive payment of the face amount of the Certificates and the Certificateholders’ right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Offering Circular, electronically or otherwise, to any other person and in particular to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

This Offering Circular does not constitute, and may not be used in connection with, an offer to sell or solicitation to buy in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of the Certificates described herein be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Bank, the Trustee or holders of the applicable Certificates in such jurisdiction.

Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the Offering Circular or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the Trustee, the Bank or the offer of the Certificates. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the Offering Circular and none of the Joint Lead Managers or their respective affiliates accepts any responsibility for any acts or omissions of the Trustee, the Bank or any other person in connection with the Offering Circular or issue and offering of the Certificates.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, the Trustee, the Bank nor any person who controls or is a director, officer, employee or agent of any Joint Lead Manager, the Trustee, the Bank nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Bank, the Trustee, the Joint Lead Managers. If you received this Offering Circular by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. If you receive this Offering Circular by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Notification under Section 309(B) of the Securities and Futures Act (Chapter 289) of Singapore (the SFA) - the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are ‘prescribed capital markets products’ (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and ‘excluded investment products’ (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).
UK MIFIR product governance / professional investors and ECPs only target market: Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the EUWA); and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a distributor) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

PRIIPS regulation / prohibition of sales to EEA retail investors: The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended (MiFID II); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Consequently, no key information document required by Regulation (EU) No 1286/2014 (the PRIIPS Regulation) for offering or selling the Certificates or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

UK PRIIPS regulation / prohibition of sales to UK retail investors: The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA, and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Consequently no key information document required by the PRIIPS Regulation as it forms part of domestic law by virtue of the EUWA (the UK PRIIPS Regulation) for offering or selling the Certificates or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPS Regulation.

The distribution of this Offering Circular and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Joint Lead Managers, the Trustee and the Bank to inform themselves about, and to observe, any such restrictions.
The U.S.$500,000,000 Tier 1 Capital Certificates (the Certificates) of BAJ Sukuk Tier 1 Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the Trustee) will be constituted by a declaration of trust (the Declaration of Trust) dated 29 June 2021 (the Issue Date) entered into between the Trustee, Bank AlJazira (the Bank) and Citibank, N.A., London Branch as (i) the donee of certain of the Trustee’s powers and (ii) the delegate of the Trustee (the Delegate). The Certificates confer on the holders of the Certificates from time to time (the Certificateholders) the right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the Trust) over the Trust Assets (as defined herein) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the Conditions).

If a Non-Viability Event (as defined herein) occurs prior to the Effective Date (as defined herein), a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (Write-down at the Point of Non-Viability). In such circumstances, the Certificates shall be cancelled (in the case of a Write-down in whole) or Written-down (as defined herein) in part on a pro rata basis (in the case of a Write-down in part) by the Trustee and the Certificateholders’ rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally Written-down in a proportion corresponding to the relevant Write-down Amount (as defined herein). See “Risk Factors – Certificateholders’ right to receive payment of the face amount of the Certificates and the Certificateholders’ right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”).

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 29 June 2026 (the First Call Date) at a rate of 3.950 per cent. per annum from amounts of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as further described below). If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate (as defined in the Conditions) plus a margin of 3.038 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 29 June and 29 December in each year, commencing 29 December 2021. Payments on the Certificates will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, witheld or assessed by or on behalf of any Relevant Jurisdiction (as defined herein) (the Taxes) to the extent described under Condition 13 (Taxation). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that the Bank (in its capacity as Mudareb (as defined herein)) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined herein). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined herein) occurs, and are otherwise at the sole discretion of the Bank (as Mudareb). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The payment obligations of the Bank under the Mudaraba Agreement (as defined herein) (including all payments which are the equivalent of principal and profit) (the Relevant Obligations) will, in any Winding-up Proceeding (as defined in the Conditions), rank (i) subordinate and junior to all Senior Obligations but not further or otherwise; (ii) pari passu with all other Pari Passu Obligations; and (iii) in priority to all Junior Obligations (as each defined in the Conditions).

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem all but not some only of the Certificates on the First Call Date or on any Periodic Distribution Date thereafter in accordance with Condition 10.1(b) (Trustee’s Call Option). In addition, upon the occurrence of a Tax Event or a Capital Event (as each defined in the Conditions), the Certificates may be redeemed in whole (but not in part) (by the Trustee but only on the instructions of the Bank (acting in its sole discretion)), at any time on or after the Issue Date in accordance with Conditions 10.1(c) (Redemption due to Taxation) and 10.1(d) (Redemption for Capital Event). Any redemption is subject to the conditions described in Condition 10.1 (Redemption).

The Bank has been assigned long term ratings of “BBB+” with a “negative outlook” by Fitch Ratings Limited (Fitch) and “Baa1” with a “negative outlook” by Moody’s Investors Service Ltd. (Moody’s). Each of Fitch and Moody’s is established in the United Kingdom (the UK) and is registered under Regulation (EC) No. 1060/2009 (as amended) as a credit rating agency by the Financial Conduct Authority (FCA) on its website at https://www.fca.org.uk/firms/financial-services-register in accordance with the UK CRA Regulation. Each of Fitch and Moody’s is included in the list of credit rating agencies published by the UK’s Financial Conduct Authority pursuant to Article 36 of the Benchmarks Regulation (Regulation (EU) 2016/1011) for the purposes of Article 2(1)(A) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (the UK MIFIR).

The Bank has been assigned long term ratings of “BBB+” with a “negative outlook” by Fitch Ratings Limited (Fitch) and “Baa1” with a “negative outlook” by Moody’s Investors Service Ltd. (Moody’s). Each of Fitch and Moody’s is established in the United Kingdom (the UK) and is registered under Regulation (EC) No. 1060/2009 (as amended) as a credit rating agency by the Financial Conduct Authority (FCA) on its website at https://www.fca.org.uk/firms/financial-services-register in accordance with the UK CRA Regulation. Each of Fitch and Moody’s is included in the list of credit rating agencies published by the UK’s Financial Conduct Authority pursuant to Article 36 of the Benchmarks Regulation (Regulation (EU) 2016/1011) for the purposes of Article 2(1)(A) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (the UK MIFIR).

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of any rating assigned to the Certificate may adversely affect the market price of the Certificates. The Certificates will be limited recourse obligations of the Trustee.

An investment in the Certificates involves certain risks. For a discussion of these risks, see “Risk Factors”.

Application has been made to the London Stock Exchange plc (the London Stock Exchange) for the Certificates to be admitted to the London Stock Exchange’s International Securities Market (the ISM). The ISM is a regulated market for the purposes of Article 2(1)(13)A of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (the UK MIFIR) for Euroclear Bank SA/NV (Euroclear) and Clearstream Banking

The Certificates will be represented by interests in a global certificate in registered form (the Global Certificate) deposited on or before the Issue Date with, and registered in the name of a nominee for, a common depositary (the Common Depository) for, Euroclear Bank SA/NV (Euroclear) and Clearstream Banking
The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"); they are intended to be offered, sold or otherwise made available only to and should not be offered, sold or otherwise made available to any retail investor in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) or with any securities intermediary located in, or registered or licensed in, the United States, unless such offers or sales are made in compliance with the Securities Act and the applicable rules and regulations thereunder.

The Certificates are not registered with or approved by any regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Certificates may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) or with any securities intermediary located in, or registered or licensed in, the United States, unless such offers or sales are made in compliance with the Securities Act and the applicable rules and regulations thereunder.

The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended (MiFID II); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended (MiFID II); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Certificates may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) or with any securities intermediary located in, or registered or licensed in, the United States, unless such offers or sales are made in compliance with the Securities Act and the applicable rules and regulations thereunder.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S. $200,000 and integral multiples of U.S. $1,000 in excess thereof.

The Certificates are being offered by way of an offer restricted to sophisticated investors. To qualify as an offer restricted to sophisticated investors, the Certificates offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser.

This Offering Circular may not be distributed in the Kingdom of Saudi Arabia (the "Kingdom", "KSA" or "Saudi Arabia") except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority (the "CMA") (the Rules on the Offer of Securities and Continuing Obligations). The CMA does not make any representation as to the accuracy or completeness of this Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser.

The Certificates are being offered by way of an offer restricted to sophisticated investors. To qualify as an offer restricted to sophisticated investors, the Certificates may only be offered and sold in the Kingdom in accordance with Article 9 of the Rules on the Offer of Securities and Continuing Obligations. In accordance with Article 11(a)(2) of the Rules on the Offer of Securities and Continuing Obligations, the CMA has been notified about the offering of the Certificates.

The distribution of this Offering Circular and the offering, sale and delivery of the Certificates in any jurisdiction other than the Kingdom may be restricted by law.

Joint Lead Managers and Bookrunners

Alinma Investment  
AlJazira Capital  
J.P. Morgan

The date of this Offering Circular is 28 June 2021
The Offering Circular is not a prospectus for the purposes of Regulation (EU) 2017/1129 or Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

The Trustee and the Bank accept responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Trustee and the Bank (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Offering Circular should be read and construed together with any amendments or supplements hereto and with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

Other than in relation to the documents which are deemed to be incorporated by reference (see “Documents Incorporated by Reference”), the information on the websites to which this Offering Circular refers does not form part of this Offering Circular and has not been scrutinised or approved by the FCA.

The opinions, assumptions, intentions, projections and forecasts expressed in this Offering Circular with regard to the Trustee and the Bank are honestly held by the Trustee and the Bank, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

None of the Joint Lead Managers, the Delegate or the Agents (as defined in the Agency Agreement), or any of their respective directors, affiliates, advisers or agents, has independently verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them (i) as to the accuracy, adequacy, reasonableness or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Trustee or the Bank in connection with the Certificates or (ii) for any acts or omissions of the Trustee, the Bank or any other person in connection with this Offering Circular or the issue and offering of the Certificates.

To the fullest extent permitted by law, the Joint Lead Managers, the Delegate and the Agents accept no responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by a Joint Lead Manager, the Delegate or any Agent or on its behalf in connection with the Trustee, the Bank or the issue and offering of the Certificates. Each Joint Lead Manager, the Delegate and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Trustee, the Bank, the Delegate or the Agents to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Trustee, the Bank, the Delegate, the Agents or any of the Joint Lead Managers. None of the Joint Lead Managers, the Delegate or the Agents, or any of their respective directors, affiliates, advisers or agents make any representation or warranty or accept any liability as to the accuracy or completeness of the information contained in this Offering Circular.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in this Offering Circular is correct subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Trustee or the Bank since the date hereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.
No comment is made, or advice given, by the Trustee, the Delegate, the Agents, the Bank or the Joint Lead Managers, or any of their respective directors, affiliates, advisers or agents, in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The transaction structure relating to the Certificates (as described in this Offering Circular) has been approved by the Alinma Investment Sharia’h Committee, the Shariah Committee of Bank AlJazira and the Shariah advisers of J.P. Morgan Securities plc. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Shariah advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Shariah principles.

Each prospective investor is advised to consult its own Shariah adviser, tax adviser, legal adviser and business adviser as to Shariah, tax, zakat, legal, business and related matters concerning the purchase of any Certificates.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Joint Lead Managers, the Trustee, the Delegate, the Agents or the Bank makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The distribution of this Offering Circular and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Trustee, the Bank, the Joint Lead Managers, the Delegate or the Agents, or any of their respective directors, affiliates, advisers or agents represents that this Offering Circular may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Bank, the Joint Lead Managers, the Delegate or the Agents, or any of their respective directors, affiliates, advisers or agents, which is intended to permit a public offering of the Certificates or distribution of this Offering Circular in any jurisdiction where action for that purpose is required.

Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or such affiliate on behalf of the Trustee in such jurisdiction.

Persons into whose possession this Offering Circular comes are required by the Trustee, the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions. In particular, there are restrictions
on the distribution of this Offering Circular and the offer or sale of the Certificates in the United States, the UK, the EEA, the Cayman Islands, the KSA, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait, the Kingdom of Bahrain, the State of Qatar (including the Qatar Financial Centre), Japan, Hong Kong, Malaysia, Singapore and Switzerland.

For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of this Offering Circular and other offering material relating to the Certificates, see “Subscription and Sale”.

This Offering Circular does not constitute an offer or an invitation to subscribe for or purchase Certificates, is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Trustee, the Bank, the Delegate, the Agents or the Joint Lead Managers, or any of their respective directors, affiliates, advisers or agents that any recipient of this Offering Circular or any other information supplied in connection with the issue of the Certificates should subscribe for, or purchase, the Certificates. Each recipient of this Offering Circular should make, and shall be taken to have made, its own independent investigation and appraisal of the condition (financial or otherwise) and affairs, and its own appraisal of the creditworthiness, of the Trustee and the Bank. None of the Joint Lead Managers, the Delegate or any Agent undertakes to review the financial condition or affairs of the Trustee or the Bank during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Joint Lead Managers, the Delegate or any Agent. None of the Joint Lead Managers, the Delegate or the Agents, or any of their directors, affiliates, advisers or agents, accepts any liability in relation to the information contained in this Offering Circular or any other information provided by the Trustee or the Bank in connection with the Certificates.

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should, either on its own or with the help of its financial and other professional advisers:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Offering Circular;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor’s currency;

(iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor’s overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments...
for it; (b) the Certificates can be used as collateral for various types of financing; and (c) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.
STABILISATION

In connection with the issue of the Certificates, J.P. Morgan Securities plc (the Stabilisation Manager) (or persons acting on behalf of the Stabilisation Manager) may effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager shall act as principal and not as agent of the Trustee or the Bank. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the Issue Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. Any stabilisation action conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) must be conducted in accordance with all applicable laws and rules.
CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Offering Circular may be deemed to be forward looking statements. The words “anticipate”, “believe”, “expect”, “plan”, “intend”, “targets”, “aims”, “seeks”, “estimate”, “project”, “will”, “would”, “may”, “could”, “continue”, “should” and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in this Offering Circular, including, without limitation, those regarding the financial position of the Bank, or the business strategy, management plans and objectives for future operations of the Bank, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank’s actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward-looking statements are contained in the sections entitled “Risk Factors” and “Business Description of the Bank” and other sections of this Offering Circular. The Bank has based these forward looking statements on the current view of its management with respect to future events and financial performance. These forward looking statements are based on numerous assumptions regarding the Bank’s present, and future, business strategies and the environment in which the Bank expects to operate in the future. Important factors that could cause the Bank’s actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in this Offering Circular (see “Risk Factors”).

Forward looking statements speak only as at the date of this Offering Circular and, without prejudice to any requirements under applicable laws and regulations, the Trustee and the Bank expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in this Offering Circular to reflect any change in the expectations of the Trustee or the Bank or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Trustee and the Bank cannot assure potential investors that projected results or events will be achieved and the Trustee and the Bank caution potential investors not to place undue reliance on these statements.
PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical financial statements

The financial statements relating to the Bank and its subsidiaries (the Group) and incorporated by reference in this Offering Circular are:

- the unaudited interim condensed consolidated financial statements as at, and for the three months ended, 31 March 2021 (the Interim Financial Statements);
- the audited consolidated financial statements as at, and for the year ended, 31 December 2020 (the 2020 Financial Statements); and
- the audited consolidated financial statements as at, and for the year ended, 31 December 2019 (the 2019 Financial Statements and, together with the 2020 Financial Statements, the Annual Financial Statements and, together with the Interim Financial Statements, the Financial Statements).

The Annual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (formerly known as the Saudi Organization for Certified Public Accountants) (SOCPA) and in compliance with the provisions of the Banking Control Law issued by Royal Decree No. M/5. dated 22/02/1386H (corresponding to 12/06/1966G) (BCL), the regulations for companies in the Kingdom and the by-laws of the Bank. See note 2(a)(i) to the 2020 Financial Statements and 2019 Financial Statements.

The Interim Financial Statements were prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” that is endorsed in the Kingdom and other standards and pronouncements issued by SOCPA and in compliance with the provisions of the BCL, the regulations for companies in the Kingdom and the by-laws of the Bank. See note 2 to the Interim Financial Statements.

The Group’s financial information as at and for the years ended 31 December 2019 and 2020 included in this Offering Circular has been derived without material adjustment from the 2020 Financial Statements. The financial information as at and for the year ended 31 December 2018 included in this Offering Circular has been derived without material adjustment from the comparative column of the 2019 Financial Statements. The financial information as at and for the three months ended 31 March 2021 included in this Offering Circular has been derived without material adjustment from the Interim Financial Statements.

The Group’s financial year ends on 31 December and references in this Offering Circular to “2018”, “2019” and “2020” are to the 12-month period ending on 31 December in each such year.

The Trustee is a special purpose company established in the Cayman Islands. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint an auditor.

Auditors

The 2020 Financial Statements have been jointly audited by the Bank’s independent auditors, KPMG Professional Services (KPMG) and PricewaterhouseCoopers Certified Public Accountants (PwC) in accordance with International Standards on Auditing that are endorsed in the Kingdom. KPMG and PwC have issued an unqualified audit report on the 2020 Financial Statements.

The 2019 Financial Statements have been jointly audited by the Bank’s independent auditors, KPMG and Ernst & Young & Co (Public Accountants) General Partnership (EY), in accordance with International Standards on
Auditing that are endorsed in the Kingdom. KPMG and EY have issued an unqualified audit report on the 2019 Financial Statements.

The Interim Financial Statements have been jointly reviewed by KPMG and PwC 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. KPMG and PwC have issued an unqualified review report on the Interim Financial Statements.

Certain financial information in this Offering Circular is unaudited financial information which has been extracted without material adjustment from the accounting records of the Group which form the underlying basis of the Financial Statements.

**Certain non-IFRS financial information**

This Offering Circular includes references to capital and certain other ratios. Although these ratios are not IFRS measures, the Group believes that the capital ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels.

**Restatement of 2018 financial information**

On 17 July 2019, SAMA instructed banks in Saudi Arabia to account for Zakat and income taxes in the statement of income rather than, as they had previously done, in the statement of changes in equity. This aligns with IFRS and its interpretations as issued by the International Accounting Standards Board (IASB) endorsed in the Kingdom and with the other standards and pronouncements that are issued by the SOCPA.

Accordingly, the Group changed its accounting treatment for Zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard (IAS 8) “Accounting Policies, Changes in Accounting Estimates and Errors” and the effects of this change are disclosed in note 3 to the 2019 Financial Statements.

Based on the above restatement, financial information as at and for the year ended 31 December 2018 relating to the Group and included in this Offering Circular has been derived without material adjustment from the comparative column of the 2019 Financial Statements.

**Presentation of Other Information**

**Currencies**

Unless otherwise indicated, in this Offering Circular, all references to:

- “riyal” and “SAR” are to the lawful currency of Saudi Arabia; and
- “U.S. dollars” and “U.S.$” are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in this Offering Circular has been expressed in riyal. The Bank’s functional currency is the riyal and the Group prepares its financial statements in riyal.

The conversion of amounts from riyal to U.S. dollars in this Offering Circular is solely for the convenience of the reader. The riyal is pegged to the U.S. dollar at a fixed exchange rate (currently U.S.$1.00 = SAR 3.75) and, unless otherwise stated, all conversions of riyal amounts to U.S. dollar amounts in this Offering Circular have been converted at this rate. The peg to the U.S. dollar has been maintained by SAMA at this rate since 1986.
Third party and market share data

This Offering Circular contains information regarding the Group’s business and the industry in which it operates and competes, which the Group has obtained from third party sources. The Group and other institutions operating in the banking and financial services industry in Saudi Arabia make available a wide range of financial and operational information to regulatory and market bodies, including SAMA and the CMA. These bodies use certain of the data supplied to publish statistical information, among other matters. However, no assurance can be made that the information reported to these bodies by different market participants is, in all cases, directly comparable. Where third party information has been used in this Offering Circular, the source of such information has been identified.

In some cases, independently determined industry data is not available. In these cases, any Group market share data included in this Offering Circular is referred to as having been estimated. All such estimates have been made by the Group using its own information and other market information which is publicly available. The Bank believes that these estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates, as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Bank’s knowledge of the market within which the Group operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Saudi Arabia included in this Offering Circular has been derived from official public sources, including the General Authority for Statistics (GASTAT), SAMA, the Ministry of Finance, the Ministry of Economy and Planning, the International Monetary Fund (IMF) and the Organization of the Petroleum Exporting Countries (OPEC). All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased the Certificates.

Where information has not been independently sourced, it is the Group’s own information.

No incorporation of website information

The Bank’s website is https://www.bankaljazira.com. The information on this website or any other website mentioned in this Offering Circular or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Offering Circular, and investors should not rely on it.

Definitions

In this Offering Circular, references to:

- a billion are to a thousand million;
- the GCC are to the Cooperation Council for the Arab States of the Gulf, the members of which are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE;
- Government are to the Saudi Arabian government;
- the MENA region are to the Middle East and North Africa region; and
- the PRC or China are to the People’s Republic of China, excluding Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan.
Rounding

Certain data in this Offering Circular has been rounded to the nearest thousand, million or billion. For the purposes of calculating certain figures and percentages, the rounded figures presented in this Offering Circular have been used. As a result of such rounding, the totals of data presented in tables in this Offering Circular may vary slightly from the arithmetic totals of such data. Where the figure “0” appears in a table, it means that the relevant data has been rounded to zero. Where the symbol “—” appears in a table, it means there is no data for the relevant item.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Factors</td>
<td>1</td>
</tr>
<tr>
<td>Documents Incorporated by Reference</td>
<td>34</td>
</tr>
<tr>
<td>Structure Diagram and Cash Flows</td>
<td>35</td>
</tr>
<tr>
<td>Overview of the Offering</td>
<td>38</td>
</tr>
<tr>
<td>Terms and Conditions of the Tier 1 Capital Certificates</td>
<td>45</td>
</tr>
<tr>
<td>Global Certificate</td>
<td>82</td>
</tr>
<tr>
<td>Use of Proceeds</td>
<td>85</td>
</tr>
<tr>
<td>Description of the Trustee</td>
<td>86</td>
</tr>
<tr>
<td>Selected Financial Information</td>
<td>88</td>
</tr>
<tr>
<td>Financial Review</td>
<td>90</td>
</tr>
<tr>
<td>Description of the Business of the Group</td>
<td>114</td>
</tr>
<tr>
<td>Risk Management</td>
<td>138</td>
</tr>
<tr>
<td>Management and Employees</td>
<td>142</td>
</tr>
<tr>
<td>The Kingdom of Saudi Arabia Banking Sector and Regulations</td>
<td>155</td>
</tr>
<tr>
<td>Summary of the Principal Transaction Documents</td>
<td>171</td>
</tr>
<tr>
<td>Taxation</td>
<td>177</td>
</tr>
<tr>
<td>Subscription and Sale</td>
<td>188</td>
</tr>
<tr>
<td>General Information</td>
<td>194</td>
</tr>
</tbody>
</table>
RISK FACTORS

The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Offering Circular.

Each of the Trustee and the Bank believes that the following factors may affect its ability to fulfil its obligations under the Certificates and the Transaction Documents. All of these factors are contingencies which may or may not occur. Factors which the Trustee and the Bank believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Trustee and the Bank believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee and the Bank to pay any amounts on or in connection with the Certificates and the Transaction Documents may occur for other reasons and neither the Trustee nor the Bank represents that the statements below regarding the risks of holding any Certificate are exhaustive.

Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and “Global Certificate” shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE’S ABILITY TO FULfil ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE CERTIFICATES

The Trustee has no operating history and no material assets

The Trustee is an exempted company with limited liability incorporated under the laws of the Cayman Islands on 28 April 2021 and has no operating history. The Trustee has not as at the date of this Offering Circular, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee’s only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement. Therefore, the Trustee is subject to all the risks to which the Group is subject to the extent that such risks could limit the Bank’s ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The Certificates represent limited recourse obligations of the Trustee and the recourse of the Certificateholders against the Trustee in relation to the Certificates is limited to the Trust Assets and the proceeds from the Trust Assets.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from the Bank of amounts to be paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents). See “—Risks Relating to the Group and its Ability to Fulfil its Obligations under the Transaction Documents”.

RISKS RELATING TO THE GROUP AND ITS ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS

The Group is subject to economic and political risks in the KSA and the countries with which it deals

The majority of the Group’s assets, operations and interests are located in the KSA. Accordingly, its business is, and will continue to be, generally affected by the financial, political and general economic conditions from time to time prevailing in or affecting the KSA and the Middle East generally, which in turn is affected by the prevailing level of global crude oil prices.

As a result of the decrease in Government revenues occasioned by the relatively lower oil price environment since mid-2014, the Government has recorded fiscal deficits since then. The Ministry of Finance has estimated that Saudi Arabia’s budget deficit for the fiscal year 2020 will be SAR 298.0 billion (U.S.$79.5 billion) compared to SAR 132.6 billion (U.S.$35.4 billion) in the fiscal year 2019. The Kingdom’s higher than expected deficit for 2020 is primarily due to the impact of novel strain of coronavirus (COVID-19) pandemic and the continued low oil price environment during the year. The Ministry of Finance has estimated a deficit of SAR 141.0 billion (U.S.$37.6 billion) for fiscal 2021. However, there can be no assurance that the Kingdom’s actual budget deficit for 2021 will not be greater than anticipated, particularly in light of the significant uncertainty due to the ongoing COVID-19 pandemic and the oil price environment.

Although the KSA continues to pursue a policy of diversification, including the Saudi Vision 2030 (a strategic framework to reduce Saudi Arabia’s dependence on oil, diversify its economy and develop public service sectors) and the National Transformation Program 2020 (an economic action plan implemented as part of the Saudi Vision 2030), to enhance the contribution of the non-oil sector to its GDP, oil income will continue to play a pivotal role in its economic planning and development. International oil prices have fluctuated significantly over the past two decades, and may remain volatile in the future. Any sustained downturn in oil prices could substantially slow down or disrupt the KSA’s economy, and the banking sector in particular, which would in turn have an adverse impact on the Group and the market price of the Certificates (see “— The KSA’s economy remains dependent on its oil revenue”).

Like other countries in the Middle East, the KSA could be affected by the ongoing regional geopolitical instability (see “— The Group operates in a region that is subject to ongoing political and security concerns”). While the political environment in the KSA is seen as relatively stable for the region, the Government faces a number of challenges arising mainly from the relatively high levels of population growth and unemployment among the Saudi youth and the security threat posed by certain groups of extremists, which may have an adverse effect on the KSA’s economy. In addition, the KSA has experienced occasional terrorist attacks and other disturbances in recent years. On 14 September 2019, the Abqaiq processing facility and the Khurais oil field in Saudi Arabia were damaged in a major act of sabotage which resulted in the temporary interruption of Saudi Arabia’s oil and gas production. The Al-Houthi rebels claimed responsibility for the act of sabotage, although this claim has not been verified and has been disputed. On 23 November 2020, an explosion took place as a result of a terrorist attack by a projectile, causing a fire in a fuel tank at a Saudi Aramco petroleum products distribution terminal in the north of Jeddah.

There can be no assurance that extremists or terrorist groups will not attempt to target the KSA or commit, or attempt to commit, acts of violence in the future. A general downturn or sustained deterioration in the economy of the KSA, instability in certain sectors of the KSA or the regional economy or any major political upheaval therein could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

Investors in emerging markets should also be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks (see “— Investing in emerging markets generally involves a higher degree of risk”).
Uncertainty in the KSA and global economy has affected and could continue to materially adversely affect the Group’s business, results of operations, financial condition and prospects

The Group, in common with other financial institutions, is susceptible to changes in the macro-economic environment and the performance of financial markets generally. The financial services industry generally prospers in periods of economic growth and stable geopolitical conditions and benefits from capital markets that are transparent, deep, liquid and buoyant. The ongoing volatility in the macro-economic climate has adversely impacted investment markets globally and generally resulted in reduced liquidity, greater volatility in interest rates and exchange rates, decreased returns from securities, property and other investments and lack of price transparency in credit markets.

Low international prices for hydrocarbon products have had a significant adverse effect on the oil-revenue dependent GCC economies, often resulting in reduced fiscal budgets and public spending plans and increased budgetary deficits across the GCC. In particular, the recent abrupt oil price decline may precipitate a prolonged economic slowdown and recession (see “— The KSA’s economy remains dependent on its oil revenue”). Further, and in response to the ongoing oil crisis, certain regional oil-producing countries that have traditionally “pegged” their domestic currencies to the U.S. dollar may face pressure to remove or re-evaluate these foreign exchange “ pegs”. Any such future de-pegging or re-evaluation by the GCC states would pose a systemic risk to the regional banking systems by virtue of the probable devaluation of any such de-pegged currency against the U.S. dollar and the resulting impact on the open cross-currency positions held by regional banks (see “— Any alteration to, or abolition of, the foreign exchange “peg” of the Saudi Riyal or other regional currencies at a fixed exchange rate to the U.S. dollar will expose the Group to U.S. dollar foreign exchange movements against the Saudi Riyal or other such currencies”).

In a referendum held in June 2016, voters in United Kingdom voted to exit the European Union. The results of the referendum led to a significant depreciation of the pound sterling against other major currencies and created volatility on most major stock exchanges around the world. To the extent that such economic uncertainty continues or the United Kingdom’s exit from the European Union causes further economic uncertainty and disruption in the global financial markets, this may have adverse consequences for the global economy. Additionally, an inward global shift in trade policies, including towards protectionism (particularly among the KSA’s key trading partners), could result in lower global growth due to reduced trade, migration and cross-border investment flows, and could in turn slow non-oil growth in the KSA. In addition, a future global economic downturn could impact global demand for oil and oil prices.

The business, results of operations, financial condition and prospects of the Group were materially adversely affected by the market conditions experienced in 2020 and to date in 2021. Companies to which the Group directly extends credit have experienced, and may continue to experience, decreased revenues, financial losses, insolvency, difficulty in obtaining access to financing and increased funding costs. Some of these companies have been unable to meet their debt service obligations or other expenses as they become due, including amounts payable to the Group. The Group’s impairment charge for loans and advances for expected credit losses (ECL) totalled SAR 122 million and SAR 153 million for the three months ended 31 March 2020 and 31 March 2021 and SAR 1.6 billion, SAR 157 million and SAR 107 million for the years ended 31 December 2020, 2019 and 2018, respectively. If current market conditions continue to deteriorate, the Group may incur further impairment charges and experience increases in defaults by its debtors which would have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

The Group operates in a region that is subject to ongoing political and security concerns

The MENA region is subject to a number of geopolitical and security risks. In March 2015, a coalition of countries, led by the KSA and supported by the international community, commenced military action against the Al-Houthi rebels in Yemen. The conflict in Yemen has not yet been fully resolved and military operations continue at a reduced scale. The KSA has been targeted on several occasions by ballistic missiles fired by the Al-Houthi rebels in Yemen since 2017, and, while the majority of these missile attacks were successfully intercepted by the KSA’s defence systems, there can be no assurance that the conflict in Yemen will not continue or re-escalate. In addition,
on 23 November 2020, an explosion took place as a result of a terrorist attack by a projectile, causing a fire in a fuel tank at a Saudi Aramco petroleum products distribution terminal in the north of Jeddah. The Al-Houthi rebels claimed responsibility for the act of sabotage, although this claim has not been verified and has been disputed. There can be no assurance as to what impact these or any other future act of sabotage may have on the geopolitical situation in the region, including any potential escalation of tensions (see “— The KSA’s economy remains dependent on its oil revenue”).

Tensions have persisted between the KSA and Iran. In January 2016, the KSA recalled its ambassador to Iran. In May 2018, the United States announced its withdrawal from the Joint Comprehensive Plan of Action between the United Nations Security Council’s five permanent members plus Germany and Iran that was reached in July 2015, reinstating primary U.S. sanctions on the Iranian regime. In January 2020, the United States carried out a military strike which killed a senior Iranian military commander, leading to retaliatory Iranian strikes at a US base in Iraq. Any continuation of or increase in international or regional tensions regarding Iran, including further attacks on or seizures of oil tankers which disrupt international trade, any impairment of trade flow through the Strait of Hormuz, or any military conflict, could have a destabilising impact on the Gulf region, including the KSA and its ability to export oil.

These situations have caused significant disruption to the economies of the affected countries, have given rise to increased political uncertainty across the MENA region and have had a destabilising effect on oil and gas prices. There is no certainty that extremists or terrorist groups will not escalate violent activities in the MENA region, or that any currently stable governments in the MENA region will be successful in maintaining the prevailing levels of domestic order and stability. As it is not generally possible to predict the occurrence or impact of events or circumstances, such as war, hostilities or diplomatic rifts, no assurance can be given that the Group would be able to sustain the profitable operation of its business if adverse political events or circumstances impacting the MENA region were to occur.

Investors should also note that the Group’s business and financial performance could be adversely affected by political, economic or related developments outside the MENA region because of inter-relationships within the global financial markets. Moreover, there is no certainty that the governments of the countries to which the Group is particularly exposed will not implement restrictive fiscal or monetary policies or regulations, including changes with respect to interest rates and new legal interpretations of existing regulations, any of which could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

The KSA’s economy remains dependent on its oil revenue

The KSA’s economy remains dependent upon oil revenue. As oil is the KSA’s main export, any change in oil prices affects various macroeconomic and other indicators, including, but not limited to, GDP, Government revenues, balance of payments and foreign trade. International oil prices have fluctuated significantly over the past two decades. Oil prices have continued to be volatile in the past two years, with the OPEC Reference Basket price averaging U.S.$64.04 for 2019 and, by November 2020, reaching a monthly average of U.S.$42.61 compared to April’s low of U.S.$17.66, the lowest monthly point since December 2001. The monthly price per barrel of Arabian Light Crude Oil (which is one of the five grades of crude oil produced by the KSA and constitutes part of the OPEC Reference Basket) has also moved in line with these trends.

On 6 March 2020, OPEC members and certain non-OPEC oil producing countries participating in the Declaration of Cooperation, including Russia, failed to reach an agreement to extend the voluntary crude oil production adjustments due to expire on 31 March 2020. Subsequently, the Kingdom adjusted its crude oil export prices and increased its crude oil sale allocations for April 2020. The Government also instructed Saudi Aramco to evaluate its requirements and increase its maximum sustained daily production capacity from 12 million barrels to 13 million barrels.

These events, combined with the global challenges posed by the COVID-19 pandemic, have caused a sharp drop in oil prices. The price of oil continues to fluctuate significantly on a daily basis but remains low due to uncertainty surrounding production output levels and due to significantly lower demand for oil. The OPEC Reference Basket
price reached a historic low of U.S.$14.19 per barrel on 20 April 2020. On 7 June 2020, the OPEC member states and certain non-OPEC states agreed to extend the existing production adjustments of 9.7 million barrels a day to 31 July 2020. On 15 July 2020, the production adjustment was reduced to 7.7 million barrels a day beginning 1 August 2020 to 31 December 2020. On 3 December 2020, the production adjustment was reduced to 7.2 million barrels during January, to be followed by monthly meetings until the end of March 2021 to assess market conditions and decide on further adjustments of no more than 0.5 million barrels per month. The latest meeting of OPEC member states and certain non-OPEC states took place on 5 January 2021, reaffirming the production adjustments made at the previous meeting but with the Kingdom subsequently announcing its intention to unilaterally cut production by 1 million barrels a day starting in February 2021 (the Kingdom’s Announcement). The OPEC Reference Basket price per barrel as of 31 December 2020 was U.S.$50.24. There can be no assurance that the OPEC Agreement or the Kingdom’s Announcement will be fully implemented by all relevant parties or achieve its stated goals or what effect the OPEC Agreement or the Kingdom’s Announcement will have on oil prices in the short to medium term. There can be no guarantee that oil prices will not decrease further. Factors that may affect the price of oil include, but are not limited to:

(i) economic and political developments in oil-producing regions, particularly in the Middle East;
(ii) global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
(iii) the ability of members of OPEC and other crude oil-producing nations to agree upon and maintain specified global production levels and prices;
(iv) the impact of international environmental regulations designed to reduce carbon emissions;
(v) other actions taken by major crude oil-producing or consuming countries;
(vi) prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels;
(vii) the impact of COVID-19 or other pandemic diseases; and
(viii) global weather and environmental conditions.

Low oil prices and low demand for oil may have a material adverse effect on the KSA’s economy and revenues and may ultimately cause an increase in the budget deficit and a decrease in liquidity and funding in the financial sector. The KSA has financed past budget deficits by borrowing and utilising its reserves and it may need to do so again. Any reduction in foreign exchange reserves and/or additional borrowing could result in foreign exchange outflows and have a tightening effect on liquidity and credit expansion which may not be mitigated by any adjustments in Government spending aimed at offsetting the adverse effects of any of the foregoing. Any such significant adverse effect on the KSA’s economy could, in turn, have an adverse effect on the Group’s business, financial condition and results of operations.

There can be no assurance that the Government’s efforts to diversify the KSA’s economy will be successful and such efforts may have undesirable effects

While the oil sector accounts for a significant portion of the KSA’s economy (see “—The KSA’s economy remains dependent on its oil revenue” above), in recent years the Government has invested heavily in diversifying the KSA’s economy to reduce its reliance on oil revenues. The objective of economic diversification in the KSA has taken on greater significance for the Government, and the Government has in recent years announced various measures aimed at, among other things, achieving increased diversification of the KSA’s economy, including the National Transformation Program 2020.
Through the Saudi Vision 2030, the Government is seeking to implement far-reaching reforms of the KSA’s economy and society. Some of the measures envisaged include the greater participation of Saudi citizens in the private sector, a decrease in certain subsidies historically available to the fuel and energy sectors, as well as the imposition of new taxes and administrative fees. The implementation of these and other similar measures may be a lengthy and complex process, and there can be no assurance that these measures will not have unexpected or undesirable consequences in the KSA. The implementation of these and other similar measures, in whole or in part, may have a disruptive effect and consequently may have an adverse effect on the KSA’s economic and financial condition.

There can be no assurance that the increased contribution of the non-oil sector to the KSA’s economy will continue in the future or that the non-oil sector will continue to grow at a sufficient pace to achieve effective and adequate diversification of the economy. Furthermore, there can be no assurance that the Government will be able to successfully implement Saudi Vision 2030, and/or the subset of Vision Realization Programmes (a series of programmes which aim to achieve the strategic objectives of the Saudi Vision 2030) in their current form, or that their implementation will be in line with the timelines originally set out. Any amendment to the scope or timing of the implementation of the objectives of Saudi Vision 2030 and/or the subset of Vision Realization Programmes, in whole or in part, may result in the Government being unable to achieve the planned diversification of the economy and its sources of revenue to the required extent. Additionally, to the extent that a prolonged or further decline in oil prices has an adverse impact on the Government’s revenues, this may in turn adversely impact the Government’s ability to invest in the diversification of the KSA’s economy. A failure to diversify the KSA’s economy may result in its economy remaining susceptible to the risks associated with the oil sector. Any material deterioration in the KSA’s economic and financial condition would be likely to also negatively affect its banking sector and could have a material adverse effect on the Group.

Risks relating to the emergence of the 2019 novel coronavirus COVID-19

The outbreak of COVID-19 has brought unprecedented social, economic and business continuity challenges to the world. COVID-19 was first identified in Wuhan, Hubei Province, China in late 2019. In response to the rapid spread of COVID-19, the Chinese government-imposed travel restrictions and quarantines that were intended to limit the risk of infection. However, while the spread of COVID-19 slowed in China, it continued to spread in many countries around the world, leading the World Health Organisation to declare the outbreak a global pandemic on 11 March 2020.

In March 2020, the United States, certain EU countries and countries in the Middle East, including KSA, began imposing restrictions on travel and on the freedom of movement of people. These measures, which were intended to slow the spread of COVID-19, significantly reduced economic activity and it is currently unclear how long such measures will be in place. While some countries have started to lift certain of these restrictions, they may be reintroduced with more severe conditions than those experienced to date and the ongoing and longer-term social, economic, and political consequences of COVID-19 on global and regional economies are still largely uncertain.

While the direct and indirect impact of the COVID-19 outbreak remains unclear, a number of central banks and governments have announced financial stimulus packages in anticipation of a very significant negative impact on GDP during 2020. The KSA government has introduced, amongst other things, the following measures: (a) a contribution of 60 per cent., for a period of three months, towards the salaries of Saudi employees working in the private sector; (b) a SAR 50 billion stimulus package for the private sector; (c) a general extension for the filing of tax returns and the payment of related taxes; and (d) flexibility around mutually agreed reductions in employee wages. Certain measures have been extended for an additional period. For example, SAMA’s deferred payment programme (as described in “Risks relating to recent measures implemented by SAMA in response to COVID-19”) has been extended three times; on 1 September 2020, SAMA announced the first extension for an additional three months and on 29 November 2020, SAMA announced the second extension to the end of March 2021 and on 7 March 2021, SAMA announced the third extension until June 2021. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks and a prolongation of the outbreak could significantly adversely affect economic growth, affect specific industries or countries and affect the Group’s employees and business operations.
The Bank is cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The Bank has also revised certain inputs and assumptions used for the determination of ECLs (see “Financial Review – Principal factors affecting results of operations – Impairment charges and the impact of the COVID-19 pandemic”). Furthermore, in compliance with SAMA’s instructions, as at the date of this Offering Circular, the Bank’s branches and remittance centres have resumed operations according to the working hours set by SAMA while complying with mandatory precautionary and preventive measures and all banking services are available to customers through the Bank’s electronic channels. In addition, the Bank has conducted additional stress tests, considered additional risk management practices and commenced review of credit exposure concentrations to manage potential business disruption and potential liquidity shortfall due to the COVID-19 pandemic.

However, the COVID-19 pandemic and its effects may last for an extended period of time, and could result in significant and continued market volatility, exchange trading suspensions and closures, declines in global financial markets, higher default rates, and a substantial economic downturn or recession. Any or all of the foregoing factors could impair the Bank’s ability to maintain operational standards and may disrupt the operations of the Bank’s clients and service providers, adversely affect the value and liquidity of Bank’s investments, and negatively impact the Bank’s performance and any investment in the Certificates. The extent to which COVID-19 will affect the Group’s business will depend on future developments, which are highly uncertain and cannot be predicted.

The outbreak has led to a weakening in GDP in many of the jurisdictions in which the Group operates. For instance, the Saudi Ministry of Finance’s preliminary estimates indicate that real GDP growth is expected to reach 3.2 per cent. in 2021 as compared to the real GDP growth of 2.3 per cent. in 2020 and 2.4 per cent. in 2019. Under IFRS 9, GDP is one of the factors that affects the modelling and computation of ECLs. The economic scenarios for the KSA which were used to calculate ECL at 31 December 2020 are set out in note 30.3 of the 2020 Financial Statements. These scenarios do not, however, reflect the global impacts of COVID-19 as at the end of the financial reporting period. See also “– Risks relating to recent measures implemented by SAMA in response to COVID-19”.

In order to prepare itself for the potential adverse consequences resulting from the impact of COVID-19, the Group has run several scenarios and internal models to estimate the impact of COVID-19 on its business. However, the results of these scenarios are based on judgments and estimates and a variety of factors which are outside the Group’s control can affect the losses which actually materialise. Reflecting the impact of COVID-19, the Group’s impairment charge for ECL for 2020 was SAR 1,576 million, compared to SAR 157 million for 2019 (see “– Impairment charges and the impact of the COVID-19 pandemic”). Further, pursuant to the deferred payments programme launched by SAMA in March 2020 and with a number of extensions to the programme subsequently announced, the Bank has deferred exposure of approximately SAR 2.9 billion on the Micro Small and Medium Enterprises (MSME) portfolio. See “– Risks relating to recent measures implemented by SAMA in response to COVID-19”.

Should the COVID-19 outbreak continue to cause disruption to economic activity globally in 2021, there could be a further adverse impact on the Group’s income due to lower lending and transaction volumes and potentially higher credit losses. Other potential risks include credit rating migration which could negatively impact the Group’s risk-weighted assets and capital position, and potential liquidity stress due, among other factors, to increased customer drawdowns, notwithstanding the significant initiatives that governments and central banks have put in place to support funding and liquidity.

In the event current conditions persist, the Group’s business, financial condition, results of operations, liquidity and prospects are likely to be negatively affected.
Risks relating to recent measures implemented by SAMA in response to COVID-19

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (PSFSP) in March 2020 to provide the necessary support to the MSME as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP encompasses mainly the following programmes: (a) the deferred payments programme; (b) the funding for lending program, (c) the facility guarantee programme; and (d) the point of sale (POS) and e-commerce service fee support programme.

As part of the deferred payments programme launched by SAMA in March 2020 and with a number of extensions to the programme subsequently announced, the Bank is required to defer payments on financing facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the customer’s potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 30 June 2021, and increasing the facility tenors accordingly. The accounting impact of these changes in terms of the credit facilities was assessed and was treated as per the requirements of IFRS 9 as a modification in terms of arrangement. This resulted in total modification losses amounting to SAR 199.2 million of which SAR 116.7 million was recorded in quarter ended 31 March 2021 which have been presented as part of net financing income. See further Note 18 to the Interim Financial Statements and Note 42 to the 2020 Financial Statements. As of 31 March 2021, SAR 96.7 million has been charged to the statement of income relating to unwinding of modification losses. As a result of these deferred payments programme and related extensions by SAMA, the Bank has deferred approximately exposure of SAR 2.9 billion on MSMEs portfolio.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities programmes, during 2020 the Bank received profit free deposits from SAMA amounting to SAR 2.41 billion with varying maturities, which qualify as government support. Management has determined based on the communication from SAMA that the government support primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government support accounting requirements. This resulted in a total income of SAR 236.4 million. The management has exercised certain judgements in the recognition and measurement of this government support income.

In addition, in line with its monetary and financial stability mandate, SAMA injected an amount of SAR 50 billion riyals in order to, among other matters, enhance the liquidity in the banking sector and enable banks to continue their role in providing credit facilities to private sector companies and restructure current credit facilities without any additional fees. In this regard, during the second quarter of 2020, the Bank received a SAR 1.8 billion profit free deposit with a one year maturity from SAMA. Management has determined, based on the communication received from SAMA, that this deposit primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 44.3 million in 2020.

There can be no assurance that the Bank will be able to protect itself from, amongst other things, any loss in fee and commission income, income from penalty fees, or any loss arising from deferral of payments due to the Bank, which may (individually or in aggregate) have a material adverse effect on its business, financial condition, results of operations or prospects.

The Group is exposed to significant credit risk which could result in significant losses in future periods

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Group. Credit risk arises primarily from the Group’s lending and investment activities while concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic, political or other conditions. See also “– The Group’s business is exposed to concentration risk”.
Credit risk could also arise from a general deterioration in local or global economic conditions, or from systemic risks within the financial system in which the Group operates, all of which could affect the recoverability and value of the Group’s assets, result in an increase in non-performing loans and require an increase in the Group’s provisions for the impairment of loans, securities and other credit exposures.

The Group’s non-performing loans and advances coverage ratio (calculated by dividing its allowance for expected credit losses by its non-performing loans and advances) was 158.8 per cent. as at 31 March 2021, compared to 176.6 per cent. and 149.9 per cent. as at 31 December 2020 and 2019 respectively. The Group’s non-performing loans and advances ratio (calculated by dividing its non-performing loans and advances by its total loans and advances) was 2.5 per cent. as at 31 March 2021, compared to 2.2 per cent. and 1.3 per cent. as at 31 December 2020 and 2019, respectively.

The Group calculates ECL in accordance with IFRS 9 rules and guidelines. Reflecting adverse economic developments in recent years and, in particular, the impact of COVID-19 from March 2020, the risk of certain of the Group’s customers failing to repay their loans or other obligations to the Group has increased. This has adversely affected the Group’s credit risk profile. See above for the Group’s non-performing loans and advances coverage ratio and non-performing loans and advances ratio as at 31 March 2021 as compared to 31 December 2020 and 2019.

If the Group experiences a higher than anticipated level of customer defaults and its provisions prove to be inadequate for any reason, including because of a further economic downturn or a significant failure of its credit risk management policies and procedures, this could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

In addition, the Group’s overall growth strategy may further increase credit risk. Such growth will require regular monitoring by management of its portfolio credit quality. The Group’s failure to maintain growth of its loans and advances (net) while maintaining the quality of its assets through effective risk management policies could lead to higher loan loss provisioning and higher levels of defaults and write-offs which, in turn, could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

The Group’s business is exposed to concentration risk

Given the nature of the business environment in the KSA, the Group’s investments, loans and advances (net) and customers’ deposits are concentrated in terms of geography, economic sector and currency.

As the Group’s operations are mainly based in KSA, its financial assets and liabilities are significantly concentrated geographically in KSA. As at 31 December 2020 and 2019, (a) 98.7 per cent. and 99.1 per cent., respectively, of the Group’s financial assets were geographically concentrated in KSA, (b) 97.4 per cent. and 98.4 per cent., respectively, of the Group’s financial liabilities were geographically concentrated in KSA, and (c) 88.2 per cent. and 88.6 per cent., respectively, of the Group’s commitments and contingencies were geographically concentrated in KSA. See Note 31 to the 2020 Financial Statements for further details. Accordingly, any deterioration in general economic conditions in the KSA or any failure by the Group to effectively manage its geographic risk concentration could have a material adverse effect on its business, financial condition, results of operations or prospects (see “The Group is subject to economic and political risks in the KSA and the countries with which it deals”).

In terms of economic sector risk concentrations, the Group has a high concentration of loans and advances in consumer loans, commerce and manufacturing sector borrowers. As at 31 December 2020, 19.1 and 7.9 per cent. of its total loans and advances, net were represented by the commerce and manufacturing sector, respectively. The commerce and manufacturing sectors are vulnerable to recessionary conditions, particularly where accompanied by unemployment, higher inflation and higher interest rates. Also, see Note 7(g) to the 2020 Financial Statements for the economic sector risk concentrations for the Group’s loans and advances and allowance for impairment. In addition, a significant proportion of the Group’s loan portfolio is made up of loans and advances to a relatively small number of customers. As at 31 December 2020, the Group’s 10 largest customer loans and advances
outstanding constituted 19.2 per cent. of its total loans and advances, net as at that date. Accordingly, any change that has a material adverse impact on one or more of the industry sectors in which the Group’s loans and advances are concentrated, or a material weakening in the credit quality of, or a default by, one or more of the Group’s large loan customers could result in the Group making significant additional loan loss provisions and experiencing reduced profit income and profitability. Similarly, the withdrawal or non-renewal of its customers’ deposits by any one or more of the Group’s material customers (including Government-related customers) could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive (see “— The Group is dependent on short-term funding which could materially adversely affect its results of operations”). Either of such eventualities would likely have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

In addition, the financial condition and ongoing profitability of Government-controlled or Government-related entities largely depends upon Government spending and policy. The Group may therefore be exposed to shifts in Governmental spending and policy and their impact on the level of economic activity in the KSA and in turn, on its Government-related customers, over which it has no control. The Group’s failure to adequately foresee and assess any such shifts may have an adverse effect on its business, results of operations, financial condition and prospects.

Challenging economic conditions, the COVID-19 pandemic and the related significant decline in oil prices for much of 2020 have resulted in larger budget deficits across the GCC economies coupled with reduced fiscal budgets and public spending. In particular, the KSA’s fiscal deficit equated to approximately 12.0 per cent. of GDP in 2020. To the extent the current economic conditions have an adverse impact on the KSA’s commerce and manufacturing sectors and any of the Group’s major loan customers in that sector is materially adversely affected such that its ability to make payments to the Group is impacted, this could result in a material increase in the Group’s impairment charges and adversely affect its profitability. A sustained downturn in the commerce and manufacturing industries in the KSA could therefore have a material adverse effect on the business, results of operations, financial condition or prospects of the Group.

The Group is exposed to liquidity risk which could materially adversely affect its results of operations

Like other financial services institutions in the KSA and elsewhere, the Group is exposed to liquidity risk due to maturity mismatches between its assets and liabilities. If the Group’s cash flow from its operations is not sufficient to meet its payment obligations coming due, it could experience liquidity issues, even if it continues to receive new customers’ deposits and proceeds from new financings or future revenue streams. Such liquidity mismatches could also arise if there is an unexpected outflow of customers’ deposits, if there is a material decline in the value of the Group’s liquid securities portfolio or if the Group is unable to secure short-term funding to bridge any such funding gap. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, customers’ deposits from Government institutions or short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. See also “— The Group is dependent on short-term funding which could materially adversely affect its results of operations”. Although the Group believes that its diversified funding sources in addition to its core deposit base and its liquidity risk management policies allow and will continue to allow the Group to meet its liquidity needs, there can be no assurance that this will continue to be the case and any maturity mismatches between the Group’s assets and liabilities may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

The Group is dependent on short-term funding which could materially adversely affect its results of operations

As with most KSA banks, a significant portion of the Group’s funding requirements is met through short-term funding sources, primarily in the form of customers’ deposits. For example, as at 31 December 2020, SAR 37.4 billion , or 55.0 per cent., of the Group’s total customers’ deposits of SAR 68.0 billion were demand deposits and SAR 5.5 billion , or 8.1 per cent., and SAR 15.9 billion , or 23.4 per cent., has maturities of less than three months and of between three and 12 months, respectively.
In the past, the Group’s customers’ deposits have been a stable source of funding, however, the availability of customers’ deposits is subject to fluctuation due to factors outside the Group’s control, including possible loss of consumer confidence and competitive pressures, and there can be no assurance that customers will continue to roll over or maintain their deposits with the Group. If customers fail to roll over short-term customers’ deposits with a substantial aggregate value upon maturity or withdraw their customers’ deposits from the Group, its liquidity and financial position could be adversely affected and it may be required to seek funding from more expensive sources to meet its funding requirements. No assurance can be given that the Group will be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Group’s inability to refinance or replace any withdrawn customers’ deposits with alternative funding could materially adversely affect the Group’s liquidity, business, financial condition, results of operations or prospects.

The Bank is a highly regulated entity and changes to, or to the interpretation or enforcement of, applicable laws or regulations, or the failure to comply with such laws or regulations could have an adverse impact on the Bank’s business.

Each of the Bank and its subsidiaries (including AlJazira Capital Company and Aman Insurance Agency Company) are subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of financial institutions, ensure their compliance with economic, social and other objectives and limit their exposure to risk. Such controls, laws, regulations and other rules, which include Saudi Arabian laws and regulations, as applicable (particularly, in the case of the KSA, those of SAMA and the Capital Market Law, and any relevant implementing regulations) may limit the activities of the Bank and its subsidiaries and increase their cost of doing business. Changes in laws and regulations (such as those pursuant to Basel III) and in the manner in which they are interpreted or enforced may affect the Group’s reserves, revenues and performance and may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects. In addition, a breach of regulatory guidelines could expose the Bank and/or its subsidiaries to potential liabilities and sanctions. Although the Bank works closely with its regulators and, in particular, continually monitors compliance with SAMA and CMA regulations and policy, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the Bank’s control.

There is also increased international scrutiny of banks operating in all markets in connection with sanctions, anti-money laundering, anti-terrorist financing and other regulations. The Group’s ability to comply with all such applicable laws and rules is driven by the robustness of its IT, compliance, audit and reporting systems and procedures, as well as its ability to attract and retain qualified compliance and risk management personnel (see “— The Group is exposed to operational risk which could result in damage to its reputation as well as financial losses” and “— The Group’s continued success depends on its ability to attract key management and qualified personnel”). In the event of actual or alleged compliance breaches, the Bank or its subsidiaries may become subject to investigation and judicial or administrative proceedings, which could result in penalties or lawsuits (including by customers) for damages, the loss of its ability to do business in the international banking market or in specific jurisdictions, the loss of its banking licence or otherwise materially damage its reputation, each of which could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

The Group’s reputation may be adversely affected if any of its Islamic finance products are deemed to be non-Shariah compliant

All products of the Group are complaint with the Islamic Shariah rules. All of these products are reviewed and approved by the Bank’s independent Shariah Committee. If any issues are called into question relating to the extent of Shariah compliance of committee-approved products offered by the Group, the Group’s reputation could be negatively affected which may in turn have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.
The Group’s business is exposed to market risk which could materially adversely affect its results of operations

The Group’s financial condition and results of operations could be adversely affected by market risks that are outside its control including, without limitation, volatility in one or more macroeconomic factors such as special commission rates and/or currency exchange rates.

Changes in special commission rate levels and spreads may affect the Group’s future cash flows (by adversely impacting the margin realised between the Group’s lending and investment activities and its borrowing costs), as well as the values of assets and investments that are sensitive to special commission rates and spread changes. Changes in debt, equity and commodity prices may also affect the values of the Group’s investment and trading portfolios.

Although the Group monitors profit rates with respect to its assets and liabilities and seeks to match its profit rate positions, profit rate movements may lead to mismatches between the profit rates on its profit-bearing assets and profit-bearing liabilities which, in turn, may adversely affect the Group’s net profit income. In particular, the Group provides its mortgage and personal finance loans on a fixed profit rate basis over the full term of each loan. As at 31 March 2021, the Group’s mortgage and personal finance loan portfolios had average terms of 18 years and 5 years, respectively. If the Group’s cost of funding increases and it is not able to pass such increased costs on to all of its existing loan customers in a timely manner or at all, whether due to the fixed rate nature of the loan or market, competitive or other conditions, this could have a material adverse effect on its business, financial condition, results of operations or prospects. In particular, changes in market conditions and any decline in customers’ deposits (see “The Group is dependent on short-term funding which could materially adversely affect its results of operations”) may lead to volatility in lending and deposit rates which may increase the Group’s exposure to mismatches. See also note 32(b)(i) to the 2020 Financial Statements which illustrates the Group’s sensitivity to changes in special commission rates in 2020 and 2019.

The Group is also exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The major foreign currency to which the Group is exposed is the U.S. dollar. Although the Group is subject to limits on its open currency positions pursuant to SAMA rules and the Group’s internal policies, significant movements in currency exchange rates may adversely affect the Group’s foreign currency positions. While the exchange rate between the U.S. dollar and the Saudi Riyal is currently fixed, there can be no assurance that the Government will not reconsider the KSA’s exchange rate policy in the future (see “Any alteration to, or abolition of, the foreign exchange “peg” of the Saudi Riyal or other regional currencies at a fixed exchange rate to the U.S. dollar will expose the Group to U.S. dollar foreign exchange movements against the Saudi Riyal or other such currencies”).

There can be no assurance that the Group will be able to protect itself from any adverse effects of future volatility in profit rates, commission rates or currency exchange rates, which may have a material adverse effect on its business, financial condition, results of operations or prospects.

The Group is exposed to operational risk which could result in damage to its reputation as well as financial losses

As a financial services institution, the Group is exposed to a wide range of operational risks, including those arising from external events or from process error, information technology (IT) related failures, fraud, systems failure, inadequate customer services protocols, inadequate employee skills and performance, product development and maintenance, unauthorised activities and security and physical protection. Although the Group has implemented risk controls and loss mitigation strategies, and has devoted (and continues to devote) substantial resources to developing efficient procedures and to employee training, it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Any materialisation of such risks may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.
The Group is subject to risks relating to its information technology systems and loss of business continuity

The Group depends on its IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group’s business and operating data. The proper functioning of the Group’s financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group’s business and ability to compete effectively. The Group’s business activities would be materially disrupted if there is a partial or complete failure of any of the IT systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages, computer viruses and other malicious acts. The proper functioning of the Group’s IT systems also depends on accurate and reliable data and other system input, which are subject to human error. Any failure or delay in recording or processing the Group’s transaction data could subject it to claims for losses and regulatory fines and penalties.

In particular, in common with other financial institutions based in Saudi Arabia, the wider GCC and globally, the threat to the security of the Group’s information and customer data from security breaches and cyber-attacks presents a real and growing risk to the Group’s business. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. A failure to adequately manage cyber-security risk and continually monitor, review and update current processes in response to new threats could have a number of adverse effects on the Group, including disruption to its business, unauthorised disclosure of confidential information, significant financial and/or legal exposure and damage to its reputation.

The Bank has set up a disaster recovery data centre (housing back-up IT operations and data storage systems) in Riyadh for use in the event of a catastrophe or failure of its primary data centre and IT infrastructure. Notwithstanding that the Bank’s disaster recovery data centre has been tested several times and was last tested in March 2021, there can be no assurance that these safeguards will be fully effective in the event of a disaster and any failure may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

The Group’s risk management policies, systems and procedures may leave it exposed to unidentified or unanticipated risks

In the course of its business activities, the Group is exposed to a variety of risks, some of the most significant of which are credit, market, foreign exchange, liquidity, concentration, operational, information security and legal risks. These risks are addressed by the Group’s risk management procedures, and exposures are regularly measured and monitored.

Although the Group invests substantial time and effort in its risk management systems and believes it has implemented appropriate policies, systems and procedures to control and mitigate these risks, its risk management techniques may not be consistently implemented or fully effective in mitigating its exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Group’s methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group’s empirical data would otherwise indicate. Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases.

Investors should note that any failure by the Group to identify and/or adequately control these risks, including as a result of any failure to successfully implement new risk management policies, systems and procedures in the future, may have a material adverse effect on the Group’s reputation, business, results of operations, financial condition or prospects.
The Group may face difficulties raising capital

As at 31 March 2021, the Group’s tier 1 capital adequacy ratio (calculated according to Basel III standards for Pillar 1) was 19.48 per cent. and its total capital adequacy ratio was 23.36 per cent. The Group’s total minimum Pillar 1-based capital requirement as at 31 March 2021 was 10.5 per cent., which also included a capital conservation buffer of 2.5 per cent. and a countercyclical capital buffer of 0 per cent.

The Group is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements applicable to it. Under Basel III, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of the Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on the Group. In addition, a shortage of available capital might restrict the Group’s opportunities for expansion.

A variety of factors affect the Group’s capital adequacy levels. For example, deterioration of credit ratings and a significant increase in lending in 2021 and beyond would be likely to reduce the Group’s capital adequacy ratios and any losses experienced by it in future periods would have a similar effect. In addition, regulatory requirements in relation to the calculation and required levels of capital adequacy may change from time to time, including as a result of new guidelines issued by the Basel Committee on Banking Supervision. The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

If the Group requires additional capital in the future, there can be no assurance that it will be able to obtain this capital on favourable terms, in a timely manner or at all. Moreover, should its capital ratios fall close to regulatory minimum levels or its own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase. Any of these factors could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

A downgrade of the Bank’s credit ratings could adversely affect the Bank’s ability to access the debt capital markets and may increase its borrowing costs

The Bank’s credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining the Bank’s cost of borrowings. The profit rates of the Bank’s borrowings are partly dependent on its credit ratings. As of the date of this Offering Circular, the Bank’s long-term corporate ratings were assessed “BBB+” with a “negative outlook” by Fitch and “Baa1” with a “negative outlook” by Moody’s. A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

There can be no assurance that any of the Bank’s ratings will remain the same in the future. Any actual or anticipated changes in the Bank’s credit ratings may affect the market value of the Certificates. A downgrade of the Bank’s credit ratings (or a negative change of outlook) may increase its cost of borrowing and may also limit its or its subsidiaries’ or associates’ ability to raise capital and funding, each of which could adversely affect its business, results of operations, financial condition and prospects.

The Group faces increasing competition

The KSA market for financial and banking services is highly competitive and the Group faces competition from local and foreign banks that operate in the KSA. As at the date of this Offering Circular, there were 24 commercial banks and financial institutions operating in the KSA and four that have been licensed but are yet to commence operations. In the past few years, SAMA has awarded banking licences to a number of international banks, which has resulted in increased competition with respect to the sale of products and geographical spread and in the
provision of banking services in general to all types of customers (see “The Kingdom of Saudi Arabia Banking Sector and Regulations—General”). This is further exacerbated by rapidly changing consumer preferences and the shift to new digital technologies such as artificial intelligence, blockchain and quantum computing.

Competition in its critical areas of operation and digital infrastructure may limit the Group’s ability to implement its strategy, limit its ability to increase in client base or expand its operations, and/or reduce its asset growth rate and profit margins on the services it provides.

If the Group is not able to compete effectively against its competitors in the KSA market and/or the Group incurs significant additional costs as it seeks to compete effectively, these factors could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

**The Group may from time to time be involved in litigation, the outcome of which is inherently uncertain**

In the ordinary course of its business, as a participant in the financial services industry, the Group may pursue litigation claims against third parties and may also have litigation claims and/or regulatory proceedings filed against it. Any such litigation could result in substantial costs and diversion of management attention and resources. The outcome of litigation is inherently uncertain and an unfavourable resolution of one or more material claims could result in the Group’s costs not being recovered or in significant damages being assessed against the Group, which may not be covered by insurance. Any failure by the Group to identify and adequately control any legal and/or regulatory risk may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

**Failure to manage the Group’s growth may have an adverse impact on its results of operations**

The Group intends to continue to grow in order to meet its strategic objectives, although whether this can be achieved is largely dependent on the performance of the Saudi Arabian economy and, in particular, the prevailing market price of oil.

The management of the Group’s growth will require, among other things, continued development of the Group’s financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. If the Group fails to manage its growth properly, such failure may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

**The Group’s accounting principles and policies are critical to how it reports its financial condition and results of operations and require management to make estimates about matters that are uncertain**

Accounting principles and policies are fundamental to how the Group records and reports its financial position and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies so that they comply with IFRS and its interpretations as issued by the IASB endorsed in the Kingdom and with the other standards and pronouncements that are issued by the SOCPA.

Management has identified certain areas in the notes to its financial statements as being significant because they require management’s judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. See note 2(c) to the 2020 Financial Statements which identifies the most critical accounting judgments, estimates and assumptions made by the Group. These judgments include, for example, the determination of impairment losses on financial assets, the determination of fair values of financial instruments and the identification of impairment of non-financial assets.

A variety of factors could affect the ultimate value that is obtained either when recognising income or expenses, recovering an asset or reducing a liability. The Bank has established policies and control procedures that are intended to ensure that its accounting judgments and estimates are monitored and applied consistently. In addition,
the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Bank’s judgments and the estimates pertaining to these matters, the Bank cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

The Group’s continued success depends on its ability to attract key management and qualified personnel

The Group’s success will depend, in part, on its ability to continue to attract, retain and motivate suitably qualified and experienced personnel. Although the Bank attempts to structure its compensation packages appropriately in order to attract and retain experienced personnel, there is significant competition in the Saudi banking industry for personnel with relevant expertise due to the limited number of available and/or qualified individuals relative to the high level of demand.

The loss of certain members of the Bank’s senior management team or any significant number of its mid-level managers and skilled professionals, or their counterparts within the Bank’s subsidiaries and associates, may result in a loss of organisational focus, poor execution of operations and corporate strategy or an inability to identify and execute potential strategic initiatives.

Furthermore, the Government has introduced a number of initiatives, which require private sector entities to employ a certain proportion of KSA nationals among their employees. As of the date of this Offering Circular, the Bank’s Saudisation level is over 94 per cent. However, if further changes are implemented to the Government’s Saudisation policies (for example, through the Fiscal Balance Program 2020), such changes may adversely affect the Group’s ability to recruit foreign employees in the future.

Any failure by the Group to manage its personnel needs successfully, including retaining key members of its senior management team and/or recruiting new qualified personnel at a pace consistent with its growth, could impede the implementation of the Group’s strategy, hinder the growth of its business and have a material adverse effect on its business, financial condition, results of operations or prospects.

Investing in emerging markets generally involves a higher degree of risk

Investors should be aware that investments in emerging markets such as the KSA involve a higher degree of risk than investments in more developed markets, including risks such as higher volatility, limited liquidity and changes in the legal, economic and political environment. The KSA’s economy is susceptible to future adverse effects similar to those suffered by other emerging market countries. In addition, as a result of “contagion”, the KSA could be adversely affected by negative economic or financial developments in other emerging market countries, which could in turn adversely affect the trading price of the Certificates.

Specific emerging markets country risks that may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects include, among other things:

- political, social and economic instability, riots, insurrection or other forms of civil disturbance or violence;
- war, terrorism, invasion, rebellion, malicious acts or revolution;
- government actions or interventions, including expropriation or nationalisation of assets, increased protectionism, the introduction of tariffs or subsidies;
- changing fiscal and tax regimes;
- arbitrary or inconsistent government action, including capricious application of tax laws and selective tax audits;
• changes in, or in the interpretation or enforcement of, laws and regulations;
• difficulties and delays in obtaining requisite governmental licences, permits or approvals or renewing existing ones;
• cancellation, nullification or unenforceability of contractual rights; and
• under-developed industrial and economic infrastructure.

Changes in investment policies or shifts in the prevailing political or economic climate in any of the countries in which the Group operates or seeks to operate could result in the introduction of increased government regulations with respect to, among other things:

• price controls;
• export and import controls;
• zakat, income and other taxes;
• customs and immigration;
• foreign ownership restrictions;
• foreign exchange, currency and capital controls; and
• labour and welfare benefit policies.

In addition, there can be no assurance that the market for securities bearing emerging market risk, such as the Certificates, will not be affected negatively by events elsewhere, especially in the emerging markets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in the Certificates is appropriate.

A slowdown in the economies of the KSA’s key trading partners could adversely affect the KSA’s economy

The KSA has strong trading relationships with many countries, particularly major oil-importing economies such as China, the United States, Japan, South Korea, India and a number of states of the European Union. To the extent that there is a slowdown in the economies of any of these countries, this may have a negative impact on the KSA’s foreign trade and balance of payments, which could have a material adverse effect on the KSA’s economic and financial condition.

Any sustained market and economic downturn or geopolitical uncertainties in the United States, China or any of the KSA’s other key trading partners may exacerbate the risks relating to the KSA’s trade with those countries which, in turn, may have a negative impact on the KSA’s foreign trade and balance of payments. In particular, demand for crude oil and consequently the price of crude oil may be adversely affected and this may have a material adverse effect on the KSA’s economic and financial condition.

Any material deterioration in the KSA’s economic and financial condition would be likely to also negatively affect its banking sector and could have a material adverse effect on the Group.

The KSA and other GCC legal systems continue to develop

The KSA and many of the other GCC countries are in various stages of developing their legal and regulatory institutions that are characteristic of more developed markets. The courts, judicial committees and adjudicatory bodies in the KSA (the KSA Courts) have a wide discretion as to how laws and regulations are applied to a particular set of circumstances. There is no doctrine of binding precedent in the KSA courts, decisions of the KSA
court are not routinely published and there is no comprehensive up-to-date reporting of judicial decisions. Bankruptcy procedures also remain largely untested. In some circumstances, it may not be possible to obtain the legal remedies provided under KSA Law in a timely manner. As a result of these and other factors, the outcome of any legal disputes in the KSA may be uncertain.

As the legal environment remains subject to continuous development, investors in the KSA and the GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in the KSA and the GCC may have a material adverse effect on the rights of Certificateholders or the investments that the Group has made or may make in the future, which may in turn have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

Any alteration to, or abolition of, the foreign exchange “peg” of the Saudi Riyal or other regional currencies at a fixed exchange rate to the U.S. dollar will expose the Group to U.S. dollar foreign exchange movements against the Saudi Riyal or other such currencies

The Group maintains its accounts and reports its results in Saudi Riyals. The Saudi Riyal has been pegged to the U.S. dollar since 1986 and remains pegged as at the date of this Offering Circular. In addition, the following oil-producing GCC countries have their currencies pegged to the U.S. dollar as at the date of this Offering Circular: the State of Qatar; the United Arab Emirates; the Sultanate of Oman; and the Kingdom of Bahrain. From time to time, oil-producing countries with currencies that have been traditionally pegged to the U.S. dollar have faced pressure to de-peg and, in certain cases, have de-pegged their currencies. For example, Kazakhstan de-pegged the Kazakhstan tenge from the U.S. dollar on 20 August 2015, which was followed on 21 December 2015 by the removal of the U.S. dollar peg against the Azerbaijani manat.

There is a risk that, in response to the continuing oil price crisis, additional countries may choose to unwind their existing currency peg to the U.S. dollar, both in the GCC and the wider region. While the long-term impacts of such actions are uncertain, it is likely that any such de-pegged currency would face a devaluation against the U.S. dollar immediately post-removal of the peg. While it continues to be the policy of the Government and SAMA to maintain the currency peg at its existing level, there can be no assurance that future unanticipated events, including an increase in the rate of decline of the Government’s reserve assets, will not lead the Government to reconsider its exchange rate policy.

Any such de-pegging or re-evaluation to the current exchange rate either in the KSA or across the wider region, particularly if such de-pegging or re-evaluation is accompanied by a significant depreciation of the relevant currency against the U.S. dollar or other major currencies, could contribute to higher inflation, increase the burden of servicing external debt and damage investor confidence, resulting in capital outflows and market volatility, each of which could have a material adverse effect on the KSA’s economic and financial condition and, in turn, on the Group’s business, financial condition, results of operations or prospects.

The statistical data contained in this Offering Circular should be treated with caution by prospective investors

Statistics contained in this document, including in relation to GDP, money supply, inflation and indebtedness of the Government, have been obtained from, amongst other sources, the GASTAT, SAMA, the Ministry of Finance, the Ministry of Economy and Planning and OPEC. Such statistics, and the component data on which they are based, may not have been compiled in the same manner as data provided by other sources and may be different from statistics published by third parties, reflecting the fact that the underlying assumptions and methodology may vary from source to source. There may also be material variances between preliminary, estimated or projected statistics included in this Offering Circular and actual results, and between statistics included in this Offering Circular and corresponding data previously published by or on behalf of the bodies listed above. Consequently, the statistical data contained in this Offering Circular should be treated with caution by prospective investors.
RISKS RELATING TO THE CERTIFICATES

Certificateholders’ right to receive payment of the face amount of the Certificates and the Certificateholders’ right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined below) occurs at any time on or after the Issue Date and prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective, the Certificates will be permanently cancelled (in the case of a Write-down in whole) or permanently Written-down in part on a pro rata basis (in the case of a Write-down in part) by the Trustee in accordance with the Conditions and (except as described in paragraph (d) of the definition of Write-down in the Conditions) all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, the Dissolution Distribution Amount and any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event (each as defined in the Conditions)) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) (each as defined in the Conditions) shall, as the case may be, be cancelled or Written-down pro rata among the Certificateholders and, in each case, not restored irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto. Further, a Write-down in full or in part of the Certificates could occur prior to the ordinary shares of the Group absorbing losses in full. A Write-down shall not constitute a Dissolution Event. As a result, Certificateholders will lose the entire amount or, as the case may be, a material amount, of their investment in the Certificates. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 11 (Write-down at the Point of Non-Viability) has not been tested in the Kingdom and therefore uncertainty exists in its application.

A Non-Viability Event means that the Financial Regulator has notified the Group in writing that it has determined that the Group is, or will become, Non-Viable without:

- a Write-down of the Certificates (and write-down of any of the Group’s other capital instruments or other obligations constituting Tier 1 Capital and/or Tier 2 Capital of the Group that, pursuant to their terms or by operation of law, are capable of being written-down and/or converted into equity); or

- a public sector injection of capital (or equivalent support) provided that such injection of capital is not made (i) by a shareholder of the Bank; or (ii) on terms that are more favourable to the Bank than those that would be accepted by private investors in comparable transactions.

The Group’s current and future Junior Obligations or Pari Passu Obligations might not include write-down or similar features comparable to those of the Certificates. As a result, it is possible that the Certificates will be subject to a Write-down, while certain Junior Obligations and/or Pari Passu Obligations remain outstanding and continue to receive payments and, as such, Certificateholders may be subject to losses ahead of holders of certain Junior Obligations and/or Pari Passu Obligations.

Basel III reforms and risk of a change in the regulations relating to loss absorption affecting the Certificates

On 13 January 2011, the Basel Committee expanded on the Basel III capital rules with additional non-viability requirements (the January 13 Annex). The January 13 Annex requires non-common equity Tier 1 or Tier 2 instruments issued by an internationally active bank to have a provision in their terms and conditions or be included in a statutory legal framework that requires such instruments, at the option of the relevant authority, to either be written off or converted to common equity upon a “trigger event”. A “trigger event” is the earlier of: (1) a decision that a write-off, without which the bank would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the relevant authority. SAMA mandated all Saudi banks, including the Bank, to implement the additional requirements imposed by the January 13 Annex from 1 January 2013. See “Certificateholders’ right to receive payment of the face amount of the Certificates and the
Certificateholders’ right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”.

There can be no assurance that in the future SAMA will not amend its interpretation and implementation of the January 13 Annex described above. In addition, revisions to the January 13 Annex may be implemented in the Kingdom in a manner that is different from that which is currently envisaged, or regulations may be introduced through the introduction of an Applicable Statutory Loss Absorption Regime in the Kingdom.

If the regulatory requirements for capital instruments applicable to the Bank are modified in the future, it is possible that authorities could use their powers in such a way as to result in the Certificates absorbing losses in a manner other than as described herein. For example, The Law on the Treatment of Systemically Important Financial Institutions M/38 dated 25/4/1442H (corresponding to 10 December 2020) (the SIFI Law), provides that in respect of any systemically important financial institution (which would include the Bank), subject to certain conditions being met which include, among others, the financial institution being in distress or likely to become distressed, SAMA may, among other things, amend the rights of the holders of capital instruments. The SIFI Law provides for executive regulations to be prepared by SAMA and the CMA and such executive regulations may stipulate further details with respect to any such amendment of rights. Whilst the SIFI Law provides that creditors whose rights are amended shall not incur greater losses than what is estimated would have been lost, had the relevant financial institution been wound up, there can be no assurance that any such amendment of rights or other action taken by SAMA will be similar to the loss absorption provisions set out in Condition 11 (Write-down at the Point of Non-Viability) or otherwise be in the interests of Certificateholders.

Furthermore, on or after the date on which the Applicable Statutory Loss Absorption Regime becomes effective, the provisions of Condition 11 (Write-down at the Point of Non-Viability) will lapse and cease to apply, except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. If, on or after such date, an event occurs which under the Applicable Statutory Loss Absorption Regime would lead to a determination of non-viability by SAMA, in respect of the Bank, SAMA (or the Bank following instructions from SAMA) may take such action in respect of the Certificates as is required or permitted by such Applicable Statutory Loss Absorption Regime. Accordingly, the operation of any such future legislation or implementation of an Applicable Statutory Loss Absorption Regime may have an adverse effect on the positions of the Certificateholders.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Group’s control. The occurrence of a Non-Viability Event is subject to, inter alia, a subjective determination by the Financial Regulator (as defined in the Conditions). As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of the Group and with which the Group may not agree. See “Certificateholders’ right to receive payment of the face amount of the Certificates and the Certificateholders’ right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”. The exercise (or perceived likelihood of exercise) of any such power by the Financial Regulator or any suggestion of such exercise could materially adversely affect the value of the Certificates and could lead to the Certificateholders losing some or all of their investment in the Certificates.

The financial viability of the Group will also depend in part on decisions made by the Group in relation to its business and operations, including the management of its capital position. In making such decisions, the Group will not necessarily have regard to the interests of Certificateholders and, in particular, the consequences for Certificateholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Group, its shareholders and the Financial Regulator will be aligned with those of the Certificateholders.
The payment obligations of the Bank under the Mudaraba Agreement are conditional, subordinated and unsecured obligations

Prospective investors should note that, subject to Condition 11 (Write-down at the Point of Non-Viability) (see “Certificateholders’ right to receive payment of the face amount of the Certificates and the Certificateholders’ right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”), except upon the occurrence and continuation of any Winding-Up Proceeding and without prejudice to Condition 8 (Periodic Distribution Restrictions), the Relevant Obligations are conditional (in the case of payments of profit (other than in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date in the case of a Non-Payment Election (as defined below)), upon a Non-Payment Election or Non-Payment Event not having occurred), are unsecured and no collateral is or will be given by the Bank in relation thereto.

Payments of Periodic Distribution Amounts will be made by the Trustee provided that the Bank (as Mudareb) shall have paid to the Trustee profit amounts equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that upon the occurrence and continuation of any Winding-Up Proceeding, the Relevant Obligations will rank (a) subordinate and junior to all Senior Obligations but not further or otherwise, (b) pari passu with all other Pari Passu Obligations and (c) in priority only to all Junior Obligations, as more particularly described in Condition 4.2 (Subordination). In such case, there may not be sufficient assets to satisfy the claims of the holders of the Certificates in full.

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital by the Bank as set out in Condition 4.3 (Other Issues) which limits the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Certificates, there is no restriction in the Conditions or in the terms of the Transaction Documents on the Bank (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of the Bank under the Mudaraba Agreement (the Bank Senior Obligations). The issue of or the creation of any such Bank Senior Obligations may reduce the amount recoverable by the Certificateholders on a winding-up of the Bank. Accordingly, in the winding-up of the Bank and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Certificateholders. See also “—The payment obligations of the Bank under the Mudaraba Agreement are conditional, subordinated and unsecured obligations”.

Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative

The Bank may elect (any such election being a Non-Payment Election), in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on the corresponding Periodic Distribution Date as more particularly provided in Condition 8.2 (Non-Payment Election), except that no such election may be made in respect of the Periodic Distribution Amount payable on the date on which the Certificates are to be redeemed in whole at the Bank’s discretion in accordance with Condition 10 (Redemption).

In addition, if a Non-Payment Event (as defined in the Conditions) occurs (which includes the case where sufficient Distributable Profits are not available in order to permit the Bank to make the relevant payment or as a result of a breach of Applicable Regulatory Capital Requirements), the Bank (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable, on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Date, as more particularly provided in, Condition 8.1 (Non-Payment Event).

In relation to the paragraph above, Distributable Profits is defined in the Conditions as “the amount of the Bank’s consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to
the extent not restricted from distribution by applicable law), after the transfer of any amounts to non-distributable reserves, all as calculated by the Bank based on its most recent consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations”. As at 31 March 2021, the Bank’s Distributable Profits amounted to SAR 839.516 million.

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or Non-Payment Event then, from the date of such Non-Payment Election or Non-Payment Event (the Dividend Stopper Date), the Bank will be prohibited from declaring or paying certain distributions, dividends or other payments (other than to the extent that any such distributions, dividends or other payments are declared before such Dividend Stopper Date, and excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payments) and from redeeming, purchasing, cancelling, reducing or otherwise acquiring Other Common Equity Tier 1 Instruments or securities ranking as to the right of payment of capital, junior to or pari passu with the Relevant Obligations (excluding securities the terms of which stipulate (i) any mandatory redemption in accordance with its terms or (ii) any conversion into, or exchange for, ordinary shares of the Bank), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time, in each case unless or until the next following payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement), as more particularly described in Condition 8.4 (Dividend and Redemption Restrictions).

In the absence of notice of a Non-Payment Election or a Non-Payment Event, as the case may be, having been given in accordance with Condition 8.3 (Effect of Non-Payment Event or Non-Payment Election), the fact of non-payment of the Rab-al-Maal Mudaraba Profit (or any part thereof) on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Accordingly, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event (irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given in accordance with Condition 8.3 (Effect of Non-Payment Event or Non-Payment Election)) and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. Any Periodic Distribution Amounts not paid following either a Non-Payment Election or a Non-Payment Event will not accumulate or compound. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Certificates.

**The Certificates are perpetual securities, which may be subject to early redemption (subject to certain conditions)**

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a Bank Event occurs.

The Bank Events and Certificateholders’ rights following a Bank Event are set out in Condition 12 (Dissolution Events and Winding-up). The Dissolution Events in the Conditions are limited to: (a) Bank Events (including: (i) a failure by the Mudarab to pay an amount equivalent to principal or profit (including Additional Amounts) due and payable by it under the Mudaraba Agreement, and such failure continues for a period of (in the case of payment of principal) five days or more or (in the case of payment of profit) 14 days or more (save, in each case, where such failure occurs solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election); or (ii) an administrator is appointed, an order is made by any competent court or the government of the
Kingdom or an effective resolution is passed for the administration, winding-up, liquidation or dissolution of the Bank in accordance with applicable law or the Bank applies or petitions for a winding-up or administration order in respect of itself (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority); and (b) Trustee Events (being similar in nature to Bank Events in respect of the Trustee), all as more fully described in the Conditions.

In certain circumstances the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem the Certificates on the First Call Date or any Periodic Distribution Date thereafter, and, on any date on or after the Issue Date, if a Tax Event or a Capital Event occurs (the determination of a Capital Event being at the discretion of the Financial Regulator), as more particularly described in Condition 10 (Redemption), although there is no assurance that the Bank will require it to do so. Any such redemption will also be subject to a number of conditions, as set out in Condition 10.1(a) (No Fixed Redemption Date and Conditions for Redemption), including obtaining the prior consent of the Financial Regulator (unless such consent is no longer required by the Financial Regulator and/or by the Capital Regulations). There can be no guarantee that the approval of the Financial Regulator will be received on time or at all.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

- the Trustee (upon the Bank’s instruction) exercises its rights to redeem the Certificates in accordance with Condition 10 (Redemption);
- the Trustee is directed by an Extraordinary Resolution of the Certificateholders, or by the Delegate (acting in accordance with the Declaration of Trust and the Conditions), following a Bank Event to redeem the Certificates; or
- they sell their Certificates.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time. See also “Absence of secondary market/limited liquidity” for a description of the risks relating to the ability of holders of Certificates to sell the Certificates in the secondary market.

**The Certificates will cease to accrue profit from the due date for redemption (if any)**

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (Cessation of Accrual).

**Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions contain limited Dissolution Events and remedies**

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 10.1(b) (Trustee’s Call Option), a redemption in accordance with Condition 10.1(c) (Redemption due to Taxation), a redemption in accordance with Condition 10.1(d) (Redemption for Capital Event) or following
the occurrence of a Bank Event in accordance with Condition 12.1 (Bank Events). In addition, the Trustee may be prohibited from making, or instructed by the Bank not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (Periodic Distribution Restrictions) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions. See also “Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative”.

Moreover, pursuant to Condition 12 (Dissolution Events and Winding-up), upon the occurrence of any Bank Event, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and the Bank that the Certificates are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at their aggregate face amount together with any Outstanding Payments (as defined in the Conditions) and thereafter: (i) instituting any steps, actions or proceedings for the winding-up or bankruptcy of the Bank and/or (ii) proving in the winding-up of the Bank and/or (iii) claiming in the liquidation of the Bank and/or (iv) taking such other steps, actions or proceedings which, under the laws of the Kingdom, have an analogous effect to the actions referred to paragraphs (i) to (iii) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the Certificates when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the claims of Senior Creditors of the Bank will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

Prospective investors should also note that any claims on a winding-up would be subject to KSA bankruptcy and other laws. Therefore there can be no assurance that Certificateholders will receive payment of their claims in full or at all in these circumstances. See also “Compliance with bankruptcy law in Saudi Arabia may affect the Bank’s ability to perform its obligations under the Transaction Documents to which it is a party”.

**Resettable fixed rate instruments have a market risk**

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date (as defined in the Conditions) if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on the Certificates is fixed until the First Call Date (with a reset of the initial profit rate on the First Call Date as set out in the Conditions and every five years thereafter), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

**The Certificates are limited recourse obligations**

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect the Certificates is limited to the Trust Assets and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 12.1 (Bank Events), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders) will be (subject to Condition 12.3 (Winding-up, dissolution or liquidation)) against the Bank to perform its obligations under the Transaction Documents. Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents), the Delegate or the Agents or any of their
respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. The Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have recourse against the Bank to recover such payments due to the Trustee pursuant to the Transaction Documents.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.3 (*The Trust*), the obligations of the Trustee in respect of the Certificates shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be (in accordance with Condition 12.3 (*Winding-up, dissolution or liquidation*)) to enforce their respective obligations under the Transaction Documents.

**Absence of secondary market/limited liquidity**

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see “—*The Certificates are perpetual securities, which may be subject to early redemption (subject to certain conditions)*”), are subordinated (see “—The payment obligations of the Bank under the Mudaraba Agreement are conditional, subordinated and unsecured obligations”), will be fully and permanently written down upon the occurrence of a Non-Viability Event (see “—Certificateholders’ right to receive payment of the face amount of the Certificates and the Certificateholders’ right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event”) and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see “—Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative”). Furthermore, certain shareholders and related parties of the Bank may participate in the offering of the Certificates. The secondary market liquidity of the Certificates may be adversely affected if, and to the extent that, such person(s) intend(s) to adopt a buy and hold strategy in respect of the Certificates.

Whilst an application has been made for the Certificates to be admitted to trading on the ISM, there can be no assurance that any such listing or admission to trading will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

**Investment in the Mudaraba Assets**

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the *Mudaraba Capital*). The Mudaraba Capital will be co-mingled with shareholders’ equity and invested by the Bank (as *Mudareb*), on an unrestricted co-mingling Mudaraba basis, in the Business Portfolio (as defined in the Conditions) carried out through the General Mudaraba Pool (as defined in the Mudaraba Agreement) and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute pro rata undivided assets in the General Mudaraba Pool (the *Mudaraba Assets*) with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.
No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by the Bank, and the Certificateholders shall have no ability to influence such activities. The Bank shall be granted the express entitlement to co-mingle its own assets in the General Mudaraba Pool assets and, as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of the Bank.

If any of the risks relating to the business of the Bank mentioned above (see “—Risks Relating to the Group and its Ability to Fulfil its Obligations under the Transaction Documents”) materialise or otherwise impact the Bank’s business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the Bank’s ability to fulfil its payment obligations under the Mudaraba Agreement and consequently, the Trustee’s ability to make payments in respect of the Certificates.

Furthermore, whilst the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by: (i) the Mudareb’s breach of the Mudaraba Agreement; or (ii) the Mudareb’s gross negligence, wilful misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb’s breach of the Mudaraba Agreement; or (ii) the Mudareb’s gross negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

Credit ratings assigned to the Bank may not reflect all the risks associated with an investment in the Certificates

One or more independent credit rating agencies may assign credit ratings to the Bank or the Certificates. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Certificates, and will not reflect the deeply subordinated nature of the Bank’s payment obligations under the Transaction Documents if such ratings relate to senior payment obligations of the Bank. Credit rating agencies could also seek to rate the Bank or the Certificates without having been requested to do so by the Bank. Such unsolicited ratings may be lower than any ratings sought by the Bank, which could have an adverse effect on the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the EU CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the EU CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by third country non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant third country non-EU rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the EU CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency
established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (i) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (ii) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Bank or the Certificates changes for the purposes of the EU CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EU or the UK, as applicable, and the Certificates may have a different regulatory treatment, which may impact the value of the Certificates and their liquidity in the secondary market.

Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

Any real or anticipated changes in the Bank’s credit ratings generally will affect the market value of the Certificates.

RISKS RELATING TO ENFORCEMENT

There are uncertainties around the choice of English law as the governing law of the Transaction Documents and around enforcing arbitral awards in Saudi Arabia

The Certificates and the Transaction Documents are expressed to be governed by English law and provide for the resolution of disputes through arbitration in London under the Rules of Arbitration of the International Chamber of Commerce. Despite this, the courts and judicial committees of Saudi Arabia may not recognise the choice of English law and the enforcement of any arbitration award would be subject to certain conditions (as discussed below). The Bank is a Saudi Arabian company and is incorporated in and has its operations and the majority of its assets located in Saudi Arabia. Accordingly, in any proceedings relating to the Certificates in Saudi Arabia, Shariah, as interpreted in Saudi Arabia, may be applied by the relevant court or judicial committee. The courts and judicial committees of Saudi Arabia have the discretion to deny the enforcement of any contractual or other obligations, if, in their opinion, the enforcement thereof would be contrary to the principles of Shariah.

In addition to the above, provisions of foreign law which are deemed contrary to public policy, order or morals in Saudi Arabia (including Shariah law and principles), or to any mandatory law of, or applicable in, Saudi Arabia, are unlikely to be enforceable in Saudi Arabia.

A law of the judiciary was issued pursuant to the Royal Decree No. M/78 dated 19 Ramadan 1428H (corresponding to 02/09/2007G), which transferred the jurisdiction over commercial disputes from the Board of Grievances (the Board of Grievances) to the Commercial Courts in Saudi Arabia. The Board of Grievances also previously had exclusive jurisdiction to consider the enforcement of arbitral awards; however, with the enactment of the Enforcement Law pursuant to the Royal Decree No. M/53 dated 13 Shaaban 1433H (corresponding to 03/07/2012G), this jurisdiction has been transferred to the enforcement courts (the Enforcement Courts) staffed by specialised “enforcement judges”. The Enforcement Courts may, at their discretion, enforce all or any part of a foreign arbitral award, subject to certain conditions, which include: (a) the arbitral award does not conflict with public policy (interpreted to mean, Shariah) in Saudi Arabia; (b) reciprocity in the enforcement of arbitral awards between the courts of Saudi Arabia and the country in which the award was made; (c) the courts of Saudi Arabia not having jurisdiction over the dispute and the award having been issued in accordance with the jurisdictional rules of the country in which such award was made; (d) the respective parties to the dispute having been present, duly represented and able to defend themselves; (e) the award being final in accordance with the rules of the court; and (f) the award not conflicting with any ruling or order issued by a court of competent jurisdiction on the same matter in Saudi Arabia. Reciprocity may be demonstrated by way of the existence of a treaty or protocol between
No assurance can be given that the court would agree to enforce the award even if all requirements are met. In addition, even if such requirements were met, Certificateholders should also be aware that if any terms of the Certificates or the Transaction Documents (including any provisions relating to the payment of profit) were found to be inconsistent with Shariah, they would not be enforced by the Enforcement Courts. Whether the courts in Saudi Arabia will enforce a foreign arbitral award in accordance with the terms of the New York Convention, or otherwise, is yet to have a clear established practice, however, there are a few precedents where the enforcement courts have enforced arbitral awards in accordance with the terms of the New York Convention. Pursuant to the Saudi Arabian Arbitration Law, issued pursuant to Royal Decree No. M/34 dated 24/05/1433H (corresponding to 16 April 2012), a Saudi Arabian court must decline to hear a dispute if the parties have entered into a prior agreement to submit disputes to arbitration and the defendant raises the issue before entering a defence on the merits. If parties to court proceedings agree in the course of the proceedings to submit the dispute to arbitration, the Arbitration Law makes it mandatory for the courts to discontinue the action.

**Courts and judicial committees in Saudi Arabia may not give effect to the Bank Events**

Prospective Certificateholders should note that the courts and judicial committees of Saudi Arabia may not give effect to any of the Bank Events (as set out in the Conditions) other than those Bank Events relating to the non-payment of amounts due under the Transaction Documents.

**Courts and judicial committees in Saudi Arabia may not give effect to the penalties and certain types of indemnities**

Prospective Certificateholders should note that should any provision of the Transaction Documents be construed by a court or judicial committee in Saudi Arabia to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision would not be enforced in Saudi Arabia. Further, any indemnity provided by the Bank pursuant to the Transaction Documents may not be enforceable under the laws and regulations of Saudi Arabia in certain circumstances.

**Certificateholders’ rights may be amended by SAMA pursuant to The Law on the Treatment of Systemically Important Financial Institutions**

The Law on the Treatment of Systemically Important Financial Institutions M/38 dated 25/4/1442H (corresponding to 10 December 2020) (the SIFI Law), provides that in respect of any systemically important financial institution (which would include the Bank), subject to certain conditions being met which include, among others, the financial institution being in distress or likely to become distressed, SAMA may, among other things, amend the rights of creditors and/or holders of capital instruments including, without limitation, the reduction, cancellation or conversion thereof. The SIFI Law provides for executive regulations to be prepared by SAMA and the CMA and such executive regulations may stipulate further details with respect to any such amendment of rights. Whilst the SIFI Law provides that creditors whose rights are amended shall not incur greater losses than what is estimated would have been lost, had the relevant financial institution been wound up, there can be no assurance that any such amendment of rights or other action taken by SAMA will be in the interests of Certificateholders.

**Compliance with bankruptcy law in Saudi Arabia may affect the Bank’s ability to perform its obligations under the Transaction Documents to which it is a party**

A new bankruptcy law promulgated pursuant to Royal Decree No. M/50 dated 28/05/1439H (corresponding to 13/02/2018G) (the Bankruptcy Law) created general bankruptcy procedures.
If the Bank’s insolvency satisfied the eligibility conditions for such bankruptcy procedures, this could adversely affect the Bank’s ability to perform its obligations under the Transaction Documents to which it is a party and, in turn, affect the Trustee’s ability to perform its obligations in respect of the Certificates. There is little precedent to predict how claims by or on behalf of the Certificateholders and/or the Delegate would be resolved in the event of the Bank satisfying the eligibility conditions of any such bankruptcy procedures and, accordingly, it is uncertain exactly how and to what extent the Transaction Documents would be enforced by a Saudi Arabian adjudicatory body in that situation and, therefore, there can be no assurance that Certificateholders will receive repayment of their claims in full or at all in these circumstances. In addition, there is a material likelihood that a Saudi Arabian adjudicatory body could consider void a contractual provision that seeks to terminate a contract in the event of a preventative settlement or financial restructuring process being instigated. This is based on article 23 of the Bankruptcy Law, which states that contracts should continue during preventative settlement or financial restructuring processes and any condition to the contrary is null and void. Although there is an exemption for finance contracts, it is not clear whether the Conditions or the Transaction Documents will fall within the scope of this exemption. It is open to a contractual party to apply for its contract to be terminated, pursuant to article 24 of the Bankruptcy Law, if the party undergoing preventative settlement fails to comply with its obligations in the period after the commencement of preventative settlement.

In addition, pursuant to the SIFI Law, any application for bankruptcy procedures in respect of the relevant financial institution is subject to approval by SAMA, such that SAMA may instead, commence a treatment plan.

A court may not grant an order for specific performance

In the event that the Bank fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include (i) obtaining an order for specific performance of the Bank’s obligations, or (ii) a claim for damages.

There is no assurance that a court will provide an order for specific performance, as this is generally a matter for the discretion of the relevant court. Specific performance, injunctive relief and declaratory judgments and remedies are rarely available as judicial and other adjudicative remedies in Saudi Arabia. The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors, including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of such breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Bank to perform its obligations set out in the Transaction Documents to which it is a party. Damages for loss of profits, consequential damages or other speculative damages are not awarded in Saudi Arabia by the courts or other adjudicatory authorities, and only actual, direct and proven damages are awarded.

The terms of the Declaration of Trust may not be enforceable in Saudi Arabia

The laws of Saudi Arabia do not recognise the concept of a trust or beneficial interests. Accordingly, there is no certainty that the terms of the Declaration of Trust (which will be governed by English law) would be enforced by the courts of Saudi Arabia and, as such, there can be no assurance that the obligations of the Trustee and/or the Delegate under the Declaration of Trust to act on behalf of the Certificateholders in accordance with their instructions (given in accordance with the Conditions of the Certificates) are enforceable as a matter of contract under the laws of Saudi Arabia or that the courts of Saudi Arabia would recognise any claim of the Delegate or the Trustee on behalf of Certificateholders under the Transaction Documents pursuant to the Declaration of Trust.

The legal system in Saudi Arabia continues to develop and this, as well as certain aspects of the laws of Saudi Arabia, may create an uncertain environment for investment and business activity

The courts and adjudicatory bodies in Saudi Arabia have wide discretion as to how laws, regulations and principles of Islamic law (Shariah) are applied to a particular set of circumstances. There is no doctrine of binding precedent in the courts of Saudi Arabia, decisions of various courts and judicial committees of Saudi Arabia and Royal Decrees, ministerial decisions and resolutions, departmental circulars and other pronouncements of official bodies of Saudi Arabia which have the force of law are not generally or consistently indexed and collected in a central
place or made publicly available. Accordingly, it is uncertain exactly how and to what extent any Certificate, the Conditions and/or the Transaction Documents would be enforced by a Saudi Arabian court or any other Saudi Arabian adjudicatory body, should circumstances dictate that they have jurisdiction. Further, in some circumstances, it may not be possible to obtain the legal remedies provided under the laws and regulations of Saudi Arabia in a timely manner. As a result of these and other factors, the outcome of any legal disputes in Saudi Arabia may be uncertain.

Under Islamic law (Shariah) as applied in Saudi Arabia, a loan that generates a benefit to the lender is considered “riba”. As such, an obligation to pay interest or a sum in the nature of interest (whether described as “commission”, “profit” or another synonym), including any form of benefits, is not enforceable. Prospective Certificateholders should note that the provisions of the Transaction Documents relating to the payment of commission or profit (whether described as “commission”, “profit” or another synonym) and possibly any arrangement, commitment, agency, administration or upfront fees, may not be enforceable under the laws of Saudi Arabia and therefore prospective Certificateholders may not be able to enforce their right to receive such amounts under the Transaction Documents.

A court or judicial committee in Saudi Arabia is likely to refuse to give a judgment in respect of principal amounts to the payee of such amounts in an amount greater than the principal sums found by such court or judicial committee to be due and payable less the amount of sums in the nature of interest (however described) already paid by the payer to the payee. Any amounts previously paid to the Certificateholders on the Certificates and/or pursuant to the Transaction Documents in respect of sums in the nature of commission or profit may therefore reduce the amount receivable by the Certificateholders in relation to payments of principal.

ADDITIONAL RISK FACTORS

Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

No assurance can be given as to Shariah rules

The Alinma Investment Sharia’h Committee, the Shariah Committee of Bank AlJazira and the Shariah advisers of J.P. Morgan Securities plc have each confirmed that the transaction structure relating to the Certificates (as described in this Offering Circular) and the Transaction Documents are, in their view, compliant with the principles of Shariah as applicable to, and interpreted by, them. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be Shariah-compliant by any other Shariah board or Shariah scholars. None of the Trustee, the Bank, the Delegate, the Agents, or any of the
Joint Lead Managers makes any representation as to the Shariah-compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any Shariah views, differences in opinion are possible. Prospective investors should obtain their own independent Shariah advice as to whether the Transaction Documents and the Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradability of the Certificates on any secondary market. Questions as to the Shariah permissibility of the Transaction Documents or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Conditions or the Transaction Documents would be, if in dispute, the subject of arbitration in London under the Rules of Arbitration of the International Chamber of Commerce. In such circumstances, the arbitrator will apply the relevant law of the relevant Transaction Document in determining the obligation of the parties.

**Shariah requirements in relation to interest awarded by a court**

In accordance with applicable Shariah principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Transaction Documents. Should there be any delay in the enforcement of a judgment given against the Bank, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

**Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade**

As the Certificates have a minimum denomination consisting of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, it is possible that the Certificates may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case, a Certificateholder who, as a result of trading such amounts, holds a face amount of less than U.S.$200,000 would need to purchase an additional amount of Certificates with a face value of U.S.$200,000 or more such that it holds an amount equal to at least U.S.$200,000 to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than U.S.$200,000 in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination (as defined in the Conditions) in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

**Consents are required in relation to the variation of Transaction Documents and other matters**

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee, the Bank and the Delegate will be entitled to rely upon:
• where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, the Bank or the Delegate or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates for the time being outstanding; and

• where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Bank and/or the Delegate by (a) accountholders in the clearing system(s) with entitlements to the Global Certificate and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Trustee, the Bank and the Delegate shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the relevant clearing system) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Trustee, in the circumstances described in Condition 12.2 (Trustee Events).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without the consent or approval of the Certificateholders to agree to any modification to the Conditions, the Transaction Documents or the Trustee’s memorandum and articles of association if, in the sole opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interests of the holders of the Certificates then outstanding and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust) and is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the aggregate face amount of the Certificates then outstanding. Any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Exchange rate risks and exchange controls

Neither the Trustee nor the Bank has any control over factors that generally affect exchange rate risks, such as economic, financial and political events, and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in future.

The Trustee will make all payments on the Certificates, and the Bank will make all payments pursuant to the Transaction Documents to which it is a party, in U.S. dollars. If an investor’s financial activities are denominated principally in a currency or currency unit (the Investor’s Currency) other than U.S. dollars, such investor may therefore bear certain exchange rate risks. These include the risks that: (a) exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor’s Currency); and (b) authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Any appreciation in the value of the Investor’s Currency relative to U.S. dollars would decrease: (i) the Investor’s Currency-equivalent yield on the Certificates; (ii) the Investor’s Currency-
equivalent value of the Dissolution Distribution Amount payable in respect of the Certificates; and (iii) the Investor’s Currency-equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive lesser amounts under the Certificates than expected, or no such amounts.
DOCUMENTS INCORPORATED BY REFERENCE

The following documents have previously been published or are published simultaneously with this Offering Circular:

(a) the unaudited interim condensed consolidated financial statements of the Bank as at and for the three months ended 31 March 2021 together with the review report thereon (available at: https://www.bankaljazira.com/Portals/0/OpenContent/Files/604/BAJ_FS_Q1_2021_-_English.pdf);

(b) the consolidated financial statements of the Bank as at and for the year ended 31 December 2020 together with the audit report thereon (available at: https://www.bankaljazira.com/Portals/0/OpenContent/Files/604/BAJ_FS_2020_-_English-1.pdf); and

(c) the consolidated financial statements of the Bank as at and for the year ended 31 December 2019 together with the audit report thereon (available at: https://www.bankaljazira.com/Portals/0/OpenContent/Files/604/BAJ_2019_AR_en_16420-1.pdf),

(together, the Documents Incorporated by Reference).

The Documents Incorporated by Reference shall be incorporated in, and form part of, this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular. Those parts of the documents incorporated by reference in this Offering Circular which are not specifically incorporated by reference in this Offering Circular are either not relevant for prospective investors in the Certificates or the relevant information is included elsewhere in this Offering Circular. Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of the documents incorporated by reference in this Offering Circular may be obtained from the registered office of the Trustee and from the specified office of the Principal Paying Agent during usual business hours.
STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Offering Circular for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Offering Circular carefully, especially the risks of investing in the Certificates discussed under “Risk Factors”.

Structure Diagram

Principal Cash Flows

Payments by the Certificateholders and the Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee will declare a trust, in favour of the Certificateholders, over:

(a) the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined below);

(c) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee by the Bank pursuant to clause 12.1 of the Declaration of Trust); and
(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the Trust Assets).

The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb on the Issue Date and shall form the initial capital of the Mudaraba (the Mudaraba Capital) pursuant to the Mudaraba Agreement. The Mudaraba Capital will be co-mingled with (i) shareholders’ equity,

(ii) proceeds of all current savings and investments deposit accounts with the Mudareb, and (iii) any other source of funds included in the general Mudaraba Pool from time to time and invested, on an unrestricted co-mingling basis, by the Bank in its general Shariah-compliant banking activities (the Business Portfolio) carried out through the General Mudaraba Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute pro rata undivided assets in the General Mudaraba Pool (the Mudaraba Assets).

Periodic payments by the Trustee

Unless a Non-Payment Event or a Non-Payment Election has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Trustee (as Rab-al-Maal) and 1 per cent. to the Mudareb). The Trustee shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Rab-al-Maal Mudaraba Profit (as defined in the Mudaraba Agreement) by the Bank (as Mudareb) are at the sole discretion of the Bank (as Mudareb) and may only be made in circumstances where a Non-Payment Event has not occurred. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve (as defined below) or otherwise).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle any of its own Shariah-compliant assets from time to time with the Mudaraba Assets.

Dissolution payments and redemption by the Trustee and the Mudareb

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 7 of the Mudaraba Agreement, the Bank (as Mudareb) may at its option liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(i) on the First Call Date or any Periodic Distribution Date thereafter, by giving not less than 20 nor more than 35 days’ prior notice to the Trustee; or

(ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 20 nor more than 35 days’ prior notice to the Trustee:

(a) upon the occurrence of a Tax Event; or

(b) upon the occurrence of a Capital Event.

The Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, upon receipt of notice in accordance with paragraph (i) above redeem all of, but not only some of, the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all of, but not only some of, the Certificates by giving
not less than 15 nor more than 30 days’ prior notice to the Certificateholders, all as more particularly described in the Conditions and following final constructive liquidation of the Mudaraba, as described above.
OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Circular. This overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Offering Circular carefully, especially the risks of investing in the Certificates discussed under “Risk Factors”.

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Certificates

U.S.$500,000,000 Tier 1 Capital Certificates.

Trustee

BAJ Sukuk Tier 1 Limited, an exempted company incorporated with limited liability on 28 April 2021 under the laws of the Cayman Islands, with incorporation number 375382 with its registered office at c/o Walkers Fiduciary Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9008, Cayman Islands.

Trustee Legal Entity Identifier

549300O8QDCM6RI6GD22

Ownership of the Trustee

The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1.00 par value each, 250 of which are fully-paid and issued. The Trustee’s entire issued share capital is held on trust for charitable purposes by Walkers Fiduciary Limited as share trustee under the terms of a declaration of trust (the Share Declaration of Trust).

Administration of the Trustee

The affairs of the Trustee are managed by Walkers Fiduciary Limited (the Trustee Administrator), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 20 June 2021 between the Trustee Administrator, the Trustee and the Bank (the Corporate Services Agreement). The Trustee Administrator’s registered office is at c/o Walkers Fiduciary Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9008, Cayman Islands.

Mudareb / Bank

Bank AlJazira

Rab-al-Maal

BAJ Sukuk Tier 1 Limited.

Risk Factors

Certain factors may affect the Trustee’s ability to fulfil its obligations under the Certificates and the Bank’s ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the
market risks associated with the Certificates. These are set out under “Risk Factors”.

Joint Lead Managers

Delegate
Citibank, N.A., London Branch.

Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future powers, rights, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being requested and indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Mudareb and/or the Bank following a Bank Event.

Principal Paying Agent, Calculation Agent and Transfer Agent
Citibank, N.A., London Branch.

Registrar
Citigroup Global Markets Europe AG.

Summary of the transaction structure and Transaction Documents
An overview of the structure of the transaction and the principal cash flows is set out under “Structure Diagram and Cash Flows” and a description of the principal terms of certain of the Transaction Documents is set out under “Summary of the Principal Transaction Documents”.

Issue Date
29 June 2021.

Issue Price
100 per cent. of the aggregate face amount of the Certificates.

Periodic Distribution Dates
29 June and 29 December every year, commencing on 29 December 2021.

Periodic Distributions
Subject to Condition 8 (Periodic Distribution Restrictions), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 3.950 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Call Date (subject as aforesaid) at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five year Reset Rate plus a margin of 3.038 per cent. per annum.
If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and neither the Bank nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (Periodic Distribution Restrictions). In such circumstances, distributions will not be cumulative and any distributions which are not paid will not accumulate or compound and the Certificateholders will have no right to receive such distributions at any time, even if other distributions are paid in the future.

**Form of Certificates**

The Certificates will be issued in registered form as described in “Global Certificate”. The Certificates will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.

**Clearance and Settlement**

Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.

**Denomination of the Certificates**

The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

**Status of the Certificates**

Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank pari passu without any preference or priority with all other Certificates; see Condition 4.1 (Status).

Upon the occurrence and continuation of any Winding-Up Proceeding, the Relevant Obligations will (a) constitute Additional Tier 1 Capital of the Bank, (b) constitute direct, unsecured, unconditional and subordinated obligations of the Bank, (c) rank subordinate and junior to all Senior Obligations (as defined in the Conditions), (d) rank pari passu with all other Pari Passu Obligations (as defined in the Conditions) and (e) rank in priority only to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (Subordination).
The Trust Assets consist of:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Trustee pursuant to clause 12.1 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, which will be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders pro rata according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and the Conditions.

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part only in accordance with the provisions of Condition 10 (Redemption).

Pursuant to Condition 10.1(b) (Trustee’s Call Option), the Trustee may (but only upon the instructions of the Bank (acting in its sole discretion)), on the First Call Date or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Certificates may be redeemed in accordance with Conditions 10.1(c) (Redemption due to Taxation) and 10.1(d) (Redemption for Capital Event).

Any redemption of the Certificates is subject to the conditions described in Condition 10.1 (Redemption).

If a Non-Viability Event (as defined in the Conditions) occurs prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Certificates, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (Write-down at the Point of Non-Viability). In such circumstances, the Certificateholders’ rights to the Trust Assets shall automatically be deemed to be irrevocably and
unconditionally Written-down in a proportion corresponding to the relevant Write-down Amount and the Certificates shall be cancelled (in the case of a Write-down in whole) or Written-down in part on a pro rata basis (in the case of a Write-down in part) by the Trustee. See Condition 11 (Write-down at the Point of Non-Viability).

**Dissolution Events**

Subject to Condition 12 (Dissolution Events and Winding-up), if a Bank Event occurs and, if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 12.1 (Bank Events), the Trustee and/or the Delegate shall, subject to Condition 12.3 (Winding-up, dissolution or liquidation), take the actions referred to therein.

**Withholding Tax**

Subject to Condition 9.2 (Payments subject to Applicable Laws) and Condition 13 (Taxation), all payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any Taxes (as defined in Condition 13 (Taxation)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay (subject to certain specified exclusions) Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of such deduction or withholding is received by the parties entitled thereto.

In addition, the Transaction Documents provide that payments thereunder by the Bank (in its capacity as the Mudareb) shall be made free and clear of and without withholding or deduction, for and on account of, any Taxes, unless such withholding or deduction is required by law and, in such case, provide for the payment by the Bank of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

Notwithstanding any other provision of the Conditions, the Trustee and the Agents shall be permitted to withhold or deduct any amounts imposed pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the Code), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof), or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the U.S. Internal Revenue Service (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a FATCA withholding). None of the Trustee, the Delegate or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Certificateholder for any FATCA withholding deducted or withheld by the Trustee, a Paying Agent or any other party as a
result of any person not being entitled to receive payments free of FATCA withholding.

**Trustee Covenants**

The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).

**Ratings**

The Bank has been assigned long term ratings of “BBB+” with a “negative outlook” by Fitch and “Baa1” with a “negative outlook” by Moody’s.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Certificates will not be rated by any rating organisation upon their issue.

**Certificateholder Meetings**

A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).

**Listing and Admission to Trading**

Application has been made to the London Stock Exchange for the Certificates to be admitted to trading on the ISM. The ISM is not a regulated market for the purposes of the UK MiFIR.

**Transaction Documents**

The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement are referred to herein as the *Transaction Documents*.

**Governing Law**

The Declaration of Trust, the Certificates, the Conditions, the Agency Agreement, the Mudaraba Agreement and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.

The Corporate Services Agreement and the Share Declaration of Trust and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, the laws of the Cayman Islands.

**Limited Recourse**

Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates.

If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets are not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the
Transaction Documents) or of the Delegate or the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (Subordination) and Condition 12.3 (Winding-up, dissolution or liquidation), have recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (Limited Recourse and Agreement of Certificateholders). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

See Condition 4.4 (Limited Recourse and Agreement of Certificateholders) for further details.

Selling Restrictions

There are restrictions on the distribution of this Offering Circular and the offer or sale of Certificates in the United States, the United Kingdom, the EEA, the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Qatar (including the Qatar Financial Centre), Japan, Hong Kong, Malaysia, Singapore and Switzerland. See “Subscription and Sale”.

Use of Proceeds

The net proceeds of the issue of the Certificates will be paid by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement and will be used by the Bank to enhance its tier 1 capital as well as for general corporate purposes, all in accordance with the investment plan set out in the Mudaraba Agreement (as described in “Use of Proceeds”).
TERMS AND CONDITIONS OF THE TIER 1 CAPITAL CERTIFICATES

The following (except for the text in italics) is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in “Global Certificate”, apply to the Global Certificate.

The Saudi Central Bank (SAMA) does not make any representation as to the accuracy or completeness of this Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. In particular, prospective purchasers of the Certificates agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Certificates for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event (as defined in these Conditions).

BAJ Sukuk Tier 1 Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the Trustee, which expression shall where the context allows include the Delegate (as defined below) acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) has issued Tier 1 Capital Certificates (the Certificates) in an aggregate face amount of U.S.$500,000,000. The Certificates are constituted by a declaration of trust (the Declaration of Trust) dated 29 June 2021 (the Issue Date) made between the Trustee, Bank AlJazira (the Bank) and Citibank, N.A., London Branch as (a) the donee of certain powers and (b) the delegate of the Trustee (the Delegate, which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the Agency Agreement) made between the Trustee, the Bank, the Delegate, Citibank, N.A., London Branch as principal paying agent (in such capacity, the Principal Paying Agent and together with any further or other paying agents appointed from time to time in respect of the Certificates, the Paying Agents), as transfer agent (in such capacity, the Transfer Agent and, together with the Registrar (as defined below) and any further or other transfer agents appointed from time to time in respect of the Certificates, the Transfer Agents) and as calculation agent (the Calculation Agent, which expression includes the Calculation Agent for the time being), and Citigroup Global Markets Europe AG as registrar (in such capacity, the Registrar). The Paying Agents, the Transfer Agents and the Calculation Agent are together referred to in these terms and conditions (the Conditions) as the Agents. References to the Agents (or any of them) shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (Interpretation)). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents (including, for the avoidance of doubt, the agreement to resolve any dispute by means of arbitration as more particularly set out in Condition 21.2 (Arbitration) and each Transaction Document) applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (a) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (The Trust)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (The Trust)); (b) to act as Rab-al-Maal (as defined in Condition 5 (The Trust)) pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (c) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

1. Interpretation

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these.
Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

**Additional Amounts** has the meaning given to it in Condition 13 (*Taxation*);

**Additional Tier 1 Capital** means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, additional tier 1 capital in accordance with the Capital Regulations;

**Applicable Regulatory Capital Requirements** means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Bank, including transitional rules and waivers granted in respect of the foregoing;

**Applicable Statutory Loss Absorption Regime** means a Statutory Loss Absorption Regime that is applicable to the Certificates and which, alone or together with any other law(s) or regulation(s), has the effect that Conditions 11.2 (*Non-Viability Event*) and 11.3 (*Non-Viability Notice*) could cease to apply to the Certificates without giving rise to a Capital Event;

**Authorised Denomination** has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

**Authorised Signatory** means any of the following: the chief executive officer of the Bank, the chief financial officer of the Bank and the treasurer of the Bank or any other person(s) duly authorised by the Bank to sign on its behalf;

**Bank Event** means any of the following events:

(a) **Non-payment**: the Bank (acting in its capacity as Mudareb) fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of (in the case of principal) five days or (in the case of profit) 14 days (save, in each case, where such failure occurs solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election); or

(b) **Winding-up**: a Winding-up Proceeding has occurred and is continuing; or

(c) **Analogous Event**: any event occurs which under the laws of the Kingdom of Saudi Arabia has an analogous effect to any of the events referred to in paragraph (b) above;

**Basel III** means the set of reforms to the international regulatory capital framework issued by the Basel Committee (including, but not limited to, the Basel III Documents) as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments);

**Basel III Documents** means the Basel Committee document “*A global regulatory framework for more resilient banks and banking systems*” released by the Basel Committee on 16 December 2010 and revised in June 2011 and the Annex contained in its document “*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*” on 13 January 2011;

**Basel Committee** means the Basel Committee on Banking Supervision;

**Business Day** means a day, other than a Friday, Saturday, Sunday or public holiday, on which registered banks settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the Kingdom of Saudi Arabia, New York City and London;
**Capital Event** is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that the outstanding face amount (or, if some amount of the Certificates outstanding are held by the Bank or whose purchase is funded by the Bank, the amount that qualifies as regulatory capital) of the Certificates is excluded (in full or, to the extent not prohibited by relevant regulatory criteria for Tier 1 Capital, in part) from the consolidated Tier 1 Capital of the Bank (save where such non-qualification is only as a result of either (a) any applicable limitation on the amount of such capital; or (b) such capital ceasing to count towards the Bank’s capital base through any amortisation or similar process or any changes thereto (including any amortisation or similar process imposed through any grandfathering arrangement));

**Capital Event Redemption Amount** in relation to a Certificate means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

**Capital Regulations** means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the Kingdom of Saudi Arabia, including those of the Financial Regulator;

**Certificateholder** means a person in whose name a Certificate is registered in the Register (or in the case of joint Certificateholders, the first named thereof) and the expressions holder and holder of Certificates and related expressions shall (where appropriate) be construed accordingly;

**Code** means the U.S. Internal Revenue Code of 1986, as amended;

**Common Equity Tier 1 Capital** means capital of the Bank qualifying as, and approved by the Financial Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 capital in accordance with the Capital Regulations;

**Day-count Fraction** means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last));

**Dispute** has the meaning given to it in Condition 21.2 (*Arbitration*);

**Dissolution Distribution Amount** means the Trustee Call Amount, the Capital Event Redemption Amount or the Tax Event Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

**Dissolution Event** means a Bank Event and/or a Trustee Event;

**Dissolution Notice** has the meaning given to it in Condition 12.1 (*Bank Events*);

**Dissolution Request** has the meaning given to it in Condition 12.1 (*Bank Events*);

**Distributable Profits** means the amount of the Bank’s consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law), after the transfer of any amounts to non-distributable reserves, all as calculated by the Bank based on its most recent consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations;

**Extraordinary Resolution** has the meaning given to it in the Declaration of Trust;

**Final Mudaraba Profit** has the meaning given to it in the Mudaraba Agreement;
Financial Regulator means SAMA or such other governmental authority which assumes or performs the functions of SAMA, as at the Issue Date, or such other successor authority exercising primary banking supervision, in each case with respect to prudential matters in relation to the Bank;

First Call Date means 29 June 2026;

First Mudaraba Profit Distribution Date means 29 December 2021;

General Mudaraba Pool has the meaning given to it in the Mudaraba Agreement;

H.15 (519) means the weekly statistical release designated as such, or any successor or replacement publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the applicable U.S. Securities Determination Date. H.15 (519) may be currently obtained at the following website: https://www.federalreserve.gov/releases/h15/;

Initial Period means the period from (and including) the Issue Date to (but excluding) the First Call Date;

Initial Periodic Distribution Rate has the meaning given to it in Condition 7.4(a) (Periodic Distribution Rate);

Junior Obligations means all claims of the holders of Ordinary Shares and all payment obligations of the Bank in respect of its Common Equity Tier 1 Capital and any other subordinated payment obligations of the Bank which rank, or are expressed to rank, junior to the Relevant Obligations;

London Stock Exchange means the London Stock Exchange plc;

Margin means 3.038 per cent. per annum;

Mudaraba has the meaning given to it in Condition 5 (The Trust);

Mudaraba Agreement has the meaning given to it in Condition 5 (The Trust);

Mudaraba Assets has the meaning given to it in Condition 5 (The Trust);

Mudaraba Capital has the meaning given to it in Condition 5 (The Trust);

Mudaraba End Date means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions;

Mudaraba Profit has the meaning given to that term in the Mudaraba Agreement;

Mudaraba Profit Distribution Date means 29 June and 29 December in each year, starting on (and including) the First Mudaraba Profit Distribution Date;

Mudaraba Reserve has the meaning given to it in the Mudaraba Agreement;

Mudareb has the meaning given to it in Condition 5 (The Trust);

Non-Payment Election has the meaning given to it in Condition 8.2 (Non-Payment Election);

Non-Payment Event has the meaning given to it in Condition 8.1 (Non-Payment Event);
Non-Viability Event means that the Financial Regulator has notified the Bank in writing that it has determined that the Bank is, or will become, Non-Viable without:

(a) a Write-down of the Certificates (and write-down of any of the Bank’s other capital instruments or other obligations constituting Tier 1 Capital and/or Tier 2 Capital of the Bank that, pursuant to their terms or by operation of law, are capable of being written-down and/or converted into equity); or

(b) a public sector injection of capital (or equivalent support), provided that such injection of capital is not made (i) by a shareholder of the Bank or (ii) on terms that are more favourable to the Bank than those that would be accepted by private investors in comparable transactions;

Non-Viability Event Write-down Date shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than ten Business Days after the date of the Non-Viability Notice (or such earlier date as determined by the Financial Regulator);

Non-Viability Notice has the meaning given to it in Condition 11.3 (Non-Viability Notice);

Non-Viable means, in the case of the Bank, (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business or (b) any other event or circumstance which is specified as constituting non-viability by the Financial Regulator or in applicable Capital Regulations or any Applicable Statutory Loss Absorption Regime;

Ordinary Shares means the common shares of the Bank;

Other Common Equity Tier 1 Instruments means securities issued by the Bank that qualify as Common Equity Tier 1 Capital of the Bank other than Ordinary Shares;

Outstanding Payments means, in relation to any amounts payable on redemption of the Certificates, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs to the date of redemption plus Additional Amounts thereon, if any;

Pari Passu Obligations means all subordinated payment obligations of the Bank which rank, or are expressed to rank, pari passu with the Relevant Obligations;

Payment Business Day has the meaning given to it in Condition 9.4 (Payment only on a Payment Business Day);

Periodic Distribution Amount has the meaning given to it in Condition 7.2 (Periodic Distribution Amounts);

Periodic Distribution Date means 29 June and 29 December in each year, starting on (and including) 29 December 2021;

Periodic Distribution Period means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;
**Potential Dissolution Event** means an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

**Proceedings** has the meaning given to it in Condition 21.3 (*Waiver of Interest*);

**Profit Rate** means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

**Rab-al-Maal** has the meaning given to it in Condition 5 (*The Trust*);

**Rab-al-Maal Mudaraba Profit** has the meaning given to it in the Mudaraba Agreement;

**Rab-al-Maal Final Mudaraba Profit** has the meaning given to it in the Mudaraba Agreement;

**Record Date** means in the case of the payment of a Periodic Distribution Amount, the date falling on the 15th day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

**Register** has the meaning given to it in Condition 2.1 (*Form and Denomination*);

**Registered Account** has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

**Relevant Date** in respect of a Certificate means (a) the date on which payment in respect of such Certificate first becomes due or (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 17 (*Notices*);

**Relevant Five Year Reset Rate** means, in respect of each Reset Period: (a) a rate (expressed as a decimal) determined on the relevant U.S. Securities Determination Date to be the per annum rate equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of five years and trading in the public securities markets; or (b) if there is no such published U.S. Treasury security with a maturity of five years and trading in the public securities markets, then the rate will be determined on the relevant U.S. Securities Determination Date by interpolation between the most recent weekly average yield to maturity for two series of U.S. Treasury securities trading in the public securities markets: (i) one maturing as close as possible to, but earlier than, the immediately following Reset Date; and (ii) the other maturing as close as possible to, but later than, the immediately following Reset Date, in the case of each of (a) and (b), as published in the most recent H.15 (519). If the Bank cannot procure the determination of the Relevant Five Year Reset Rate on the relevant U.S. Securities Determination Date pursuant to the methods described in (a) and (b) above, then the Relevant Five Year Reset Rate will be: (A) equal to the rate applicable to the immediately preceding Reset Period; or (B) in the case of the Reset Period commencing on the First Call Date, 0.912 per cent.;

**Relevant Jurisdiction** means the Cayman Islands (in the case of any payment made by the Trustee) and the Kingdom of Saudi Arabia (in the case of any payment made by the Bank) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

**Relevant Obligations** means the payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit);
Reserved Matter has the meaning given to it in the Declaration of Trust;

Reset Date means the First Call Date and every fifth anniversary thereafter;

Reset Period means the period from (and including) the first Reset Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (x) the Mudaraba End Date and (y) the next succeeding Reset Date;

Rules has the meaning given to it in Condition 21.2 (Arbitration);

SAMA means the Saudi Central Bank and/or any of its successors or assigns;

Senior Creditors means creditors of the Bank (including payment obligations to the Bank’s depositors and, for this purpose, holders of any instrument issued by, or other obligation of, the Bank which ranks senior to the claims of the Trustee in respect of the Relevant Obligations) other than creditors in respect of obligations the claims in relation to which rank or are expressed to rank pari passu with, or junior to, the claims of the Trustee in respect of the Relevant Obligations;

Senior Obligations means all unsubordinated payment obligations of the Bank (including payment obligations to the Bank’s depositors) and all subordinated payment obligations (if any) of the Bank except Pari Passu Obligations and Junior Obligations;

Statutory Loss Absorption Regime means any statutory regime implemented in the Kingdom of Saudi Arabia which provides the Financial Regulator with the powers to implement loss absorption measures in respect of capital instruments (such as the Certificates), including, but not limited to, any such regime which is implemented pursuant to Basel III and/or The Law on the Treatment of Systemically Important Financial Institutions M/38 dated 25/4/1442H;

Subsidiary means any entity whose financial statements at any time are required by law or in accordance with provisions of generally accepted accounting principles to be fully consolidated with those of the Bank;

Substituted Territory has the meaning given to it in Condition 12.2 (Trustee Events);

Substituted Trustee has the meaning given to it in Condition 12.2 (Trustee Events);

Taxes has the meaning given to it in Condition 13 (Taxation);

Tax Event means the Bank or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of the Bank (in its capacity as Mudareb)) on the next due date for a payment of Mudaraba Profit or the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it);

Tax Event Redemption Amount in relation to a Certificate, means 100 per cent of its outstanding face amount together with any Outstanding Payments;

Tax Law Change means any change in, or amendment to, the laws, published practice or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change
or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 28 June 2021;

Tier 1 Capital means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

Tier 2 Capital means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations;

Transaction Account has the meaning given to it in Condition 5 (The Trust);

Transaction Documents means each of the Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

Trust Assets has the meaning given to it in Condition 5 (The Trust);

Trustee Call Amount in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Trustee Event means any of the following events:

(a) Non-Payment: default is made in the payment of the Dissolution Distribution Amount, or default is made in the payment of any Periodic Distribution Amount, in each case, on the due date for payment thereof and such default continues for a period of five days; or

(b) Winding-up: an administrator is appointed, an order is made by any competent court or the government of the Cayman Islands or an effective resolution is passed for the administration, winding-up, liquidation or dissolution of the Trustee in accordance with applicable law or the Trustee applies or petitions for a winding-up or administration order in respect of itself (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority); or

(c) Analogous Event: any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (b) above.

For the purpose of paragraph (a) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (Periodic Distributions) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of any failure by the Mudareb to comply with the matters described in Condition 4.4 (Limited Recourse and Agreement of Certificateholders) (save, in each case, where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);

Trustee’s Territory has the meaning given to it in Condition 12.2 (Trustee Events);

U.S. means the United States of America;

U.S. Government Securities Business Day means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;
U.S. Securities Determination Date means the second U.S. Government Securities Business Day before the commencement of the Reset Period for which the rate will apply;

Winding-Up Proceeding means an administrator is appointed, an order is made by any competent court or the government of the Kingdom of Saudi Arabia or an effective resolution is passed for the administration, winding-up, liquidation or dissolution of the Bank in accordance with applicable law or the Bank applies or petitions for a winding-up or administration order in respect of itself (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority);

Write-down means:

(a) the Certificateholders’ rights under or in respect of the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally Written-down in a proportion corresponding to the relevant Write-down Amount;

(b) (in the case of a Write-down in whole) the Certificates shall be cancelled or (in the case of a Write-down in part) Written-down in part on a pro rata basis;

(c) (in the case of a Write-down in whole) the Certificateholders’ rights under the Mudaraba Assets shall be granted to the Mudareb such that the value of the Mudaraba Assets is zero;

(d) the Trustee shall pay (x) any accrued and unpaid Periodic Distribution Amounts (in relation to the relevant Write-down Amount); and (y) any Additional Amounts (in relation to the relevant Write-down Amount), in each case, if and only to the extent that such Periodic Distribution Amount or Additional Amount, as applicable, became due and payable prior to the date of the Non-Viability Notice (and provided payment of such amounts are not prohibited by the Financial Regulator or the Capital Regulations at such time); and

(e) except as described in paragraph (d) above, all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, the Dissolution Distribution Amount and any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date,

and all references to Written-down will be construed accordingly; and

Write-down Amount means the outstanding face amount of the Certificates and the principal notional amount of the Trust Assets that the Financial Regulator has determined to be Written-down.

All references in these Conditions to U.S. dollars, U.S.$ and $ are to the lawful currency of the United States of America.

2. Form, Denomination and Title

2.1 Form and Denomination

The Certificates are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an Authorised Denomination). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be
numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the Register).

Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV (Euroclear) and Clearstream Banking S.A. (Clearstream, Luxembourg). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. These Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See “Global Certificate”.

2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered Certificateholder will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating any Certificateholder. The registered Certificateholder will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

3. Transfers of Certificates

3.1 Transfers

Subject to Conditions 3.4 (Closed Periods) and 3.5 (Regulations) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer.

For the purposes of this Condition, business day shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such Certificateholder appearing on the Register or as specified in the form of transfer.
3.3 **Formalities Free of Charge**

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent except that the Trustee may require payment of a sum to it (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) to cover any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

3.4 **Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

3.5 **Regulations**

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate (acting in accordance with the Declaration of Trust and these Conditions) and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests a copy of such regulations.

The Certificateholders shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

4. **Status, Subordination and Limited Recourse**

4.1 **Status**

The Certificates represent an undivided ownership interest in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders against the Bank in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

4.2 **Subordination**

(a) Upon the occurrence and continuation of any Winding-Up Proceeding, the Relevant Obligations will (i) constitute Additional Tier 1 Capital of the Bank, (ii) constitute direct, unsecured, unconditional and subordinated obligations of the Bank, (iii) rank subordinate and junior to all Senior Obligations but not further or otherwise, (iv) rank pari passu with all other Pari Passu Obligations and rank in priority only to all Junior Obligations.

(b) The Trustee irrevocably waives its rights to the extent necessary to give effect to the subordination provisions of this Condition 4.2 (*Subordination*). In order to give effect to such subordination provisions, the Trustee, the Bank and the Certificateholders agree that if a Winding-Up Proceeding shall have occurred and be continuing, any amounts that would be due and payable to them (including any amounts standing to the credit of the Mudaraba Reserve) will be applied:
first, to the payment in full of each claim in respect of a Senior Obligation (including any amount in respect of a claim accruing after the date of commencement of such Winding-Up Proceeding); and

(ii) thereafter, to the payment, equally and rateably, of each amount owing in respect of the Relevant Obligations and all Pari Passu Obligations.

Neither the Trustee nor any Certificateholder may exercise or claim any right of set-off in respect of any amount owed to it by the Bank arising under or in connection with the Relevant Obligations and the Trustee and, by its holding of any Certificates, each Certificateholder, shall be deemed to have waived all such rights of set-off to the fullest extent permitted by law.

As a consequence of these subordination provisions, if a Winding-Up Proceeding should occur, the Certificateholders may recover less rateably than the holders of deposit liabilities, the holders of other unsubordinated liabilities or the holders of subordinated liabilities ranking senior to the Relevant Obligations, in each case, of the Bank.

The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 12.3 (Winding-up, dissolution or liquidation).

The provisions of this Condition 4.2 (Subordination) apply only to the Relevant Obligations and nothing in this Condition 4.2 (Subordination) shall affect or prejudice the payment of the costs, charges, expenses, liabilities, indemnities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof and in such capacity the Delegate shall rank as an unsubordinated creditor of the Bank.

4.3 Other Issues

So long as any of the Certificates remain outstanding, the Bank (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Tier 1 Capital of the Bank if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains and/or (b) the Relevant Obligations have, in each case, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank pari passu with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Limited Recourse and Agreement of Certificateholders

Save as provided in this Condition 4.4 (Limited Recourse and Agreement of Certificateholders), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:
(a) no payment of any amount whatsoever shall be made by the Trustee or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Trust Assets;

(b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in, to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;

(c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement;

(d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents, or any of their respective affiliates in respect of any such shortfall, and no recourse shall be had, and no Certificateholder will have any claim, for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents;

(e) it will not petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

(f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. References in these Conditions to wilful default or actual fraud mean a finding to such effect by a court of competent jurisdiction (in relation to the conduct of the relevant party);

(g) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of any sums due under such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and

(h) the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb’s breach of the Mudaraba Agreement or (ii) the Mudareb’s gross negligence, wilful misconduct or fraud.

The Bank is obliged to make certain payments under the Transaction Documents directly to, or to the order of, the Trustee. Such payment obligations form part of the Trust Assets, and the Trustee and/or the Delegate will, subject to Condition 4.2 (Subordination) and Condition 12.3 (Winding-up, dissolution or
liquidation), have recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (Limited Recourse and Agreement of Certificateholders). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

5. The Trust

5.1 BAJ Sukuk Tier 1 Limited (in its capacity as Trustee and as the Rab-al-Maal) will enter into a mudaraba agreement (the Mudaraba Agreement) to be dated the Issue Date with the Bank (in such capacity, the Mudareb). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) and which may be subject to change after the Issue Date in accordance with Condition 10.2 (Purchase) (the Mudaraba Capital). The Mudareb will invest the Mudaraba Capital in its general Shariah-compliant business activities carried out through the General Mudaraba Pool and following investment of the Mudaraba Capital in the General Mudaraba Pool, the Mudaraba Capital shall constitute pro rata undivided assets in the General Mudaraba Pool (the Mudaraba Assets) in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the Mudaraba).

The Trustee has opened a transaction account in London (the Transaction Account) in its own name with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 12.2 (Trustee Events), the Substituted Trustee will be required to open a new transaction account in London in its name with the Principal Paying Agent into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the “Transaction Account” will be construed accordingly.

5.2 Pursuant to the Declaration of Trust, the Trustee holds:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clause 12.1 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the Trust Assets) upon trust absolutely for and on behalf of the Certificateholders pro rata according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and these Conditions.

5.3 On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):
(a) first (to the extent not previously paid), to each of the Delegate and/or any Appointee (as defined in the Declaration of Trust) in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate (in accordance with the Declaration of Trust) or Appointee, as applicable;

(b) second (to the extent not previously paid), to each Agent in respect of all amounts owing to such Agent under the Transaction Documents in its capacity as Agent (in accordance with the Agency Agreement);

(c) third (to the extent not previously paid), in or towards reimbursement pari passu and rateably of any amounts paid by any Indemnifying Parties as contemplated by clause 12.8 of the Declaration of Trust, together with any profit payable thereon;

(d) fourth, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, pro rata and pari passu, (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; and (ii) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents and the Corporate Services Agreement in its capacity as trustee administrator and registered office provider;

(e) fifth, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (Periodic Distribution Restrictions), in or towards payment pari passu and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;

(f) sixth, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment pari passu and rateably of the Dissolution Distribution Amount; and

(g) seventh, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to the Bank, or prior to the Mudaraba End Date, the Mudaraba Reserve.

6. Covenants

The Trustee has covenanted in the Declaration of Trust that, inter alia, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate (given in accordance with the Declaration of Trust and these Conditions)):

(a) incur any indebtedness in respect of financed, obtained or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of Shariah or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness or present or future obligations (whether structured in accordance with the principles of Shariah or otherwise) by granting or permitting to be outstanding any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law (if any) or under or pursuant to any of the Transaction Documents);

(c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise, or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets
except pursuant to any of the Transaction Documents (other than those arising by operation of
law);

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the
Transaction Documents;

(e) amend or agree to any amendment to any Certificate or Transaction Document (other than in
accordance with the terms thereof);

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than
the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its
shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by
the Trustee under the Transaction Documents have been paid in full, put to its directors or
shareholders any resolution for, appoint any administrator or liquidator for or apply or petition
for, its winding-up (except for the purpose of and followed by a reconstruction, amalgamation,
reorganisation, merger or consolidation approved by any court of competent jurisdiction or
other competent authority) or any resolution for the commencement of any other bankruptcy or
insolvency proceedings with respect to it;

(j) subject to (i) above, consolidate or merge with any other person; or

(k) enter into any contract, transaction, amendment, obligation or liability other than the
Transaction Documents or any permitted amendment or supplement thereto or as expressly
permitted or required thereunder or engage in any business or activity other than:

(l) as provided for or permitted in the Transaction Documents;

(i) the ownership, management and disposal of the Trust Assets as provided in the
Transaction Documents; and

(ii) such other matters which are incidental thereto.

7. **Periodic Distributions**

7.1 **Distribution of Mudaraba Profit**

The Trustee has agreed in the Mudaraba Agreement that the Bank shall be entitled (in its capacity as
Mudareb or otherwise) to utilise the Mudaraba Assets (and the proceeds thereof) to make payments in
respect of the claims of Senior Creditors or to cover losses of the Mudaraba and that such entitlement
shall apply at any time before an order has been made, or an effective resolution has been passed, for
the winding-up, dissolution or liquidation (or other analogous event) of the Bank (in its capacity as Mudareb
or otherwise).

7.2 **Periodic Distribution Amounts**

Subject to Conditions 4.2 (Subordination), 4.4 (Limited Recourse and Agreement of Certificateholders),
7.3 (Cessation of Accrual), 8 (Periodic Distribution Restrictions), 9 (Payments) and 11 (Write-down at
the Point of Non-Viability), the Trustee shall distribute to Certificateholders, pro rata to their respective
holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. The Periodic Distribution Amount payable on each Periodic Distribution Date (i) falling prior to and including the first Reset Date shall be U.S.$19.75 per U.S.$1,000 in face amount of the Certificates and (ii) falling after the first Reset Date shall be the relevant amount calculated pursuant to Condition 7.4 (Periodic Distributions).

7.3 Cessation of Accrual

Subject to Conditions 4.2 (Subordination), 8 (Periodic Distribution Restrictions) and 11 (Write-down at the Point of Non-Viability), each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with these Conditions and the Mudaraba Agreement.

7.4 Periodic Distributions

Subject to Condition 8 (Periodic Distribution Restrictions), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (Periodic Distributions). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

Subject to Condition 8 (Periodic Distribution Restrictions), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date, in each case as provided in this Condition 7 (Periodic Distributions).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the Relevant Period), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificates; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) Periodic Distribution Rate

For the Initial Period, the Certificates bear profit at the Profit Rate of 3.950 per cent. per annum (the Initial Periodic Distribution Rate).

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Five Year Reset Rate on the relevant U.S. Securities Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date, but in no event later than the second Business Day thereafter, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents, the London Stock Exchange or any other stock exchange on which the Certificates are for the time being listed (if then required by the London Stock Exchange or such other stock exchange) and to be notified to Certificateholders in accordance with Condition 17 (Notices). To the extent that the Calculation Agent is unable to notify the London Stock Exchange, or any other stock exchange on which the Certificates are for the time being listed (if then required by the London Stock Exchange or such other stock exchange), the Calculation Agent shall promptly notify the Bank, which shall procure the performance of such obligation.
For the avoidance of doubt, the Calculation Agent shall not be responsible to the Trustee, the Bank, the Certificateholders or any third party as a result of the Calculation Agent having relied upon any quotation, ratio or other information provided to it by any person for the purposes of making any determination hereunder, which subsequently may be found to be incorrect or inaccurate in any way.

(b) **Calculation Agent**

With effect from the First Call Date, and so long as any Certificates remain outstanding thereafter, the Trustee will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

The Trustee may, with the prior written approval of the Delegate (given in accordance with the Declaration of Trust and these Conditions), from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (Periodic Distributions)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (Periodic Distribution Rate), the Trustee shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Delegate (in accordance with the Declaration of Trust and these Conditions) to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(c) **Determinations of Calculation Agent or Trustee Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (Periodic Distributions), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, the Bank, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of wilful default or gross negligence) no liability to the Trustee, the Bank, any Agent, the Delegate and the Certificateholders shall attach to the Calculation Agent or the Trustee (or its agent) in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

8. **Periodic Distribution Restrictions**

8.1 **Non-Payment Event**

Notwithstanding Condition 7.4 (Periodic Distributions), if any of the following events occur (each, a Non-Payment Event), the Bank (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(a) the amount equal to the then applicable Periodic Distribution Amount to be paid by the Bank out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the Relevant Rab-al-Maal Mudaraba Profit Amount), when aggregated with any distributions or amounts payable by the Bank (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations and Junior Obligations, exceeds, on the relevant date for payment of the Relevant Rab-al-Maal Mudaraba Profit Amount, the Mudareb’s Distributable Profits; or

(b) the Bank (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of (or such payment would cause a breach
of) the Applicable Regulatory Capital Requirements (including any payment restrictions due to a breach of any applicable capital buffers imposed on the Bank by the Financial Regulator); or

the Financial Regulator requires (i) the Bank not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount to the Trustee (in its capacity as Rab-al-Maal) on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (ii) the Trustee (in its capacity as Rab-al-Maal) not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date, in each case, on account of the Bank making a net loss during the relevant financial period or for any other reason as it may deem necessary.

8.2 Non-Payment Election

Notwithstanding Condition 7.4 (Periodic Distributions), the Bank may in its sole discretion elect that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, and the Bank shall, in each case, instruct the Trustee not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on such Periodic Distribution Date, provided that the foregoing in this Condition 8.2 (Non-Payment Election) shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date (any such election being a Non-Payment Election). The Bank may not, however, make a Non-Payment Election once the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 10 (Redemption).

8.3 Effect of Non-Payment Event or Non-Payment Election

If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, then the Bank shall (a) in the case of a Non-Payment Election, no later than 14 calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee and the Principal Paying Agent in accordance with the Mudaraba Agreement, the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 17 (Notices) in each case providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event, as the case may be. In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given in accordance with this Condition 8.3 (Effect of Non-Payment Event or Non-Payment Election), the fact of non-payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (or any part thereof) on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Certificateholders shall have no claim in respect of any Periodic Distribution Amount (or any part thereof, as applicable) not paid as a result of either a Non-Payment Election or a Non-Payment Event (in each case, irrespective of whether notice of such Non-Payment Election or Non-Payment Event has been given in accordance with this Condition 8.3 (Effect of Non-Payment Event or Non-Payment Election)) and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts (or any part thereof, as applicable).

8.4 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (Non-Payment Event) or 8.2 (Non-Payment Election) (as the case may be),
then, from the date of such Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), the Bank will not, so long as any of the Certificates are outstanding:

(a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares issued by the Bank (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(b) declare or pay profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to or pari passu with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or

(c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares issued by the Bank; or

(d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by the Bank ranking, as to the right of repayment of capital, junior to or pari passu with the Relevant Obligations (excluding securities the terms of which stipulate (i) any mandatory redemption in accordance with its terms or (ii) any conversion into, or exchange for, Ordinary Shares), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until (i) the next following payment of Rab-al-Maal Mudaraba Profit or (ii) (as the case may be) payment of the Rab-al-Maal Final Mudaraba Profit, in each case following the Dividend Stopper Date, has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9. **Payments**

9.1 **Payments in respect of the Certificates**

Subject to Condition 9.2 (**Payments subject to Applicable Laws**), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Trustee in U.S. dollars by wire transfer in same day funds to the Registered Account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (**Payments**), a Certificateholder’s **Registered Account** means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date.

9.2 **Payments subject to Applicable Laws**

Payments in respect of the Certificates are subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 (**Taxation**) and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or
otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (Taxation)) any law implementing an intergovernmental approach thereto.

9.3 No Commissions

No commissions or expenses shall be charged to the Certificateholders in respect of any payments made in accordance with this Condition 9 (Payments).

9.4 Payment only on a Payment Business Day

Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (Non-Payment Event) and 8.2 (Non-Payment Election), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In these Conditions, Payment Business Day means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in New York City and London settle payments and are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

9.5 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); and (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent, a Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 17 (Notices).

10. Redemption

10.1 Redemption

(a) No Fixed Redemption Date and Conditions for Redemption

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2 (Subordination), Condition 11 (Write-down at the Point of Non-Viability) and Condition 12.3 (Winding-up, dissolution or liquidation) and without prejudice to the provisions of Condition 14 (Prescription)) only have the right to redeem the Certificates in accordance with the following provisions of this Condition 10 (Redemption).
The redemption of the Certificates, pursuant to this Condition 10 (Redemption), is subject to the following conditions (in addition to those set out elsewhere in this Condition 10.1 (Redemption)):

(i) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) the Bank having obtained the prior consent of the Financial Regulator;

(ii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) at the time when the relevant notice of redemption is given, the Bank being in compliance with the Applicable Regulatory Capital Requirements;

(iii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) immediately following such redemption, the Bank being in compliance with the Applicable Regulatory Capital Requirements; and

(iv) (in the case of a redemption pursuant to Conditions (c) (Redemption due to Taxation) or (d) (Redemption for Capital Event) only) the Tax Law Change or Capital Event, as the case may be, having become, or becoming, effective on or after the Issue Date.

(b) **Trustee’s Call Option**

Subject to Condition 10.1(a) (No Fixed Redemption Date and Conditions for Redemption) and Condition 10.1(e) (No redemption following delivery of a Non-Viability Notice), the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 15 nor more than 30 days’ prior notice to the Certificateholders in accordance with Condition 17 (Notices) and to the Delegate in accordance with the Declaration of Trust, (which notice shall specify the date fixed for redemption and shall, subject to Condition 10.1(e) (No redemption following delivery of a Non-Viability Notice), be irrevocable), redeem all, but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1(b) (Trustee’s Call Option) may occur on the First Call Date or any Periodic Distribution Date thereafter.

Prior to the publication of any notice of redemption pursuant to this Condition 10.1(b) (Trustee’s Call Option), the Bank shall give to the Trustee and the Delegate a certificate signed by an Authorised Signatory stating that all conditions precedent to the redemption of the Certificates pursuant to this Condition 10.1(b) (Trustee’s Call Option) (other than the notice to Certificateholders described in this Condition 10.1(b) (Trustee’s Call Option)) have been satisfied (upon which the Delegate may rely without further enquiry and without liability to any person), and the Delegate shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Certificateholders.

(c) **Redemption due to Taxation**

(i) Subject to Condition 10.1(a) (No Fixed Redemption Date and Conditions for Redemption), this Condition 10.1(c) (Redemption due to Taxation) and Condition 10.1(e) (No redemption following delivery of a Non-Viability Notice), if a Tax Event occurs, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 15 nor more than 30 days’ prior notice to the Certificateholders in accordance with Condition 17 (Notices) and to the Delegate in accordance with the Declaration of Trust, (which notice shall specify the date fixed for redemption and applicable Record Date, and shall, subject to Condition 10.1(e) (No redemption following delivery of a Non-Viability Notice), be irrevocable), redeem all, but not some only, of the Certificates at the Tax Event Redemption Amount. No such notice shall be given earlier than 90 days prior to the earliest date on which the Trustee or the Bank would be obliged to pay Additional Amounts or additional amounts under clause 5.11.
of the Mudaraba Agreement. If the Bank does not instruct the Trustee to so redeem in accordance with this Condition 10.1(a)(i) (Redemption due to Taxation) in respect of such Tax Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (Subordination), Condition 11 (Write-down at the Point of Non-Viability) and Condition 12.3 (Winding-up, dissolution or liquidation) and without prejudice to the provisions of Condition 14 (Prescription)) redeem the Certificates in accordance with the provisions of this Condition 10 (Redemption).

(ii) Redemption of the Certificates pursuant to this Condition 10.1(c) (Redemption due to Taxation) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption pursuant to this Condition 10.1(c) (Redemption due to Taxation), the Bank shall give to the Trustee and the Delegate a copy of the opinion of an independent tax or legal adviser of recognised standing to the effect that a Tax Event has occurred (upon which the Delegate may rely without liability to any person) and a certificate signed by an Authorised Signatory (upon which the Delegate may rely without liability to any person) stating that (I) the conditions set out in Condition 10.1(a) (No Fixed Redemption Date and Conditions for Redemption) have been satisfied; and (II) a Tax Event has occurred. Such certificate and opinion shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(c) (Redemption due to Taxation) and the Delegate shall be entitled to accept and rely on such certificate and opinion without any further inquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Trustee shall redeem the Certificates.

(d) Redemption for Capital Event

(i) Subject to Condition 10.1(a) (No Fixed Redemption Date and Conditions for Redemption), this Condition 10.1(d) (Redemption for Capital Event) and Condition 10.1(e) (No redemption following delivery of a Non-Viability Notice), if a Capital Event occurs and is continuing, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 15 nor more than 30 days’ prior notice to the Certificateholders in accordance with Condition 17 (Notices) and to the Delegate in accordance with the Declaration of Trust, (which notice shall specify the date fixed for redemption and the applicable Record Date and shall, subject to Condition 10.1(e) (No redemption following delivery of a Non-Viability Notice), be irrevocable), redeem all, but not some only, of the Certificates at the Capital Event Redemption Amount. If the Bank does not instruct the Trustee to so redeem in accordance with this Condition 10.1(d)(i) (Redemption for Capital Event) in respect of such Capital Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (Subordination), Condition 11 (Write-down at the Point of Non-Viability) and Condition 12.3 (Winding-up, dissolution or liquidation) and without prejudice to the provisions of Condition 14 (Prescription)) redeem the Certificates in accordance with the provisions of this Condition 10 (Redemption).

(ii) Redemption of the Certificates pursuant to this Condition 10.1(c) (Redemption due to Taxation) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption pursuant to this Condition 10.1(d) (Redemption for Capital Event), the Bank shall give to the Trustee and the Delegate a certificate signed by an Authorised Signatory (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (No Fixed Redemption Date and Conditions for Redemption) have been satisfied; and (B) a Capital Event has occurred and is continuing as at the date of the certificate. Such certificate shall be conclusive and binding
evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(d)(iii) (Redemption for Capital Event) and the Delegate shall be entitled to accept and rely on such certificate without any further enquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice the Trustee shall redeem the Certificates.

(e) No redemption following delivery of a Non-Viability Notice

If the Bank has instructed the Trustee to redeem the Certificates and prior to the redemption of the Certificates a Non-Viability Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and the Trustee shall (upon receiving written notice of the Non-Viability Event) give notice thereof to the Certificateholders (in accordance with Condition 17 (Notices)), the Delegate, the Principal Paying Agent and the Registrar as soon as practicable. Further, no notice of redemption shall be given in the period following the giving of a Non-Viability Notice and prior to the relevant Non-Viability Event Write-down Date.

10.2 Purchase

Subject to the Bank (a) obtaining the prior approval of the Financial Regulator (except to the extent that the Financial Regulator no longer so requires); and (b) being in compliance with the Applicable Regulatory Capital Requirements at the time of purchase, the Bank or any of its Subsidiaries, may, in those circumstances permitted by the Applicable Regulatory Capital Requirements, purchase the Certificates in any manner and at any price. Upon any such purchase, the Bank shall deliver such Certificates to any Paying Agent for cancellation and, upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

10.3 Cancellation

All Certificates that are redeemed, and all Certificates that are purchased pursuant to Condition 10.2 (Purchase) and which the Bank delivers for cancellation in accordance with Condition 10.2 (Purchase), will be cancelled as soon as possible and accordingly may not be held, reissued or resold.

11. Write-down at the Point of Non-Viability

11.1 Effectiveness of this Condition 11

The provisions of this Condition 11 (Write-down at the Point of Non-Viability) will lapse and cease to apply with effect from (and including) the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Certificates (the Effective Date), except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. Forthwith following the occurrence of the Effective Date, the Bank shall give notice of such occurrence to the Trustee and the Delegate in accordance with the Declaration of Trust and to the Certificateholders in accordance with Condition 17 (Notices). If the Bank becomes Non-Viable on or after the Effective Date, the Financial Regulator (or the Bank on instructions from the Financial Regulator) may take such action in respect of the Certificates as is required or permitted by such Applicable Statutory Loss Absorption Regime.

11.2 Non-Viability Event

If a Non-Viability Event occurs on or after the Issue Date and prior to the Effective Date, a Write-down (in whole or in part, as applicable) will take place in accordance with Condition 11.3 (Non-Viability Notice).
11.3 Non-Viability Notice

(a) On the third Business Day following the date on which such Non-Viability Event occurs (or on such earlier date as determined by the Financial Regulator), (i) the Mudarab will notify the Trustee thereof in accordance with the Mudaraba Agreement and (ii) the Trustee will then notify the Delegate and the Certificateholders thereof and the Principal Paying Agent in accordance with Condition 17 (Notices) (a Non-Viability Notice).

(b) Such Non-Viability Notice shall:

(i) state that a Non-Viability Event has occurred;

(ii) state that a Write-down will take place and, following guidance from the Financial Regulator, whether such Write-down will be a full or partial Write-down;

(iii) specify, in the case of a partial Write-down, the amount as determined by the Financial Regulator and notified to the Bank by which the aggregate face amount of the Certificates then outstanding is to be Written-down;

(iv) specify, in the case of a full Write-down, that the Bank has received written confirmation from the Financial Regulator that the Financial Regulator has determined the principal notional amount of the Trust Assets to be zero; and

(v) specify the Non-Viability Event Write-down Date.

(c) A Write-down will occur on the Non-Viability Event Write-down Date.

(d) In the case of a Write-down in full only, the Mudaraba Agreement will be automatically terminated with effect from the Non-Viability Event Write-down Date and none of the Trustee, the Certificateholders nor the Delegate shall be entitled to any claim for any amounts in connection with the Mudaraba Assets.

(e) In the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates to be Written-down and none of the Trustee, the Certificateholders nor the Delegate shall be entitled to any claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

11.4 Liability of Delegate and Agents

Neither the Delegate nor the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event (or its disapplication, if applicable) or any consequent Write-down and/or cancellation of any Certificates or termination of the Mudaraba Agreement or any claims in respect thereof, and the Delegate and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

12. Dissolution Events and Winding-up

The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and the Bank, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.
12.1 Bank Events

If a Bank Event occurs, the Delegate (provided it shall have been given notice in writing thereof by the Trustee or the Bank or otherwise upon the Delegate’s Agency & Trust function having actual knowledge of the Bank Event, and subject to it being indemnified and/or secured and/or prefunded to its satisfaction) shall promptly give notice of the occurrence of such Bank Event to the Certificateholders in accordance with Condition 17 (Notices) with a request to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed in whole and the Trust to be dissolved (a Dissolution Request). The Delegate may and, if so requested in writing by the Certificateholders of at least one-fifth of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of Certificateholders, shall (but in each case subject to Condition 12.3(e)(i) (Realisation of Trust Assets)), give notice (a Dissolution Notice) to the Trustee that the Certificates are immediately due and payable at the aggregate face amount of the Certificates then outstanding together with any Outstanding Payments, whereupon the aggregate face amount of the Certificates then outstanding together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in Condition 12.3(a) (Proceedings for Winding-up), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any such payment. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

12.2 Trustee Events

(a) The Bank has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure (without the consent of the Certificateholders), subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Financial Regulator, the substitution of any newly formed special purpose company in form substantially the same as that of the Trustee, in place of the Trustee (the Substituted Trustee), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates, provided that:

(i) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate (acting in accordance with the Declaration of Trust and these Conditions), agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;

(ii) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the Substituted Territory) other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the Trustee’s Territory), the Substituted Trustee shall give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 13 (Taxation) with the substitution for or the addition to the references in that Condition to the Trustee’s Territory of references to the Substituted Territory or any political sub-division or authority thereof or therein having the power to tax whereupon the Declaration of Trust and the Certificates shall be read accordingly (and the Bank shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 13 (Taxation), extending its obligations thereunder to the Substituted Territory);
(iii) two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution (the Delegate need not have regard to the Substituted Trustee’s financial condition, profits or prospects or compare them with those of the Trustee);

(iv) the Trustee, the Substituted Trustee and the Bank comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and

(v) such substitution would not, in the sole opinion of the Delegate, be materially prejudicial to the interests of the Certificateholders.

(b) Subject to this Condition 12.2 (Trustee Events), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent or approval of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).

(c) If the Bank fails to comply with the foregoing provisions of this Condition 12.2 (Trustee Events) within 60 days of the occurrence of the relevant Trustee Event, Conditions 12.1 (Bank Events) and 12.3 (Winding-up, dissolution or liquidation) shall apply to the relevant Trustee Event as if it was a Bank Event.

12.3 Winding-up, dissolution or liquidation

(a) Proceedings for Winding-up

If a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (Bank Events), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement, and either the Trustee or the Delegate may at its discretion, and the Delegate shall, in each case subject to Condition 12.3(e)(i) (Realisation of Trust Assets), if it shall have been so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least one-fifth of the aggregate face amount of the Certificates then outstanding (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Bank and/or (iv) claim in the liquidation of the Bank and/or take such other steps, actions or proceedings which, under the laws of the Kingdom of Saudi Arabia, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 12.3(a) (Proceedings for Winding-up), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against the Bank with respect to any sum that the Bank has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions.

No payment in respect of the Transaction Documents may be made by the Bank as a result of any steps, actions or proceedings taken pursuant to Condition 12.1 (Bank Events), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of the Bank, unless the Bank has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Financial Regulator (which the Bank shall confirm in writing to the Trustee and the Delegate).
(b) **Enforcement**

Without prejudice to Condition 12.1 (*Bank Events*) and the remaining provisions of this Condition 12.3 (*Winding-up, dissolution or liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), if it shall have been so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least one-fifth of the aggregate face amount of the Certificates then outstanding and without further notice institute such steps, actions or proceedings against the Bank and/or the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Certificates and the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*). However, in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 12.3 (*Winding-up, dissolution or liquidation*), however, shall prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 12.3(a) (*Proceedings for Winding-up*) in respect of any payment obligations of the Bank arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) **Non-Viability**

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against the Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or the Bank under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by the provisions of Condition 11 (*Write-down at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim, provided that nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities, indemnities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

(d) **Extent of Certificateholder remedy**

No remedy against the Bank, other than as referred to in this Condition 12 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by the Bank of any of its other obligations under or in respect of the Transaction Documents.

(e) **Realisation of Trust Assets**

(i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Bank or, in the case of the Delegate only, the Trustee to enforce the terms of the Certificates or the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 12 (*Dissolution Events and Winding-up*)), unless (a) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding at least one-fifth of the aggregate face amount of the Certificates then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
(ii) No Certificateholder shall be entitled to proceed directly against the Trustee or the Bank or to take the actions, steps or proceedings referred to in Conditions 12.3(a) (Proceedings for Winding-up) and 12.3(b) (Enforcement) above, unless (A) the Trustee or the Delegate (as the case may be), having become so bound to proceed, fails to do so within a reasonable period and such failure is continuing and (B) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or the Bank, as the case may be) holds at least one-fifth of the aggregate face amount of the Certificates then outstanding, in which case the Certificateholders shall have only such rights against the Trustee and/or the Bank as those which the Trustee or the Delegate (as the case may be) is entitled to exercise as set out in Condition 12.1 (Bank Events) and this Condition 12.3 (Winding-up, dissolution or liquidation).

(iii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be to enforce their respective obligations under the Certificates and the Transaction Documents.

(iv) The foregoing paragraphs in this Condition 12.3(e) (Realisation of Trust Assets) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

13. Taxation

All payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction (Taxes), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts (Additional Amounts) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of any such deduction or withholding is received by the parties entitled thereto, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

(a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such 30th day assuming that day to have been a Payment Business Day.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions including, without limitation, the face amount of the Certificates and Outstanding Payments) shall be deemed to include any Additional Amounts payable under this Condition 13 (Taxation) or any undertaking given in addition to or in substitution for it under the Declaration of Trust.
Notwithstanding any other provision in these Conditions, the Trustee and the Agents shall be permitted to withhold or deduct any amounts imposed pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof), or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the U.S. Internal Revenue Service (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a **FATCA withholding**). None of the Trustee, the Delegate or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Certificateholder for any FATCA withholding deducted or withheld by the Trustee, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

Neither the Delegate nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 13 (**Taxation**) or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Trustee, the Bank, any Certificateholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Delegate or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), any additional amount or other amount under or in respect of the Certificates without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

The Mudaraba Agreement provides that payments made thereunder by the Bank (in its capacity as the Mudareb) to the Trustee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes, unless such withholding or deduction is required by law. In such event, and/or if Additional Amounts are payable by the Trustee in respect of the Certificates in accordance with this Condition 13 (**Taxation**), the Mudaraba Agreement provides for the payment by the Bank of such additional amounts by payment to the Transaction Account in U.S. dollars by wire transfer for same day value so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction and in the absence of the withholding or deduction to which this Condition 13 (**Taxation**) applies.

### 14. Prescription

Subject to applicable law, the right to receive any amount in respect of the Certificates shall be prescribed and become void unless claimed within ten years (in the case of Dissolution Distribution Amounts) and within five years (in the case of Periodic Distribution Amounts) from the Relevant Date thereof.

### 15. Delegate

#### 15.1 Delegation of Powers

The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (a) exercise all of the rights of the Trustee and have all the protections of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (b) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together, the **Delegation of the Relevant Powers**), provided that: (i) no obligations, duties, liabilities or
covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust or managing the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee’s continuing role and obligations as sole trustee.

15.2 Indemnification

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 12 (Dissolution Events and Winding-up), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction. The Declaration of Trust provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Delegate shall be entitled (a) to evaluate its risk in any given circumstance by considering the worst-case scenario and (b) to require that any indemnity or security given to it by the Certificateholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

15.3 No Liability

(a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Bank or the Trustee under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by the Bank or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

(b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be; (ii) any obligation to monitor or insure the Trust Assets or any cash; and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee.
15.4 Reliance on Opinions, Certificates, Reports and/or Information

The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Bank or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such opinion, certificate, report, information and/or any engagement letter or other document contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Bank or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such opinion, certificate, report or information may be limited by an engagement or similar letter or by the terms of the opinion, certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

15.5 Proper performance of duties

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or in the case of the Delegate as donee and delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any liability for gross negligence, wilful default or fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

15.6 Illegality

The Delegate may without liability refrain from taking any action in any jurisdiction (including, but not limited to, the Kingdom of Saudi Arabia, England and Wales, the United States of America or any jurisdiction forming a part of it, and the European Union) if the taking of such action in that jurisdiction would or might, in its opinion, be contrary to any law of that jurisdiction or any directive or regulation of any agency of such state or jurisdiction and may without liability do anything which is, in its opinion, necessary to comply any such law, directive or regulation. Furthermore, the Delegate may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

15.7 Delegate not Precluded from Conducting Business with the Trustee and the Bank

The Delegate is entitled, inter alia, (a) to enter into business transactions with the Trustee, the Bank and/or any entity related to the Trustee and/or the Bank and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Trustee and/or any entity related to the Trustee and/or the Bank, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15.8 Notice of Events

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Non-Payment Election, Capital Event, Tax Event, Non-Viability Event, Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing or will or may occur or exist and, unless and until the Delegate’s Trust & Agency function shall have actual knowledge or received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or
has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

16. **Replacement of Certificates**

If a definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, the Bank, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17. **Notices**

Notices to Certificateholders will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation. Any notices shall be deemed to have been given on the day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication, or if so published more than once or on different dates, on the date of the first publication).

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with the Principal Paying Agent.

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other clearing system.

18. **Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination**

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, inter alia, (a) to modify any date for payment (including any optional redemption date) in respect of the Certificates, (b) to reduce or cancel or vary the method or basis for calculating the amount of any payment due in respect of the Certificates, (c) to change any of the Trustee’s and the Bank’s covenants set out in the Transaction Documents, (d) to alter the currency of payment or denomination of the Certificates, (e) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary
Resolution, (f) to sanction any such scheme or proposal or substitution as is described in paragraphs 5.9(i) and 5.9(j) of Schedule 4 to the Declaration of Trust, or (g) to amend the above list or the proviso to paragraph 4.6 of Schedule 4 to the Declaration of Trust, in which case the quorum shall be one or more Eligible Persons holding or representing in aggregate not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires (i) a majority in favour consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (a Written Resolution) or (iii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (in a form satisfactory to the Delegate) by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an Electronic Consent). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or not they voted.

18.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

18.3 The Delegate may (but shall not be obliged to), without the consent or approval of the Certificateholders agree to any modification to these Conditions, any provisions of the Transaction Documents or to the Trustee’s memorandum and articles of association which, in the sole opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error; (ii) agree to any modification (other than in respect of a Reserved Matter) of these Conditions, any provisions of the Transaction Documents or the Trustee’s memorandum and articles of association, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents; or (iii) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided in the case of (ii) and (iii) above that such modification, waiver, authorisation or determination is not, in the sole opinion of the Delegate, materially prejudicial to the interests of Certificateholders and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the aggregate face amount of the Certificates then outstanding.

18.4 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 18 (Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination)), the Delegate shall have regard to the interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 13 (Taxation).

18.5 Any modification, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Trustee to the Certificateholders as soon as practicable thereafter in accordance with Condition 17 (Notices).
18.6 This Condition 18 (Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination) is without prejudice to Condition 10.1(c) (Redemption due to Taxation) and Condition 10.1(d) (Redemption for Capital Event).

19. Currency Indemnity

If any sum due from the Trustee in respect of the Certificates or any order or judgment given or made in relation thereto has to be converted from the currency (the first currency) in which the same is payable under these Conditions or such order or judgment into another currency (the second currency) for the purpose of: (a) making or filing a claim or proof against the Trustee; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Certificates, the Trustee shall indemnify each Certificateholder, on the written demand of such Certificateholder addressed to the Trustee and delivered to the Trustee or to the specified office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Certificateholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Trustee and shall give rise to a separate and independent cause of action. In no circumstances will the Delegate incur any liability by virtue of this Condition 19 (Currency Indemnity).

20. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. Governing Law and Dispute Resolution

21.1 Governing Law

The Declaration of Trust (including these Conditions), the Agency Agreement, the Mudaraba Agreement and the Certificates, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 Arbitration

(a) In this Condition 21.2(a), capitalised terms have the meanings given to them in the Rules (as defined below), unless otherwise defined in these Conditions. Any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Certificates (including any dispute, claim, difference or controversy as to their existence, validity, interpretation, performance, breach or termination or the consequences of the nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a Dispute) shall be referred to and finally resolved by arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce (the Rules), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 21.2 (Arbitration). For these purposes:

(i) the seat or legal place of arbitration shall be London, England;

(ii) there shall be three arbitrators. The arbitrators nominated by the parties to the Dispute shall each be English-law qualified and have at least 15 years’ practicing experience
and shall jointly nominate the third arbitrator who, subject to confirmation by the International Court of Arbitration of the International Chamber of Commerce, will act as president of the arbitral tribunal. The president of the tribunal shall be a retired member of the judiciary of the Senior Courts of England & Wales or a Queen’s Counsel of at least 15 years’ standing;

(iii) the language of the arbitration shall be English. All documents submitted in connection with the proceedings shall be in the English language, or, if in another language, accompanied by an English translation; and

(iv) service by the Secretariat of any Request for Arbitration made pursuant to this Condition 21.2 shall be at the address given for the sending of notices under Condition 17 (Notices) and/or Clause 23.3 of the Declaration of Trust and in a manner provided for in that Condition and/or Clause.

(b) Joinder of parties, multiple parties and consolidation of Disputes

(i) For the purposes of the Rules:

A. the arbitration agreement set out in this Condition 21 and the arbitration agreement contained in each Linked Agreement (as defined below) shall together be deemed to be one arbitration agreement that binds the Delegate and the Bank to the Certificates and each of the Delegate, the Trustee and the Bank to each Linked Agreement;

B. any party to the Certificates or any Linked Agreement may, in accordance with the Rules, be joined to any arbitration commenced under the Certificates or any Linked Agreement; and

C. Disputes, in accordance with the Rules, may be resolved in a single arbitration together with Disputes (as defined in any Linked Agreement or the Certificates, as applicable) arising out of any such Linked Agreement or the Certificates.

(ii) Pursuant to Article 10(a) of the Rules, each of the Delegate, the Trustee and the Bank agree to the consolidation of any two or more arbitrations commenced pursuant to this Condition 21 and/or the arbitration agreement contained in any Linked Agreement into a single arbitration, as provided for in the Rules.

(iii) Each of the Delegate, the Trustee and the Bank waives any objection, on the basis that a Dispute has been resolved in a manner contemplated at Condition 21.2(b)(i) or (ii), to the validity and/or enforcement of any Award made by an arbitral tribunal following the Dispute being resolved in that manner.

(iv) In this Condition 21, Linked Agreement means each of the Declaration of Trust, the Agency Agreement and the Mudaraba Agreement.

(v) Where an arbitral tribunal is appointed pursuant to this arbitration agreement in respect of a Dispute under the Certificates or any Linked Agreement, the whole of its award (including any part relating to any Linked Agreement) is deemed for the purposes of the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958 to be contemplated by the Certificates and that Linked Agreement.
21.3 Waiver of Interest

(a) Each of the Trustee, the Delegate and the Bank has irrevocably agreed in the Declaration of Trust that if any arbitration is commenced in relation to a Dispute and/or any proceedings relating to a Dispute (Proceedings) are brought by or on behalf of a party under the Declaration of Trust, it will:

(i) not claim interest under, or in connection with, such arbitration and/or Proceedings; and

(ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

(b) For the avoidance of doubt, nothing in this Condition 21.3 (Waiver of Interest) shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Bank or the Trustee pursuant to the Transaction Documents and/or these Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.
GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by ownership interests in a global certificate in registered form (the Global Certificate). The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the Registered Holder). Each of the persons (other than another clearing system) who is for the time being shown in the records of either the clearing system as the holder of a particular aggregate face amount of such Certificates (the Accountholders) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder as against the Trustee (and such payment obligations of the Trustee will be discharged by payment to the Registered Holder in respect of each amount so paid), and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions Certificateholder and holder of Certificates and related expressions shall be construed accordingly. In addition, Accountholders will not have a direct right to vote in respect of the relevant Certificates. Instead, Accountholders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

Payments

Payments of any amount in respect of the Certificate(s) represented by the Global Certificate will, in the absence of any provision to the contrary, be made to, or to the order of, the person shown on the Register as the registered holder of the Global Certificate at the close of business on the record date, which shall be the Clearing System Business Day immediately prior to the due date for payment (where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January). Upon payment of any amount in respect of the Certificates represented by the Global Certificate, the details of such payment shall be entered by the Registrar in the Register.

None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.
Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system’s rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

Notices

For so long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders rather than by publication and delivery as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 17 (Notices) if an Exchange Event occurs. For these purposes, Exchange Event means that: (i) a Dissolution Event (as defined in the Conditions) has occurred; or (ii) the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no successor or alternative clearing system satisfactory to the Delegate is available. If an Exchange Event occurs, any of the Trustee, the Delegate or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may
require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within ten days following the request for exchange for completion and dispatch to the Certificateholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In this Offering Circular, **Definitive Certificate** means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, such trust certificate substantially in the form set out in the Schedules to the Declaration of Trust.

**Electronic Consent and Written Resolution**

While any Global Certificate is registered in the name of any nominee for Euroclear or Clearstream, Luxembourg, then:

(a) approval of a resolution proposed by the Trustee, the Bank or the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an Electronic Consent as defined in the Declaration of Trust) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum (as specified in the Declaration of Trust) was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held, and shall be binding on all Certificateholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Declaration of Trust) has been validly passed, the Trustee, the Bank and the Delegate shall be entitled to rely on consent or instructions given in writing directly to the Trustee, the Bank and/or the Delegate, as the case may be, by (a) Accountholders in the clearing system(s) with entitlements to such Global Certificate and/or (b) where the Accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that Accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Trustee, the Bank and the Delegate shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the **relevant clearing system**) and, in the case of (b) above, the relevant clearing system and the Accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Certificateholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Certificates is clearly identified together with the amount of such holding. None of the Trustee, the Bank and/or the Delegate shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.
USE OF PROCEEDS

The net proceeds of the issue of the Certificates will be paid by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement and will be used by the Bank to enhance its tier 1 capital as well as for general corporate purposes, all in accordance with the investment plan set out in the Mudaraba Agreement.
DESCRIPTION OF THE TRUSTEE

The Trustee

The Trustee, an exempted company incorporated in the Cayman Islands with limited liability, was incorporated on 28 April 2021 under the Companies Act (as amended) of the Cayman Islands with company registration number 375382. The registered office of the Trustee is at the offices of Walkers Fiduciary Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands, with telephone number +1 345 814 7600.

Share Capital

The authorised share capital of the Trustee is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1.00 par value each, 250 of which have been issued. All of the issued shares (the Shares) are fully paid and are held by Walkers Fiduciary Limited as share trustee (in such capacity, the Share Trustee) under the terms of a share declaration of trust (the Share Declaration of Trust) under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust) and may only dispose or otherwise deal with the Shares in accordance with the Share Declaration of Trust. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power to benefit Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificates are outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

The Business of the Trustee

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 28 April 2021.

The Trustee has no prior operating history or prior business and will not have any substantial assets or liabilities other than in connection with the Certificates.

The Certificates are the obligations of the Trustee alone and not the Share Trustee. Furthermore, they are not the obligations of, or guaranteed in any way by, Walkers Fiduciary Limited or any other party.

Financial Statements

Since the date of incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

Directors of the Trustee

The directors of the Trustee are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Principal Occupation</th>
</tr>
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<tbody>
<tr>
<td>Aaron Bennett.........</td>
<td>Vice President, Walkers Fiduciary Limited</td>
</tr>
<tr>
<td>Jacobus Pietersen......</td>
<td>Assistant Vice President, Walkers Fiduciary Limited</td>
</tr>
</tbody>
</table>

The business address of Aaron Bennett is c/o Walkers Professional Services (Middle East) Limited, Level 14, Burj Daman Building, Dubai International Finance Centre, P.O. Box 506513, Dubai, United Arab Emirates.
The business address of Jacobus Pietersen is c/o Walkers Fiduciary Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Trustee’s Articles of Association provide that the board of directors of the Trustee will consist of at least one director.

Conflicts

Other than in their capacities as employees and officers of the Trustee Administrator (as defined below), there are no potential conflicts of interest between the duties of the directors of the Trustee to the Trustee and their private interests or other duties.

The Trustee Administrator

Walkers Fiduciary Limited also acts as the administrator of the Trustee (in such capacity, the Trustee Administrator). The office of the Trustee Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of a corporate services agreement entered into between the Trustee, the Bank and the Trustee Administrator (the Corporate Services Agreement), the Trustee Administrator has agreed to perform in the Cayman Islands, the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and to provide certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee Administrator will also provide registered office services to the Trustee in accordance with its standard terms and conditions for the provision of registered office services (the Registered Office Terms). In consideration of the foregoing, the Trustee Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and the Registered Office Terms provide that either the Trustee or the Trustee Administrator may terminate such appointments upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Terms provide that either party shall be entitled to terminate such agreements by giving at least three months’ notice in writing to the other party.

The Trustee Administrator will be subject to the overview of the Trustee’s board of directors.

The Trustee Administrator’s principal office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9008, Cayman Islands.

The directors of the Trustee are all employees or officers of the Trustee Administrator or an affiliate thereof.

The Trustee has no employees and is not expected to have any employees in the future.
SELECTED FINANCIAL INFORMATION

The financial information of the Group presented below has been extracted from the Financial Statements or calculated based on information derived from the Financial Statements and should be read in conjunction with the Financial Statements, as incorporated by reference in this Offering Circular. The financial information of the Group presented below should also be read in conjunction with the information set out in the “Financial Review” and “Risk Factors” sections included elsewhere in this Offering Circular.

Consolidated Statement of Financial Position data of the Bank as at 31 March 2021 and as at 31 December 2020, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December</th>
<th>As at 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>(SAR '000)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Assets**

- Cash and balances with SAMA: 4,965,122
- Due from banks and other financial institutions, net: 1,297,749
- Investments held at fair value through statement of income: 41,293
- Investments held at fair value through other comprehensive income: 4,891
- Investments held at amortised cost: 386,560
- Loans and advances, net: 40,896,891
- Investment in an associate: 135,770
- Other real estate: 453,150
- Property and equipment, net: 761,247
- Other assets: 386,560

**Total assets**: 73,003,198

**Liabilities and Shareholders’ Equity**

**Liabilities**

- Due to banks and other financial institutions: 6,423,430
- Customers’ deposits: 51,804,098
- Negative fair value of derivatives, net: 151,789
- Subordinated Sukuk: 2,008,202
- Other liabilities: 1,371,207

**Total liabilities**: 61,758,726

**Shareholders’ Equity**

- Equity attributable to equity holders of the bank:
  - Share capital: 8,200,000
  - Statutory reserve: 2,409,560
  - General reserve: 68,000
  - Other reserves: 253,196
  - Proposed dividend: 410,000

**Total shareholders’ equity**: 11,244,472

**Total liabilities and shareholders’ equity**: 73,003,198
Consolidated Statement of Income data for the three months ended 31 March 2021 and for the years ended 31 December 2020, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>31 March 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special commission income</td>
<td>2,787,673</td>
<td>3,227,547</td>
<td>3,180,041</td>
<td>737,075</td>
</tr>
<tr>
<td>Special commission expense</td>
<td>(883,640)</td>
<td>(1,175,383)</td>
<td>(789,705)</td>
<td>(933,300)</td>
</tr>
<tr>
<td>Net special commission income</td>
<td>1,904,033</td>
<td>2,052,164</td>
<td>2,390,336</td>
<td>643,775</td>
</tr>
<tr>
<td>Fees and commission income</td>
<td>866,372</td>
<td>932,633</td>
<td>1,025,207</td>
<td>321,458</td>
</tr>
<tr>
<td>Fees and commission expense</td>
<td>(302,016)</td>
<td>(327,403)</td>
<td>(417,699)</td>
<td>(143,110)</td>
</tr>
<tr>
<td>Fees and commission income, net</td>
<td>564,356</td>
<td>605,230</td>
<td>607,508</td>
<td>178,348</td>
</tr>
<tr>
<td>Exchange income, net</td>
<td>191,789</td>
<td>229,910</td>
<td>240,164</td>
<td>43,000</td>
</tr>
<tr>
<td>Net gains on FVIS instruments</td>
<td>(4,367)</td>
<td>5,792</td>
<td>9,816</td>
<td>653</td>
</tr>
<tr>
<td>Dividend income</td>
<td>286</td>
<td>343</td>
<td>80</td>
<td>-</td>
</tr>
<tr>
<td>Net gains on derecognition of financial assets measured at FVOCI – debt</td>
<td>–</td>
<td>1,886</td>
<td>4,703</td>
<td>382</td>
</tr>
<tr>
<td>Net gains on derecognition of financial assets measured at amortisation period</td>
<td>101</td>
<td>69,654</td>
<td>2,102</td>
<td>77,516</td>
</tr>
<tr>
<td>Other operating income, net</td>
<td>8,547</td>
<td>12,180</td>
<td>32,410</td>
<td>1,764</td>
</tr>
<tr>
<td>Total operating income</td>
<td>2,664,745</td>
<td>2,977,159</td>
<td>3,287,119</td>
<td>945,438</td>
</tr>
<tr>
<td>Salaries and employee-related expenses</td>
<td>896,716</td>
<td>968,529</td>
<td>982,608</td>
<td>235,333</td>
</tr>
<tr>
<td>Rent and premises-related expenses</td>
<td>140,950</td>
<td>52,431</td>
<td>52,944</td>
<td>14,363</td>
</tr>
<tr>
<td>Depreciation and amortisation, net</td>
<td>93,043</td>
<td>201,026</td>
<td>214,446</td>
<td>52,942</td>
</tr>
<tr>
<td>Other general and administrative expenses, net</td>
<td>414,814</td>
<td>443,908</td>
<td>429,891</td>
<td>121,729</td>
</tr>
<tr>
<td>Other operating expenses, net</td>
<td>22,543</td>
<td>45,170</td>
<td>16,571</td>
<td>6,246</td>
</tr>
<tr>
<td>Total operating expense before impairment charge</td>
<td>1,568,066</td>
<td>1,711,064</td>
<td>1,696,460</td>
<td>430,613</td>
</tr>
<tr>
<td>Impairment charge for expected credit losses, net</td>
<td>106,800</td>
<td>136,953</td>
<td>1,575,743</td>
<td>152,814</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,674,866</td>
<td>1,868,017</td>
<td>3,272,203</td>
<td>583,427</td>
</tr>
<tr>
<td>Net operating income</td>
<td>989,879</td>
<td>1,109,142</td>
<td>14,916</td>
<td>362,011</td>
</tr>
<tr>
<td>Share in net income of an associate</td>
<td>10,428</td>
<td>12,888</td>
<td>16,279</td>
<td>1,591</td>
</tr>
<tr>
<td>Net income for the period before Zakat and income tax</td>
<td>1,000,307</td>
<td>1,122,030</td>
<td>31,195</td>
<td>363,602</td>
</tr>
<tr>
<td>Zakat</td>
<td>(613,356)</td>
<td>(2,664,745)</td>
<td>(1,886)</td>
<td>(93,300)</td>
</tr>
<tr>
<td>Income tax (charge)/reversal</td>
<td>(8,675)</td>
<td>(57)</td>
<td>2,845</td>
<td>(2,393)</td>
</tr>
<tr>
<td>Net income for the period</td>
<td>378,276</td>
<td>991,023</td>
<td>33,754</td>
<td>321,593</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (expressed in SAR per share)</td>
<td>0.50</td>
<td>1.21</td>
<td>0.04</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Consolidated Statement of Comprehensive Income data for the three months ended 31 March 2021 and for the years ended 31 December 2020, 2019 and 2018

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>31 March 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income for the period</td>
<td>378,276</td>
<td>991,023</td>
<td>33,754</td>
<td>321,593</td>
</tr>
<tr>
<td>Other comprehensive income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that can be reclassified to the consolidated statement of income in subsequent periods:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow hedges:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Net amount transferred to consolidated statement of income</td>
<td>16,338</td>
<td>(14,106)</td>
<td>(48,138)</td>
<td>52,197</td>
</tr>
<tr>
<td>Net changes in fair value of investments classified as debt</td>
<td>329</td>
<td>62</td>
<td>(89)</td>
<td>(22)</td>
</tr>
<tr>
<td>Items that cannot be reclassified to consolidated statement of income in subsequent periods:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurement gains on employee benefit obligation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total other comprehensive income/(loss) for the period</td>
<td>18,704</td>
<td>9,480</td>
<td>(12,772)</td>
<td>40,029</td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td>396,980</td>
<td>1,000,503</td>
<td>20,982</td>
<td>361,622</td>
</tr>
</tbody>
</table>

89
The following discussion and analysis should be read in conjunction with the information set out in “Selected financial information” and the Financial Statements.

This discussion of the Group’s financial condition and results of operations is based upon the Financial Statements. This discussion contains forward-looking statements that involve risks and uncertainties. The Group’s actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Offering Circular, particularly under the headings “Cautionary statement regarding forward-looking statements” and “Risk factors”.

Overview

The Bank is a Saudi Joint Stock Company incorporated in the Kingdom and established pursuant to Royal Decree No. 46/M dated Jumada Al-Thani 12, 1395H (or 21 June 1975). The objective of the Bank is to provide a full range of Shariah-compliant banking products and services that are approved and supervised by an independent Shariah committee to retail and corporate customers, including the following: current accounts, saving accounts, Murabaha, Istisna’a, Ijarah, Tawarruq, Musharaka, Wa’ad foreign exchange, credit cards, and Sukuk.

The Bank commenced its business on Shawwal 16, 1396H (9 October 1976) with the takeover of the National Bank of Pakistan’s branches in the Kingdom of Saudi Arabia. The Bank operates exclusively in Saudi Arabia, with no operations abroad, and conducts its business through professional and dedicated staff in its departments and branches. The Bank’s ambition is to be an innovative Islamic Bank leveraging digital by 2024.

The Bank and its subsidiaries provide Shariah-compliant banking products and services. Since 2020, the Group has conducted its business through four primary business lines, namely: personal banking; corporate banking; treasury; and brokerage and asset management. Prior to 2020, the Bank also had a takaful business (co-operative insurance), which was transferred to its associate, AlJazira Takaful Ta’awuni Company (ATT) on 1 January 2020.

As at 31 March 2021, the Group holds a 26.03 per cent. share in ATT.

As at 31 December 2020, the Bank served around 669,000 customers and 2.5 million FAWRI customers through its 79 branches and 19 ladies sections, 612 ATMs and 19,300 point-of-sale (POS) devices and 62 FAWRI money remittance service centers (with over 400,000 transactions per month) spread across Saudi Arabia.

As at 31 March 2021, the Group’s net loans and advances, were SAR 55,175 million and its total customers’ deposits were SAR 71 billion. As at 31 December 2020, the Group’s net loans and advances and its total customers’ deposits were SAR 53,961 million and SAR 68 billion, respectively (2019: SAR 50 billion and SAR 63 billion, respectively and 2018: SAR 41 billion and SAR 52 billion, respectively).

For 2020, the Group’s total operating income was SAR 3,287 million and its net income for the period after zakat and income tax was SAR 34 million, compared to SAR 2,977 million and SAR 991 million for 2019 and SAR 2,665 million and SAR 378 million for 2018. For the quarter ended 31 March 2021, the Group’s total operating income was 945 million and its net income for the period after zakat and income tax was SAR 322 million, compared to SAR 182 million for the quarter ended 31 March 2020.

As at 31 March 2021, the Group’s total tier 1 and total capital adequacy ratios, calculated in accordance with Basel III as implemented in Saudi Arabia, were 19.5 per cent. and 23.4 per cent. compared to 19.4 per cent. and 23.6 per cent. as at 31 December 2020, 20.7 per cent. and 24.6 per cent. as at 31 December 2019, and 22.9 per cent. and 27.5 per cent. as at 31 December 2018.

Principal factors affecting results of operations

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group’s results of operations.
General economic conditions

The Group is focused on lending to, and accepting deposits from, institutions, companies and retail customers in Saudi Arabia. As a result, its revenue and results of operations are significantly affected by economic and market conditions in Saudi Arabia, which in turn are materially impacted by changes in international oil prices. See “—The Group is subject to economic and political risks in the KSA and the countries with which it deals”.

Based on the IMF’s World Economic Outlook Database April 2021, Saudi Arabia’s real GDP decreased by 4.1 per cent. in 2020 and grew by 0.3 per cent. in 2019 According to the same source, Saudi Arabia’s real GDP is projected to grow by 2.9 per cent. in 2021.

According to the IMF’s “Economic Prospects and Policy Challenges for the GCC Countries” report, published on 10 December 2020, non-oil real GDP growth (especially in the retail and wholesale, accommodation and transportation sectors) in the Kingdom was particularly negatively affected in 2020 by COVID-19 related containment measures. The report also notes that the unemployment rate in the Kingdom rose by 3.6 per cent. to 15.4 per cent. for the first six months of 2020, compared with the corresponding period in 2019. In addition, the increase in the VAT rate (as further described in “Taxation – Kingdom of Saudi Arabia”) also contributed significantly to a rise in inflation. The report also notes that oil real GDP was projected to decline by 6.2 per cent. in 2020, noting that crude oil production fell sharply prior to the renewal of the OPEC Agreement.

The Group also remains exposed to the risk of external changes, such as an increase in global financial market volatility, which could pose funding, market and credit risks for investment companies and banks.

Factors affecting net special commission income

The primary contributor to the Group’s total operating income is net special commission income, which made up 72.7 per cent. of the Group’s total operating income for 2020, 68.9 per cent. for 2019 and 71.4 per cent. for 2018.

Within the Group’s net special commission income:

- special commission income earned on loans and advances to customers is the major contributor to total special commission income (accounting for 71.1 per cent. of total special commission income in 2020), along with total special commission income from investments held at amortised cost (which accounted for 25.3 per cent. of total special commission income in 2020); and

- special commission expense paid on customers’ deposits is the major contributor to total special commission expense (accounting for 62.2 per cent. of special commission expense in 2020), along with special commission expense on due to banks and other financial institutions, on derivatives and on subordinated sukuk (which accounted for 16.2 per cent., 10.2 per cent. and 9.2 per cent., respectively, of special commission expense in 2020).

The Group’s net special commission income is affected by a number of factors. It is primarily determined by the volume of special commission-earning assets relative to special commission-bearing liabilities, as well as by the differential between the rates earned on special commission-earning assets and the rates paid on special commission-bearing liabilities. Volumes of assets and liabilities, in particular in the retail and consumer sectors, are largely affected by economic activity in the KSA and the ability of customers to generate income, which they then need to deposit with a bank, and customers’ requirements for funding for their businesses or personal expenses.

Factors affecting fees and commission income from banking services, net

The Group’s fees and commission income, net, relates to the Group’s banking services. It is another significant contributor to the Group’s total operating income, comprising 18.5 per cent., 20.3 per cent. and 21.2 per cent. of total operating income for 2020, 2019 and 2018, respectively. The decline from 2019 to 2020 is mainly due to the
fact that net special commission income has increased whereas fee income was mostly stagnant due to impact of COVID on business activities.

Within the Group’s fee income from banking services, net:

- fee income earned on local share trading, the Group’s cards business, loan commitment and management fees, fees from the Group’s remittance business and mutual fund fees are the major categories; and
- fees and commission expenses paid for cards-related expenses and brokerage fees are the major expense items.

The Group’s net fees and commission income is primarily determined by the volume of transactions conducted, especially in the case of trade finance and finance and lending, as well as the differential in the rates charged by the Group and the rates paid by the Group, especially in relation to card and share brokerage transactions. The volumes of transactions are affected largely by general economic activity in the KSA, while rates are affected by economic activity, government policies and the competitive environment.

Impairment charges and the impact of the COVID-19 pandemic

The COVID-19 pandemic caused the Government to impose lock-downs, restrictions on travel and strict social-distancing rules and caused a substantial slow-down in activity, which generally had an adverse effect on banking transactions and funding activities. It also caused a number of businesses and commercial enterprises in the KSA and the GCC region to experience difficulties in repaying their debt, including loans from banks, including BAJ. The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a “second wave” of infections despite having previously controlled the outbreak. Recently, a number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Group remains cognisant of both the micro- and macroeconomic challenges that COVID-19 has posed and performed a detailed credit risk assessment in respect of a number of exposures during 2020 to assess the adequacy of its expected credit loss allowance against these exposures. As a result of this assessment, the Bank increased the level of its ECL allowance required against these specific exposures.

The Government has undertaken a large-scale COVID-19 vaccination drive throughout the Kingdom. The effects of this vaccination drive can be seen in the lowered occurrence of the COVID-19 positivity rate witnessed in the recent months. The Government plans to immunise the vast majority of the population through the vaccination drive, with a view to allowing the country to return to a more normal social and economic activities level.

Reflecting the impact of COVID-19, the Group’s impairment charge for ECL for 2020 was SAR 1,576 million, compared to SAR 157 million for 2019.

Zakat

On 17 July 2019, SAMA instructed banks in Saudi Arabia to recognise Zakat and income taxes in the statement of income rather than, as they had previously done, in the statement of equity. This aligns with IFRS and its interpretations as issued by the IASB endorsed in the Kingdom and with the other standards and pronouncements that are issued by SOCPA.

Accordingly, the Group changed its accounting treatment for Zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 (IAS 8) “Accounting Policies, Changes in Accounting Estimates and Errors” (See Note 3(n) and 3(q) to the 2019 Financial Statements).

On 14 March 2019, the General Authority of Zakat and Tax (GAZT) published rules for computation of Zakat for companies engaged in financing activities and licensed by SAMA (the Rules). The Rules apply from 1 January 2019. In addition to providing a new basis for calculating the Zakat base, the Rules also introduced a minimum floor at four times the net income and a maximum cap at eight times the net income when determining the Zakat
base. Accordingly based on the new regulations, the Bank recorded a Zakat reversal of SAR 0.3 million for 2020 and a Zakat charge of SAR 131 million for 2019.

For more information on the Group’s Zakat charges, including a settlement agreement reached with the GAZT in 2018 which resulted in the Bank agreeing to pay SAR 551 million in six instalments between 2018 and 2023 to settle its outstanding zakat liabilities for 2006 through 2017, see note 25 to the 2020 Financial Statements.

**Transfer of Takaful Business to ATT**

The Bank historically provided takaful insurance directly. However, on 1 January 2020 the Bank ceased writing new insurance and a separate entity, ATT, was formed under the new Insurance Law of Saudi Arabia which received its insurance license from SAMA in December 2013 and started writing business from January 2014. ATT is now listed on Tadawul. As at 31 March 2021, the Group held a 26.03 per cent. share in ATT (as compared to a 35 per cent. share in ATT as at 31 December 2020 due to the merger between ATT and Solidarity Saudi Takaful Co.).

In 2018 and 2019, the Group’s Takaful Ta’awuni (insurance) reporting segment represented the portfolio of insurance policies entered into by the Bank before 2014. On 1 January 2020, the Group transferred this portfolio to ATT for no consideration, realising a gain of SAR 17 million on the transfer mainly due to the Bank’s share of underwriting income on the old takaful portfolio. ATT is now fully liable for all current and future liabilities in connection with transferred insurance business in both policyholder and shareholder accounts.

Accordingly, for 2020, the Group did not record any income or expenses for its Takaful Ta’awuni segment.

**Significant Accounting Policies**

For a discussion of the significant accounting policies applied by the Group, see note 3 to the 2020 Financial Statements.

**Critical Accounting Judgements and Estimates**

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

For example, in preparing the 2020 Financial Statements, the Group made various accounting estimates based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Group believed to be reasonable in the circumstances. These included the continuing effect of the COVID-19 pandemic. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties, which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast, since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by the Group’s forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.
Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgments are as follows: (i) business model for managing financial assets; (ii) contractual cashflows of financial assets; (iii) classification of financial assets; (iv) impairment losses on financial assets; (v) fair value measurement; (vi) impairment of non-financial assets; (vii) determination of control over investees; (viii) provisions for liabilities and charges; (ix) going concern; (x) employee benefit obligation; and (xi) depreciation and amortisation. For more detail, see note 2(c) to the 2020 Financial Statements.

**Results of Operations**

**Comparison of year 2020 and 2019**

**Operating income**

The table below shows the components of the Group’s total operating income for 2020 and 2019.

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net special commission income</td>
<td>2,390,336</td>
<td>2,052,164</td>
</tr>
<tr>
<td>Fees and commission income, net</td>
<td>607,508</td>
<td>605,230</td>
</tr>
<tr>
<td>Exchange income, net</td>
<td>240,164</td>
<td>229,910</td>
</tr>
<tr>
<td>Net gain on FVIS financial instruments</td>
<td>9,816</td>
<td>5,792</td>
</tr>
<tr>
<td>Dividend income</td>
<td>80</td>
<td>343</td>
</tr>
<tr>
<td>Net gains on derecognition of financial assets measured at FVOCI – debt</td>
<td>4,703</td>
<td>1,886</td>
</tr>
<tr>
<td>Net gains on derecognition of financial assets measured at amortised cost</td>
<td>2,102</td>
<td>69,654</td>
</tr>
<tr>
<td>Other operating income, net</td>
<td>32,410</td>
<td>12,180</td>
</tr>
<tr>
<td><strong>Total operating income</strong></td>
<td><strong>3,287,119</strong></td>
<td><strong>2,977,159</strong></td>
</tr>
</tbody>
</table>

The Group’s total operating income increased by SAR 310 million, or 10.4 per cent., from SAR 2,977 million for 2019 to SAR 3,287 million for 2020. This increase reflected the changes described below in each component of the Group’s total operating income.

**Net special commission income**

Special commission income is the Group’s principal source of income. The Group earns special commission income primarily on loans and advances it makes to its customers and on its portfolio of fixed-income investments held at amortised cost or at FVOCI, as well as on derivatives and its deposits due from banks and other financial institutions. The Group incurs special commission expense primarily on its customers’ deposits and its deposits due to banks and other financial institutions, as well as on its derivatives, subordinated sukuk and finance costs on leased assets.

The Group’s net special commission income for 2020 amounted to SAR 2,390 million, compared to SAR 2,052 million for 2019, reflecting the changes in special commission income and special commission expense discussed below.

The table below shows a breakdown of the Group’s special commission income, special commission expense and net special commission income for 2020 and 2019.
The Group’s net special commission income for the 2020 was SAR 2,390 million, an increase of SAR 338 million, or 16 per cent., compared to 2019. This increase was primarily the result of a SAR 386 million, or 33 per cent., decrease in the Group’s special commission expense in 2020, which largely reflected the impact of lower market yields as central banks around the world significantly cut interest rates in response to COVID-19 and the provision by the Saudi Central Bank of interest free deposits to banks in the KSA. The decrease in special commission expense was partially offset by a small decrease in the Group’s special commission income for 2020 of SAR 48 million, or 1 per cent., compared to 2019, which principally reflected the delayed impact of repricing given the Group’s high proportion of fixed rate loans and investments.

Fees and commission income, net

The Group earns fees and commission income from its cards business, its local and international share trading, its loan commitments and loans, its remittance business, its mutual funds, and trade finance and takaful provided by it. The Group incurs fees and commission expense mainly in respect of its cards business, local and international share trading activities, loans and mutual funds.

The table below shows a breakdown of the Group’s fee and commission income, net for each of 2020 and 2019.

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>(SAR ‘000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total fee income</td>
<td>1,025,207</td>
<td>932,633</td>
</tr>
<tr>
<td>Fees and commission income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local share trading</td>
<td>310,289</td>
<td>124,604</td>
</tr>
<tr>
<td>Cards business</td>
<td>282,704</td>
<td>314,729</td>
</tr>
<tr>
<td>Loan commitment and management fees</td>
<td>136,238</td>
<td>185,955</td>
</tr>
<tr>
<td>Fees from remittance business</td>
<td>105,888</td>
<td>140,818</td>
</tr>
<tr>
<td>Mutual funds fees</td>
<td>49,758</td>
<td>66,121</td>
</tr>
<tr>
<td>International share trading</td>
<td>43,921</td>
<td>6,632</td>
</tr>
<tr>
<td>Trade finance</td>
<td>43,530</td>
<td>43,165</td>
</tr>
<tr>
<td>Fee and commission from Takaful Ta’awuni- old portfolio</td>
<td>1,997</td>
<td>19,046</td>
</tr>
<tr>
<td>Others</td>
<td>50,882</td>
<td>31,563</td>
</tr>
<tr>
<td>Total fee income</td>
<td>1,025,207</td>
<td>932,633</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>(SAR ‘000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total fee expense</td>
<td>417,699</td>
<td>327,403</td>
</tr>
<tr>
<td>Fee income from banking services, net</td>
<td>607,508</td>
<td>605,230</td>
</tr>
</tbody>
</table>

The Group’s fee and commission income, net for 2020 was SAR 608 million, which was largely unchanged from its fee and commission income, net for 2019, which was SAR 605 million. In 2020, the Group’s fee and
commission income increased by SAR 93 million, or 9.9 per cent., compared to 2019, which was largely the result of an increase in fee income from local and international share trading connected to an increase in trading volumes globally and other services, partially offset by decreases in fee income from loan commitment and management fee, the cards business, the remittance business, and mutual funds management, driven by lower volume, transactions and card usage largely due to COVID-19, and a decrease in fee income from Takaful Ta’awuni (due to the transfer of the business to an associate, ATT). The increase in the Group’s fee and commission income in 2020 was partially offset by an SAR 90 million, or 27.6 per cent., increase in the Group’s fee expense in 2020, which was driven largely by higher local and international share trading brokerage costs as a result of increased activity.

Exchange income, net

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

Foreign exchange gains or losses from the settlement of transactions and the translation of year-end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The Group’s exchange income increased by SAR 10 million, or 4.5 per cent., to SAR 240 million for 2020 from SAR 230 million for 2019, primarily as a result of income earned by the Bank’s retail branches.

Net gain on FVIS financial instruments

The Group’s income from FVIS financial instruments, net comprises income from investments held at FVIS, primarily mutual funds. The Group’s income from FVIS financial instruments, net for 2020 amounted to SAR 10 million compared to SAR 6 million for 2019. The increase of SAR 4 million, or 70 per cent. principally reflected higher valuations on FVIS instruments.

Dividend income

The Group’s income from dividends, net for 2020 amounted to SAR 0.08 million compared to SAR 0.3 million for 2019.

Net gains on derecognition of financial assets measured at FVOCI – debt

The Group’s net gain on derecognition of financial assets measured at FVOCI – debt for 2020 amounted to SAR 5 million compared to SAR 2 million for 2019, an increase of SAR 3 million, or 149.4 per cent., which was primarily due to higher transaction volumes.

Net gains on derecognition of financial assets measured at amortised cost

The Group’s net gain on derecognition of financial assets measured at amortised cost for 2020 amounted to SAR 2 million compared to SAR 70 million for 2019. These derecognitions are non-recurring in nature and variable in amount.
Other operating income, net

The Group’s other operating income, net was SAR 32 million for 2020 compared to SAR 12 million for 2019. In 2020, the higher other operating income, net was mainly due to an SAR 17 million gain recorded on the transfer of the Group’s takaful business to ATT and higher other operating income which is mainly earned from FAWRI partners.

Operating expenses before impairment charge

The table below shows the components of the Group’s total operating expenses before impairment charge for each of 2020 and 2019.

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>(SAR ’000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee-related expenses</td>
<td>982,608</td>
<td>968,529</td>
</tr>
<tr>
<td>Rent and premises-related expenses</td>
<td>52,944</td>
<td>52,431</td>
</tr>
<tr>
<td>Depreciation/amortisation</td>
<td>214,446</td>
<td>201,026</td>
</tr>
<tr>
<td>Other general and administrative expenses</td>
<td>429,891</td>
<td>443,908</td>
</tr>
<tr>
<td>Other operating expenses, net</td>
<td>16,571</td>
<td>45,170</td>
</tr>
<tr>
<td><strong>Total operating expenses before impairment charge</strong></td>
<td><strong>1,696,460</strong></td>
<td><strong>1,711,064</strong></td>
</tr>
</tbody>
</table>

The Group’s total operating expenses before impairment charge for 2020 were SAR 1,696 million compared to SAR 1,711 million for 2019, a decrease of SAR 15 million, or 0.9 per cent. This principally reflected a decrease in other general and administrative expenses mainly as a result of a reduction in takaful-related expenses following the transfer of the takaful business and a reduction in other operating expenses, net which were partially offset by increases in salaries and employee-related expenses and in depreciation and amortisation. Despite macro-economic pressures, the Group’s cost-to-income ratio (calculated by dividing total operating expenses before impairment by total operating income) decreased to 51.6 per cent. for 2020 from 57.5 per cent. for 2019.

Impairment charge

The Group recorded an impairment charge for ECL of SAR 1,576 million for 2020, compared to SAR 157 million for 2019. The charge in 2020 mainly comprised of a net charge of SAR 1,291 million impairment charge for ECL on loans and advances, and an SAR 278 million charge for ECL in respect of credit-related contingent liabilities. The Bank performed a detailed credit risk assessment in respect of its exposures during the year, taking into account the specific developments that took place in relation to these exposures and the overall economic environment in the KSA, in particular in the context of lock-downs related to the COVID-19 pandemic. As a result, the Bank significantly increased its ECL allowances.

Net operating income

As a result of the above and in particular the increased impairment charge in 2020, the Group recorded net income from operations for 2020 of SAR 15 million compared to SAR 1,109 million for the corresponding period in 2019, a decrease of SAR 1,094 million, or 98.6 per cent.

Share in net income of an associate

As at 31 December 2020 and 31 December 2019, the Group had one associate: ATT, in which the Group had a 35 per cent. shareholding across both years. On 1 January 2020, the Bank transferred its takaful business to ATT. The Group records its proportionate share of the net profit or loss of its associate in its consolidated income statement under “share in net income of an associate”. The Group’s share in net income of an associate was SAR 16 million for 2020, compared to SAR 13 million in 2019. The increase was due to an increase in the total profit for the year of ATT. For more details, see Note 8 of the 2020 Financial Statements.
Net income for the period before Zakat and income tax

As a result of the above, the Group recorded net income for the period before Zakat and income tax of SAR 31 million for 2020 compared to SAR 1,122 million for 2019, a decrease of SAR 1,091 million, or 97.2 per cent.

Zakat and income tax

For 2020, the Group recorded a combined Zakat and income tax reversal of SAR 2.6 million compared to a combined Zakat and income tax charge of SAR 131 million for 2019. This was largely due to lower profitability in 2020.

Net income for the period after Zakat and income tax

Reflecting the above, the Group recorded net income of SAR 34 million for 2020 compared to SAR 991 million for 2019, a decrease of SAR 957 million, or 96.6 per cent.

Other comprehensive income

The Group’s other comprehensive income principally consists of the effective portion of change in the fair value of cash flow hedges, net changes in the fair value of its FVOCI investments—debt and re-measurement gains on employee benefit obligation.

For 2020, the Group recorded an SAR 48 million comprehensive loss for the effective portion of change in the fair value of cash flow hedges, which was partially offset by SAR 31 million comprehensive income from a positive change in the fair value of its FVOCI debt investments and SAR 4 million comprehensive income from re-measurement gains on employee benefit obligation resulting in a total other comprehensive loss of SAR 13 million for 2020.

For 2019, the Group’s comprehensive income principally comprised recorded a SAR 6 million positive change in the fair value of its FVOCI debt investments and a re-measurement gain on employee benefit obligations of SAR 18 million which was partially offset by a SAR 14 million comprehensive loss for the effective portion of change in the fair value of cash flow hedges, resulting in total other comprehensive income of SAR 9 million for 2019.

Total comprehensive income for the period

Reflecting the above and the Group’s net income for the year, the Group’s total comprehensive income for 2020 was SAR 21 million compared to SAR 1,001 million for 2019, a decrease of SAR 980 million, or 97.9 per cent.

Segmental analysis

The table below shows certain income statement and statement of financial position line items of the Group’s reporting segments for, and as at 31 December in, 2020 and 2019.

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Personal Banking</th>
<th>Corporate Banking</th>
<th>Treasury</th>
<th>Brokerage and asset management</th>
<th>Takaful Ta’awuni</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>1,118,646</td>
<td>498,728</td>
<td>802,941</td>
<td>40,158</td>
<td></td>
<td>(70,137)</td>
</tr>
<tr>
<td></td>
<td>320,046</td>
<td>87,188</td>
<td>(496)</td>
<td>233,540</td>
<td></td>
<td>(32,770)</td>
</tr>
<tr>
<td></td>
<td>1,687,957</td>
<td>605,927</td>
<td>1,052,908</td>
<td>281,953</td>
<td></td>
<td>(340,996)</td>
</tr>
<tr>
<td></td>
<td>(1,091,008)</td>
<td>(1,679,980)</td>
<td>(324,045)</td>
<td>(140,855)</td>
<td></td>
<td>(36,315)</td>
</tr>
</tbody>
</table>
**Personal Banking**

The personal banking segment recorded total operating income of SAR 1,688 million for 2020 compared to SAR 1,402 million for 2019, an increase of SAR 286 million, or 20.4 per cent. Within total operating income, the retail banking segment’s net special commission income for 2020 increased by SAR 371 million or 49.6 per cent compared to 2019 largely due to growth in mortgage loans (25 per cent.) and, to a lesser extent, personal loans (9 per cent.), and its fee and commission income, net decreased by SAR 85 million, or 21.0 per cent compared to 2019 due to a reduction in transactions as a result of COVID-19, SAMA imposed waivers of fees, and travel restrictions impacting card related business. The retail banking segment recorded total operating expenses of SAR 1,091 million for 2020 compared to SAR 941 million for 2019, an increase of SAR 150 million, or 15.9 per cent mainly driven by an increase in VAT rate, higher deposit premium (growth in non-interest bearing accounts (NIBS)) and higher staff costs.

The retail banking segment’s net income for the period before Zakat and income tax was SAR 597 million for 2020 compared to SAR 461 million for 2019, an increase of SAR 136 million, or 29.5 per cent.

**Corporate Banking**

The corporate banking segment recorded total operating income of SAR 605 million for 2020 compared to SAR 557 million for 2019, an increase of SAR 48 million, or 8.6 per cent. Within total operating income, the corporate banking segment’s net special commission income increased by SAR 54 million, or 12.1 per cent compared to 2019, principally as a result of lower costs of funding. The segment’s fee and commission income, net decreased by SAR 9 million, or 9.4 per cent. due to a reduction in transactions as a result of COVID-19 and SAMA imposed waivers of fees. The corporate banking segment recorded total operating expenses of SAR 1,680 million for 2020 compared to SAR 395 million for 2019, an increase of SAR 1,285 million, or 325.3 per cent, all of which due to higher ECL provisions booked in 2020.

The corporate banking segment’s net income for the period before Zakat and income tax was a loss of SAR 1,075 million for 2020 compared to profit of SAR 162 million for 2019, a decrease of SAR 1,237 million, or 763.0 per cent.
Treasury

The treasury segment recorded total operating income of SAR 1,053 million for 2020 compared to SAR 1,139 million for 2019, a decrease of SAR 86 million, or 7.6 per cent. Within total operating income, the treasury segment’s net special commission income decreased by SAR 30 million, or 3.6 per cent compared to 2019, principally due to a decline in investment portfolio yields. The treasury segment recorded total operating expenses of SAR 324 million for 2020 essentially flat compared to SAR 325 million for 2019.

The treasury segment’s net income for the period before Zakat and income tax was SAR 729 million for 2020 compared to SAR 814 million for 2019, a decrease of SAR 85 million, or 10.4 per cent.

Brokerage and asset management

The brokerage and asset management segment recorded total operating income of SAR 282 million for 2020 compared to SAR 168 million for 2019, an increase of SAR 114 million, or 67.9 per cent due to an increase in brokerage and investment banking service fees. Within total operating income, the brokerage and asset management segment’s net special commission income for 2020 decreased by SAR 13 million, or 24.4 per cent compared to 2019, principally as a result of lower yields. The brokerage and asset management segment recorded total operating expenses of SAR 141 million for 2020, essentially flat compared to SAR 141 million for 2019.

The brokerage and asset management segment’s net income for the period before Zakat and income tax was SAR 143 million for 2020 compared to SAR 29 million for 2019, an increase of SAR 114 million, or 393.1 per cent.

Takaful Ta’awuni

Takaful Ta’awuni provides protection and saving products services that are fully Shariah-compliant.

On 1 January 2020, the Group transferred its takaful business to ATT, including the transfer of all assets and liabilities related to this business. Accordingly, for 2020, the Group did not record any income or expenses for its Takaful Ta’awuni segment.

For 2019, the Takaful Ta’awuni segment recorded total operating income of SAR 18 million. Net special commission income was SAR 0.5 million, fees and commission income was SAR 17 million and total operating expenses amounted to SAR 26 million in 2019. The Takaful Ta’awuni segment’s net before Zakat and income tax for 2019 was SAR 8 million.

Comparison of the years 2019 and 2018

Total operating income

The table below shows the components of the Group’s total operating income for each of 2019 and 2018.

<table>
<thead>
<tr>
<th>Component</th>
<th>2019 (SAR ‘000)</th>
<th>2018 (SAR ‘000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net special commission income</td>
<td>2,052,164</td>
<td>1,904,033</td>
</tr>
<tr>
<td>Fee and commission income, net</td>
<td>605,230</td>
<td>564,356</td>
</tr>
<tr>
<td>Exchange income, net</td>
<td>229,910</td>
<td>191,789</td>
</tr>
<tr>
<td>Net gain / (loss) on FVIS financial instruments</td>
<td>5,792</td>
<td>(4,367)</td>
</tr>
<tr>
<td>Dividend income</td>
<td>343</td>
<td>286</td>
</tr>
<tr>
<td>Net gains on derecognition of financial assets measured at FVOCI - debt</td>
<td>1,886</td>
<td>—</td>
</tr>
</tbody>
</table>
The Group’s total operating income for 2019 was SAR 2,977 million compared to SAR 2,665 million for 2018, an increase of SAR 312 million, or 11.7 per cent. This increase reflected the changes described below in each component of the Group’s total operating income.

**Net special commission income**

The Group’s net special commission income for 2019 amounted to SAR 2,052 million compared to SAR 1,904 million for 2018, reflecting the changes in special commission income and special commission expense discussed below.

The table below shows a breakdown of the Group’s special commission income, special commission expense and net special commission income for each of the each of the years 2019 and 2018.

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special commission income</td>
<td>3,227,547</td>
<td>2,787,673</td>
</tr>
<tr>
<td>Special commission expense</td>
<td>(1,175,383)</td>
<td>(883,640)</td>
</tr>
<tr>
<td><strong>Net special commission income</strong></td>
<td><strong>2,052,164</strong></td>
<td><strong>1,904,033</strong></td>
</tr>
</tbody>
</table>

The Group’s net special commission income for 2019 increased by SAR 148 million, or 7.8 per cent. compared to 2018. This increase was primarily the result of an SAR 440 million, or 15.8 per cent. increase in the Group’s special commission income for 2019, largely due to higher special commission earned on loans and advances (mainly reflecting higher average volumes and yields) and investments (mainly due to an increase in net investments by around SAR 4 billion). The increase in special commission income was partially offset by an SAR 292 million, or 33.0 per cent., increase in the Group’s special commission expense for 2019 compared to 2018, which largely reflected the impact of higher rates and an increase in average deposits in 2019.

**Fees and commission income, net**

The Group’s fees and commission income, net for 2019 was SAR 605 million, compared to SAR 564 million for 2018, an increase of SAR 41 million or 7.3 per cent.

This increase was primarily due to an increase in fees and commission income, which amounted to SAR 933 million for 2019, compared to SAR 866 million for 2018, an increase of SAR 67 million, or 7.7 per cent. The increase was primarily due to increases in fees and commission income from the cards business, loans related commitment and management fees and fee from its remittance business, in each case driven by a higher number and average volume of transactions, and increases in the mortgage and personal loan portfolio, partially offset by a decrease in fees and commission income from local share trading due to lower volumes.

The increase in fees and commission income was partially offset by an increase in fees and commission expenses, which amounted to SAR 327 million for 2019, compared to 302 million for 2018, an increase of SAR 25 million or 8.3 per cent. The increase was primarily due to increased expenses related to the Group’s cards business and
loan-related expenses driven by higher interchange, collection and loyalty expense and higher intake of mortgages, partially offset by a decrease in brokerage fees related to lower local share trading activities as a result of less favourable market conditions.

*Exchange income, net*

The Group’s net exchange income in 2019 amounted to SAR 230 million compared to SAR 192 million in 2018, an increase of SAR 38 million, or 19.8 per cent. This increase is mainly attributable to higher income earned by FAWRI business.

*Net gains on derecognition of financial assets measured at amortised cost*

The Group’s net gains on the derecognition of financial assets measured at amortised cost was SAR 70 million for 2019, compared to SAR 0.1 million for 2018. The high net gains recorded in 2019 reflect the one-off sale of SAR 902 million made in this period.

*Total operating expenses*

The table below shows the components of the Group’s total operating expenses for each of 2019 and 2018.

<table>
<thead>
<tr>
<th>Component</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>(SAR '000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee-related expenses</td>
<td>968,529</td>
<td>896,716</td>
</tr>
<tr>
<td>Rent and premises-related expenses</td>
<td>52,431</td>
<td>140,950</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>201,026</td>
<td>93,043</td>
</tr>
<tr>
<td>Other general and administrative expenses</td>
<td>443,908</td>
<td>414,814</td>
</tr>
<tr>
<td>Other operating expenses, net</td>
<td>45,170</td>
<td>22,543</td>
</tr>
<tr>
<td>Total operating expenses before impairment charge</td>
<td>1,711,064</td>
<td>1,568,066</td>
</tr>
<tr>
<td>Impairment charges for credit losses, net</td>
<td>156,953</td>
<td>106,800</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>1,868,017</td>
<td>1,674,866</td>
</tr>
</tbody>
</table>

The Group’s total operating expenses for 2019 (after impairment charges) amounted to SAR 1,868 million, compared to SAR 1,675 million for 2018, an increase of SAR 193 million, or 11.5 per cent. This increase principally reflected higher depreciation and amortisation, higher salaries and employee-related expenses, higher impairment charges for credit losses, and higher general and administrative expenses, partially offset by lower rent and premises-related expenses. The significant variation in depreciation and tent and premises-related expenses is attributable to adoption of IFRS 16 in 2019, which has resulted in treating the rent contracts as leases and capitalising them as right of use assets and accordingly depreciation charge on these assets is now being reflected in depreciation instead of rent expense in 2018. Only expenses related to short-term leases are reported as rent and premises-related expenses.

*Salaries and employee-related expenses*

The Group’s total salaries and employee-related expenses for 2019 was SAR 969 million compared to SAR 897 million for 2018, an increase of SAR 72 million, or 8.0 per cent. This was principally due to an increase in the cost of living allowances and higher core salaries due to new hires.
Rent and premises-related expenses

The Group’s total rent and premises-related expenses for 2019 was SAR 52 million compared to SAR 141 million for 2018, a decrease of SAR 89 million, or 63.1 per cent. This significant variation is due to the adoption of IFRS 16 as explained above.

Depreciation and amortisation

The Group’s depreciation charge for 2019 was SAR 201 million compared to SAR 93 million for 2018, an increase of SAR 108 million, or 116.1 per cent. This significant variation is due to the adoption of IFRS 16 as explained above.

Other general and administrative expenses

The Group’s other general and administrative expenses for 2019 was SAR 444 million compared to SAR 415 million for 2018, an increase of SAR 29 million, or 7.0 per cent. The increase was mainly attributable to technology related expenses, business promotion expenses, business travel and training costs and utilities costs.

Other operating expenses, net

The Group’s other operating expenses, net for 2019 was SAR 45 million compared to SAR 23 million for 2018, an increase of SAR 22 million, or 95.7 per cent.

Impairment charge for credit losses, net

For 2019, the Group took an impairment charge for credit losses of SAR 157 million, compared to an impairment charge of SAR 107 million for 2018, an increase of SAR 50 million or 47 per cent. This was largely driven by higher recoveries and reversals for 2018 than for 2019, which was partially offset by higher impairment charges for ECL on loans and advances for 2018 than for 2019.

Net operating income

As a result of the above, the Group recorded net operating income for 2019 of SAR 1,109 million compared to SAR 990 million for 2018, an increase of SAR 119 million, or 12.0 per cent.

Share in net income of an associate

The Group’s share in net income of an associate was SAR 13 million for 2019 compared to SAR 10 million for 2018, an increase of SAR 3 million, or 23.6 per cent.

Net income for the year before Zakat and income tax

Reflecting the above factors, the Group recorded net income before Zakat and income tax of SAR 1,122 million in 2019 compared to net income for the year of SAR 1,000 million in 2018, an increase of SAR 122 million, or 12.2 per cent. For 2019, the Group recorded a combined Zakat and income tax charge in 2019 of SAR 131 million, resulting in net income for the year after zakat and income tax of SAR 991 million. The Group’s combined Zakat and income charge in 2018 amounted to SAR 622 million, resulting in net income for the year after zakat and income tax of SAR 378 million. The significantly higher combined zakat and income tax charge in 2018 was driven by the settlement agreement with GAZT, following which the full SAR 551 million settlement amount was charged to the income statement in 2018. See “Principal factors affecting results of operations—Zakat”.
Other comprehensive income

For 2019, the Group’s other comprehensive income principally comprised the effective portion of the change in fair value of cash flow hedges, re-measurement gains on employee benefit obligation and changes in the fair value of debt instruments that are held at FVOCI.

For 2019, the Group’s other comprehensive income principally comprised a SAR 6 million positive change in the fair value of its FVOCI debt instruments, as well as a SAR 18 million re-measurement gain on employee benefit obligation which was partially offset by a SAR 14 million other comprehensive loss relating to the effective portion of the change in fair value of cash flow hedges. This resulted in total comprehensive income for the year of SAR 1,001 million for 2019.

For 2018, the Group’s other comprehensive income principally comprised of a SAR 16 million positive change in the effective portion of the change in the fair value of cash flow hedges and an SAR 2 million re-measurement gain on employee benefit obligation. This resulted in total comprehensive income of SAR 397 million for 2018.

Total comprehensive income for the year

Reflecting the above factors and the Group’s net income for the year after zakat and income tax, the Group’s total comprehensive income in 2019 was SAR 1,001 million compared to SAR 397 million in 2018 (on a restated basis), an increase of SAR 604 million, or 152.1 per cent.

Segmental analysis

The table below shows certain income statement and statement of financial position line items of the Group’s reporting segments for, and as at 31 December in 2019 and 2018.

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>Personal Banking (SAR '000)</th>
<th>Corporate Banking (SAR '000)</th>
<th>Treasury (SAR '000)</th>
<th>Brokerage and asset management (SAR '000)</th>
<th>Takaful Ta’awuni (SAR '000)</th>
<th>Others (SAR '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>747,725</td>
<td>444,704</td>
<td>833,172</td>
<td>53,127</td>
<td>472</td>
<td>(27,036)</td>
</tr>
<tr>
<td></td>
<td>405,329</td>
<td>96,293</td>
<td>746</td>
<td>109,863</td>
<td>17,127</td>
<td>(24,128)</td>
</tr>
<tr>
<td>Total operating income</td>
<td>1,402,208</td>
<td>556,712</td>
<td>1,138,666</td>
<td>167,642</td>
<td>17,599</td>
<td>(305,668)</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>(941,010)</td>
<td>(395,118)</td>
<td>(324,918)</td>
<td>(140,774)</td>
<td>(26,090)</td>
<td>(40,107)</td>
</tr>
<tr>
<td>Net income for the period before Zakat and income tax</td>
<td>461,198</td>
<td>161,594</td>
<td>813,748</td>
<td>28,709</td>
<td>(8,491)</td>
<td>(334,728)</td>
</tr>
<tr>
<td>Total assets</td>
<td>27,568,359</td>
<td>22,083,463</td>
<td>34,908,570</td>
<td>1,734,127</td>
<td>101,493</td>
<td>148,332</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>42,038,284</td>
<td>20,757,629</td>
<td>11,283,423</td>
<td>773,998</td>
<td>101,493</td>
<td>—</td>
</tr>
<tr>
<td>2018</td>
<td>658,787</td>
<td>300,815</td>
<td>889,681</td>
<td>56,074</td>
<td>1,002</td>
<td>(2,326)</td>
</tr>
<tr>
<td></td>
<td>333,021</td>
<td>116,524</td>
<td>3,127</td>
<td>120,339</td>
<td>18,139</td>
<td>(26,794)</td>
</tr>
<tr>
<td>Total operating income</td>
<td>1,185,477</td>
<td>433,391</td>
<td>1,092,328</td>
<td>172,135</td>
<td>19,140</td>
<td>(237,726)</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>(833,322)</td>
<td>(380,059)</td>
<td>(299,096)</td>
<td>(137,638)</td>
<td>(28,144)</td>
<td>3,393</td>
</tr>
<tr>
<td>Net income for the period before Zakat and income tax</td>
<td>352,155</td>
<td>53,332</td>
<td>793,232</td>
<td>35,987</td>
<td>(9,004)</td>
<td>(225,395)</td>
</tr>
<tr>
<td>Total assets</td>
<td>21,658,836</td>
<td>18,738,072</td>
<td>30,956,832</td>
<td>1,455,777</td>
<td>57,911</td>
<td>135,770</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>33,317,306</td>
<td>18,666,181</td>
<td>9,124,052</td>
<td>593,276</td>
<td>57,911</td>
<td>—</td>
</tr>
</tbody>
</table>
**Personal banking**

The personal banking segment recorded total operating income of SAR 1,402 million for 2019 compared to SAR 1,185 million for 2018, an increase of SAR 217 million, or 18.3 per cent. Within total operating income, the retail banking segment’s net special commission income increased by SAR 89 million, or 13.5 per cent., principally as a result of an increase in retail financing and margin improvement, and its net fee and commission income increased by SAR 72 million, or 21.6 per cent. The personal banking segment recorded total operating expenses of SAR 941 million in 2019 compared to SAR 833 million in 2018, an increase of SAR 108 million, or 13.0 per cent.

The personal banking segment’s net income for the period before Zakat and income tax in 2019 was SAR 461 million compared to SAR 352 million in 2018. The increase of SAR 109 million, or 31.0 per cent, was driven principally by 18.3 per cent. higher operating income.

**Corporate banking**

The corporate banking segment recorded total operating income of SAR 557 million for 2019 compared to SAR 433 million for 2018, an increase of SAR 124 million, or 28.6 per cent. Within total operating income, the corporate banking segment’s fee and commission income, net decreased by SAR 20 million, or 17.4 per cent. and its net special commission income increased by SAR 145 million, or 48.1 per cent. The corporate banking segment recorded total operating expenses of SAR 395 million in 2019 compared to SAR 380 million in 2018, an increase of SAR 15 million, or 3.9 per cent.

As a result of the above, the corporate banking segment’s net income for the period before zakat and income tax for 2019 was SAR 162 million compared to SAR 53 million for 2018, an increase of SAR 109 million, or 205.7 per cent.

**Treasury**

The treasury segment recorded total operating income of SAR 1,139 million for 2019 compared to SAR 1,092 million for 2018, an increase of SAR 47 million, or 4.3 per cent due to an increase in investments. Within total operating income, the treasury segment’s net special commission income decreased by SAR 57 million, or 6.8 per cent. Fee and commission income, net decreased by SAR 2 million or 76.1 per cent. The treasury segment recorded total operating expenses of SAR 325 million for 2019 compared to SAR 299 million for 2018, an increase of SAR 26 million, or 8.6 per cent.

The treasury segment’s net income for the period before zakat and income tax for 2019 was SAR 814 million compared to SAR 793 million for 2018, an increase of SAR 21 million.

**Brokerage and asset management**

The brokerage and asset management segment recorded total operating income of SAR 168 million for 2019 compared to SAR 172 million for 2018, a decrease of SAR 4 million, or 2.3 per cent. Within total operating income, the brokerage and asset management segment’s net fee and commission income decreased by SAR 10 million, or 8.7 per cent. The brokerage and asset management segment recorded total operating expenses of SAR 141 million for 2019 compared to SAR 138 million for 2018, an increase of SAR 3 million, or 2.2 per cent.

The brokerage and asset management segment’s net income for the period before zakat and income tax in 2019 was SAR 29 million compared to SAR 36 million in 2018, an increase of SAR 7 million, or 19.4 per cent.

**Takaful Ta’awuni**

The Takaful Ta’awuni segment recorded total operating income of SAR 18 million for 2019 compared to SAR 19 million for 2018, a decrease of SAR 1 million, or 9.5 per cent. Within total operating income, the Takaful
Ta’awuni segment’s net fee and commission income decreased by SAR 1 million, or 5.6 per cent. The Takaful Ta’awuni segment recorded total operating expenses of SAR 26 million for 2019 compared to SAR 28 million for 2018, a decrease of SAR 2 million, or 7.1 per cent due to lower operating expense requirements.

The Takaful Ta’awuni segment’s net income for the period before zakat and income tax for 2019 was SAR 8 million compared to SAR 9 million for 2018, an increase of SAR 1 million, or 11.1 per cent.

Liquidity and Funding

Overview

The Group’s liquidity needs arise primarily as a result of the need to fund loans and advances to customers, the payment of expenses/dividends and investments in securities. To date, the Group’s liquidity needs have been funded principally through customer deposits (representing 74.7 per cent. of total assets). Additional funding sources for the Group are interbank borrowing, a repo facility through the Saudi Central Bank (SAMA) and new debt issuances. See “—Funding”.

Liquidity

The table below shows the Group’s cash flow from operating activities, investing activities and financing activities for each of 2020, 2019 and 2018.

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash from operating activities</td>
<td>2,110,243</td>
<td>3,410,497</td>
<td>1,271,744</td>
</tr>
<tr>
<td>Net cash (used in) investing activities</td>
<td>(2,273,799)</td>
<td>(3,326,741)</td>
<td>(3,772,504)</td>
</tr>
<tr>
<td>Net cash from/(used in) financing activities</td>
<td>(406,939)</td>
<td>(846,225)</td>
<td>2,431,243</td>
</tr>
<tr>
<td>Cash and cash equivalents at 1 January</td>
<td>2,646,838</td>
<td>3,409,307</td>
<td>3,478,824</td>
</tr>
<tr>
<td>Cash and cash equivalents at 31 December</td>
<td>2,076,343</td>
<td>2,646,838</td>
<td>3,409,307</td>
</tr>
</tbody>
</table>

Operating activities

In 2020, the Group’s net cash flow from operating activities was SAR 2,110 million compared to SAR 3,410 million in 2019 and SAR 1,272 million in 2018. The Group’s net cash flow from operating activities before changes in operating assets and liabilities principally reflects its net income for the year before zakat and income tax adjusted to reflect non-cash items such as impairment charges for ECL, depreciation and amortisation and special commission expense on subordinated sukuk, as well as other items. The changes in the Group’s operating assets in each period principally reflect movements in loans and advances and customers’ deposits.

Investing activities

In 2020, the Group’s net cash used in investing activities was SAR 2,274 million, compared to SAR 3,327 million in 2019 and SAR 3,773 million in 2018. The Group’s net cash flows used in investing activities principally reflect the purchase of investments not held as FVIS net of proceeds from sales and maturities of those investments and investments made in the acquisition of property and equipment.

Financing activities

In 2020, the Group’s net cash used in financing activities was SAR 407 million compared to SAR 846 million in 2019. In 2018, the Group’s net cash from financing activities was SAR 2,431 million. In 2020, the Group paid SAR 253 million in dividends compared to SAR 646 million in 2019 and SAR 251 million in 2018. The significant inflow in financing activities in 2018 was due to receipt of right issue proceeds amounting to SAR 3 billion.
Funding

Sources of funding

The Group’s principal source of funding is its customers’ demand and time deposits. In addition, the Group’s funding comprises its subordinated sukuk issued and the interbank deposits accepted by it.

The Group also has access to a pool of unencumbered and liquid securities in the form of fixed-income debt securities (amounting to SAR 24.5 billion as of 31 December 2020) that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The Group’s customers’ deposits were SAR 68 billion, or 84.2 per cent. of its total liabilities, as at 31 December 2020, SAR 63 billion, or 83.6 per cent. of its total liabilities, as at 31 December 2019 and SAR 52 billion, or 83.9 per cent. of its total liabilities, as at 31 December 2018.

The Group continues to diversify its long-term deposit base. The issue of the Certificates is intended to diversify the Group’s sources of funding.

The following table shows the amounts due to banks and other financial institutions as at 31 December 2020 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020 (SAR '000)</th>
<th>31 December 2019 (SAR '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to banks and other financial institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current accounts</td>
<td>177,278</td>
<td>199,366</td>
</tr>
<tr>
<td>Money market deposits from banks and other financial institutions</td>
<td>8,063,770</td>
<td>7,764,271</td>
</tr>
<tr>
<td>Repo agreement borrowings</td>
<td>289,148</td>
<td>290,117</td>
</tr>
<tr>
<td>Total</td>
<td>8,530,196</td>
<td>8,253,754</td>
</tr>
</tbody>
</table>

The following table shows the customers’ deposits as at 31 December 2020 and 31 December 2019:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2020 (SAR '000)</th>
<th>31 December 2019 (SAR '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers' Deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td>37,411,390</td>
<td>30,839,375</td>
</tr>
<tr>
<td>Savings</td>
<td>284,182</td>
<td>—</td>
</tr>
<tr>
<td>Time</td>
<td>28,543,641</td>
<td>30,259,540</td>
</tr>
<tr>
<td>Others</td>
<td>1,764,399</td>
<td>1,597,879</td>
</tr>
<tr>
<td>Total</td>
<td>68,003,612</td>
<td>62,696,794</td>
</tr>
</tbody>
</table>

A significant proportion of the Group’s customers’ deposits is from retail customers (comprising approximately 47 per cent. of total deposits as at 31 December 2020) and demand deposits make up a majority of deposits as at 31 December 2020. The Group’s current accounts mostly do not pay special commission, and amounts may be
withdrawn from these accounts at any time without notice. The Group’s time accounts do pay special commission and amounts can be withdrawn from these accounts at their maturity.

The Group accepts deposits in both riyal and a range of other currencies.

**Subordinated Sukuk**

On 2 June 2016, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SAR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 1.9 per cent. per annum and payable semi-annually in arrear on 2 June and 2 December each year until 2 June 2026, on which date the Sukuk will be redeemed. The Bank has a call option which can be exercised on or after 2 June 2021 on meeting certain conditions. The Sukuk may also be called upon occurrence of certain other conditions. These Sukuk are registered with Tadawul.

**Maturity profile**

The table below shows the maturity profile of the Group’s funding as at 31 December 2020, 2019 and 2018. This analysis is based on remaining undiscounted contractual maturities.

<table>
<thead>
<tr>
<th></th>
<th>within 3 months</th>
<th>3-12 months</th>
<th>1-5 years</th>
<th>Over 5 years</th>
<th>No fixed maturity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(SAR million)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 December 2020 Total</td>
<td>24,856,809</td>
<td>13,898,353</td>
<td>827,400</td>
<td>2,580,663</td>
<td>39,027,041</td>
<td>81,185,266</td>
</tr>
<tr>
<td>31 December 2019 Total</td>
<td>27,114,722</td>
<td>12,819,859</td>
<td>1,162,462</td>
<td>2,646,616</td>
<td>32,095,516</td>
<td>75,839,175</td>
</tr>
<tr>
<td>31 December 2018 Total</td>
<td>24,305,216</td>
<td>5,910,838</td>
<td>2,186,958</td>
<td>2,714,299</td>
<td>27,682,655</td>
<td>62,799,966</td>
</tr>
</tbody>
</table>

A significant proportion of the Group’s funding disclosed in the table above is short-term in nature. See “Risk Factors—Risks Relating to the Group and its Ability to Fulfil its Obligations under the Transaction Documents—The Group is exposed to liquidity risk which could materially adversely affect its results of operations”. The issue of the Certificates is intended to help the Group diversify its sources of funding and to extend the average maturity of its funding base.

Given the state-run and oil-dominated nature of the domestic economy in the KSA, the Group expects its deposit base, at least in the near future, to remain concentrated by depositor type, primarily cash-rich institutional deposit holders, large corporate entities and Government entities. See “Risk Factors—Risks Relating to the Group and its Ability to Fulfil its Obligations under the Transaction Documents—The Group’s business is exposed to concentration risk”.

The table below shows the geographical breakdown of the Group’s financial liabilities, consisting of liabilities due to banks and other financial institutions, customer deposits, subordinated sukuk and others, as at 31 December 2020, 2019 and 2018.

<table>
<thead>
<tr>
<th></th>
<th>Kingdom of Saudi Arabia</th>
<th>GCC and Middle East</th>
<th>Europe</th>
<th>North America</th>
<th>South East Asia</th>
<th>Other countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(SAR '000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2020</td>
<td>78,327,713</td>
<td>1,314,746</td>
<td>582,381</td>
<td>24,167</td>
<td>170,925</td>
<td>14,469</td>
<td>80,434,401</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>73,217,489</td>
<td>677,766</td>
<td>486,068</td>
<td>40,505</td>
<td>2,388</td>
<td>19,152</td>
<td>74,443,368</td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td>60,381,783</td>
<td>339,956</td>
<td>307,681</td>
<td>4,962</td>
<td>171,155</td>
<td>17,051</td>
<td>61,222,588</td>
</tr>
</tbody>
</table>
The Group’s financial liabilities are geographically concentrated on Saudi Arabia, which comprised 97.4 per cent. of the Group’s financial liabilities as at 31 December 2020, 98.4 per cent. as at 31 December 2019 and 98.6 per cent. as at 31 December 2018.

**Equity**

For a discussion of the Group’s share capital and reserves as at 31 December 2020, 2019 and 2018, see Notes 16 to 18 and Note 26 to each of the 2020 Financial Statements and the 2019 Financial Statements.

**Lending**

**Loans and advances**

The Group’s loans and advances, net amounted to SAR 54 billion as at 31 December 2020. The table below shows the breakdown of the Group’s loans and advances, net as at 31 December 2020, 2019 and 2018.

<table>
<thead>
<tr>
<th></th>
<th>Credit cards</th>
<th>Consumer</th>
<th>Commercial</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2020</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing loans and advances ............</td>
<td>695,605</td>
<td>26,542,025</td>
<td>27,303,432</td>
<td>371,189</td>
<td>54,912,251</td>
</tr>
<tr>
<td>Non-performing loans and advances .......</td>
<td>55,679</td>
<td>168,344</td>
<td>1,017,934</td>
<td></td>
<td>1,241,957</td>
</tr>
<tr>
<td>Total loans and advances ................</td>
<td>751,284</td>
<td>26,710,369</td>
<td>28,321,366</td>
<td>371,189</td>
<td>56,154,208</td>
</tr>
<tr>
<td>Allowance for expected credit losses (ECL) ........</td>
<td>(63,908)</td>
<td>(211,871)</td>
<td>(1,917,218)</td>
<td></td>
<td>(2,192,997)</td>
</tr>
<tr>
<td>Loans and advances, net ..................</td>
<td>687,376</td>
<td>26,498,498</td>
<td>26,404,148</td>
<td>371,189</td>
<td>53,961,211</td>
</tr>
<tr>
<td><strong>31 December 2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing loans and advances ............</td>
<td>725,560</td>
<td>23,376,999</td>
<td>25,486,099</td>
<td>407,546</td>
<td>49,996,204</td>
</tr>
<tr>
<td>Non-performing loans and advances .......</td>
<td>48,371</td>
<td>154,727</td>
<td>469,984</td>
<td></td>
<td>673,082</td>
</tr>
<tr>
<td>Total loans and advances ................</td>
<td>773,931</td>
<td>23,531,726</td>
<td>25,956,083</td>
<td>407,546</td>
<td>50,669,286</td>
</tr>
<tr>
<td>Allowance for ECL ........................</td>
<td>(57,779)</td>
<td>(155,928)</td>
<td>(795,460)</td>
<td></td>
<td>(909,167)</td>
</tr>
<tr>
<td><strong>31 December 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing loans and advances ............</td>
<td>623,484</td>
<td>18,973,268</td>
<td>21,137,891</td>
<td>431,133</td>
<td>41,165,776</td>
</tr>
<tr>
<td>Non-performing loans and advances .......</td>
<td>39,423</td>
<td>160,327</td>
<td>464,870</td>
<td></td>
<td>664,620</td>
</tr>
<tr>
<td>Total loans and advances ................</td>
<td>662,907</td>
<td>19,133,595</td>
<td>21,602,761</td>
<td>431,133</td>
<td>41,830,396</td>
</tr>
<tr>
<td>Allowance for ECL ........................</td>
<td>(43,078)</td>
<td>(164,257)</td>
<td>(726,170)</td>
<td></td>
<td>(933,505)</td>
</tr>
<tr>
<td>Loans and advances, net ..................</td>
<td>619,829</td>
<td>18,969,338</td>
<td>20,876,591</td>
<td>431,133</td>
<td>40,896,891</td>
</tr>
</tbody>
</table>

The Group’s loans and advances are principally denominated in riyal. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts.

The majority of the loans within the Group’s loans and advances contain terms permitting it to adjust the special commission rate payable by the customer upon any change in the relevant interbank benchmark rate.

**Distribution of loans and advances by maturity**

The table below shows the distribution of the Group’s loans and advances by maturity (based on when they are expected to be recovered or settled) as at 31 December 2020, 2019 and 2018.

<table>
<thead>
<tr>
<th></th>
<th>Within 1 year</th>
<th>Over 1 year</th>
<th>No fixed maturity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit cards</td>
<td>267,471</td>
<td>—</td>
<td>419,905</td>
<td>687,376</td>
</tr>
<tr>
<td>Consumer loans</td>
<td>265,780</td>
<td>26,232,718</td>
<td>—</td>
<td>26,498,498</td>
</tr>
<tr>
<td>Commercial loans</td>
<td>23,790,401</td>
<td>2,613,747</td>
<td>—</td>
<td>26,404,148</td>
</tr>
<tr>
<td>Others</td>
<td>371,189</td>
<td>—</td>
<td>—</td>
<td>371,189</td>
</tr>
</tbody>
</table>
Within 1 year | Over 1 year | No fixed maturity | Total (SAR '000)
---|---|---|---
Credit cards | 273,923 | — | 442,299 | 716,152
Consumer loans | 304,075 | 23,071,723 | — | 23,375,798
Commercial loans | 22,912,197 | 2,248,426 | — | 25,160,623
As at 31 December 2019 | 407,546 | 395,702 | | 619,829
Credit cards | 224,127 | 18,652,267 | — | 18,969,338
Consumer loans | 317,071 | 2,793,823 | | 20,876,591
Commercial loans | 18,082,768 | | — | 431,133
As at 31 December 2018 | 431,133 | — | — | 431,133

Sectorial and geographical breakdowns of loans and advances

The table below shows the sectorial breakdown of the Group’s loans and advances as at 31 December 2020, 2019 and 2018.

<table>
<thead>
<tr>
<th>Sectorial and geographical breakdowns</th>
<th>As at 31 December</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
</tr>
<tr>
<td>Government and quasi Government</td>
<td>3,139,515</td>
<td>1,734,684</td>
<td>727,931</td>
<td></td>
</tr>
<tr>
<td>Banks and other financial institutions</td>
<td>1,854,437</td>
<td>1,554,273</td>
<td>660,567</td>
<td></td>
</tr>
<tr>
<td>Agriculture and fishing</td>
<td>54,742</td>
<td>24,968</td>
<td>37,510</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4,258,676</td>
<td>4,075,869</td>
<td>4,800,641</td>
<td></td>
</tr>
<tr>
<td>Building and construction</td>
<td>644,134</td>
<td>924,382</td>
<td>989,715</td>
<td></td>
</tr>
<tr>
<td>Commerce</td>
<td>10,296,930</td>
<td>9,801,585</td>
<td>8,154,776</td>
<td></td>
</tr>
<tr>
<td>Transportation and communication</td>
<td>136,121</td>
<td>117,932</td>
<td>29,725</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>1,399,363</td>
<td>1,418,106</td>
<td>1,392,504</td>
<td></td>
</tr>
<tr>
<td>Consumer loans and credit cards</td>
<td>27,185,874</td>
<td>24,091,950</td>
<td>19,589,167</td>
<td></td>
</tr>
<tr>
<td>Share trading</td>
<td>1,152,572</td>
<td>1,270,654</td>
<td>1,273,710</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>407,546</td>
<td>395,702</td>
<td>619,829</td>
<td></td>
</tr>
<tr>
<td>Finances and advances, net</td>
<td>53,961,211</td>
<td>49,660,119</td>
<td>40,896,891</td>
<td></td>
</tr>
</tbody>
</table>

The largest portion of the Group’s loans and advances are geared toward the Consumer and Commerce sectors, which together comprised 69.5 per cent. of the Group’s loans and advances as at 31 December 2020, 68.3 per cent. as at 31 December 2019 and 67.8 per cent. as at 31 December 2018.

Capital Adequacy

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

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank’s management. SAMA requires holding the minimum level of regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8 per cent. 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 consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.
The following table summarizes the Group’s Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

<table>
<thead>
<tr>
<th>Eligible capital (SAR '000)</th>
<th>31 December 2020</th>
<th>Capital adequacy ratio (per cent.)</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core capital (Tier 1)</td>
<td>12,159,294</td>
<td>19.41</td>
<td>12,081,624</td>
</tr>
<tr>
<td>Supplementary capital (Tier 2)</td>
<td>2,633,778</td>
<td>-</td>
<td>2,300,699</td>
</tr>
<tr>
<td>Core and Supplementary capital (Tier 1 and Tier 2)</td>
<td>14,793,072</td>
<td>23.62</td>
<td>14,382,323</td>
</tr>
</tbody>
</table>

Common Equity Tier 1 capital of the Bank comprises share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of the SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

For the purpose of calculating risk-weighted assets, the Group uses the standardised approach for credit risk and market risk and the basic indicator approach for operational risk. The Group’s Risk Management Division is responsible for ensuring that the Group’s capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing its capital adequacy position.

The following table shows the Group’s risk-weighted assets as of 31 December 2020 and 31 December 2019:

<table>
<thead>
<tr>
<th>Risk-weighted assets (SAR '000)</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit risk</td>
<td>55,360,267</td>
<td>51,675,067</td>
</tr>
<tr>
<td>Operational risk</td>
<td>5,496,895</td>
<td>5,059,741</td>
</tr>
<tr>
<td>Market risk</td>
<td>1,775,940</td>
<td>1,677,030</td>
</tr>
<tr>
<td>Total pillar I risk-weighted assets</td>
<td>62,633,102</td>
<td>58,411,838</td>
</tr>
</tbody>
</table>

Commitments and Contingent Liabilities

The Group has contingent liabilities in respect of legal proceedings against it (all of which were of a routine nature as at 31 December 2020), capital commitments (which amounted to SAR 88 million as at 31 December 2020), minimum lease payments under non-cancellable operating leases (which amounted to SAR 5 million as at 31 December 2020) and irrevocable credit-related commitments and contingencies, such as acceptances, letters of credit and guarantees issued by it.

The table below shows the Group’s commitments and contingent liabilities as at 31 December 2020, 2019 and 2018.
## Credit quality of financing and advances

The following tables set out information regarding the credit quality of financial assets measured at amortised cost as at 31 December 2020 and 2019. Unless specifically indicated, for financial assets, the amounts in the tables represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the tables represent the amounts committed or guaranteed, respectively.

### Category of exposure

<table>
<thead>
<tr>
<th>Exposure</th>
<th>Exposure</th>
<th>Expected Credit Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stage I</td>
<td>Stage II</td>
</tr>
<tr>
<td>31 December 2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from banks and other financial institutions</td>
<td>279,628</td>
<td>146,181</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>48,741,158</td>
<td>4,292,092</td>
</tr>
<tr>
<td>Debt investment securities at amortized cost</td>
<td>28,340,616</td>
<td>-</td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td>5,537,717</td>
<td>138,446</td>
</tr>
<tr>
<td>Total</td>
<td>82,899,119</td>
<td>4,576,719</td>
</tr>
<tr>
<td>31 December 2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from banks and other financial institutions</td>
<td>1,340,828</td>
<td>89,704</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>43,726,824</td>
<td>3,862,170</td>
</tr>
<tr>
<td>Debt investment securities at amortized cost</td>
<td>27,224,939</td>
<td>-</td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td>4,726,321</td>
<td>166,455</td>
</tr>
<tr>
<td>Total</td>
<td>77,018,912</td>
<td>4,118,329</td>
</tr>
</tbody>
</table>

For further details please refer to Note 30.2 of the 2020 Financial Statements.

## Related-Party Transactions

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the Bank’s senior management and the Banks board of directors (the Board), all related-party transactions are conducted on an arm’s-length basis. The related-party transactions are governed by the limits set by the BCL and the regulations issued by SAMA. Related parties are persons or close members of those persons’ families and their affiliate entities where they have control, joint control or significant influence over those entities. See “Description of the Business of the Bank—Related-Party Transactions” for more details.

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1 Related Parties are parties who are related to the Bank in one of the following ways: A. Substantial Shareholders of the Bank; B. Board members of the Bank or any of its affiliates and their relatives; C. Senior Executives of the Bank or any of its affiliates and their relatives; D. Board members and Senior Executives of Substantial Shareholders of the Bank; E. Entities, other than companies, owned by a Board member or any Senior Executive of the bank or their relatives, or owned by the external auditor of the bank; F. Non-joint stock companies in which a Board member or a Senior Executive of the bank or any of their relatives, or the external auditor of the bank, is a partner; G. Companies in which a Board member or a Senior Executive or any of their relatives owns (5 per cent.) or more, subject to the provisions of paragraph (D) of this definition; I. Companies in which a Board member or a Senior Executive or any of their relatives has influence on their decisions even if only by giving advice or guidance; J. Any person whose advice or guidance influence the decisions of the Bank, the Board and the Senior Executives; K. Holding companies, Subsidiaries or affiliates; and L. External Auditors of the Bank.
The following table sets out the Group’s related-party balances as at 31 December 2020 and 31 December 2019:

<table>
<thead>
<tr>
<th>Subsidiary companies</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>501,480</td>
<td>501,480</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>14,271</td>
<td>20,730</td>
</tr>
<tr>
<td>Due from banks and other financial institutions</td>
<td>698,548</td>
<td>651,371</td>
</tr>
<tr>
<td>Due to banks and other financial institutions</td>
<td>289,148</td>
<td>290,117</td>
</tr>
<tr>
<td>Receivables</td>
<td>155,320</td>
<td>289,590</td>
</tr>
<tr>
<td>Payables</td>
<td>41,055</td>
<td>14,625</td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td>530,247</td>
<td>530,247</td>
</tr>
<tr>
<td>Notional values of outstanding derivative contracts</td>
<td>2,707,585</td>
<td>2,796,949</td>
</tr>
</tbody>
</table>

**Associates and affiliate entities with significant influence:**

| Investments          | 164,136          | 148,332          |
| Customer deposits    | 303,056          | 238,400          |
| Accrued expenses payables | 5,400 | 24,850 |
| Accrued fee receivable | 5,400 | - |
| Advance against sale of investments | - | 22,353 |

**Directors, key management personnel, other major shareholders and their affiliates:**

| Loans and advances | 31,788           | 28,955           |
| Customers’ deposits | 3,488,360        | 4,139,319        |
| Contingencies and commitments | 2,920 | 977 |

**Mutual funds under subsidiary’s management:**

| Investments          | 251,244          | 287,024          |
| Loans and advances   | -                | 418,182          |

* Major shareholders represent shareholdings of more than 5 per cent. of the Bank’s issued share capital.

The following table sets out the income and expenses pertaining to the Group’s transactions with related parties. See Note 35 of the 2020 Financial Statements for more details.

<table>
<thead>
<tr>
<th>For the year ended</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special commission income</td>
<td>57,631</td>
<td>128,861</td>
</tr>
<tr>
<td>Special commission expense</td>
<td>201,357</td>
<td>242,521</td>
</tr>
<tr>
<td>Fees and commission income</td>
<td>6,813</td>
<td>404</td>
</tr>
<tr>
<td>Custody fee</td>
<td>4,846</td>
<td>2,624</td>
</tr>
<tr>
<td>Net share of expenses to associate</td>
<td>5,400</td>
<td>22,850</td>
</tr>
<tr>
<td>Insurance premium paid</td>
<td>49,860</td>
<td>55,032</td>
</tr>
<tr>
<td>Surplus distribution received from associate</td>
<td>957</td>
<td>1,169</td>
</tr>
<tr>
<td>Claims received</td>
<td>25,290</td>
<td>10,729</td>
</tr>
<tr>
<td>Directors’ remuneration</td>
<td>8,014</td>
<td>7,315</td>
</tr>
<tr>
<td>Income under shared service agreements</td>
<td>3,391</td>
<td>3,391</td>
</tr>
<tr>
<td>Reimbursement of expense to a subsidiary</td>
<td>78</td>
<td>117</td>
</tr>
<tr>
<td>Reimbursement of rent expense</td>
<td>7,591</td>
<td>7,983</td>
</tr>
<tr>
<td>Rent expense for branches</td>
<td>704</td>
<td>2,705</td>
</tr>
<tr>
<td>Sale of sukuk to an associate</td>
<td>22,353</td>
<td>99,895</td>
</tr>
<tr>
<td>Participation in DMO sukuk auction for an associate</td>
<td>-</td>
<td>75,552</td>
</tr>
<tr>
<td>Value of reserves and liabilities transferred to ATT for old Insurance portfolio</td>
<td>53,552</td>
<td>-</td>
</tr>
</tbody>
</table>

The total amount of compensation paid to directors and key management personnel during the year is as follows:

<table>
<thead>
<tr>
<th>For the year ended</th>
<th>31 December 2020</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term employee benefits</td>
<td>115,088</td>
<td>104,597</td>
</tr>
<tr>
<td>Termination benefits</td>
<td>38,942</td>
<td>33,416</td>
</tr>
</tbody>
</table>
DESCRIPTION OF THE BUSINESS OF THE GROUP

General Profile of the Group

The Bank is a joint stock company incorporated in the Kingdom of Saudi Arabia and established pursuant to Royal Decree No. 46/M dated Jumada Al-Thani 12, 1395H (or 21 June 1975). The objective of the Group is to provide a full range of Shariah-compliant banking products and services to retail and corporate customers. These products and services include current accounts, savings accounts, Wa’ad foreign exchange, credit cards and various types of financing. The primary Islamic modes used by the Group are: Tawarruq, Murabaha, Ijara, istisna and wakala and Sukuk, all of which are approved and supervised by an independent Shariah committee.

The Group commenced its business on Shawwal 16, 1396H (9 October 1976) with the takeover of the National Bank of Pakistan’s (NBP) branches in the KSA. The Group operates in Saudi Arabia and conducts its business through professional and dedicated staff in its departments and branches. The Group’s ambition is to be an innovative Islamic Bank leveraging digital technologies such as social media, mobile, artificial intelligence and big data analytics.

The Bank operates under commercial registration No. 4030010523 dated Rajab 29, 1396H (27 July 1976) issued in Jeddah. The issued and fully paid up share capital of the Bank amounts to SAR 8.2 billion divided into 820 million shares of SAR 10 each. The Bank’s head office and registered office is at 7724 King Abdulaziz Road - Al-Shatea District Jeddah 23513 – 3551, P.O. Box address 6277, Jeddah 21442, Kingdom of Saudi Arabia, and the switchboard telephone number is +966 9 2000 6666.

The Group provides Shariah-compliant banking products and services. The Group conducts its business through the four primary business lines: personal banking; corporate banking; treasury; and brokerage and asset management. Prior to 2020, the Bank also had a takaful business, which was in run-off mode and was transferred to its associate, ATT, effective on 1 January 2020. See “–Operating Segments”.

As at 31 December 2020, the Bank served around 669,000 customers and 2.5 million FAWRI customers through its branch network of 79 branches and 19 ladies sections, 612 ATMs and 19,300 point-of-sale devices and 62 FAWRI money remittance service centres (with over 400,000 transactions per month) spread across Saudi Arabia.

The following map show the Group’s ATMs across Saudi Arabia:

![Map of ATMs in Saudi Arabia]

The following maps show the Group’s branches across four principal cities in Saudi Arabia:
As at 31 December 2020, the Group employed 2,419 employees throughout the KSA.

The Bank became a public company through its initial public offering in October 1976. Its shareholding as at 31 December 2020 consisted of 80.22 per cent. Saudi public shareholders and 16.08 per cent. non-Saudi public shareholders, with National Bank of Pakistan holding about a 3.7 per cent. stake.

As at 31 December 2020, the Group had customer deposits of SAR 68.0 billion and total assets of SAR 92.1 billion (compared to SAR 62.7 billion and SAR 86.5 billion as at 31 December 2019). The Group’s total equity was SAR 11.4 billion as at 31 December 2020 (compared to SAR 11.6 billion as at 31 December 2019).

In 2020, the Group generated total operating income of SAR 3,287 million (compared to SAR 2,977 million for 2019) and net income after zakat and income tax of SAR 33.8 million (compared to SAR 991.0 million for 2019). NIBs (demand and other deposits) made up about 57.6 per cent. of the Group’s total deposits as at 31 December 2020 (compared to 51.74 per cent. as at 31 December 2019).

As at 31 March 2021, the Group’s tier 1 and tier 2 capital adequacy ratio was 23.36 per cent., compared to 23.62 per cent. as at 31 December 2020, 24.62 per cent. as at 31 December 2019 and 27.48 per cent. as at 31 December 2018 (see “–Capital Adequacy Information”).

As at the date of this Offering Circular, the Bank’s long-term corporate ratings were “BBB+” with a “negative outlook” by Fitch and “Baa1” with a “negative outlook” by Moody’s.

History of the Group

The Group commenced business in 1976 with the takeover of NBP branches in the KSA.

In 1992, BAJ began a restructuring process, with subsequent increases in capital in 1992 and 1994. The increased capital came entirely from the Saudi shareholders, which significantly diluted NBP’s shareholding in the Group. A new management team was appointed in 1993 to continue the restructuring effort. BAJ introduced state-of-the-
art technology, modern banking products and services and revamped its staffing portfolio. As a result, the bank became profitable in 1997.

In 1998, BAJ’s Board took a strategic decision to convert the Group from conventional banking into Shariah-compliant banking. This decision required fundamental changes to how the Group was run, including changes to its infrastructure, offerings, legal environment, staff and corporate values.

To ensure compliance with Shariah principles, BAJ established an Islamic Banking Department within its organisational structure and appointed Dr. Mohammed Al Ghamdi as head. The Bank also formed a Shariah Advisory Board (SAB) composed of a number of Shariah scholars specialised in Islamic banking to screen, monitor and endorse the Group’s operations and spread Shariah principles throughout the Group. The SAB includes Sheikh Abdulla Bin Suleiman Al-Mane’e as the SAB Chairman, Dr. Abdulla Bin Mohammed Al-Mutlaq as the Vice Chairman, and Dr. Mohammed Ali El-Gari, Dr. Hamzah Al Faar and Dr. Abdulsatar Abu-Ghuddah as members. In 2002, the Bank commenced its transformation of its branches to Shariah-compliant banking and by 2003, BAJ had converted all of its branches to operate in accordance with Shariah rules and principles.

In 2002, BAJ introduced Takaful Ta’awuni (TT) as a Shariah-compliant alternative solution for traditional life insurance. TT proved itself as one of the market leaders in providing protection and saving products and grew fast to satisfy clients’ needs but after 2014 and the formation of ATT, TT was in run off mode. On 1 January 2020, the Group transferred its insurance portfolio to ATT, including the transfer of all assets and liabilities related to this business.

In 2006, BAJ launched its programme “Khair Aljazira Le Ahl Aljazira”, with a fund of SAR 100 million in support of BAJ’s social responsibilities toward the community. In order to achieve this programme, BAJ established a Social Responsibility Group and appointed Dr. Fahd Al Elayan as head. Since then, BAJ has implemented a range of activities designed to support the community, including providing financial assistance to various charitable societies, launching apprenticeship programmes to train young Saudi men and women, thereby providing them with working opportunities, and sponsoring programmes to train the handicapped, blind and deaf. Through these and similar programs, BAJ has promoted family welfare by sponsoring a large number of family projects and cultural events. In 2007, BAJ completed its full conversion into a Shariah-compliant institution and increased its paid-up capital to SAR 3 billion, which came entirely from the Group’s profits.

At the end of 2008, BAJ’s management embarked on an ambitious four-year transformation plan called AFAQ2012, the objective of which was to transform the Bank into a “multi-specialist” Shariah-compliant bank by the end of 2012 through a set of identified strategic initiatives and enablers, involving every single business and support line. This has enabled the BAJ to transform from a predominantly brokerage house to a full-fledged bank.

In 2009, the Group doubled the number of its branches from 24 to 48, resulting in attracting new customers and serving the existing ones better through its expansion to new areas throughout the Kingdom. This was followed by two more branches in 2010 and a gradual increase in branches in the subsequent years up to a total of 79 branches as at 31 December 2020. As part of its ATM network re-structuring effort, BAJ relocated some ATMs to other locations in order to offer better service to its customers. The Group also enhanced its delivery channels, including BAJ’s online banking, telephone banking and credit card offerings.

In 2009, BAJ started the implementation process of an ISO certification programme on its operations to ensure adoption of best practices with regard to the services provided to its external and internal clients. Since then, a number of BAJ’s operational areas have received certification.

To better serve its corporate customers, BAJ established corporate banking centres between 2014 and 2018, which serve as corporate regional offices in Riyadh, Jeddah and Dammam to provide a one-stop service with a dedicated team of experts and a full range of products.
BAJ has also invested in its human capital. Through a series of initiatives, BAJ now has an established performance development and review system, key performance indicators for its human resource (HR) function, an HR motivation programme, and structured/specialized training programmes for staff. BAJ maintains an efficient working environment with long-term recruitment and retention programmes, which have helped increase its Saudization factor from 23 per cent. in 1994 to 94 per cent. by the end of 2020.

In April 2017, the CMA approved BAJ’s request to increase its capital from SAR 4,000,000,000 to SAR 5,200,000,000 through issuing three bonus shares for every 10 existing shares. In April 2018, the CMA approved BAJ’s request to increase its capital through a rights issue of SAR 3 billion to increase its capital from SAR 5,200,000,000 to SAR 8,200,000,000. The paid-up capital of the Group has not been increased since 2018.

Competition

The KSA market for financial and banking services is highly competitive. As at the date of this Offering Circular, there were 24 commercial banks operating in Saudi Arabia (comprising 11 Saudi banks and 13 international banks) (see “The Kingdom of Saudi Arabia Banking Sector and Regulations—General”). Both consumer and corporate banking markets in the KSA consist of a range of local and international participant banks. The Bank is a major player in all segments and competition arises across all products and services.

The Group believes that its principal peer Shariah banks are AlRajhi, Alinma and Albilad.

Competitive Strengths

Management believes that the competitive strengths of the Group are as follows:

*Well positioned to capitalise on growth of consumer banking in KSA*

The Bank believes that it is well positioned to capitalise on the growth of consumer banking in the KSA, based on its banking products and services, its distribution capabilities and its brands. According to a market analysis conducted by a Tier-1 consulting firm appointed by the Bank (Consulting Firm), the banking sector in the KSA is estimated to be worth SAR 80 billion in total retail and corporate revenues by 2023 as compared to SAR 72 billion in 2020. Of this amount, retail customer banking is estimated to account for SAR 49 billion of revenues with affluent and high net worth individuals accounting for 60 per cent. of this growth. The Bank AlJazira brand has positioned itself as an affluent bank, as indicated by its requirement to have a SAR 1 million minimum initial deposit amount to open a brokerage account in the late 2000s and reinforced by the brand study commissioned by the Bank in 2016.

The Bank expects retail consumer banking revenues generated by customers to be driven mainly by demand deposits, personal finance and mortgages. These will be met with enhanced digital sales and service capabilities, such as the latest AlJazira Smart App which can cater for the increased demand.

*Strong culture of innovation enabled by targeted marketing*

The Bank considers itself to be one of the leading Shariah-compliant fast-growing financial institutions in Saudi Arabia, providing individuals, businesses and institutions with innovative Shariah-compliant financial services. For example, the Bank was one of the first financial services institutions in the KSA to launch remote account opening and enable Apple Pay on customer phones and watches. The Bank has also established an innovation department which seeks to provide innovative financial products and services through the process of linking and creating partnerships with start-ups and financial technology companies.

The Bank’s strong culture of innovation in its offering of products and services has enabled it to achieve high customer acquisition in the last two years. This culture of innovation is demonstrated in, and enabled by, the Bank’s targeted digital marketing. For example, since 2018, the Group has been recognised by Twitter for its
multiple marketing campaigns on credit cards and personal finance, which have been published as success stories on Twitter’s official website in 2021.

**One of the fastest-growing Shariah-compliant financial institutions in KSA**

The Bank is one of the fastest growing Shariah-compliant financial institutions in the KSA.

The Group’s funding base has also increased over the past three years, in particular due to strong growth in its demand deposits. From 2018 to 2020, the Group’s total deposits increased by a compound annual growth rate of (CAGR) of 14.6 per cent., with demand deposits increasing by a CAGR of 12 per cent. during the same period.

The Group’s asset base continues to show growth, driven largely by the growth in its personal and corporate banking businesses. The Group’s total loans and advances increased by a CAGR of 14.9 per cent. from SAR 40.9 billion as at 31 December 2018 to SAR 54.0 billion as at 31 December 2020. In its personal banking segment, net income increased at a CAGR of 30 per cent. from 2018 to SAR 596.9 million for 2020, gross loans and advances increased at a CAGR of 12 per cent. since 2018 to SAR 27.5 billion as of 31 December 2020, and customers’ deposits increased at a CAGR of 12 per cent. since 2018 to SAR 42.1 billion as of 31 December 2020.

In mortgages, the Group has grown at a CAGR of 21.7 per cent. from 2018 to 2020, while, according to calculation based on published financial statements and data published by SAMA, the mortgage market grew in size by 48 per cent.

In credit cards, the Group’s portfolio increased by a CAGR of 6.5 per cent. from 2018 to 2020, in addition to the increase in the market share to reach 4.1 per cent.

In addition, as part of its growth strategy, the Group has increased its number of branches from 24 in 2009 to reach 79 as at 31 December 2020. The Group’s retail customers increased by a CAGR of 13.6 per cent. from 518,091 in 2018 to 669,000 in 2020.

**Experienced Saudi management team**

The Bank has a strong management team with extensive knowledge of the banking sector in the KSA and the wider Middle East and North Africa (MENA) region and significant experience in leading international financial institutions.

**Large, stable customer base**

From 2018 to 2020, the Group’s total deposits increased by a CAGR of 14.6 per cent., with demand deposits increasing by a CAGR of 12 per cent. during the same period. As at 31 December 2020, the Bank had an existing customer base of 669,000 customers and 2.5 million FAWRI customers. The large customer base provides the Bank with access to a sizeable and stable deposit base with a variety of maturity and re-pricing profiles. The Bank is able to capitalise on this customer base to cross and up-sell products and services across its financing and investment businesses.

**Strong asset base, capitalisation and liquidity position**

The Bank’s tier 1 capital adequacy ratio and total capital adequacy ratio are strong, at 19.48 per cent. and 23.36 per cent., respectively, as at 31 March 2021, which is well in excess of the minimum Pillar 1-based capital ratio requirement of 12.00 per cent. as at 31 March 2021. The strength of its balance sheet and its robust capital and liquidity position give the Group operational and financial flexibility and enable it to optimise its return on equity.
Group Strategy Overview

The Bank’s strategic vision is to be an innovative Islamic bank by leveraging digital technologies such as social media, mobile, artificial intelligence and big data analytics. The Bank seeks to achieve this vision through the following strategic initiatives:

Support the economic development of the KSA and Vision 2030:

The Bank seeks to support the KSA Vision 2030 project through the following actions:

- providing productive and innovative financing products and solutions to the key sectors of the KSA economy, including retail, MSME and other corporate customers. Given the focus of Vision 2030, the Bank expects economic initiatives to focus at least in part on small and medium-sized enterprises, and it believes that it is well-placed to support these businesses through its Shariah-compliant products, including trade financing and cashflow management;

- adopting leading digital technologies to improve the delivery of products and services to its customers and to enhance the overall customer experience. These improvements include automated loan authorisation, enhanced remote access to all banking services, generally faster processing times and voice activated features on the banking application;

- investing in the development of Saudi Arabia’s talent and offering opportunities for Saudis to build a rich and rewarding career in financial services. This includes offering formal training programmes to recent graduates and internships and other experience-gathering programmes; and

- maintaining the Bank’s commitment to serving the social needs of Saudi Arabia through its leading corporate social responsibility programme. Through the programme, the Bank establishes specific partnerships with associations and charities in Saudi Arabia and supports youth education and rehabilitation for people with disabilities.

Accelerate growth in market share, assets and liabilities, net income, return on equity and return on assets:

The Bank will seek to accelerate its growth across its entire business. This includes increasing its domestic market share in the KSA and growing its balance sheet, its net income and its returns on investment. The Bank intends to meet this goal through a number of initiatives, including the following:

- the Bank offers a broad palette of innovative products through personal lending, virtual credit cards, auto-loans and class-leading service levels in order to drive convenience, speed and personalised loyalty as key differentiators;

- the Bank intends to target affluent customers, in particular with regard to personal savings and investments and with mortgages through digitised, simple and convenient mortgage application processes, including pre-approval and easy tracking of the status of an application;

- the Bank seeks to be a market leader in Shariah wealth management. The Bank offers a full suite of wealth management and advisory products and services including treasury and AJC (AlJazira Capital) products (AJC provides brokerage services to wealth management customers), and this offering is underpinned by leading wealth advisory services;

- the Bank plans to scale up its Fawri remittance services through a digital solution, namely a new Fawri mobile app that provides an end-to-end digital remittance process, making it easier for customers to remit funds from wherever they may be, without having to visit a Fawri centre;
the Bank intends to build market-leading MSME digital products and services and to provide its customers with a simple, fast and convenient one-stop shop covering all financial needs;

the Bank plans to provide customers in the mid-corporate sector with a focused offering, including project finance as an anchor product, complemented by sector-specific product bundles and a complete suite of corporate products including digitised trade finance; and

the Bank plans to make increased use of analytics in order to improve its services and drive cross- and up-selling by its branches and relationship managers, including through end-to-end digitised processes.

**Drive digital transformation:**

The Bank seeks to improve its customer experience and develop and improve new distribution channels to reach targeted clients. To achieve this goal, the Bank plans to improve its operations in order to provide greater internal visibility of resources and better flow of data and to engage customers through a customer management programme that provides a single view of a customer’s product holdings and service history. The Bank also seeks to transform its products and services by enabling and supporting “Agile” as a way of working. This allows the Bank to test and release new features in to the market (such as the latest AlJazira Smart application that has improved security and performance) and to empower its employees to drive collaboration and innovation by bringing their ideas to life (such as cash-back on credit cards, online account opening and the online utility payments).

**Group Structure**

The following chart sets out details of the Bank, its subsidiaries and associates as at the date of this Offering Circular. Percentage figures refer to the Bank’s or relevant subsidiary’s effective ownership share.
Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other business lines, and whose operating results are reviewed regularly by the Group’s management.

The Group has the following operating segments, which correspond to the Group’s principal business lines, as described below. Each business line offers distinct products and services and is managed separately from the others, based on the Group’s management and internal reporting structure.

**Personal banking** .......................................................... Offers current, saving and deposit accounts, private banking and wealth management, credit cards, personal and real estate financing, investment products and remittance services

**Corporate banking** .......................................................... Offers Shariah-compliant funding and global transaction and deposit services for institutions,
public sector entities, large corporates, and small and medium enterprises

**Treasury**

Provides money market, foreign exchange and innovative Shariah-compliant structured products and services

**Brokerage and asset management**

Provides services for dealing in securities as principal and agent, underwriting and management services, custody, arrangement and advice.

**Takaful Ta’awuni**

Prior to 2020, the Bank provided protection services and saving products. From 1 January 2020, these services have been provided through its associate, ATT.

In addition to the above, the Bank’s remaining activities are reported in the “Other” segment, which consists primarily of investments in associates (including from 1 January 2020, ATT), inter-segment eliminations and gains/losses on the sale of real estate acquired in satisfaction of claims, if any.

The following tables set out the operating income and net income (before Zakat and income tax) for each of the operating segments as a percentage of the Group’s total operating income and net income (before Zakat and income tax) for the years indicated.

<table>
<thead>
<tr>
<th>For the year ended 31 December 2020</th>
<th>Operating income</th>
<th>Net income/(loss) for the period before Zakat and income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal banking</td>
<td>51.4</td>
<td>1,913.6</td>
</tr>
<tr>
<td>Corporate banking</td>
<td>18.4</td>
<td>(3,445.0)</td>
</tr>
<tr>
<td>Treasury</td>
<td>32.0</td>
<td>2,336.5</td>
</tr>
<tr>
<td>Brokerage and asset management</td>
<td>8.6</td>
<td>459.8</td>
</tr>
<tr>
<td>Others</td>
<td>(10.4)</td>
<td>(1,164.8)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>For the year ended 31 December 2019</th>
<th>Operating income</th>
<th>Net income/(loss) for the period before Zakat and income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal banking</td>
<td>47.1</td>
<td>41.1</td>
</tr>
<tr>
<td>Corporate banking</td>
<td>18.7</td>
<td>14.4</td>
</tr>
<tr>
<td>Treasury</td>
<td>38.2</td>
<td>72.5</td>
</tr>
<tr>
<td>Brokerage and asset management</td>
<td>5.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Takaful Ta’awuni</td>
<td>0.6</td>
<td>-0.8</td>
</tr>
<tr>
<td>Others</td>
<td>(10.3)</td>
<td>(29.8)</td>
</tr>
</tbody>
</table>

**Personal Banking**

**Overview**

The Personal Banking segment provides the Group’s customers with a full range of bank account, credit card, financing and other banking services. The Group categorises its customers as mass banking customers, affluent banking customers, private banking and wealth management customers. Affluent banking customers, private banking and wealth management customers are served through relationship managers, and mass banking is served through the Group’s core distribution channels.

The Group has 79 branches, 612 ATMs and 115 cash deposit machines as of 31 December 2020. The Personal Banking segment also caters to the needs of the KSA’s large expatriate labour market through its growing remittance business (FAWRI centres). All of the Group’s Personal Banking products and services are Shariah-compliant.
Personal Banking is highly competitive in the KSA, with the Group’s main competitors being Albilad, Alinma and the Saudi Investment Bank. The Group seeks to distinguish itself from its competitors through its core innovative products, digital channels and differentiated customer service (Absher be‘ zak Program). As at 31 March 2021, the Bank estimates that its Personal Banking segment had a 3.1 per cent. market share in personal finance, a 4.1 per cent. market share in credit cards and a 4.1 per cent. market share in mortgages in the KSA, based on published interim financial statements and SAMA market data.

Personal Banking has seen substantial growth in the past three years, with net income growing by a CAGR of 30 per cent. since 2018 to SAR 596.9 million for 2020, gross loans and advances growing by a CAGR of 18 per cent. since 2018 to SAR 27.5 billion as of 31 December 2020, and customers’ deposits growing by a CAGR of 12 per cent. since 2018 to SAR 42.1 billion as of 31 December 2020. The contribution of the Personal Banking segment to the Bank’s total operating income has increased over the past three years and, in 2020, the Personal Banking segment accounted for 51 per cent. of the Group’s total operating income.

Further details about BAJ’s personal banking products and services are set out below.

**Accounts**

The Group provides a full range of bank account options and services, including the following:

- **Current accounts**: these are current accounts with no minimum balance required for opening, available in a variety of currencies, with 24/7 service online or through the Aljazira Phone service and ATMs, subject to various daily transfer limits.

- **Savings accounts**: designed to help the Group’s customers achieve their savings goals, these accounts are available for Saudi nationals and residents, without withdrawal or deposit fees, with no minimum amounts required for account opening and Shariah-compliant returns.

- **Private banking and wealth management**: the Bank established a private banking group in 2013 to serve this segment of high-net-worth customers in dedicated VIP centres through personal relationship managers who provide customised service to those special clients. The Group offers a range of Shariah-compliant products and innovative investment products to these customers, as well as individual financing and credit solutions.

- **Aljazira AlMasi and Aljazira AlThahabi**: these are packages for elite customers, offering fast and flexible premium banking and financial services with discounted fees. Aljazira AlMasi and Aljazira AlThahabi customers are served through dedicated relationship managers/officers, and also benefit from priority service in the Group’s branches.

In addition, the Group offers various services that are ancillary to the above, as well as specialised services for persons with disabilities. All of the Group’s current and saving accounts can be opened or updated online.

**Cards**

The Group offers personal and corporate customers a full range of Shariah-compliant credit cards, with loyalty features designed to attract and retain customers (including Ajwaa rewards programme and Mokafaaty programme). The Bank offers the cards through branches, phone banking and online. Both Visa and MasterCard credit cards are offered to cater for different customer needs. The full range of Visa Classic, Platinum, Signature, Infinite, Infinite Privileges, and MasterCard Titanium and World Elite cards, including low-limit credit cards, are available in the Bank. The Group also offers its customers debit cards which can be requested online or through other channels. All of the Group’s cards can be provisioned/registered and used in mobile payment services such as Mada Pay and Apple Pay.
The Group plans to expand its credit card reach and grow its portfolio to 1 million cards with a SAR 1.6 billion balance by 31 December 2025 from 0.9 million cards with a SAR 0.8 billion balance as at 31 December 2020.

**Customer Finance**

The Group’s Customer Finance division offers a broad suite of real estate and personal finance products. The key products offered are residential finance, investment finance and personal loans.

**Real Estate Finance**

The Group provides a Shariah-compliant real estate financing offering through the Group’s in-house mortgage specialists. Products include “Baity”, a specialised residential financing product with down payments ranging from 10 per cent. of the property value, equity release programmes for clients who want to obtain cash by utilising the value of their real estate as collateral and subsidised funding programmes.

The following are the Group’s real estate financing products:

- Self-construction
- Off-Plan
- Buy-out (transfer mortgage finance from other financers to BAJ)
- Ready Unit
- Equity release

The Group is seeking to grow its market share in real estate financing through an emphasis on customer-focused mortgage planning (which involves guiding customers through the mortgage and lending process) and partnerships with property brokers and developers.

The Group’s growth plan in real estate finance is to reach a portfolio of SAR 29.4 billion by 31 December 2025 from SAR 14.6 billion as at 31 December 2020.

**Personal Finance**

The Group provides Shariah-compliant loans through commodity / local shares Murabaha, which generally requires customers to transfer their salary to the Group. These products also include specialised offerings for bankers, and other self-employed professionals like doctors and engineers.

The following are the Group’s personal financing products:

- New finance
- Buyout (transfer the loan from other banks to BAJ)
- Professionals

The Group’s growth plan in personal finance is to reach a portfolio of SAR 20 billion by 31 December 2025 from SAR 12 billion as at 31 December 2020.

**Digital Banking**

The Group offers full digital banking services to its personal banking customers, including online, Apple Watch, Apple Pay, ATMs, telephone banking and other services. The Group conducts approximately 99 per cent. of its
transactions (non-financial and financial transactions) with its personal customers through the following alternative distribution channels: ATMs, telephone and internet banking, mobile phone systems, smartphone and tablet applications. These channels enable the Group to deliver many of its products in a more secure, cost-effective and user-friendly manner, often using the customer’s own hardware.

**Bank Services**

The Group offers a full suite of other banking services personal banking customers, such as safety deposit boxes, credit advisory, bill payment systems and money transfers.

**Investments**

The Group offers its personal banking customers investment services including dealing in securities, underwriting, managing, advisory and custody, through its subsidiary Aljazira Capital. See “—Brokerage and Asset Management (AlJazira Capital)”.

**FAWRI**

The Group provides its personal banking customers FAWRI instant money transfer services on various electronic channels, including ATMs, Aljazira online and Aljazira smart. As at 30 April 2021, the Group had 63 FAWRI remittance centres and conducted 400,000 transactions per month, which the Bank estimates represented a market share of 8 per cent. of the distribution market in the KSA, and served over 2.4 million active FAWRI customers. The FAWRI centres have become a vital channel for customers, particularly expatriate workers, to remit funds overseas, thereby providing financial services to a previously under-served segment.

**Bancassurance**

The Group, through certified insurance specialists in takaful products, provides its personal banking customers with access to protection and savings products through core channels. The insurance plans (Takaful), all of which are Shariah-compliant, include a retirement plan, a higher education plan and a marriage plan for customers to provide for their children’s protection.

**Customer Classification**

The Group’s marketing strategy for retail banking is based on segmentation of the market and matching particular products to the corresponding market segment. In addition to the broad Personal Banking segments described above, the Group classifies its affluent banking customers in Almasi and Althahabi segments and provides Classic offerings to its mass banking segment, as further discussed below.

**Almasi**

For new customers, the initial deposit value should be SAR 800,000 within 30 days of account opening. For existing customers, the average balance maintained over the last three months should be over SAR 400,000.

The main benefits offered to Almasi customers include waiver of fees on most bank services, dedicated relationship manager, priority services in all Bank branches, higher transfer limits on digital channels, specially designed cheques and debit cards and a dedicated toll-free number

**Althahabi**

For new customers, the initial deposit value should be SAR 100,000 within 30 days of account opening. For existing customers, the average balance maintained over the last three months should be over SAR 100,000.
The main benefits offered to Althahabi customers include a 50 per cent. discount on fees on most bank services, priority services in all Bank branches, higher transfer limits on digital channels, specially designed cheques and debit cards and a dedicated toll-free number.

Regular Current Account (Classic)

This product is available to new customers with an initial deposit value of less than SAR 100,000 within 30 days of account opening, and for existing customers, if the average balance maintained over the last three years is less than SAR 100,000.

For such customers, there is no requirement on the minimum balance to be maintained in their account, which can be opened in multiple currencies. The main benefits offered to these customers include 24/7 access to ALJazira Online, ALJazira SMART and phone services, and free debit card and cheque book.

Corporate Banking

Overview

The Corporate Banking segment serves more than 5,000 corporate customers across various sectors in the KSA. The Group offers a wide range of corporate banking services, as well as specialised finance and trade finance. The Group is also active in public sector financing, primarily project finance, and participates in oil, petrochemical, power, mining and water-related projects planned by the Government. The corporate banking products offered by the Group include deposit-taking, overdraft facilities, term loans, participation loans, securitised loans, bills discounting, payroll services, commodity sales, cash management, letters of credit and letters of guarantee. All of the Group’s products are Shariah-compliant.

The Corporate Banking segment is divided into four sub-divisions: Corporate; Specialised Finance; Global Transaction Services; and Commercial Banking Services. The Group classifies its clients mainly by their revenues, with corporate entities with sales of SAR 200 million and above being classified as large corporates and entities with sales below SAR 200 million being classified as small and medium-sized enterprises.

The Corporate Banking segment accounted for 18.4 per cent. of the Group’s total operating income in 2020. The Group has seen strong growth in its corporate banking assets and liabilities over the past three years in a challenging environment, with gross loans and advances growing by a CAGR of 14.5 per cent. since 2018 to SAR 28.3 billion as of 31 December 2020 and customers’ deposits growing by a CAGR of 14 per cent. since 2018 to SAR 23.8 billion as of 31 December 2020. In 2020, the Corporate Banking segment recorded a net loss, primarily due to significantly higher charges for expected credit losses as a result of the COVID-19 pandemic.

The Group aims to be the preferred provider of financial solutions to selected corporate clients. Its strategy for expansion is to provide its corporate clients with the full range of financial products and services and to attract and develop new customer relationships from targeted market segments, as well as enhancing relationships with existing corporate customers. The strategy aims to increase market share by focusing on the three major regions (Central, Western and Eastern) of the KSA. Target customers are determined by the type of company, size of balance sheet, potential fee income and perceived risk.

Corporate

The Corporate Banking segment’s Corporate division is structured around the Central, Western and Eastern regions of the KSA. For each region, the Bank has established a corporate regional division to cater to its corporate customers and enhance its service offering. These divisions act as one-stop shops for corporate clients by offering all relevant services under one roof. The Bank assigns each borrowing corporate client a dedicated corporate banker who advises the client on the full range of banking services that meet its needs. The Corporate division targets large customers and other companies with a minimum credit limit size of SAR 30 million and above (i.e.
investment companies). Customers must also have appropriate business experience and sound credit quality. The division’s services include trade services and finance, cash management, and services for financial institutions.

The Group’s offering for corporate and institutional clients includes a full range of Islamic products and services, including the following:

- **Murabaha** for the funding of purchases of goods, both domestically and from overseas. This product can be used to fund regional and international banking activities, local purchases, personal investments and the purchase of securities.

- **Al-Ijara**, pursuant to which the Group rents high-cost assets to customers, with an option to purchase either during the rental period or at its completion.

- **Al-Mudaraba**, which is a profit partnership agreement between the Group and the customer, whereby the customer manages the business and the Group provides funding in return for a percentage of the profits.

- **“Dinar”**, which is a program that the Group has developed and is a Shariah-compliant alternative to lending, pursuant to which the Group sells a product to the client through delayed payments and the client subsequently instructs the bank to sell the product in the local or international markets at a fair price, with the sales funds being deposited in the customer’s account.

**Specialised Finance**

The Specialised Finance Division (SFD) participates in syndicated deals for large projects, in line with Group’s growth strategy and risk appetite. Despite the challenges experienced during 2020 mainly due to the COVID-19 pandemic, SFD exceeded its budgeted assets and recorded growth of 39 per cent. by participating with other leading banks in mega syndicated deals arranged in favour of corporate and sovereign clients. Going forward, the SFD’s focus is to actively consider playing major roles in future financing opportunities in line with the initiatives of the Kingdom for participation of the private sector in large strategic projects.

**Global Transaction Services**

Global Transaction Services (GTS) provides banking solutions, liquidity services, and commercial and investment transactions to the customers of commercial and financial institutions in all parts of the KSA.

GTS payment solutions cover a complete spectrum of domestic and international transactions which consist of corporate e-banking (E-Corporate) and e-trading (E-Trade) that aims to provide cash management and transaction service in a cost-effective and efficient manner, supported by state-of-the-art technological platforms. Also, among the services provided by GTS is a cash transfer and delivery service.

GTS also provides full support to all products available for corporate clients in coordination with the relevant departments such as point of sales, payment gateway, business credit cards for corporates as well as commercial finance services, such as establishment of local or foreign payment services within a secure environment around the clock. These services are in addition to payroll services and wages protection system (WPS) offered under the name of “Rawatebcom”.

Payroll Services is dedicated to corporate customers in order to simplify payroll administrative activities for their employees. This service is provided with a high level of security to manage payroll data with simplicity, rapidity and convenience.

The Financial Institution unit under GTS manages the Bank’s relationship with domestic and international banks, other financial institutions, as well as supra-national entities. It specialises in understanding regional trade, cash management business needs. The Financial Institution unit has succeeded in managing and developing a rapidly growing global partner bank network to enable BAJ to cater to its core clients’ banking needs around the world.
by enhancing the capabilities of BAJ for meeting customer requirements and facilitating the finance of money remittances and commercial transactions.

In addition, Public Sector is a business unit within GTS that manages Government and quasi-government entities. Its portfolio consists of various sectors such as the power, energy, petrochemical, shipping, transportation and telecommunications sectors. The complex nature and quality of the services required by Public Sector clients necessitates dedicated and well-established specialists to serve their needs. The services provided by the unit cover finance solutions, property finance, banking investment services, project finance, cash management solutions and the latest e-banking technologies.

**Commercial Banking Services**

The Corporate Banking segment also offers a range of commercial banking services to small and medium-sized enterprises, being those with an annual turnover of up to SAR 200 million. The commercial banking group is responsible for developing, marketing and providing Shariah-compliant products and services to these customers. It currently services approximately 3,000 customers. Financing options offered by the group include funded and non-funded facilities, cash management and treasury products and a variety of trade products, such as standby letters of credit, documentary letters of credit and all types of letters of guarantee.

**Treasury**

The Treasury segment is responsible for the funding requirements of the Group’s business activities and for managing the Group’s principal investments. It also provides treasury-related products such as foreign exchange and other derivative and structured products to its customers. All of the group’s products are Shariah-compliant.

The Treasury segment is responsible for managing the liquidity and funding operations of the Group in accordance with pre-determined limits set by the Group’s asset and liability committee (the ALCO) in relation to net outflows, stress scenarios, projected cash flows, and regulatory liquidity ratios. The stability and behaviour of the Group’s deposit base is analysed by the Group’s risk management team using historical data and analysis. The ALCO discusses and considers the results of these analyses, in the context of the Group’s funding limits, potential funding issues and pricing history and mechanics. The Treasury segment is also one of the primary dealers for the Saudi National Debt Management Centre. Further, the Market Risk Policy Committee (the MRPC) is the management committee that monitors and controls Treasury activities. This authority includes the risk market appetite development process which culminates in the approval of the market risk and Treasury related credit limits.

The products that the Treasury segment offers to its customers include: the Thrift Saving Programme, which enables companies to help employees invest; foreign exchange services, including spot transactions and foreign exchange forwards; structured products, which include a range of innovative products for individual and corporate clients; and hedging solutions, which help clients reduce their risk arising from price movements and foreign exchange fluctuations.

The Treasury segment is an independent business directly reporting to the CEO, whereas its back office support and market risk control functions report to the Chief Operating Officer (COO) and the Chief Risk Officer (CRO) respectively.

The Treasury segment accounted for 32.0 per cent. of the Group’s total operating income in 2020. The Group has continued to grow its treasury asset base and its investments, even in an environment of interest rate volatility. Investments are mainly in high quality instruments and sovereign sukuk issued by the Government. Over the past three years, net income in the Treasury segment increased from SAR 793.2 million in 2018 to SAR 813.7 million in 2019, but then dropped to SAR 729 million in 2020. Treasury assets grew by a CAGR of 8.06 per cent. since 2018 to SAR 36.2 billion as of 31 December 2020 and Treasury investments grew by a CAGR of 11.5 per cent. since 2018 to SAR 29.9 billion as of 31 December 2020.
Brokerage and Asset Management (AlJazira Capital)

AJC, the investment arm of BAJ, specialises in securities business and provides brokerage, asset management, investment banking, custody and research services.

AJC’s online trading platform, Tadawulcom, offers online trading for clients across local, regional and international markets. Tadawulcom has enabled AJC to maintain its leading position in the Saudi share trading market.

AJC is a Saudi Closed Joint Stock Company incorporated under Ministerial Resolution No. S/57 dated 20 Safar 1429H (corresponding to 27 February 2008) and, initially, operated under commercial registration number 4030177603 dated 17 Rabi Awal 1429H (corresponding to 25 March 2008). Following the relocation of the Head Office from Jeddah to Riyadh, the commercial registration number of AJC was updated and is now 1010351313 dated 13 Dhul-Qadah 1433H (corresponding to 29 September 2012).

AJC is licensed as a financial services company regulated by the CMA. AJC is engaged in dealing, arranging, managing, advising and carrying out custody activities in accordance with the CMA Resolution no. 2-38-2007 dated 8 Rajab 1428H, corresponding to 22 July 2007 and license number 07076-37.

As part of its brokerage services, AJC offers margin finance to its clients to facilitate their trading requirements. Asset management services include portfolio management on a discretionary and non-discretionary basis and the management of investment funds in conjunction with professional investment advisors. AJC’s investment banking service offerings include equity capital markets, debt capital markets, merger and acquisitions and general corporate advisory.

All products and services offered by AJC are Shariah-compliant.

Brokerage

AJC provides customers with brokerage services in multiple markets, locally, regionally and internationally. The Group has a network of investment centers around the KSA and also operates Tadawulcom, which enables customers to trade online or via mobile device from anywhere at any time.

AJC retained its strong position as a local equity broker in the KSA during 2020, with a market share of 8 per cent. of the total local traded value for the year (Source: Tadawul Member Trading Activity Report for 2020). The Group believes that this success is due a continued focus on strengthening AJC’s retail and institutional brokerage offerings through ongoing digital channel enhancements, combined with its high level of customer service.

The services of the Brokerage business include the following:

Local & International Brokerage

AJC offers its clients brokerage services across a wide range of instruments in various markets, including equities, sukuk and other fixed income, KSA equity swaps, exchange-traded funds and IPOs, as well as trading on “Nomu”, the parallel market established by the Saudi Stock Exchange in 2017, and on Nasdaq, the New York Stock Exchange, the Dubai Financial Market, the Abu Dhabi Securities Market and the Egypt Market. The group has special features for trading of sukuk, including providing data and pricing of sukuk directly online to clients on a single screen and executing orders online or via telephone.

Margin Finance

In order to meet the aspirations of investors, AJC provides fully Shariah-compliant margin finance programs. AJC’s Tamam programme provides margin limits through the sale of Murabaha and leverage of up to 100 per
cent. of the initial value of the customer’s investment. The Alqard Alhassan programme is an intraday programme that allows traders to leverage their trading limits during the trading session.

**Asset Management**

AJC’s asset management business covers a wide variety of asset classes and offers both institutional and individual clients a variety of investment solutions, all of which are Shariah-compliant. As at 31 December 2020, AJC’s Asset Management business managed SAR 10.9 billion in assets, positioning ACJ as a significant asset manager in the KSA. During 2020, AJC received from Refinitiv the **Best International Equities Fund Award** for its International Equities Fund’s performance over both three and five years. Refinitiv also recognised AJC’s Diversified Aggressive Fund performance with its Best Fund award over three years.

Each of the asset classes offered by AJC’s Asset Management business is described further below:

**Mutual Funds**

AJC offers clients a broad assortment of mutual fund investments, including public equity funds, money market funds, funds of funds and real estate funds, including an AlJazira residential projects fund and an Aljazira real estate investment trust. As at 31 December 2020, AJC managed SAR 5.6 billion in mutual funds.

**Non-DPM Agreement**

AJC offers clients a non-discretionary management service, where the investor appoints AJC to act as intermediary to invest in one or more Murabaha transactions. As at 31 December 2020, AJC managed SAR 4.5 billion on this basis.

**Discretionary Portfolio Management Services**

AJC also offers discretionary portfolio management services to customers, in particular institutions and high-net-worth individuals. These services cover both equities and Murabaha portfolios.

**Systematic Investment Plan**

The systematic investment plan offered by ACJ is a Shariah-compliant programme that enables investors to place a standing instruction and transfer a pre-determined amount on a monthly basis to subscribe to AJC’s diverse investment funds.

**Investment Banking**

AJC’s investment banking advisory team provides wide-ranging corporate finance advice and capital raising solutions to corporate clients, including insurance companies, as well as public bodies, banks and financial institutions, family businesses and multilateral institutions.

Most recently, the Investment Banking Services unit participated in the successful underwriting of the rights issue for Zain Saudi Arabia and acted as M&A advisor for Walaa Cooperative Insurance Company and Al-Ahli Insurance Company. Investment Banking Services also acted as advisor on the acquisition by Dallah Healthcare of Kingdom Hospital and as joint lead manager for Saudi Real Estate Refinance Company’s SAR 4 billion sukuk and a USD 2.5 billion sukuk issuance from the KSA Ministry of Finance.

The services of the Investment Banking business cover the following:
Equity Capital Markets

AJC’s equity capital markets team offers services relating to initial public offerings in the Saudi market. These services include conducting an IPO readiness exercise, structuring the IPO and underwriting and advising on the distribution of the securities. The team also advises clients on rights issues and private placements.

Debt Capital Markets

Services offered by AJC’s debt capital markets team include the structuring and execution of issuances of sukuk, asset securitisations and other debt products.

Mergers and Acquisitions

Services offered by the mergers and acquisitions team include strategic advice for acquisitions of minority or majority stakes, conducting company valuations, negotiating the terms of the transaction and other services relating to both private and public mergers and acquisitions.

Wealth Management

AJC’s wealth management business advises institutions and high-net-worth individuals in relation to their investments. The team studies the economic trends of the global markets and offers custom-made investment solutions for its clients.

Financial Institutions

AJC’s financial institutions team provides various securities services to clients that are banks and other financial institutions. These services include settlement and clearing, safe keeping, cash management, custody and fund administration. It also provides institutional brokerage services through its institutional trading desk including swap agreement services and qualifying foreign investors to the Saudi Stock Market.

Insurance

As required by the Insurance Law of Saudi Arabia, the Group spun off its insurance business into ATT a separate, associated entity formed under the new Insurance Law of Saudi Arabia, ATT, which is listed on Tadawul. ATT received its insurance license from SAMA in December 2013 and started writing business from January 2014 onward. As at 31 March 2021, the Group holds a 26.03 per cent. share in ATT.

During 2019, ATT obtained from SAMA no objection to transfer the insurance portfolio through letter dated 26 Rabi’Al-Thani 1441 AH (corresponding to 23 December 2019). The insurance portfolio has been transferred with effect from 1 January 2020 at zero value (no cost to ATT), including the transfer of all assets and liabilities related to this business. ATT is fully liable for all current and future liabilities in connection with insurance business in both policyholder and shareholder accounts.

Islamic Banking

Shariah Committee

The Bank’s Shariah Committee functions as an independent body appointed by the Group’s Board. The Shariah Committee is responsible for ensuring that all activities of the Group and its subsidiaries are compliant with the Islamic Shariah rules. The Shariah Committee consists of prominent scholars in the field of Shariah, Islamic economics and applied aspects of modern Islamic banking and finance. The Shariah Committee held four meetings in 2020 with various BAJ businesses, associates and affiliated companies. In these meetings, Shariah compliance reports and some issues that needed decisions from the committee were reviewed.
**Shariah Group**

The Shariah Group reports directly to the Shariah Committee, and it provides support services through three Divisions:

- Shariah Committee Secretary;
- Shariah Compliance Division; and
- Research and Development Division.

The Shariah Group represents the Shariah Committee within the Bank.

The Shariah Compliance Division within the Shariah Group submits quarterly reports to the Bank’s Shariah Committee. The review of the Group’s transactions is based on the international audit criteria for sample selection.

**Services and Products:** The Shariah Group believes that innovation and development derived from the Islamic Shariah Rules are essential requirements to promote the Islamic banking industry in order to be able to grow, compete and meet the accelerating market requirements. To this end, the group cooperates with business groups within the Group to innovate and develop their tools and services and seeks to automate a number of their processes to facilitate customer transactions and enable them to invest their time in a better manner.

**Governance:** During the year 2020, the Shariah Group developed and approved several regulations, procedures and policies to comply with the requirements of the Shariah governance framework of local banks operating in the KSA as issued by the Saudi Central Bank to enhance Shariah governance, namely:

- Shariah Committee terms of reference;
- Shariah Group policies guide;
- Shariah processes guide;
- Shariah Group Communication and escalation policy,
  - Collaboration with the Governance Group for adjusting the following:
    - the Group’s governance framework;
    - The regulation of the Shariah Committee terms of reference;
- The regulation of the committees affiliated to the Board; and
- To cope with the “Shariah governance framework of local banks operating in the Kingdom as issued by the Central Bank”.

**Research:** The Shariah Group is aware that maintaining the Group’s status as a pioneer bank in the Islamic banking industry requires collection of information and preparation of reports about Islamic banking markets and products, the extent of customers’ satisfaction and aspects of competition, points of strength and weaknesses and customers’ expectations. In 2020, the Research and Development Division of the Shariah Group continued to collect and analyse data and information and prepared various reports, particularly on Islamic finance in the Kingdom of Saudi Arabia, including:

- Islamic banking in the Saudi market,
- Insurance industry in the Saudi market,
• Sukuk market in the Kingdom of Saudi Arabia, and

• COVID-19 impacts on the financial sector in the Kingdom of Saudi Arabia.

In addition to the above, the Research and Development Division in 2020 coordinated a study entitled “Bank Aljazira experience in transforming to Islamic finance”, which highlights the transformation experience of the Bank from a traditional bank to a Shariah-compliant bank.

**Learning and Training:** The Group considers its employees to be its most valuable assets and most important tools for conducting its business. On this basis, the Shariah Group focuses on the development of employees’ skills in the Islamic Banking industry in collaboration with the Human Resources Group.

**Publication of Books and Scientific Research Papers:** The Shariah Group has adopted a plan to spread knowledge through publishing and distribution of books and academic research papers with a focus on financial aspects, particularly Islamic finance issues. These books and papers are distributed to students and educational and financial institutions free of charge.

**Support to Islamic Financial Industry:** The Bank, through its Shariah Group, supports the infrastructure organisations of the Islamic financial industry, including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the General Council for Islamic Banks and Financial Institutions (CIBAFI) and the Islamic Financial Services Board (IFSB). The Bank sponsored the printing of Shariah standards. The Bank’s activities in this regard are based on the Bank’s belief in the importance of supporting such institutions to enable them to develop the Islamic financial industry and achieve standardisation across the industry. The Bank believes that the efforts of its Shariah Group have reflected positively on how the community and customers perceived the Bank and have enhanced the level of confidence in the Bank as an Islamic institution and contributed to the Bank’s winning of awards in the Islamic financial services domain.

The Shariah Group works with various banks’ departments to perform tasks in support of the Group’s objectives and plans to expand and increase the services and products provided to the Group’s customers. Keeping in mind customer and shareholder satisfaction and expectations, the Shariah Group focuses on the Shariah quality control of BAJ services and products by conducting an intensive review and audit of the Group’s transactions to ensure all activities of the Bank and its subsidiaries are compliant with the Islamic Shariah rules.

**Internal Audit**

The Bank has an independent internal audit function (the Internal Audit Group), which reports directly to the audit committee of the Board (the Audit Committee) and which reviews the Group’s activities and performs an internal independent audit and control review function for the Group, covering all businesses and functions. The Internal Audit Group uses standardised internal audit methodologies in providing confirmations and an independent opinion in relation to its assessment of risks and internal control systems including the submission of recommendations and follow-ups to optimise the efficacy of the Group’s internal control systems and enhance awareness of their efficiency and importance.

The Chief Audit Executive manages the Internal Audit Group and the Audit Committee has an oversight responsibility for ensuring that the group’s objectives are achieved. The Internal Audit Group pursues a risk-based approach in the planning and execution of audit evaluation engagements on risk-based prioritisation. The scope of internal audit encompasses all aspects of internal systems, governance and risk management systems. The Internal Audit Group provides an independent and objective evaluation assurance of risk and control activity for senior management and furnishes them with recommendation and information concerning activities reviewed.

The Internal Audit Group maintains a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity. The Internal Audit Group is also subject to an External Quality Assessment (EQA) to evaluate the internal audit activities conformance with the standards of the Institution of Internal Auditors of Saudi Arabia, conducted by a qualified independent assessment team at least once every five years.
Compliance

SAMA requires every bank licensed in the KSA to appoint a designated compliance officer. The Group has developed its own compliance policies and procedures and its own compliance function in its Compliance Division. The Group defines compliance risks as risks that result in or lead to penalties, statutory procedures, significant financial losses, or damage the Bank’s reputation as a result of its failure to adhere to regulatory instructions, regulatory standards of the Bank, and ethical rules applicable to banking activities.

Investments

The Group’s investment strategy focuses on: (i) the allocation of risk to maximise return; (ii) the preservation of capital in the overall portfolio; (iii) investments that diversify and mitigate risk; (iv) the protection of the Group’s earnings from adverse movements in profit rates (including through hedging strategies) and positioning the portfolio to maximise potential market gains; and (v) structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands. The investments are evaluated on a monthly basis. The Group’s investments consist primarily of fixed-rate sukuk investments, Wakala floating rate notes and floating-rate sukuk, the significant majority of which are issued by the Government or other sovereign and quasi-sovereign entities. See Note 6 of the 2020 Financial Statements for more details regarding the Group’s investments.

The Group’s investments are classified as FVIS investments, FVOCI investments or as investments held at amortised cost in accordance with the Group’s accounting policies, which are in line with IFRS 9.

Held as FVIS

The following table shows the breakdown of the Group’s FVIS investments as at 31 December 2020 and 31 December 2019:

<table>
<thead>
<tr>
<th></th>
<th>Domestic 31 December 2020 (SAR '000)</th>
<th>Domestic 31 December 2019 (SAR '000)</th>
<th>International 31 December 2020 (SAR '000)</th>
<th>International 31 December 2019 (SAR '000)</th>
<th>Total 31 December 2020 (SAR '000)</th>
<th>Total 31 December 2019 (SAR '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FVIS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>443,104</td>
<td>287,024</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>193,324</td>
<td>200,182</td>
<td>249,020</td>
<td>86,842</td>
<td>442,344</td>
<td>287,024</td>
</tr>
<tr>
<td>Equities</td>
<td>760</td>
<td>-</td>
<td>-</td>
<td>760</td>
<td>760</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>194,084</td>
<td>200,182</td>
<td>249,020</td>
<td>86,842</td>
<td>443,104</td>
<td>287,024</td>
</tr>
</tbody>
</table>

Mutual funds domiciled in the KSA with underlying investments outside the KSA are classified under the International category.

Held at FVOCI

The following table shows the breakdown of the Group’s domestic and internationally held FVOCI investments as at 31 December 2020 and 31 December 2019:

<table>
<thead>
<tr>
<th></th>
<th>Domestic 31 December 2020 (SAR '000)</th>
<th>Domestic 31 December 2019 (SAR '000)</th>
<th>International 31 December 2020 (SAR '000)</th>
<th>International 31 December 2019 (SAR '000)</th>
<th>Total 31 December 2020 (SAR '000)</th>
<th>Total 31 December 2019 (SAR '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FVOCI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,932</td>
<td>4,880</td>
</tr>
<tr>
<td>Equities</td>
<td>4,143</td>
<td>4,143</td>
<td>789</td>
<td>737</td>
<td>4,932</td>
<td>4,880</td>
</tr>
<tr>
<td>Sukuk investments</td>
<td>1,113,319</td>
<td>101,921</td>
<td>--</td>
<td>--</td>
<td>1,113,319</td>
<td>101,921</td>
</tr>
<tr>
<td>Total</td>
<td>1,117,462</td>
<td>106,064</td>
<td>789</td>
<td>737</td>
<td>1,118,251</td>
<td>106,801</td>
</tr>
</tbody>
</table>

Held at Amortized Cost

The following table shows the breakdown of the Group’s domestic and internationally held at amortized cost investments as at 31 December 2020 and 31 December 2019:
Awards

The Group has achieved numerous awards, classifications and recognitions over the years, including the following:

- Best Life Takaful Provider – Saudi Arabia – Awarded to BAJ by Global Banking & Finance Awards for 2020 and 2021
- Best Takaful insurance operator Saudi Arabia – Awarded to BAJ by Global Banking & Finance Review Awards for 2015, 2016, 2019 and 2020
- Best Takaful Operator Saudi Arabia – International Business Awards 2021
- Excellence in Corporate Governance Index for Financial Sector Institutions– Awarded to BAJ by Alfaisal University Corporate Governance Center – for 2020 and 2019
- Accreditation Certificate as “Approved Employer” status from the British Association of Chartered Certified Accountants (ACCA) for 2020
- Contact Center Awards – Gold Medals and 1st Rank for Best Contact Center and Best Customer Service in Europe Middle East and Africa for 2020
- In recognition of its efforts in developing and educating its staff – Awarded to BAJ by IOF (Institute of Finance formerly known as Institute of Banking) 2019
- Change Leaders Award for the Private Sector – Awarded to BAJ during the 10th Business Management Forum 2019
- Best Takaful Operator Saudi Arabia –Global Banking and Finance Review Awards 2019
- Contact Center World Awards – Gold Medal and 1st rank in three Categories, Best Contact Center, Best in Customer Service and Best Branch Support Categories in Europe Middle East and Africa 2019
- Most Innovative Islamic Bank – Saudi Arabia 2019, awarded to BAJ by International Finance Magazine
- Best Credit Card Offerings – Saudi Arabia 2019, Awarded to BAJ by Global Business Outlook Magazine
- Most Innovative E-Banking Platform – Saudi Arabia 2019, Awarded to BAJ by Global Business Outlook Magazine
- Contact Center World Awards – Gold Medal and 1st Rank for Best Contact Center and Best in Customer Service in the World 2019 – Awarded to BAJ by Contact Center World
- Excellence Award in Syndicated Financing – Awarded to BAJ by International Islamic Trade Finance Corporation (ITFC) - 2018
• Top CEO in GCC 2018 – Awarded to BAJ by Trends Magazine and INSEAD Business School

• Princess Sitah bin Abdulaziz for Excellence in Social Work National Achievement Award – Awarded to BAJ by His Highness Prince Fahd bin Abdullah bin Saud Al Kabeer and the Ministry of Labor and Social Development -2018
RISK MANAGEMENT

In line with other financial institutions, a wide range of financial and other risks are inherent in the Group’s business and in the normal course of its operations. The efficient and timely management of such risks is critical to the Group’s financial soundness and profitability. Risk management involves identifying, measuring, monitoring and managing risks on a regular basis and ensuring that risks are managed in a structured and systematic manner through a risk policy that is embedded into the operations and the culture of the Group.

The Group manages the risks facing its business principally through its Board and certain of its committees (being the Executive Committee, the Risk Committee and the Audit Committee (see “Management and Employees–Board Committees”)). The Board is responsible for the overall risk management approach and for approving the risk management strategies and principles implemented in the Group. The Board has also established a Board Risk Committee (the BRC) which is responsible for monitoring the overall risk process within the Group. The BRC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. In addition, the BRC is also responsible for supervising risk management decisions, monitoring risk levels and reviewing risk management reports and dashboards on a regular basis. BRC is mandated to escalate any risk management issue to the Board which it considers warrants attention of the Board. In addition, at the management level, risks are managed through the Management Risk Committee, which is responsible for overseeing the risks in the Group’s businesses and making sure necessary controls are in place.

There are four main risk categories to which the Group is exposed: credit risk, market risk, liquidity risk and operational risk.

Credit Risk

Credit Risk is the risk that one party to a financial instrument will fail to discharge an obligation on maturity, or in a timely manner, and as a result cause the other party to incur a financial loss. The Group’s credit exposures arise principally in its lending activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration risk may also arise as a result of large exposures to individuals or a group of related counterparties. Concentrations of credit risk indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographical location.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group’s risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Further, actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, members of the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group’s credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group also assesses counterparties using the same techniques as for its lending activities.

Along with taking security when appropriate, the Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. The Group also seeks to obtain additional collateral from the relevant counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.
For further information, please see Note 30 to the 2020 Financial Statements.

**Market Risk**

Market risk is the risk that the Group’s earnings or capital, or its ability to meet business targets, will be adversely affected by fluctuations or volatility in market variables such as equity prices, profit rate, foreign exchange rates, special commission rates, credit spreads and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board also approves market risk appetite for trading and non-trading activities. As delegated by the Board, the Market Risk Policy Committee (MRPC) is responsible for the policies, limits and controls used in managing market risks. The Group has an approved Market Risk Policy and Treasury Limits Package that clearly defines policies, procedures, and limits of market risk exposures. Daily reporting allows the Group to monitor its market risk exposures against agreed limits, which is reviewed by the Treasurer and Chief Risk Officer. The Board has also set limits for the acceptable level of risks in managing trading books. In order to manage this risk, the Group periodically applies a Value at Risk methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

The Group also performs stress testing to further evaluate potential losses. By evaluating the size of the unexpected loss, the Group is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal market conditions using multiple scenarios and undertaking the appropriate measures. These scenarios are then updated and may be redefined on an ongoing basis.

For further information, please see Note 33 to the 2020 Financial Statements.

**Liquidity Risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manage assets with liquidity in mind, maintain an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the applicable law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7 per cent. of total demand deposits and 4 per cent. of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20 per cent. of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 89.48 per cent. of the value of debt securities issued by the government (Ministry of Finance), SAMA or guaranteed by government.

The liquidity position is assessed and managed under a variety of scenarios which include:

- maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- managing short term and long term cash flows through a mismatch report and various indicators;
- monitoring depositor concentration at the Bank level to avoid undue reliance on large fund providers;
• diversifying funding sources to ensure a proper funding mix which is also considered as part of the Contingency Funding Plan and tested on a regular basis; and

• conducting regular liquidity stress testing under various scenarios as part of prudent liquidity planning to examine the effectiveness and robustness of the liquidity. Each scenario gives due consideration to stress factors relating to both the market in general and specifically to the Bank. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposit liabilities include both customers and banks, excluding non-resident bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio.

**Maturity analysis of assets and liabilities**

The tables below show an analysis of the Group’s assets and liabilities as at 31 December 2020, analysed according to when such assets or liabilities are expected to be recovered or settled (see also “Selected Financial Information”):

<table>
<thead>
<tr>
<th>31 December 2020</th>
<th>Within 3 months</th>
<th>3 – 12 months</th>
<th>1 – 5 years</th>
<th>Over 5 years</th>
<th>No fixed maturity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
<td>(SAR '000)</td>
</tr>
<tr>
<td>Cash and balances with SAMA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cash in hand</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,122,892</td>
<td>1,122,892</td>
</tr>
<tr>
<td>- Balances with SAMA</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>4,125,402</td>
<td>4,125,402</td>
</tr>
<tr>
<td>Due from banks and other financial institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Current accounts</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>426,138</td>
<td>426,138</td>
</tr>
<tr>
<td>- Money market placements</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Investments, net</td>
<td>—</td>
<td>10,270</td>
<td>549,689</td>
<td>553,360</td>
<td>4,932</td>
<td>1,118,251</td>
</tr>
<tr>
<td>- Held at FVOCI</td>
<td>—</td>
<td>521,616</td>
<td>12,369,151</td>
<td>15,443,351</td>
<td>—</td>
<td>28,334,118</td>
</tr>
<tr>
<td>Positive fair value of derivatives</td>
<td>5,039</td>
<td>11,841</td>
<td>5,478</td>
<td>—</td>
<td>—</td>
<td>22,580</td>
</tr>
<tr>
<td>- Held for cash flow hedges</td>
<td>—</td>
<td>8,216</td>
<td>99,389</td>
<td>—</td>
<td>—</td>
<td>112,644</td>
</tr>
<tr>
<td>Loans and advances, net</td>
<td>267,471</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>419,905</td>
<td>687,376</td>
</tr>
<tr>
<td>- Credit Card</td>
<td>93,132</td>
<td>172,648</td>
<td>12,216,793</td>
<td>14,015,925</td>
<td>—</td>
<td>26,498,498</td>
</tr>
<tr>
<td>- Consumer loans</td>
<td>14,511,161</td>
<td>9,279,240</td>
<td>1,033,524</td>
<td>1,580,223</td>
<td>—</td>
<td>26,404,148</td>
</tr>
<tr>
<td>Investments in an associate, net</td>
<td>—</td>
<td>371,189</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>371,189</td>
</tr>
<tr>
<td>Other real estate, net</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>164,136</td>
<td>164,136</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>—</td>
<td>64,184</td>
<td>62,627</td>
<td>—</td>
<td>—</td>
<td>126,811</td>
</tr>
<tr>
<td>Other assets</td>
<td>—</td>
<td>1,155,609</td>
<td>—</td>
<td>—</td>
<td>501,557</td>
<td>1,657,166</td>
</tr>
<tr>
<td>Total assets</td>
<td>14,946,248</td>
<td>10,429,431</td>
<td>26,182,851</td>
<td>31,692,248</td>
<td>8,838,096</td>
<td>92,088,874</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to banks and other financial institutions:</td>
</tr>
<tr>
<td>- Current accounts</td>
</tr>
<tr>
<td>- Money market deposits</td>
</tr>
<tr>
<td>- Repo agreements borrowing</td>
</tr>
<tr>
<td>Customers’ deposits</td>
</tr>
<tr>
<td>- Demands</td>
</tr>
<tr>
<td>- Savings</td>
</tr>
<tr>
<td>- Time</td>
</tr>
<tr>
<td>- Others</td>
</tr>
</tbody>
</table>
Within 3 months 3 – 12 months 1 – 5 years Over 5 years No fixed maturity Total

(SAR '000)

Negative fair value of derivatives, net
- Held for trading........... 1,552 11,841 5,479 — — 18,872
- Held as cash flow hedges ....................... 18,463 — 78,921 — 187,239 — 284,623
Subordinated Sukuk ........ 36,520 — 4,633 — 2,000,000 — 2,004,633
Other liabilities ............. — 162,585 470,050 — 59,093 1,154,191 1,882,439
Total liabilities ............ 5,574,149 21,949,028 9,874,755 2,535,003 40,791,440 80,724,375

For further information in relation to the Group’s balance sheet maturity profile, see Note 33 to the 2020 Financial Statements.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems or from external events. Operational risks are associated with the activities of all banking and financial institutions and are inherent in all the Group’s operations. Major sources of operational risks include flaws and gaps in business processes, breakdown of systems and technological infrastructures, negative human actions and behaviours, legal risk, adverse exposure caused by interaction with external parties and entities, including the harmful impact of social and environmental changes.

The Group has established an Operational Risk Framework, which is designed to establish an effective association between risk management and the risk owners represented by various businesses and support groups within the Group. The relevant businesses and support groups are responsible for managing their own activities and risks, however, the Group has also established processes to involve the Operational Risk Management Division (ORMD) to facilitate risk identification, measurement, assessment and control.

The Group assesses risks and categorises them into levels of significance in consultation with the relevant businesses and support groups to draw their attention to risks that require management consideration. In addition, the Group invests in risk management and mitigation strategies, including a robust control infrastructure, key risk indicators, anti-fraud management programmes and risk transfer mechanisms such as insurance and outsourcing. The Group’s approach to operational risk management includes, among other things, establishing a risk awareness culture within the Group, assessing the various risks faced by each entity from external and internal sources, identifying inherent risks and implementing the development of processes, systems and data management capabilities and reviewing the progress of all action plans across the Group.
MANAGEMENT AND EMPLOYEES

The Bank’s Board is its principal decision-making body and has overall responsibility for the management and strategy of the Bank. In accordance with the KSA Companies Law and the Bank’s Bylaws, the Bank’s Board comprises nine members.

Except for matters reserved to the shareholders pursuant to the Bank’s Bylaws or the law, the Board is vested with full powers to manage the business of the Bank and to supervise its affairs. The Board, in discharge of its duties, exercises all such powers and performs all such acts which are consistent with the Bank’s Bylaws. The Board is responsible for setting the goals, strategies and policies of the Bank. The Board monitors the performance of the Bank’s businesses and guides and supervises the Bank’s executive management.

The members of the Board and the Bank’s executive management team have extensive knowledge of the banking sector in the Kingdom of Saudi Arabia and the wider MENA region and many have significant experience in leading financial institutions.

Board of Directors

The following table sets out the names, titles and date of first appointment of the members of the Board as at the date of this Offering Circular.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Board member since</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tarek Othman Al-Kasabi</td>
<td>Chairman – Non-Executive</td>
<td>January 1998</td>
</tr>
<tr>
<td>Abdulmajeed Ibrahim Al-Sultan</td>
<td>Deputy Chairman – Non-Executive</td>
<td>January 2004</td>
</tr>
<tr>
<td>Ibrahim Abdulaziz Al-Shaia</td>
<td>Member – Independent</td>
<td>January 2016</td>
</tr>
<tr>
<td>Abdullah Saleh Al-Rasheed</td>
<td>Member – Independent</td>
<td>January 2016</td>
</tr>
<tr>
<td>Khalifa Abdulatif Al-Mulhem*</td>
<td>Member – Independent</td>
<td>June 2020</td>
</tr>
<tr>
<td>Ibrahim Abdullah Al-Hedaithy</td>
<td>Member – Non-Executive</td>
<td>January 2019</td>
</tr>
<tr>
<td>Adil Saud Dahlawi</td>
<td>Member – Independent</td>
<td>January 2019</td>
</tr>
<tr>
<td>Turki Abdullah Al-Fozan</td>
<td>Member – Non-Executive</td>
<td>January 2019</td>
</tr>
<tr>
<td>Naif A. Al-AbdulKareem</td>
<td>Member – Executive</td>
<td>January 2021</td>
</tr>
</tbody>
</table>

* Mr. Al-Mulhem also acted as a member of the Board from 2007 until 2018.

The business address of each of the directors is Bank Al Jazira, 7724 King Abdulaziz Road, Al-Shatea District, P.O. Box address 6277, Jeddah 21442, Kingdom of Saudi Arabia.

Tarek Othman Al-Kasabi

Mr. Al-Kasabi has been Chairman of the Board since January 2016. He obtained his bachelor’s degree in Civil Engineering from King Saud University, Riyadh in 1976 and has over 25 years of experience in the financial, investment, health, industrial and construction sectors.
He also holds various positions outside the Board, including being the Chairman of the Board of Directors of each of Dallah Health Care Company, Ataa Educational Company, Rozam Investment Company, Technical Technology Localization Company, and a member of the Board of Directors of each of Al-Balad Al-Amin Urban Development Company, Dahiat Sumou Company, Kingdom University - Kingdom of Bahrain and RZM Gayrimenkul Anonim Sirketi (Turkey). He has also held a number of previous positions within the Group including previously acting as the Chairman of the Board of Directors of AJazira Capital.

He was also the Chairman of the Board of Directors of Sarab Real Estate Investment Company and the Vice Chairman of Asser Trading and Tourism and Manufacturing Company.

**Abdulmajeed Ibrahim Al-Sultan**

Mr. Al-Sultan graduated from the King Saud University, Riyadh in 1989 and holds a Bachelor of Engineering degree. He has been a member of the Board since January 2004 and is Chairman of the Board of Directors at AJazira Takaful and Royal and Sun Alliance Insurance Company (Egypt). He was a member of the Board of Directors of Qassim Cement Company from 1998 till 2018, and has also been a member of the Board of Directors of Consolidated Brothers for Development Co. since 1993.

**Ibrahim Abdulaziz Al-Shaia**

Mr. Al-Shaia has been a member of the Board since January 2016 and holds a master’s degree in Professional Accounting from the University of Queensland for Technology, Australia. He has gained a wide range of experience in financial and investment institutions in the accounting and auditing fields, and is a member of the Bank’s Executive and Risk Committees and the Chair of the Bank’s Nomination and Remuneration Committee. He also holds a managerial position within the General Organisation for Social Insurance (GOSI). Prior to joining the Bank, Mr. Al-Shaia was the Financial Auditor at Al Rashid Accountants from 2002 to 2004, a member of the Audit Committee at Saudi Insurance Company from 2010 to 2013, a Director at the Safwa Cement Company and the Head of the Budget Department at GOSI from 2011 to 2015.

**Abdullah Saleh Al-Rasheed**

Mr. Al-Rasheed has been a member of the Board since January 2016, Mr. Al-Rasheed holds a Bachelor of Management degree from the King Saud University, Riyadh. He has also held several posts and board memberships since 2015 including in Adae Financial and Management Consulting Company as CEO, constituent partner and a member of the Board of Directors and a member of the Board of Directors for Mahara Human Resource Company.

Mr. Al-Rasheed was also Deputy Chief of Finance and member of the Board of Directors of Abdullah Al Othaim Markets Company from 2006 to 2008 and Deputy Chief Executive Officer at Khalid Al Baltan Group Company from 2008 to 2014.

**Khalifa Abdulatif Al-Mulhem**

Mr. Al-Mulhem holds a bachelor’s degree in Business Administration from the University of Colorado, United States of America. He has been a member of the Board since June 2020 and had also previously been a member of the Board from 2007 until 2018. He is Chairman of the Board of Directors of Advanced Petrochemical Company, a member of the Board of Directors of National Shipping Company since 2017, a member of the Board of Directors of Saudi United Cooperative Insurance Co. (Wala’a) since 2019, a member of the Board of Directors of White Cement Factory since 1995, a member of the Board of Directors of IGI Company, Jordan and Chairman of the Board of Directors of AJazira Support Services Company 2013.
**Ibrahim Abdullah Al-Hedaithy**

Mr. Al-Hedaithy holds a bachelor’s degree in Accounting from King Saud University, Riyadh, 1983. He became a member of the Board in January 2019. He has been the CEO of Middle East Financial Investment Company (MEFIC) since 2019, and was the Managing Director of (MEFIC) from 2009 – 2018.

He has wide experience within the GCC Council where he has held positions such as Deputy General Secretary for Financial & Investment Affairs from 2002 to 2009, Director of Investment from 1995 to 2002 and Financial Controller from 1989 to 1995.

**Adil Saud Dahlawi**

Mr. Dahlawi holds a bachelor’s degree in Applied Medical Sciences with specialisation in Biomedical Technology, from King Saud University, Riyadh. He became a member of the Board in January 2019 and also acts as the Chair of the Audit Committee. He has been the Managing Director of Dallah AlBarakah Holding Company since 2020 and is a member of the Board of Directors of Dallah Healthcare Company since 2019.

Prior to that, he held various management positions within different banks and investment companies, such as Managing Director and CEO of Itqan Capital Company from 2011 to 2017, Chief Investment Officer, Dallah Al Barakah Holding Company from 2006 to 2011, Team Leader, Corporate & Investment Banking SAMBA Financial Group from 2002 to 2006 and Relationship Officer, Corporate Banking, Banque Saudi Fransi from 1994 to 2002.

**Turki Abdullah Al-Fozan**

Mr. Al-Fozan holds a bachelor’s degree in Business Administration (Accounting), from King Fahad University of Petroleum and Minerals, Dhahran (2003). He has been a member of the Board from January 2019 and also acts as a member of the Board Risk Committee.

Mr. Al-Fozan has wide experience in the banking and investment sector. He has been the Head of the Real-Estate Investment Department of Middle East Financial Investment Company since 2012. Prior to that, he was Deputy Head of Mutual Funds at Rana Investment Company from 2009 to 2011, Director of Mutual Funds at Alinma Investment from 2007 to 2009, Assistant Head of Mutual Funds at Bank Al-Bilad from 2006 to 2007 and Head of Mutual Funds Operations at SAMBA Financial Group from 2004 to 2005.

**Naif A. Al-AbdulKareem**

Mr. Al-AbdulKareem holds a master’s degree in Business Administration from the University of Illinois, United States of America. He has been a Member of the Board since January 2021 and is also as a member of the Executive Committee. He has nearly 21 years’ experience in the banking sector.

Mr. Al-Abdulkareem has held several key leadership positions including the Deputy Managing Director of Personal Banking and Wealth Management at Saudi British Bank (SABB), a member of the Board of Directors and the Executive Committee of Sanid and SABB Takaful, a member of the Board of Directors of Saudi Credit Bureau and HSBC Saudi Arabia, and Chairman of the Board Of Directors of SABB Insurance Agency.

**Executive Management**

The following table sets out the names of the members of the Bank’s executive management as at the date of this Offering Circular.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Naif A. Al-Abdulkareem  Chief Executive Officer and Managing Director
Ahmed S. Al-Hassan  Senior Vice President and Chief Operating Officer
Khalid Al-Othman  Senior Vice President and Head of Retail Banking Group
Hamad A. Al-Ajaji  Senior Vice President and Head of Private Banking and Wealth Management Group
Osama K. Al-Ibrahim  Senior Vice President and Chief Risk Officer
Khalid O. Al-Mogrin  Senior Vice President and Head of Legal Group
Dr. Fahad A. Al-Elayan  Senior Vice President and Head of Shariah and Social Responsibility Group
Abdulaziz Al-Zammam  Senior Vice President and Chief Internal Audit Executive
Hamad I. Al-Essa  Senior Vice President and Chief Compliance and AML Officer
Faisal M. Al-Mansour  Senior Vice President and Head of Human Capital Group
Hani S. Noori  Vice President and Acting Chief Financial Officer
Nahim Bassa  Vice President and Acting Head of Strategy and Digital Transformation Group
Hani A. Araki  Vice President and Acting Head of Treasury Group
Sultan Al Qahtani  Vice President and Acting Board Secretary & Head of Corporate Governance Group
Sami J. Al-Mehaid  Senior Vice President and Head of Corporate and Institutional Banking Group

The business address of each member of the Bank’s executive management is Bank Al Jazira, 7724 King Abdulaziz Road, Al-Shatea District, P.O. Box address 6277, Jeddah 21442, Kingdom of Saudi Arabia.

**Naif A. Al-Abdulkareem**

Mr. Al-Abdulkareem has been the Bank’s Chief Executive Officer and Managing Director since November 2020. Please see above for further information in respect of Mr. Al-Abdulkareem.

**Ahmed S. Al-Hassan**

Mr. Al-Hassan has been the Bank’s Chief Operating Officer since 2017. He holds a bachelor’s degree in Computer Sciences from King Saud University, Riyadh (2002). Prior to this current role he was the Head of the Bank’s IT Group from June 2011 to 2017. And prior to joining the Bank he was the Head of Banking Channels Development at SABB from 2009 – 2011, IT Manager at SADAD from 2005 – 2009 and Systems Analyst at SAMA from 2002 – 2005.
Khalid Al-Othman

Mr. Al-Othman has been the Head of the Bank’s Retail Banking Group since April 2011. He holds a master’s degree in Business Administration from the London Business School, London (2012). He has previously acted as the Head of Retail Banking Branches at the Bank from 2010 – 2011 and Head of Retail Banking Branches at Al Bilad Bank from 2008 – 2010. He was also the Head of Retail Banking in Central Region at NCB from 2006 – 2008 and Head of Retail Banking in Central Region at Banque Saudi Fransi from 2003 – 2006.

Hamad A. Al-Ajaji

Mr. Al-Ajaji has been Head of the Bank’s Private Banking and Wealth Management Group since 2012. He holds a bachelor’s degree in Business Administration from the University of Tennessee, Knoxville – United States of America (1984). His previous roles have included a number of positions at SABB including Head of Private Banking Group, Chief Executive Officer – Premiere Division and Chief Executive Officer - Credit Card Products Division.

Osama K. Al-Ibrahim

Mr. Al-Ibrahim holds a bachelor’s degree in Industrial Management from King Fahad University of Petroleum and Minerals, Dhahran (1994). He has been the Bank’s Chief Risk Officer since July 2017 prior to which he was the Acting Chief Risk Officer from 2014 to 2017. He has over 25 years of experience in the banking and financial services industry. He previously acted as the Head of Corporate Banking Division - KSA from 2008 – 2014 and the Head of Corporate Banking Division - Central Region from 2006 – 2008. Outside the Bank, he acted as a Relationship Manager- Corporate Banking and Division Head- Corporate Banking at SAMBA from 1996 – 2006.

Khalid O. Al-Mogrin

Mr. Al-Mogrin has been Head of the Bank’s Legal Group since 2010. He holds a bachelor’s degree in Law from King Saud University, Riyadh (1990) and a master’s degree in Law from the American University, Washington DC, United States of America (1998). He was previously the Bank’s Head of Legal Group and Board Secretary from 2012 – 2019 and General Manager of Legal Affairs at the Bank from 2005 – 2010. He has also held a number of positions across banks and government bodies including acting as Deputy of Legal Department (Head) at SAMBA and Legal Counsel and Manager of Dispute Resolution for the Communication and Information Technology Commission.

Dr. Fahad A. Al-Elayan

Dr. Al-Elayan holds a bachelor’s degree from the Al Imam University (Faculty of Shariah) (1990), a master’s degree from Al Imam University (Applied Linguistics) (1995) and a PhD in Education from the Ohio University, United States of America (2001). He has been the Head of Social Responsibility Group at the Bank since 2008 and the Head of the Bank’s Shariah Group since 2015. He is a member of Board of Directors of Al Shahab Club (and Director of Social Responsibility), member of the Board of Directors at the Awareness and Social Rehabilitation Society and a member of the General Council Sustainability Working Group at CIBAFI Sustainability Working Group (SWG). Prior to his current role, he has held a number of positions in the charity and education fields including as Faculty Member, Education and Social Science College and as Vice Dean of the University Center for Community Service and Continuing Education, both at the Al Imam Mohammed Bin Saud Islamic University and as Director of the National Cultural Project at the King Abdul Aziz Public Library.

Abdulaziz Al-Zammam

Mr. Al-Zamman has been the Bank’s Chief Internal Audit Executive since March 2019. He holds a bachelor’s degree in Computer Science from King Saud University, Riyadh (2001) and a master’s degree in Information Security from Royal Holloway, University of London, London (2007). He previously acted as VP – Audit

**Hamad I. Al-Essa**

Mr. Al-Essa has been the Bank’s Chief Compliance and AML Officer since September 2020. He holds a bachelor’s degree in Computer Science from King Saudi University, Riyadh (2002) and has previously worked as Chief Compliance and Anti-Money Laundering Officer at Bank AlBilad from 2016 – 2020.

**Faisal M. Al-Mansour**

Mr. Al-Mansour has been the Head of the Bank’s Human Capital Group since March 2021 and is also a member of Board Nomination and Remuneration Committee at the Ministry of Health. He holds a bachelor’s degree in MIS from King Fahad University of Petroleum and Minerals, Dhahran (2007), he is a certified leaders coach from Anglia Ruskin University - UK, and went through different leadership programs at IMD and INSEAD. His previous roles include a number of leadership positions in the Human Capital field including the most recent one, Chief Human Capital Officer at the Tourism Development Fund where he joined as an establishing member for a newly found government entity, Head of Learning and Talent and a number of other positions at The Saudi British Bank.

**Hani S. Noori**

Mr. Noori has been the Bank’s Acting Chief Financial Officer since April 2021. He is a qualified CPA accountant from USA (2011) and holds a bachelor’s degree in Business Administration, Accounting major, from the Baker College, United States of America (2002) and a master’s of science degree in Information Technology from the Central Michigan University, United States of America (2003). He has previously acted as VP, Chief Accounting Officer from 2016 – 2021 and as VP, Head of Financial Controllers from 2014 – 2016 at the Bank. Outside of the Bank, Mr. Noori held a number of positions at NCB from 2004 – 2014 including VP, Senior Financial Controller.

**Nahim Bassa**

Mr. Bassa has been the Acting Head of the Bank’s Strategy and Digital Transformation Group since April 2021. He holds a number of academic qualifications including a Bachelor of Commerce from University of Kwazulu - Natal, South Africa (2001) and multiple post-graduate degrees. He has previously acted as Head of Digital Banking at the Bank and outside the Bank has held a number of senior leadership positions including being the Head of Strategic Initiatives and Digital Transformation at Absa Group and the Strategy Lead at Barclays Africa.

**Hani A. Araki**

Mr. Araki has been the Bank’s Acting Head of Treasury since March 2021. He holds a bachelor’s degree in Business Administration from King Abdulaziz University, Jeddah (1995). He possesses over 25 years of experience in the banking and financial services industry and has previously acted as the Head of Money Market and ALM in the Bank from 2011 to 2021 and outside the Bank has held a number of positions in SAMBA including Unit Head for Money Market, working in the Product Development CIBG - Islamic Banking Division and CIBG as a Relationship Manager.

**Sultan Al-Qahtani**

Mr. Al-Qahtani has been Acting as the Bank’s Board Secretary and Head of Corporate Governance Group since May 2021. He holds a master’s degree in Science of Management from the Florida Institute of Technology, United States of America (2003). Mr. Alqahtani joined the Bank in 2008 and held several positions, including Manager of the Chairman’s office from 2009 until 2015, Head of Corporate Governance from 2016 until 2019 and Deputy Board Secretary from 2019 to 2021.
Sami J. Al-Mehaid

Mr. Al-Mehaid joined the Bank on 1 June 2021 as Senior Vice President and Head of the Bank’s Corporate and Institutional Banking Group. Mr. Al-Mehaid has over 20 years of experience in the banking sector with roles in corporate banking, risk and compliance at Banque Saudi Fransi. Also, Mr. Sami holds multiple accreditations in Leadership Development from inside and outside the Kingdom.

Corporate Governance

Board Committees

The Bank has five Board-level committees, as follows:

Executive Committee

The Executive Committee of the Bank comprises five members chosen by the Board, it is the responsibility of the Executive Committee, in accordance with the delegated powers, to monitor the implementation of the strategy and policies set by the Board, the risk management and control of the Bank’s performance, to recommend the balance sheet and action plan submitted for the fiscal year and to ensure the proper implementation of the policies of the Board, in addition to monitoring the efficiency of internal control standards and policies implementation. The Executive Committee meets at least six times a year.

As at the date of this Offering Circular, the Executive Committee comprised the following members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tarek Othman Al-Kasabi</td>
<td>Chairman</td>
</tr>
<tr>
<td>Abdulmajeed Ibrahim Al-Sultan</td>
<td>Member</td>
</tr>
<tr>
<td>Ibrahim Abdulaziz Al-Shaia</td>
<td>Member</td>
</tr>
<tr>
<td>Adil Saud Dahiawi</td>
<td>Member</td>
</tr>
<tr>
<td>Naif Abdulkareem Al-Abdulkareem</td>
<td>Member</td>
</tr>
</tbody>
</table>

Shariah Committee

The Bank’s Shariah Committee functions as an independent body appointed by the Board of Directors. The Shariah Committee is responsible for ensuring that all activities of the Bank and its subsidiaries are compliant with Shariah rules. The Shariah Committee consists of prominent scholars in the field of Shariah, Islamic economics and applied aspects of modern Islamic Banking and Finance. The Shariah committee consists of three to five members, including its head.

The main duties of the Shariah committee are as follows:

- Submitting an annual report to the Board, showing an assessment of the Bank’s commitment to the provisions of Shariah in its operations.
- Assigning the Shariah group to accomplish the Shariah compliance, auditing and Shariah review of the Bank’s business.
- Approving all products and services from a Shariah perspective.

The Shariah Committee meets at least four times a year and its decisions are binding. The Shariah Committee comprises the following members:
<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>His Excellency Sheikh: Abdullah Bin Sulaiman Al Manea</td>
<td>Chairman</td>
</tr>
<tr>
<td>His Excellency Sheikh: Abdullah Bin Mohammed Al Mutlaq</td>
<td>Vice Chairman</td>
</tr>
<tr>
<td>Sheikh: Dr. Mohammed Bin Ali Al Gari</td>
<td>Member</td>
</tr>
<tr>
<td>Head of Shariah Group</td>
<td>Committee Rapporteur</td>
</tr>
</tbody>
</table>

**Risk Committee**

This committee comprises three to five members and assists the Board in fulfilling the responsibilities of overseeing the risks in the Bank’s businesses and controls. Its duties and responsibilities are focused in supervision and control. It reviews the ability of the Bank to manage and undertake risks based on appropriate analysis and formulation of appropriate risk management policies. It also approves the credit rating system in the Bank and risk policies for assets and liabilities management as developed by the Assets and Liabilities Committee. The Risk Committee measures the exposures to financial risks and other significant exposures and the steps taken by management to monitor, control and report cases of risks, including, but not limited to, reviewing credits, market, liquidity, reputational, operational, fraud and strategic risks in addition to evaluating exposures, tolerance levels and approval of appropriate transactions or commercial restrictions. The committee reviews the scope of the risk management and targets activities related to the Bank’s risk management.

The Risk Committee meets at least four times a year and as at the date of this Offering Circular, the Risk Committee comprised the following members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ibrahim Abdulaziz Al-Shaia</td>
<td>Chairman</td>
</tr>
<tr>
<td>Turki Abdullah Al-Fozan</td>
<td>Member</td>
</tr>
<tr>
<td>Khalifa Abdulatif Al-Mulhem</td>
<td>Member</td>
</tr>
<tr>
<td>Abdulwahab Bin Abdulkareem Al-Betaire</td>
<td>Member</td>
</tr>
</tbody>
</table>

**Audit Committee**

The Audit Committee plays a key role in helping the Board meet its supervisory duties, in maintaining the integrity of the Bank’s financial statements and the independency and qualifications of its auditors. It comprises three to five members, including a specialist in finance and accounting. The Audit Committee considers the effectiveness of disclosure controls and procedures, the internal audit and the external auditors, the adequacy of the Bank’s internal accounting systems and financial controls, the Bank’s commitment to the ethical policies and regulatory and supervisory requirements in addition to the management of risks and compliance and control activities in the Bank.

The Audit Committee meets at least four times a year and as at the date of this Offering Circular, the Audit Committee comprised the following members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adil Saud Dahlawi</td>
<td>Chairman</td>
</tr>
<tr>
<td>Fawaz Al-Fawaz</td>
<td>Member</td>
</tr>
<tr>
<td>Taha Azhari</td>
<td>Member</td>
</tr>
</tbody>
</table>

**Nomination and Remuneration Committee:**

The Nomination and Remuneration Committee comprises three to five members and its functions and responsibilities are concentrated in recommending nominations to the Board in accordance with the approved policies and standards of the Bank. It also performs annual reviews on the skills required for Board membership and the Board’s structure and recommending changes that can be made. It is also responsible for ensuring the independence of the independent members, considering any potential conflict of interests, ensuring the recommended appointment is commensurate with the required skills and qualifications, and the development and
review of remuneration of the directors and senior executives. The Nomination and Remuneration Committee met three times in 2020.

As at the date of this Offering Circular, the Nomination and Remuneration Committee comprised the following members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ibrahim Abdulaziz Al-Shaia</td>
<td>Chairman</td>
</tr>
<tr>
<td>Abdulmajeed Ibrahim Al-Sultan</td>
<td>Member</td>
</tr>
<tr>
<td>Khalifa Abdulatif Al-Member Mulhem</td>
<td>Member</td>
</tr>
<tr>
<td>Ibrahim Abdullah Al-Hedaitly</td>
<td>Member</td>
</tr>
</tbody>
</table>

**Social Responsibility Committee**

This committee comprises three members from both within and outside the Board. The committee plays an important role in assisting the Board in the fulfilment of its social responsibilities related to the “Khair AlJazira le Ahl Aljazira” programme. These social responsibilities include the formulation of policies and procedures, the adoption of the annual budget (which includes the approval of the annual plan for the programme), creating solutions for any obstacles that might hinder the effectiveness of the social responsibility programmes and reviewing the objectives of the Bank’s role within the programme.

It also contributes and participates actively in many social responsibility programmes in the Kingdom of Saudi Arabia. This helps build co-operation and communication between the Bank and the authorities that lead the programmes, it also helps establish specific partnerships with associations and charities in the Kingdom of Saudi Arabia which enhances the process of social responsibility.

The committee also strives to create an appropriate environment to help young people find employment, and it provides distinctive programmes for rehabilitating disabled people. The committee reports annually to the Board about the activities and the programmes within the “Khair AlJazira le Ahl Aljazira” programme.

The Social Responsibility Committee meets at least four times a year and as at the date of this Offering Circular, the Social Responsibility Committee comprised the following members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abdulmajeed Ibrahim Al-Sultan</td>
<td>Chairman</td>
</tr>
<tr>
<td>Abdulaziz Ibrahim Al-Hadlaq</td>
<td>Member</td>
</tr>
<tr>
<td>Fahd Ali Al-Elayan</td>
<td>Member</td>
</tr>
</tbody>
</table>

**Management Committees**

The Bank has 11 management-level committees, as follows:

**Management Risk Committee (MRC)**

The MRC comprises the following members:

<table>
<thead>
<tr>
<th>Position</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer (CEO)</td>
<td>Chairman</td>
</tr>
<tr>
<td>Chief Risk Officer (CRO)</td>
<td>Deputy Chairman</td>
</tr>
<tr>
<td>Chief Financial Officer (CFO)</td>
<td>Member</td>
</tr>
<tr>
<td>Head of Enterprise Risk Management (ERM)</td>
<td>Member and Secretary</td>
</tr>
</tbody>
</table>
The MRC is entrusted with the responsibilities of overseeing the risks in the Bank’s businesses and making sure necessary controls are in place. It reviews the ability of the Bank to manage risks based on Board approved risk management policies, conducts appropriate analysis and directs the formulation of necessary risk management policies. The key responsibilities of the MRC are: (i) to review and assess the performance of management in monitoring and controlling risk management activities to ensure that the strategies, frameworks and policies approved by the Board are adhered to and implemented in practice; (ii) to provide guidance and review the activities of the Enterprise Risk Management Group (ERMG) for risk management related activities; and (iii) to review and recommend the Bank’s credit policies, risk acceptance criteria, provision policies and approve authorities, including making revisions to existing policies and approvals to the Board Risk Committee and the Board from time to time as appropriate.

Management Credit Committee (MCC)

The MCC comprises the following members:

<table>
<thead>
<tr>
<th>Position</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>Chairman</td>
</tr>
<tr>
<td>CRO</td>
<td>Deputy Chairman</td>
</tr>
<tr>
<td>CIBG</td>
<td>Member</td>
</tr>
<tr>
<td>CCO</td>
<td>Member and Secretary</td>
</tr>
</tbody>
</table>

The MCC is entrusted with the responsibilities of overseeing the credit risks in the Bank’s businesses and making sure necessary credit controls are in place. Its main responsibilities are: (i) acting as a credit approval body by approving credit applications within the limits delegated by the Board Risk Committee and the Board Executive Committee; (ii) providing recommendations on credit decisions to higher authorities, including the Board, as required; (iii) considering all proposals for provisioning, restructuring, roll over of default dues, either general or specific, and making recommendations to the MRC or the Board Executive Committee for approval, as the case may be; and (iv) reviewing special credit cases such as delinquent assets and credit deteriorations, as recommended by the ERMG and the CRO.

Asset and Liability Committee (ALCO)

The ALCO comprises the following members:

<table>
<thead>
<tr>
<th>Position</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>Chairman</td>
</tr>
<tr>
<td>Treasurer</td>
<td>Vice Chairman</td>
</tr>
<tr>
<td>CRO</td>
<td>Member</td>
</tr>
<tr>
<td>CFO</td>
<td>Member</td>
</tr>
<tr>
<td>Group Head of Corporate and Institutional Banking</td>
<td>Member</td>
</tr>
<tr>
<td>Group Head of Retail Banking</td>
<td>Member</td>
</tr>
<tr>
<td>Head of ERM &amp; Market Risk</td>
<td>Member and Secretary</td>
</tr>
<tr>
<td>Head of Private Banking</td>
<td>Member</td>
</tr>
</tbody>
</table>

The Board Executive Committee delegates the decision making authority of monitoring and controlling liquidity and accrual risks on the Bank’s balance sheet to the ALCO. The ALCO has the authority to establish, change or allocate limits related to the Bank’s business lines/products. This authority is subject to the laws in force in the Kingdom of Saudi Arabia and SAMA regulations. The ALCO’s main responsibilities include: (i) developing an effective Asset and Liability Management Framework for Bank-wide portfolios and to ensure optimal balance sheet management; (ii) reviewing profit rates, fiscal/budgetary conditions and the economy at both local and international levels, in particular, considering the Bank’s product and pricing structure; (iii) reviewing the current and forecast capital levels (regulatory and economic) to determine adequacy; and (iv) reviewing the financial performance of the Bank, identifying trends in growth and decline rates of businesses and products, assessing and
reacting to those trends in product origination, developing and measuring performance against established standards and, if appropriate, against peers.

**Market Risk Policy Committee (MRPC)**

The MRPC comprises the following members:

<table>
<thead>
<tr>
<th>Position</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer (CEO)</td>
<td>Chairman</td>
</tr>
<tr>
<td>Chief Risk Officer (CRO)</td>
<td>Deputy Chairman</td>
</tr>
<tr>
<td>Chief Financial Officer (CFO)</td>
<td>Member</td>
</tr>
<tr>
<td>Group Treasurer</td>
<td>Member</td>
</tr>
<tr>
<td>Head of ERM and Market Risk</td>
<td>Member and Secretary</td>
</tr>
</tbody>
</table>

The Board Executive Committee delegates the decision making authority of monitoring and controlling the Treasury activities through the MRPC. This authority includes the risk appetite setting process which culminates in the approval of the market risk and Treasury related credit. The primary responsibilities of the MRPC are: (i) reviewing and approving market risk related policies covering Treasury activities on the trading and banking books including approval of the market risk limits package and authorising temporary increases or permanent changes to limits; (ii) overseeing the structure, composition and performance of the investment portfolio within the approved investment limits; (iii) product programme reviews and approvals and providing approvals of new products, new activities and complex transactions for the Treasury business; and (iv) reviewing and approving all existing and new counterparty credit and issuer limits along with all limit approvals related to the Treasury business.

**Information Security Management Committee (ISM C)**

The ISMC comprises the following members:

<table>
<thead>
<tr>
<th>Position</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Risk Officer (CRO)</td>
<td>Chairman</td>
</tr>
<tr>
<td>Chief Compliance and AML Officer</td>
<td>Deputy Chairman</td>
</tr>
<tr>
<td>Chief Credit Officer (CCO)</td>
<td>Member</td>
</tr>
<tr>
<td>Head of HCG</td>
<td>Member</td>
</tr>
<tr>
<td>Head of ERM</td>
<td>Member</td>
</tr>
<tr>
<td>CAE – Chief Audit Executive</td>
<td>Member</td>
</tr>
<tr>
<td>Head of ITG</td>
<td>Member</td>
</tr>
<tr>
<td>Head of EIS</td>
<td>Member and Secretary</td>
</tr>
</tbody>
</table>

The primary responsibility of the ISMC is to review, communicate and provide appropriate recommendations relating to information security to the Chairman and the Board Risk Committee. These include, but are not limited to: (i) defining strategic directions to implement common assurance controls across the organisation; (ii) ensuring adherence to the Bank’s policies and business strategies as well as SAMA regulations and frameworks such as the cyber security framework and ensuring that related operational procedures are executed adequately; (iii) ensuring that information security risks are monitored and reviewed through an effective information security risk management framework and being responsible for monitoring cybersecurity risk appetite, providing comments and reviews when required; (iv) reviewing and monitoring the information security communication plan to improve the information security culture; (v) promoting a comprehensive staff and customer awareness and education programme; (vi) promoting information security posture within the organisation through appropriate communication, commitment and adequate resourcing; (vii) periodically reviewing the status of actions / remediation plans under Enterprise Information Security (EIS) ownership in relation to SAMA and Internal Audit observations and findings related to information security; (viii) reviewing the EIS budget and projecting requirements; (ix) monitoring information security Key Risk Indicators (KRIs) and Key Performance Indicators...
(KPIs); and (x) monitoring the EIS strategy roadmap and progress on initiatives and providing required support and advice. The ISMC communicate the Bank’s cybersecurity risk appetite to the Board.

Management Committee

The purpose of the Management Committee, which comprises the Bank’s senior executive managers, is to update, discuss and solve issues escalated by the Bank groups heads.

IT Steering Committee

The purpose of the IT steering committee is to govern and assist communication and decision making between Bank senior management, business units, the project management office (PMO), the strategy and digitisation group, and the information technology group on projects and IT related matters.

Compliance Committee

The purpose of the compliance committee is to support supervision over the risks of non-compliance in the Bank, and to ensure that departments understand those risks. Therefore, one of the objectives of the committee is to ensure that the Bank’s policies are in line with the system guidelines so that the Bank organises its business activity and raises the level of awareness of employees through adhering to the implementation of all relevant laws, regulations and ethical standards that must be applied and any reports wrong or contravening practices that harm the Bank’s reputation.

Product Review Committee

The main roles of the product review committee are:

- To ensure the comprehensive implementation of the most recent SAMA regulations, standards and limitations in respect of the “Banking Shariah Governance Framework”, to the Bank’s policies, programmes and products.

- To assure compliance with, and the inclusion of, applicable Shariah rules and risk mitigation principles and standards in the review, responsibilities, and reporting and/or product(s) programmes throughout the Bank.

- To assure compliance with all applicable industry and market service standards and best practices in the review, development and articulation of all new or updated Bank policies and products.

- To ensure the above-mentioned frameworks provide a comprehensive quality assurance service to the Bank, as part of the continuous risk oversight obligation of the Bank in general, and the BRC in particular.

Business Continuity Committee

The purpose of the business continuity committee is to oversee, monitor and provide guidance and direction in relation to business continuity management activities, including the state of Bank’s readiness, challenges encountered, risks identified, impact assessments, risk mitigation techniques employed, the business continuity management and disaster recovery framework and its efficiency/effectiveness and targets achieved against plans.

SMEs Committee

The purpose of this committee is to set the Bank’s strategy on MSMEs, review and identify potential risks, develop KPIs and evaluate actual performance against the strategy.
Employees

As at 31 December 2020, the Bank employed 2,419 employees.

Incentive Plans & Incentive Pay Brief

In order to incentivise and promote an atmosphere and environment of healthy performance-based competition, the Bank has adopted short and medium term incentive-based pay plans for many qualifying staff, in line with best market practices.

All incentive schemes are subject to all Financial Stability Board guidelines and SAMA recommendations for non-traditional (misconduct) risk control elements, as indicated in the Compensation Governance documentation for the Bank, including traditional and non-traditional misconduct risk mitigation, and all applicable ex ante and ex post mitigating corrective measures and solutions. All incentive schemes must be endorsed by authorised business line and control management, and may be presented to the Nomination and Remuneration Committee for further approval, if and as applicable. All risk appetite thresholds and limits must be strictly defined and indicated quantitatively with clear and unambiguous stop/go points and acceptable margins, and all accounting must undergo a multi-stage verification process based on actual real income earned, and not potential income forecast or projected, no matter how probable.

These include but are not limited to:

- The Corporate Banking Group and Commercial Banking Services “Sprinter” Reward Programme
- Pure “NIB’s” (Non-Profit Bearing Deposits) Incentive Scheme
- Branch Network Incentive Scheme
- Collection Supervisors and Agents Incentive Scheme
- Fawri® Remittance Branch Employees Incentive Scheme

Other periodic incentive schemes may be devised and adopted throughout the year for other areas or business or support units, where incentive-based pay works best to further the performance of the organisation. These programmes are uniformly “Standalone” incentive programmes that may not be merged with any other “Pay for Performance” bonuses or merit reward programmes, with all elements of risk control applicable to all incentives schemes system wide, and without exception, including all provisional clawback considerations discussed elsewhere in the Bank’s compensation policy.
THE KINGDOM OF SAUDI ARABIA BANKING SECTOR AND REGULATIONS

GENERAL

As at the date of this Offering Circular, there were 24 commercial banks operating in Saudi Arabia, of which 11 are incorporated in Saudi Arabia. Of the remaining 13 operating banks, six are branches of banks based in countries of the GCC other than Saudi Arabia (namely Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, First Abu Dhabi Bank, Bank Muscat and Qatar National Bank) and seven are international banks (namely JPMorgan Chase, BNP Paribas, Deutsche Bank, T.C. Ziraat Bankası, MUFG Bank Ltd A.Ş., National Bank of Pakistan and Industrial and Commercial Bank of China). Trade Bank of Iraq, Standard Chartered Bank, Credit Suisse Bank and Bank of China Limited have been licensed but are yet to commence operations under their licences. 10 of the 11 Saudi operating banks are publicly-listed joint stock companies and their shares are traded on Tadawul (Gulf International Bank Saudi Arabia is not listed on Tadawul).

All 11 banks incorporated in Saudi Arabia provide a broad range of retail and wholesale banking products and services. Al Rajhi Bank, Bank Albilad, Bank AlJazira and Alinma Bank provide Shariah-compliant products and services only. The remaining seven banks provide a combination of Shariah-compliant and conventional banking products and services.

In addition to the commercial banks, there are a number of state-run credit institutions, including the Saudi Industrial Development Fund, the Real Estate Development Fund, the Saudi Arabian Agricultural Bank, the Saudi Credit & Saving Bank and the Public Investment Fund (PIF), which provide funds for targeted sectors.

In addition, the PIF is the investment arm of the Government while the Islamic Development Bank is a multilateral development financing institution headquartered in Jeddah. SAMA does not regulate any of these entities.

As of 31 March 2021, there were 2,008 bank branches, 17,277 ATMs and 792,842 points of sale terminals in Saudi Arabia (source: SAMA March 2021 Monthly Statistics).

Key highlights of the trends and outlook for the Saudi banking industry are as follows:

- liquidity and funding is expected to remain solid against a backdrop of limited growth;
- a move towards digitisation with the rising sophistication and education of an increasingly young Saudi population, simultaneously driving demand for retail banking services in the Kingdom;
- fee-based services and products for retail markets are proliferating, the focus being turned to non-funded business volumes and cross-selling opportunities; and
- Islamic banking continues to be an area of growth.

HISTORY

Prior to 1976, a number of wholly foreign-owned banks operated branches and subsidiaries in Saudi Arabia.

In 1976, the Government issued a directive requiring all banks operating within its borders to convert to entities incorporated locally with at least 60 per cent. of the shares held by Saudi nationals.

In 2000, the first branch of a foreign bank was authorised to open in Saudi Arabia in over 40 years, in connection with changes in GCC countries’ policies concerning cross-border banking. The new entrant was Gulf Investment Bank (GIB), an offshore bank based in Bahrain and owned by the six GCC states. GIB had been active in Saudi Arabia for many years, but having a Saudi Arabian branch allowed it to compete at close hand. SAMA has since granted a number of banking licences to branches of foreign banks.
In April 2019, GIB announced that it has successfully completed the conversion of its existing branches in the Kingdom of Saudi Arabia into a locally incorporated bank jointly owned by the PIF and GIB.

There are also non-bank competitors in brokerage and personal finance. The Saudi banking sector has seen an accelerating competitive convergence focused on Islamic banking, private and affluent segments and brokerage and investment banking, as well as significant investment in new distribution, marketing and technology.

Following the licence granted to GIB in 2000, SAMA granted licences to operate branches in Saudi Arabia to Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, Muscat Bank, JPMorgan Chase, BNP Paribas, Deutsche Bank, National Bank of Pakistan, State Bank of India, T.C. Ziraat Bankası A.Ş., Industrial and Commercial Bank of China and, more recently, Qatar National Bank (which commenced its operations in Saudi Arabia in May 2017), First Abu Dhabi Bank and Mitsubishi UFJ Financial Bank, (each of which commenced its operations in November 2018). The Government also developed the capital markets sector in Saudi Arabia with the enactment of the Capital Market Law (issued by Royal Decree No. M/30 dated 2/6/1424H (corresponding to 31/7/2003G)). The Capital Market Authority (CMA) was also established to regulate the capital markets in Saudi Arabia. In line with the Government’s overall desire to develop and boost the capital markets in Saudi Arabia, the CMA has encouraged the participation of foreign investment banks. According to its website in December 2020, the CMA has licensed at least 105 entities to conduct various types of securities business in Saudi Arabia, although a number of those licensed entities have not yet commenced business.

CORPORATE BANKING SEGMENT

The majority of commercial banking assets in Saudi Arabia are loans to businesses and, as at 31 March 2021, banks’ claims on the private sector constituted SAR 1.87 trillion and approximately 61.7 per cent. of total commercial banks’ assets (source: SAMA, March 2021 Monthly Statistics). This has been driven by the strong economic growth and the increased investment within Saudi Arabia in various sectors such as electricity, water and health services, building and construction, commercial and Government projects in oil and gas, infrastructure and education. Government stimulus to the Saudi economy has contributed to the growth in corporate assets.

Though commercial mortgages are a lucrative business in developed countries, Saudi banks have not been very active in this product due to legal and operational hurdles. However, financing is provided for real estate development purposes, which does not fall under commercial mortgages.

Investment banking activities have been growing rapidly in Saudi Arabia. Project finance has also been a strong growth area with several projects being financed in recent years. While the prevailing level of oil prices pose challenges to the Saudi economy, leading to both Government spending growth and weaker gross domestic product (GDP) growth, project finance is nonetheless expected to continue to be a strong area for banking business as a result of planned investments in infrastructure and industry in line with the reform and stabilisation programs being implemented to reduce the economy’s dependency on oil-related revenues.

In August 2020, Tadawul launched the new derivatives market as part of its strategy to diversify its product offering and provide more investment opportunities for market participants. Investors have been able to trade the Saudi Futures 30, based on the MSCI Tadawul 30 Index, since 30 August 2020.

PERSONAL BANKING SEGMENT

Consumer lending increased by 9.5 per cent. from SAR 333 billion at the end of 2019 to SAR 365 billion at the end of 2020 and was SAR 380 billion as at the first quarter of 2021 (source: SAMA, March 2021 Monthly Statistics). Historically, growth in consumer finance has been driven by several factors, including:

- economic growth coupled with favourable consumer demographics;
- growth of the credit card market;
- product innovation and a rapidly expanding range of product and service offerings; and
- the creation of SIMAH (as defined below).

The value of the credit card loans market was SAR 17.8 billion as at 31 March 2021, SAR 18.4 billion as at 31 December 2020 and SAR 19 billion as at 31 December 2019 (source: SAMA, March 2021 Monthly Statistics). The credit card loan market is expected to grow as a result of the increasing use of electronic forms of payment within Saudi Arabia. The majority of personal lending is tied to electronic salary assignment, thereby enhancing asset quality and effectively reducing the risk associated with personal lending which, coupled with higher margins than in corporate lending, has made personal finance a particularly attractive segment for banks in Saudi Arabia.

THE SAUDI CREDIT BUREAU

In 1998, SAMA and the domestic banks operating in the Kingdom of Saudi Arabia (KSA) conducted a study with regard to establishing a centre or a company to provide credit information. As a result, the Saudi Credit Information Company (SIMAH) was established in 2002 and began operating in 2004. In addition, in 2008, the Council of Ministers issued a decision approving the Credit Information Law (issued pursuant to Royal Decree M/37 dated 5/7/1429H (corresponding to 8 July 2008G)), which sets out general principles and controls for the collection, exchange and protection of credit information of consumers. SIMAH, which is supervised by SAMA, was the first credit information company to be established in the KSA and offers consumer credit information services to its members in the KSA. SIMAH aggregates credit-related information among participating members to provide credit providers with credit risk information. In 2015, SIMAH introduced a number of initiatives and projects to further its strategies to provide an effective information infrastructure to enhance the ability of assessing and managing risks. For example, SIMAH established an information centre developed to international specifications (TIER IV) and published a procedural manual as part of a “Know Your Rights” Campaign to increase credit awareness among all segments of society. A number of SIMAH’s projects were acknowledged by the G-20 based on an initiative of the Financial Stability Board (of which SAMA is a member), aimed at helping financial institutions to evaluate risks in a systematic and effective manner and put regulatory and operational requirements in place, and develop products and services, to ensure stability and efficiency of the financial sector.

ISLAMIC FINANCE

Islamic finance has been a main growth area for the Saudi financial economy and has been one of the most significant developments in financial markets in recent years. Saudi Arabia is one of the largest and fastest growing markets for Islamic banking in the world.

The Islamic banking industry in Saudi Arabia encompasses a blend of institutions of different categories ranging from fully dedicated Islamic banks to conventional banks offering Islamic banking services through separate divisions or windows. Many banks in Saudi Arabia have Shariah boards opining as to the application of Shariah principles in financing structures and approving all Islamic products. Currently, a wide range of Shariah-compliant products are available in the market for the corporate and personal banking segments covering credit, deposit, investment and treasury offerings.

The personal banking segment has experienced the strongest demand for Islamic banking products and services with consumer Islamic assets forming the bulk of total consumer assets. In addition to deposit products, Islamic financing solutions include personal finance, home finance and Islamic credit cards. With growing business activity in the real estate sector and a growing population, Shariah-compliant home financing is expected to be a major driver of Islamic personal banking asset growth in the future.

Credit demand from the corporate banking segment is rapidly growing following the launch of infrastructure projects and increasing interest in manufacturing. Main product offerings include Ijara and Murabaha and are offered as bilateral facilities, as well as through syndications. To cater to this market segment, Islamic banks have also introduced innovative Shariah-compliant solutions. In recent years, there have been several large size Islamic
project finance transactions attracting participation from a large number of banks. This has placed the Islamic banking sector in a competitive position vis-à-vis its conventional counterpart.

The Islamic banking segment is expected to continue to grow with credit demand anticipated from corporate and consumer segments (as for the conventional banking market, growth in Islamic banking may evolve at a slower pace in light of the current economic challenges caused by a prolonged period of low oil prices). It is also expected to be accompanied by a simultaneous increase in innovative Islamic product offerings and growing awareness and demand within the general public for sophisticated Shariah-compliant solutions.

TREASURY

The treasury activities of Saudi Arabian banks have increased over the past few years as the financial markets have become more sophisticated with the increased use of financial instruments. Some Saudi banks are able to offer their customers structured products that make use of derivatives and that are also Shariah-compliant.

INVESTMENT BANKING AND ASSET MANAGEMENT

Brokerage services activity especially flourished between 2003 and 2006, when Tadawul peaked to all-time highs. The level of the Tadawul All Share Index was 7,226.32 on 31 December 2017, 7,826.73 at 31 December 2018, 8,389.23 at 31 December 2019 and 8,689.53 on 31 December 2020.

As a response to the Government’s drive to develop an efficient capital markets platform, a number of banks, including the Bank, embarked on providing corporate finance and equity and debt capital markets advisory services to companies. Since 2003, a number of initial public offerings have been effected, several of which were Government initiatives.

Furthermore, the CMA has issued licences to several financial institutions to engage as principal or as an agent in equity lead arrangements, equity management arrangements and/or advisory and securities custody services. Following this, a number of Saudi banks have established separate subsidiaries to undertake these activities. Foreign financial institutions have been permitted to buy and sell shares directly in companies listed on Tadawul since 2015 in accordance with the Rules for Qualified Financial Institutions Investment in Listed Securities.

SAUDI CENTRAL BANK (PREVIOUSLY SAUDI ARABIAN MONETARY AUTHORITY)

Overview and Functions

SAMA is the regulator and supervisor of licensed financial institutions, including banks, finance companies, leasing and real estate companies, insurance companies, money exchange companies and credit information companies in Saudi Arabia.

SAMA was established pursuant to Royal Decree No. 30/4/1/1046 dated 25/07/1371H (corresponding to 20/04/1952G), and that Royal Decree was recently replaced by the Royal Decree No. M/36 dated 11/4/1442H (corresponding to 26/11/2020G), which changed the name to Saudi Central Bank while maintaining the acronym SAMA. SAMA’s principal functions include:

- issuing the national currency;
- dealing with the banking affairs of the Government;
- supervising commercial banks and exchange dealers;
- managing Saudi Arabia’s foreign exchange reserves;
- carrying out the role of the Government’s bank and advisor in monetary, banking, and financial matters;
• managing monetary policy for maintaining price and exchange rate stability;
• promoting the growth of the financial system and ensuring its soundness;
• supervising co-operative insurance companies and the self-employment professions relating to the insurance industry;
• supervising finance companies; and
• supervising credit information companies.

Banking Control Law

The BCL was issued by Royal Decree No. M/5 dated 22/02/1386H (corresponding to 12/06/1966G) with the aim of protecting banks, customers’ deposits and shareholders and securing adequate liquidity levels. The law prohibits banks from undertaking certain activities that might cause damage to their shareholders and customers. In addition, the law prohibits individuals and companies from using the word “bank” or its synonyms in their names or conducting any banking activities without obtaining a licence from SAMA. The BCL sets out the framework within which banks must operate in Saudi Arabia and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars and directives are generally not made publicly available outside the banking sector.

Consumer Protection

SAMA has been a strong advocate of consumer protection since obtaining its charter in 1952 and the issuance of the BCL in 1966. Consequently, SAMA has played an important role in ensuring that the financial institutions under its supervision deal with consumers fairly and honestly.

As Saudi Arabia’s financial sector evolves and grows, SAMA continues to review these developments and decides on appropriate legislative, regulatory and organisational changes to provide the level of consumer protection expected from a country that is a member of the world’s main economic and financial organisations.

SAMA’s current objective is to ensure that all consumers who have dealings with licensed financial institutions in Saudi Arabia receive the expected level of consumer protection, including fair treatment, honesty and ease of access to financial products and services.

SAMA has set out the conduct expected from such financial institutions through various regulations, policies and issued instructions, including the “Banking Consumer Protection Principles” (the Principles) issued in June 2013.

The Principles set out key guidelines to enable licensed banking institutions to deliver the required level of fair treatment, honesty and financial inclusiveness thereby meeting SAMA’s strategic objective for financial consumer protection in Saudi Arabia. The Principles apply to the activities of banks operating by way of a licence, which are under the supervision of SAMA and which are dealing with persons who are, or may become, consumers. They also apply to the activities of any third party engaged by such banks to undertake any outsourced activities. The Principles are binding on all such banks, complementary to the instructions and internal regulations issued by any such bank and applicable to all transactions that are made with individual consumers.

The Principles were issued pursuant to powers granted to SAMA under the following legislation and regulations:

• Charter of the Saudi Arabian Monetary Authority – Article (3d), issued by Royal Decree No. 23 dated 23/05/1377H (corresponding to 15/12/1957G), as replaced by the Law of the Saudi Central Bank – Article (4.3), issued by Royal Decree No. M/36 dated 11/4/1442H (corresponding to 26/11/2020G);
• Banking Control Law issued by Royal Decree No. M/5. dated 22/02/1386H (corresponding to 12/06/1966G); and

• Ministerial Decree No.3/2149. dated 14/10/1406H (corresponding to 22/06/1986G).

• The “G20 High-Level Principles on Financial Consumer Protection” provide the background for the “General Principles for Financial Consumer protection” which are now being adopted as part of the Principles.

• In July 2014, SAMA published an updated Regulations for Consumer Finance (the New Regulations). The New Regulations came into effect from 11 Dhul Qada 1435H (corresponding to 16 September 2014G) and contain a number of provisions relating to the protection of consumer rights, including:

  • allowing customers to partially or fully repay their remaining finance facilities at any time during the relevant financing period;
  • unifying management fees across all banks in Saudi Arabia;
  • providing customers with summaries of their financings, which include basic details of the financing and also reference key provisions of the financing;
  • prescribing rules and standards in relation to how banks deal with customers; and
  • emphasising the principles of transparency and disclosure in consumer finance contracts.

The New Regulations are aimed at ensuring that consumer finance contracts have enhanced levels of disclosure and transparency and are aimed at, among other things, enabling customers to be better informed of their rights and obligations under their financings. Pursuant to the New Regulations, consumer finance contracts should set out, among other things:

  • details of the financing, including the total cost of the financing;
  • the calculation method for determining profit;
  • all charges, commission and administration fees;
  • the consequences of delays in payment of instalments; and
  • the procedure for exercising a customer’s right of withdrawal, early settlement or termination.

Real Estate Financing and Finance Leasing

In August 2012, the Saudi Council of Ministers issued a package of legislation approved by Royal Decrees in relation to the finance industry, including real estate financing (the Real Estate Finance Law), leasing (the Finance Lease Law) and supervision of financial companies (the Financial Companies Control Law), in each case, as further described below. In February 2013, SAMA issued the implementing regulations of these laws.

Real Estate Finance Law

This law provides the regulatory architecture for the authorisation and licensing of banks and finance companies to enter the real estate market. In particular:

  • banks may own real estate for the purposes of real estate finance – a key feature of Islamic financing products;
• the Government publicises real estate market activity and financiers are granted access to courts and notary registers; and
• a credit check must be conducted against borrowers through one of the authorised credit bureaus.

**Finance Lease Law**

This law prescribes the rules relating to finance leasing and specifically states that:

• the responsibilities of the lessor and lessee must be carried out in a Shariah-compliant manner (placing asset risk on the lessor during the lease term but making the lessee responsible for the relevant use);
• the transfer of leased assets is permitted to the lessee upon maturity of the lease term; and
• the lessor is permitted to request payments of future rentals if the lessee is in payment default, provided the number of such payments is not greater than the number of late payments.

**Financial Companies Control Law**

This law provides a regulatory and supervisory framework for Shariah-compliant finance companies to provide SAMA approved forms of financing, including real estate financing.

However, regulations surrounding items such as capital adequacy, loan to value ratios, transaction costs and consumer rights have yet to be announced.

**Implementing Regulations of the Real Estate Finance Lease Law**

The Implementing Regulations of the Real Estate Finance Law were issued by H.E. the Minister of Finance’s Resolution No. 1229 dated 10/04/1434H (corresponding to 20/02/2013G). These implementing regulations define the role of finance companies and set out the requirements for entering into and registering a real estate finance lease. The Implementing Regulations of the Real Estate Finance Law also set out the SAMA’s requirements for licensing re-finance companies as well as the rules governing the activities of re-finance companies.

**Implementing Regulations of the Finance Lease Law**

The Implementing Regulations of the Financial Lease Law was issued by H.E. the Governor of the SAMA (with the agreement of H.E. the Minister of Justice) pursuant to Governor’s Resolution No.1/MCS on 14/04/1434H (corresponding to 24/02/2013G). The Implementing Regulations of the Financial Lease Law sets out the rights and obligations of the lessor and lessee in a finance lease. These implementing regulations also outline rules relating to assignment of rights, instalment payments and ownership rights of the relevant parties. Furthermore, these implementing regulations specify the requirements for establishing a company that registers finance leases and the requirements for such companies to register finance leases.

**Implementing Regulations of the Financial Companies Control Law**

The Implementing Regulations of the Financial Companies Control Law were issued by H.E. the Minister of Finance’s Resolution No.2/MCS dated 14/04/1434H (corresponding to 24/02/2013G). These implementing regulations set out the SAMA’s rules and requirements for licensing finance companies. Furthermore, the Implementing Regulations of the Financial Companies Control Law contain corporate governance requirements, internal auditing requirements and other rules which the finance companies must comply with in order to maintain their licence.

In June 2020, SAMA issued guidelines on the provision of real-estate financing products to individuals. These guidelines set out the minimum requirements on financier providing real-estate financing product to individuals.
The CMA was established by the Capital Market Law, issued by Royal Decree No. (M/30) dated 2/6/ 1424H (corresponding to 31/7/2003G) as amended by Royal Decree No. (M/16) dated 19/1/1441H (corresponding to 18 September 2019G) (the CML). The CMA is a governmental organisation with financial, legal and administrative independence.

The CMA regulates Saudi Arabia’s capital markets. It issues the required rules and regulations for the implementation of the provisions of the CML aimed at creating an appropriate investment environment. Some of the CMA’s major objectives are to:

- regulate and develop the capital market;
- protect investors and the general public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading;
- achieve fairness, efficiency and transparency in securities transactions;
- develop measures to reduce the risks pertaining to securities transactions;
- develop, regulate and monitor the issuance of, and trading in, securities;
- regulate and monitor the activities of entities subject to the control of the CMA;
- regulate and monitor full disclosure of information related to securities and their issuers; and
- regulate proxy and purchase requests and public share offerings.

In addition, pursuant to the CML, the CMA has formed the Committee for the Resolution of Securities Disputes and the Council of Ministers has, also pursuant to the CML, formed the Appeal Committee for the Resolution of Securities Disputes. Both of these committees are quasi-judicial bodies authorised to adjudicate disputes and violations in respect of the CML or the rules and regulations of the CMA and/or Tadawul.

In 2016 the Financial Leadership Program 2020 (the Program) was launched, under which a set of initiatives on the Financial Sector Development Program (i.e. one of the Kingdom’s 2030 vision executive programmes) were enacted, including achieving the strategic objectives and initiatives of the second strategic pillar with respect to developing an advanced capital market.

Through the Program, the CMA seeks to position the Saudi capital market as the main market in the Middle East and one of the leading financial markets in the world, while being an advanced market and attractive to domestic and foreign investment, enabling it to play a pivotal role in developing the economy and diversifying its sources of income. The Program consists of four main pillars, as the follows:

- **Facilitating Funding**: Deepening the capital markets and promoting its role in raising capital;
- **Encouraging Investment**: Supporting the growth of asset management and promoting institutional investment;
- **Promoting Confidence**: Reinforcing the capital markets’ regulatory structure; and
- **Building Capacities**: Supporting the development of market participants.

The Program also has a focus on the developing regulatory environment for the Saudi financial markets to ensure investor protection, as well as enhancing adherence to international standards.
The CMA intends to increase the number of listed companies in both the main and junior parallel markets to more than 250 companies as well as doubling the invested capital via managed channels to reach SAR 650 billion of assets under management.

In accordance with the CMA’s objective of developing market-leading international best practices and with a view to collaborating with other similar institutions internationally, the CMA is an active participant in the International Organisation of Securities Commissions which is recognised as the leader in setting the standards for securities and capital markets sectors globally. In addition, the CMA is also a participant in the Ministerial Committee of the Chairpersons of GCC Capital Markets Regulators as well as the Union of Arab Securities Authorities.

**FORMATION OF THE SAUDI STOCK EXCHANGE (TADAWUL)**

On 19 March 2007, the Saudi Council of Ministers approved the formation of The Saudi Stock Exchange (Tadawul) Company. This was in accordance with Article 20 of the Capital Market Law establishing Tadawul as a joint stock company.

In the early 1980s, the Government embarked on forming a regulated market for trading. In 1984, a Ministerial Committee comprising the Ministry of Finance and National Economy, the Ministry of Commerce and SAMA was formed to regulate and develop the market. SAMA was the government body charged with regulating and monitoring market activities until the establishment of the CMA in July 2003. As the sole regulator and supervisor of the capital markets, the CMA issues the required rules and regulations to protect investors and ensure fairness and efficiency in the market.

On 7 April 2021, The Saudi Stock Exchange (Tadawul) Company announced its transformation into a group structure whereby The Saudi Tadawul Group will become the parent company with a portfolio of four subsidiaries including the Saudi Stock Exchange Company – Tadawul, which will be known as the Saudi Exchange.

**MANAGEMENT OF LIQUIDITY AND CREDIT RISK**

Under the BCL, a bank’s deposit liabilities must not exceed 15 times its reserves and paid-up share capital or invested capital. The current percentage specified by SAMA for a statutory deposit is 7 per cent. of total customers’ demand deposits and 4 per cent. of balances due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), savings deposits, time deposits and margins on letters of credit and guarantees (excluding all types of repo deposits).

In addition to the statutory deposit, each bank in Saudi Arabia is also required to maintain a liquid reserve of at least 20 per cent. of its total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding 30 days in order to comply with the requirements of the BCL.

Previously, the BCL set a maximum limit on the amount of financial liability that a bank may incur in respect of any one person. This was replaced by the SAMA Rules on Large Exposures of Banks on 1 July 2015. Under the new rules, a bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding:

- in the case of banks, 25 per cent. of its total eligible capital;  
- in the case of companies, 15 per cent. of its total eligible capital; and  
- in the case of individuals, 5 per cent. of its total eligible capital.

SAMA also has the power to regulate the liquidity and credit risk of a bank by restricting, among other things, the maximum amount of money which may be loaned by a bank, the level of a bank’s exposure to a single customer
and the categories of loans which a bank can make. These restrictions may vary from bank to bank depending on
the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided
for in the BCL.

SAMA carries out a full review of the operations of each bank every three years and more regular assessments of
specific functions within each institution. SAMA has also intervened to support banks that have found themselves
in difficulties. Similarly, it allowed distressed banks to benefit from low cost funding in the 1980s.

Over the years, SAMA has developed a reputation as a strict regulator. In 1989, SAMA introduced accounting
and disclosure standards for commercial banks in Saudi Arabia, which essentially comply with IFRS. All banks
in Saudi Arabia are now in compliance with IFRS that are endorsed in KSA and other standards and
pronouncements issued by SOCPA. The banks also prepare their financial statements to comply with the BCL
and the Regulations for Companies promulgated under Royal Decree No. M/3 dated 28/1/1437H (corresponding
to 10 November 2015G) (the Companies Regulations) in Saudi Arabia.

REPORTING REQUIREMENTS

Banks are required to submit monthly statements of the consolidated financial position of their domestic and
foreign branches. Banks also have to submit quarterly, semi-annual and annual reports to SAMA. These reports
are comprehensive and deal with matters such as the maturity schedule of credit facilities, risk concentrations,
large exposures, foreign exchange exposure, analysis of specific loan loss reserves and a calculation of the relevant
bank’s risk asset based capital adequacy.

Banks are required to submit their audited consolidated annual financial statements to SAMA within six months
of each financial year end and listed banks are required to report within three months in accordance with the CMA
Rules on the Offer of Securities and Continuing Obligations. Annual consolidated financial statements have to be
audited by at least two independent joint auditors. The published audited consolidated financial statements of
Saudi banks are required to adopt all IFRS as endorsed in KSA and other standards and pronouncements issued
by SOCPA. The consolidated financial statements are also required to comply with the BCL and the Companies
Regulations. Listed joint stock companies have to publish quarterly financial statements as their stocks are listed
on Tadawul. However, quarterly financial statements are reviewed by the auditors in accordance with the
International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the
Independent Auditor of the Entity” and are limited in terms of the scope of procedures performed.

Since SAMA introduced mandatory disclosure standards, there has been an improvement in the level of disclosure
by Saudi banks. Banks now publish a breakdown of loans by sector and geography, in addition to loans to the
Government and related parties. Banks also report doubtful loans, loan loss reserves and write-offs.

ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING

Saudi Arabia is a signatory to, and has implemented measures required by, the 1988 United Nations Convention
Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the International Convention for the
Suppression of the Financing of Terrorism and various other international conventions and agreements relating to
money laundering and terrorist financing.

Money laundering is considered an offence under Shariah law. Over the past 10 years, Saudi Arabia has put into
place a relatively comprehensive legislative and regulatory framework that deals with money laundering and
terrorist financing. Saudi Arabia implemented its first customer identification procedure in 1975. Beginning in
the mid-1990s, Saudi Arabia began to put in place a more expansive AML regime with the issuance of the 1995
AML manual and several other circulars from SAMA and other government agencies.

Saudi Arabia has comprehensive rules covering KYC, AML and counter-terrorist financing requirements for the
banking sector. In April 2003, SAMA issued updated Rules Governing the Opening of Bank Accounts and
These rules contain comprehensive requirements governing customer identification, the opening and maintenance of bank accounts, the transmission of funds and the deposit of cash and also contain detailed rules controlling the operation of bank accounts for charitable and welfare organisations. In 2008, SAMA revised the Account Opening Rules by adding additional requirements and providing guidelines on dealing with non-resident individuals, entities and multi-lateral organisations. A fourth update of these rules was issued during 2012 in which, among other changes, SAMA made certain additions to the list of specified legal entities subject to KYC requirements and account operating controls and increased the KYC required information for corporate clients to identify their beneficial owners.

Saudi Arabia’s existing AML regime was overhauled by SAMA in May 2003 with its issue of Rules Governing Anti-Money Laundering and Combating Terrorist Financing (SAMA No. BCI/122: dated 27 May 2003) (the AML/CTF Rules). The AML/CTF Rules govern, among other things, the reporting of suspicious transactions, transaction monitoring, customer and transaction profiling, risk assessment, control systems, compliance programs, reviews and audits, KYC policies and standards and record retention. Since 2003, the AML/CTF Rules were updated in December 2008 and in February 2012, in line with SAMA’s continued efforts to further improve and refine the AML/CTF Rules and cope with the local, regional and global developments.

In August 2003, Saudi Arabia updated its existing AML statutes with the enactment of the Anti-Money Laundering Law (pursuant to Royal Decree No. M/39 dated 24 August 2003) and its implementing regulations (the AML Law), providing an up-to-date statutory basis for money laundering and terrorist financing offences. A Financial Intelligence Unit was also established, enabling a greater international exchange of financial information in cases of suspected money laundering and terrorist financing amongst law enforcement agencies and regulators.

In November 2005, SAMA issued a circular (SAMA No. 35185/MAT/539: dated 22 November 2005) requiring all banks and financial institutions operating in Saudi Arabia to strictly comply with the provisions of the AML Law. The Authorised Persons Regulations issued by the Board of the CMA pursuant to its Resolution number 1-83-2005, dated 21/5/1426H (corresponding to 28/6/2005G), as amended also require investment banks to comply with the AML Law.

In December 2008, the Board of the CMA issued the Anti-Money Laundering and Counter-Terrorist Financing Rules pursuant to its Resolution Number 1-39-2008, dated 03/12/149H (corresponding to 01/12/2008G), as amended. The first update of the Anti-Money Laundering and Counter-Terrorist Financing Rules was issued in February 2012.

In April 2012, Saudi Arabia updated its existing AML Law and Implementing Rules (pursuant to Royal Decree No. M/31 dated 11/05/1433H), and in April 2013, SAMA issued a circular (SAMA No. 34100074807MAT, dated 15/06/1434H) requiring all banks and financial institutions operating in Saudi Arabia to strictly comply with the updated AML Law and Implementing Rules.

In October 2017, the existing Anti-Money Laundering Law and Implementing Rules were replaced by the Anti-Money Laundering Law and Implementing Rules issued pursuant to Royal Decree No. M/20 dated 05/02/1439H (corresponding to 25/10/2017G).

The GCC is in the unique position of being a member of the Financial Action Task Force on Money Laundering (the FATF), even though the individual member states of the GCC are not FATF members. Saudi Arabia is also a full member of the Middle East and North Africa Financial Action Task Force (the MENA-FATF). As a member of the GCC, Saudi Arabia has issued laws and regulations designed to comply with the “Forty Recommendations on Money Laundering” issued by the FATF.

In September 2003, the FATF carried out, in conjunction with the GCC, the mutual evaluation of Saudi Arabia. This evaluation was the sixth evaluation of the GCC member states and was performed on the basis of the common anti-money laundering/counter-terrorist financing assessment methodology employed by the FATF. With the approval of the evaluation of Saudi Arabia in February 2004, all GCC member states have now undergone a mutual evaluation and the GCC first round of evaluations has been completed.
Saudi Arabia underwent a joint assessment conducted by the MENA-FATF in participation with FATF, based on the “40 + 8 FATF Recommendations”. The result of this assessment was discussed in May 2010 in the MENA-FATF meeting in Tunisia and in the plenary meeting of FATF held in June 2010 in Amsterdam where Saudi Arabia achieved a very positive result. The assessment report of Saudi Arabia can be found on the websites of MENA-FATF and FATF (which, for the avoidance of doubt, are not incorporated by reference into this Offering Circular).

INDEPENDENT AUDITORS

As a measure of prudence, SAMA requires all banks in Saudi Arabia to be audited jointly by two independent auditors.

FINANCIAL REQUIREMENTS

SAMA has introduced regulations to ensure that banks do not have disproportionate concentrations of risk in any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities.

The most significant regulations are summarised below:

**Doubtful and Past Due Loans/Loan Loss Reserves**

In 2004, SAMA issued regulations regarding the classification of assets, as well as provisioning norms. The table below shows the classifications and the reserves required for prudential regulation purposes:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Defined as</th>
<th>Reserve requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>No problems</td>
<td>1 per cent. of outstanding</td>
</tr>
<tr>
<td>IA (special mention)</td>
<td>Potential weakness</td>
<td>1 per cent. of outstanding</td>
</tr>
<tr>
<td>II (Substandard)</td>
<td>Inadequate capacity to pay and/or profit or principal overdue by more than 90 days</td>
<td>25 per cent. of outstanding</td>
</tr>
<tr>
<td>III (Doubtful)</td>
<td>Full collection questionable and/or overdue by more than 180 days</td>
<td>50 per cent. of outstanding</td>
</tr>
<tr>
<td>IV (Loss)</td>
<td>Uncollectible and/or overdue by more than 360 days</td>
<td>100 per cent. of outstanding</td>
</tr>
</tbody>
</table>

With effect from 1 January 2018, all Saudi banks have adopted IFRS 9 “Financial Instruments”. Among other things, IFRS 9 provides a new model for the calculation of impairment provisions which are recognised based on a forward-looking “Expected Credit Loss” model. The impairment assessment is based on forward-looking elements, including an economic forecast covering key macroeconomic factors such as unemployment, GDP growth, inflation, special commission rates and other market related variables, obtained through internal and external sources.

**Liquidity**

Saudi banks are required to maintain liquid assets of at least 20 per cent. of deposit liabilities. For the purposes of this calculation, cash, gold, treasury bills, government bonds, up to one month placements and any asset that can be liquidated within 30 days are included. The breakdown of call deposits, savings accounts and time deposits
must also be shown on the balance sheet. The maturity of assets and liabilities has to be disclosed to determine the sensitivity to commission rate risk.

**Capital Adequacy**

The GCC has introduced a common standard for capital adequacy based on BIS capital adequacy standards. The GCC standard applicable in Saudi Arabia recommends a minimum 8 per cent. ratio of capital to risk weighted assets, including off-balance sheet risk. Assets are categorised into four risk groups carrying varying risk weights according to the risk assessment of the counterparty. There are also two levels of country risk, one for the GCC and member countries of the Organisation for Economic Cooperation and Development (the **OECD**), and others that have special lending arrangements with the IMF under its general agreement to borrow, considered a preferred risk. All other countries are considered full risk. In contrast, BIS only counts Saudi risk and not all of the GCC at par with OECD. The other major difference is that the GCC standards account for mortgage loans as 100 per cent. risk as opposed to 50 per cent. under BIS standards and SAMA standards.

Deposit liabilities of banks are limited to 15 times capital and reserves. In cases where this ratio is exceeded, banks have to place interest free deposits of half the excess amount with SAMA. Furthermore, 25 per cent. of net profits (after deduction of Zakat liabilities) have to be transferred to statutory reserves until the reserve balance equals paid-up capital.

SAMA has successfully implemented the Basel Committee on Banking Supervision rules and standards in their entirety, on a timely basis and in a prudent and conservative manner. As a result of such implementation, the KSA’s banking sector has reported among the strongest capital adequacy ratios, leverage ratios and liquidity ratios in the GCC and the MENA region.

**BASEL III FRAMEWORK**

In response to the global financial crisis which commenced in 2007, the Basel Committee enhanced its capital measurement and capital standards by issuing a new capital framework (the **Basel III Framework**). The Basel III Framework focuses on strengthening the quality of regulatory capital, raising the minimum capital requirements, enhancing risk coverage and reducing cyclicality of regulatory capital. It introduces new leverage and liquidity ratio requirements and capital buffers to promote the build-up of capital. These enhancements were implemented by means of a staggered approach up to 2019. On 7 December 2017, the Basel Committee published its recommendations named Basel III: Finalising post-crisis reforms (informally referred to as “**Basel IV**”). The reforms contain new requirements for credit risk, operational risk, CVA risk and a so called output floor which sets new minimum standards for capital requirements in financial institutions using advanced models for calculating capital requirements. On 27 March 2020, as a result of the COVID-19 outbreak, the Basel Committee released a statement deferring the implementation timeline of Basel IV by one year.

Since 2011, SAMA has introduced the main elements of the Basel III Framework in accordance with the timelines agreed by the Basel Committee. This includes the introduction of the leverage ratio in 2011 and the liquidity ratio in 2012 under the SAMA monitoring framework together with the final capital adequacy ratio framework in 2013.

SAMA has issued final liquidity guidelines on the Liquidity Coverage Ratio (the **LCR**) and the Net Stable Funding Ratio (the **NSFR**). The LCR and NSFR became minimum standards from 1 January 2015 and 1 January 2018, respectively.

The leverage ratio framework is currently under the parallel run phase by SAMA.

The Basel III Framework requires banks’ exposures to be backed by a high quality capital base. To this end, the predominant form of Tier 1 capital must be common shares and retained earnings. The Basel Committee principles adopted by SAMA ensure that banks hold high quality Tier 1 capital that represents “Pure Capital” which is highly “Loss Absorbent” through the following measures:
• deductions from capital and prudential filters to be generally applied at the level of common equity or its equivalent;

• subordinated debt of high quality;

• fully discretionary non-cumulative dividends or coupons;

• neither a maturity date nor an incentive to redeem;

• innovative hybrid capital instruments with an incentive to redeem through features such as step-up clauses, currently limited to 15 per cent. of the Tier 1 capital base, will be phased out;

• Tier 3 capital instruments to cover market risks are eliminated; and

• to improve market discipline, the transparency of the capital base will be improved, with all elements of capital required to be disclosed along with a detailed reconciliation to the reported accounts.

Following the implementation of Basel III standards related to capital, the minimum requirements for regulatory capital, excluding capital buffers, are:

• common equity tier 1 must be at least 4.5 per cent. of risk-weighted assets at all times;

• Tier 1 Capital must be at least 6.0 per cent. of risk-weighted assets at all times; and

• Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0 per cent. of risk-weighted assets at all times.

**TREATMENT OF SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS LAW**


The SIFI Law relates to the treatment of systemically important financial institutions (which includes the Group as it has been classified by SAMA as a domestic systemically important bank).

Among other things, the SIFI Law provides that:

• the management of the relevant financial institution shall be required to notify SAMA when the financial institution is distressed or likely to become distressed;

• within 180 days of being requested by SAMA, the relevant financial institutions shall submit, for review by SAMA, a recovery plan detailing the steps and procedures to be taken for the restoration of the financial institution’s financial position;

• any application for bankruptcy procedures in respect of the relevant financial institution is subject to approval by SAMA, such that SAMA may instead, commence a Treatment Plan (as defined below);

• subject to the Treatment Conditions (as defined below) being met, SAMA may prepare a treatment plan (a Treatment Plan) for the relevant financial institution group which, subject to review and input from the financial institution, and subject to approval by the Council of Economic and Development Affairs, may provide for:

  (a) the sale of all or part of the shares, stocks, assets and/or liabilities of the Financial Institution to a third party
incorporation of a bridge institution, to which all or part of the shares, stocks, assets and/or liabilities of the financial institution or bridge institution are transferred

establishment of an asset management institution to whom the assets or liabilities of the financial institution are transferred; and/or

an amendment of the rights of creditors and/or holders of capital instruments of the financial institution, including, without limitation, the reduction, cancellation or conversion thereof.

The SIFI Law also provides that in implementing the relevant Treatment Plan, shareholders and creditors shall not receive less, or shall not incur greater losses, than what is estimated would have been received or lost, had the relevant financial institution been wound up at the time of the Treatment Plan.

The **Treatment Conditions** are:

- The Financial Institution is in distress (as further explained below), or is likely to become in distressed in a way that affects its continuity and ability to fulfill its obligations.
- The Financial Institution is unable to fulfill its obligations, affecting its ability to continue in due course, if a treatment plan is not undertaken.
- The treatment plan achieves any of the objectives of the SIFI Law.
- Implementing a treatment plan for the financial institution is better than it being wound-up.

Pursuant to the SIFI Law, in this context, ‘distress’ includes:

- a lack of financial and administrative resources necessary to achieve the requirements of financial adequacy, liquidity, risk management or institution management in general, and to meet the continuing obligations of licensing which, if not met, justify licensing revocation;
- where the value of the financial institution’s assets fall below, or is expected to fall below the value of its liabilities in near future;
- where the financial institution is unable, or is expected to become unable to pay its debts when due; and
- a need for exceptional government support.

**SAMA SUPPORT PROGRAMME AND INITIATIVES**

As part of SAMA’s role in activating monetary policy tools and preserving financial stability, as well as in support of the Government’s efforts to mitigate the expected financial and economic effects on the private sector as a result of the COVID-19 pandemic, SAMA decided to inject over SAR 50 billion (SAR 51.7 billion as at June 2020) into the banking sector to enhance banking liquidity and enable banks to continue providing credit facilities for the private sector. Through this support measure, SAMA intends to help banks revise or restructure their private sector loans with no additional charges, support plans to maintain employment levels in the private sector and provide certain e-banking services for free.

SAMA’s programme aims at supporting and enabling the private sector to promote economic growth through a package of measures as set out below.

**Supporting MSMEs Finance**

The purpose of the programme is to mitigate the impacts of precautionary coronavirus measures on the MSME sector, specifically by reducing the burden of cash flow fluctuations, supporting working capital, enabling the
sector to grow during the coming period and contributing to supporting economic growth, and maintaining employment. The programme consists of three basic elements as follows:

1. **Deferred Payments Programme**

Depositing approximately SAR 50 billion for banks and financing companies to delay the payment of the dues of the financial sector (banks and finance companies) from MSMEs for a period of six months as of the relevant due dates. Since its launch, this programme assisted 71,000 contracts and the injection was increased from the original allocation of SAR 30 billion due to demand. On 7 March 2021, SAMA announced that this programme would be extended until 30 June 2021.

2. **Guaranteed Facility Programme**

Providing concessional finance of approximately SAR 1.1 billion for MSMEs by granting loans from banks and finance companies to the MSME sector to support business continuity and sector growth in a way that contributes to supporting economic growth and maintaining employment levels in these enterprises. Since its launch, the number of relevant financing contracts totalled more than 1,000.

3. **Loan Guarantee Programme**

To enable insurance entities (banks and insurance companies) to relieve MSMEs from the finance costs of the Government’s Kafalah loan guarantee programme for the purpose of minimising finance costs for eligible entities during 2020 and to support finance expansion.

On 7 March 2021, SAMA announced the extension of the loan guarantee financing programme for an additional year until 14 March 2022. The aim of the extension is to strengthen SAMA’s contribution to support MSMEs and ease the effects of the pandemic.

**Supporting Fees of POS and E-Commerce**

This was accomplished via supporting payment fees of all stores and entities in the private sector for a period of three months from March to June 2020 with a total amount exceeding SAR 800 million. SAMA paid these fees to payment service providers participating in the national system. SAMA stated that, since its launch in mid-March to the end of June 2020, the number of stores which benefited from this programme amounted to 130,000 merchants with POS and 3,600 electronic stores. The number of transactions exempted from fees reached 248 million for POS and 25 million for e-commerce. The value of these transactions exceeded SAR 36 billion for POS and SAR 5 billion for e-commerce. The amount of fees supported by SAMA totalled SAR 327 million.

**Supporting institutions affected by the precautionary measures**

As regards institutions affected by the precautionary measures implemented in the cities of Makah and Medina, SAMA is now co-ordinating with banks and finance companies to facilitate finance repayments of such institutions.
SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions). Words and expressions defined elsewhere in this Offering Circular shall have the same meanings in this section.

Declaration of Trust

The Declaration of Trust will be entered into on the Issue Date between the Bank, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets will comprise (i) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents; (ii) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (iii) all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant to indemnify the Trustee given by the Bank pursuant to the Declaration of Trust); and (iv) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in Condition 5.3 (The Trust). After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, inter alia:

(a) hold the Trust Assets on trust absolutely for and on behalf of the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights and have all the protections of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together, the Delegation of the Relevant Powers), provided that: (a) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document
shall be imposed on the Delegate by virtue of the Delegation of the Relevant Powers; (b) in no circumstances
will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (c) such
Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve
the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential
Dissolution Event or to determine the remuneration of the Delegate. The appointment of such delegate by the
Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the
Declaration of Trust, shall not affect the Trustee’s continuing role and obligations as trustee. Pursuant to the
Declaration of Trust:

(a) upon the occurrence of a Bank Event and the delivery of a Dissolution Notice by the Delegate to the
Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full
pursuant to Condition 12.1 (Bank Events), the Delegate may at its discretion or shall, if so directed by an
Extraordinary Resolution of the Certificateholders or if so requested in writing by Certificateholders
holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, and subject
to its being indemnified and/or secured and/or prefunded to its satisfaction take one or more of the
following steps: (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii)
prove in the winding-up of the Bank and/or (iii) institute steps, actions or proceedings for the bankruptcy
of the Bank; and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or
proceedings which, under the laws of the Kingdom, have an analogous effect to the actions referred to
in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a) (Proceedings
for Winding-up)) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final
Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in
accordance with its terms and the terms of the other Transaction Documents); and

(b) without prejudice to Conditions 12.1 (Bank Events) and 12.3 (Winding-up, dissolution or liquidation)
and the provisions of clause 17 (Enforcement of Rights) of the Declaration of Trust, the Trustee (or the
Delegate) may at its discretion and the Delegate shall, if so directed by an Extraordinary Resolution of
the Certificateholders or if so requested in writing by Certificateholders holding at least one-fifth of the
then aggregate face amount of the Certificates outstanding and without further notice (subject in each
case to Condition 12.3(e)(i) (Realisation of Trust Assets)) institute such steps, actions or proceedings
against the Bank and/or the Trustee, as it may think fit to enforce any term or condition binding on the
Bank or the Trustee (as the case may be) under the Certificates and the Transaction Documents (other
than any payment obligation of the Bank under or arising from the Transaction Documents, including,
without limitation, payment of any principal or premium or satisfaction of any payments in respect of
the Transaction Documents, including any damages awarded for breach of any obligations) including,
without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances
described in Condition 12.2 (Trustee Events). However, in no event shall the Bank, by virtue of the
institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or
otherwise, sooner than the same would otherwise have been payable by it in accordance with the
Transaction Documents.

A Transaction Account will be established in London in the name of the Trustee. Monies received in the
Transaction Account will, inter alia, comprise payments of amounts payable under the Mudaraba Agreement
immediately prior to each Periodic Distribution Date (see “—Mudaraba Agreement” below). The Declaration of
Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the
order of priority set out in Condition 5.3 (The Trust).

Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between the Bank (as the Mudareb)
and BAJ Sukuk Tier 1 Limited (as Trustee and Rab-al-Maal) and will be governed by English law.

The Mudaraba will commence on the date of payment of the Mudaraba Capital to the Mudareb and will end on
(i) the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions
following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the Mudaraba End Date) or (ii) if earlier, and in the case of a Write-down in whole only, on the Non-Viability Event Write-down Date.

Pursuant to the Mudaraba Agreement, the proceeds of the issue of the Certificates will be contributed by the Rab-al-Maal to the Mudareb and shall form the Mudaraba Capital. The Mudaraba Capital shall be invested by the Bank (as Mudareb), on an unrestricted co-mingling basis, in the Business Portfolio carried out through the General Mudaraba Pool in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the Investment Plan). The Mudareb will acknowledge and agree in the Mudaraba Agreement that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Investment Plan. The General Mudaraba Pool does not include any other investment pool maintained by the Bank.

The Mudareb is expressly authorised to co-mingle any of its own Shariah-compliant assets from time to time with the Mudaraba Assets during the Mudaraba Term (as defined in the Mudaraba Agreement), provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall deduct a proportion of any profit earned for its own account.

If the Mudareb elects to make a payment of Mudaraba Profit, or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and if the Trustee’s share of the Mudaraba Profit (the Rab-al-Maal Mudaraba Profit) or the Trustee’s share of the Final Mudaraba Profit (the Rab-al-Maal Final Mudaraba Profit) (as applicable) payable to the Trustee is (i) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the Mudaraba Reserve) and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee will be reduced accordingly; or (ii) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) to make payments to the Rab-al-Maal to cover such shortfall and second, may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources as a donation in order to cover such shortfall.

The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date and to use such amounts for its own purposes provided that such amounts shall be repaid by it to the Mudaraba Reserve if so required to fund a shortfall.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit not paid as a result of either a Non-Payment Event or (in the case of any Rab-al-Maal Mudaraba Profit only) a Non-Payment Election and such non-payment in whole or in part, as applicable, in such circumstance will not constitute a Dissolution Event. If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit is not paid as a consequence of a Non-Payment Election or a Non-Payment Event, then from the date of such Non-Payment Election or Non-Payment Event (the Dividend Stopper Date), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until (i) the next following payment of
Rab-al-Maal Mudaraba Profit or, (ii) as the case may be, Rab-al-Maal Final Mudaraba Profit, in each case following a Dividend Stopper Date, has been made in full to the Trustee following such Non-Payment Election or Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Trustee).

Subject to certain conditions as set out in the Mudaraba Agreement, the Bank (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(a) on the First Call Date or any Periodic Distribution Date thereafter, by giving not less than 20 nor more than 35 days’ prior notice to the Trustee; or

(b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 20 nor more than 35 days’ prior notice to the Trustee:

(i) upon the occurrence of a Tax Event; or

(ii) upon the occurrence of a Capital Event.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (a) or (b) above and the proceeds to be returned to the Trustee which would be generated upon such liquidation are less than the Required Liquidation Amount, the Mudareb shall either continue investing the Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and transfer the Liquidation Proceeds (as defined in the Mudaraba Agreement) into the Transaction Account, subject to certain conditions not being breached. The **Required Liquidation Amount** means: (a) the Mudaraba Capital; (b) subject to a Non-Payment Event not having occurred and being continuing and provided that a Non-Payment Event will not occur as a result of such payments, the Rab-al-Maal Final Mudaraba Profit (being an amount equal to the Periodic Distribution Amount payable on the redemption of the Certificates in full); and (c) the Shortfall Cover Amount.

Under the terms of the Mudaraba Agreement, the Mudaraba will mandatorily be liquidated in whole but not in part if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions being satisfied.

The Mudaraba Agreement also provides that if a Non-Viability Event occurs at any time on or after the Issue Date and prior to the Effective Date, a Write-down (in whole or in part, as applicable) will take place. In such circumstances, in the case of a Write-down in whole only, the Mudaraba Agreement will be automatically terminated (and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets) and in the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be Written-down and none of the Trustee, the Certificateholders nor the Delegate shall be entitled to any claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by the Mudareb’s (i) breach of the Mudaraba Agreement or (ii) gross negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate, in each case, in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to Shariah.
The Mudaraba Agreement also provides that, following the investment of the Mudaraba Capital, the Mudareb shall ensure, in conjunction with the Shariah Supervisory Board of the Bank that the Mudaraba Capital remains, at all times, compliant with the principles of Shariah.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made free and clear of, and without any withholding or deduction for, or on account of, any Taxes, unless such withholding or deduction is required by law, in which case, the Mudaraba Agreement provides for the payment of Additional Amounts so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Mudaraba Term), but excluding the Mudareb’s obligations (if any) to pay any Taxes and/or Additional Amounts, will be borne by the Mudaraba itself.

Agency Agreement

The Agency Agreement will be entered into on the Issue Date between the Trustee, the Bank, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate (or procure the authentication of) and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay amounts due in respect of the Certificates on behalf of the Trustee; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer and issue Definitive Certificates.

On the Issue Date, the Registrar will (i) authenticate (or procure the authentication of) the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Common Depositary.

The Trustee shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Transaction Documents.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in Condition 5.3 (The Trust).

Shariah Compliance

Each Transaction Document will provide that each of BAJ Sukuk Tier 1 Limited and Bank AlJazira agrees that it has accepted the Shariah-compliant nature of the Transaction Documents to which it is a party and, to the extent permitted by law, further agrees that:

(a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) are ultra vires or not compliant with the principles of Shariah;

(b) it shall not take any steps or bring any proceedings in any forum to challenge the Shariah compliance of the Transaction Documents to which it is a party; and
(c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of Shariah.
TAXATION

The following is a general description of certain Cayman Islands, Kingdom of Saudi Arabia, European Union and United States tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries’ tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Cayman Islands

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor’s particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws, payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The Trustee has applied for and expects to receive an undertaking from the Governor in Cabinet of the Cayman Islands, pursuant to the Tax Concessions Act (as amended) of the Cayman Islands, that for a period of 30 years from 18 May 2021 no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or by way of the withholding in whole or part of any relevant payment as defined in the Tax Concessions Act (as amended). No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. However, an instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is U.S.$853.66. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

Kingdom of Saudi Arabia

Unless otherwise stated, capitalised terms in this sub-section shall have the meanings given to them in “Taxation—Kingdom of Saudi Arabia—General” below.

The statements herein regarding taxation/Zakat are based on the Kingdom’s laws in effect as of the date of this Offering Circular and are subject to any changes occurring after such date, which changes could have retroactive effect. These include the Income Tax Law promulgated under Royal Decree No. M/1 dated 15/1/1425H (corresponding to 6 March 2004) and its By-Laws issued under Ministerial Resolution No. 1535 dated 11/6/1425H (corresponding to 29 July 2004), as amended from time to time (collectively the Income Tax Law), and the Zakat Collection Regulations issued pursuant to Royal Decree No. 17/04/28/8634 dated 29/06/1370H (corresponding to 7 April 1951) and Implementing Zakat Regulations issued under Ministerial Resolution No. 393 dated 06/08/1470 (corresponding to 13 May 1950) and the Implementing Zakat Regulations under Ministerial Resolution No. 2216 dated 7/7/1440H (corresponding to 14 March 2019) (Zakat Regulations), and the Value Added Tax Law promulgated under Royal Decree No. M113 dated 2/11/1438H (Corresponding to 25 July 2017) and its implementing regulations notified under the GAZT Board of Directors Resolution No. 3839 dated 14/12/1438H (corresponding to 5 September 2017), as amended from time to time, with the most recent being a Royal Order (A/638) issued on 15/10/1441H (corresponding to 7 June 2020) ratifying the amendment, with effect from 1 July
2020G, of Article 2 of the Value Added Tax (VAT) Law, increasing the VAT rate from 5 per cent. to 15 per cent. (the KSA VAT Law)

The following summary is a general description of certain Saudi Arabian tax and Zakat considerations relating to the Certificates. It does not purport to be a comprehensive description of all the tax and Zakat considerations which may be relevant for a decision to subscribe for, purchase, own or dispose of the Certificates and does not purport to deal with the tax and Zakat consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules.

Prospective purchasers of the Certificates are advised to consult their own Saudi Arabian tax and Zakat advisers concerning the overall tax and Zakat consequences of their ownership of the Certificates.

Overview of Saudi Tax and Zakat

Corporate Income Tax

Persons Subject to Taxation include a Resident capital company owned by non-GCC persons and a non-Resident who carries out business in the Kingdom through a Permanent Establishment (other than a Permanent Establishment of GCC persons that meet the conditions set out under Article 2(4) of the Zakat Regulations) are subject to corporate income tax in the Kingdom.

A resident capital company whose shares owned directly or indirectly by persons engaged in oil and hydrocarbons production, whether they are natural or corporate, resident or non-resident, with the exception of the shares owned directly or indirectly by capital companies that are listed on the Tadawul as well as for the shares owned directly or indirectly by these companies in the capital companies will be subject to tax.

As per the Income Tax Law, Persons Subject to Taxation are subject to 20 percent corporate income tax (other than legal entities Resident in the Kingdom which are engaged in oil and hydrocarbon) in the Kingdom on their gross income, less deduction of allowable costs and certain other tax adjustments.

However, legal entities Resident in the Kingdom (other than legal entities Resident in the Kingdom which are engaged in oil and hydrocarbon and natural gas production), which are owned jointly by GCC persons and non-GCC persons are subject to corporate income tax in respect of the share of their profit attributable to the ownership percentage held by non-GCC persons and Zakat on the ownership percentage held by GCC persons.

Non-GCC natural persons Resident in the Kingdom who are not performing commercial activities in the Kingdom (as defined in Article 1 of the Income Tax Law and Article 2 of the By-laws to the Income Tax Law) are not currently subject to corporate income tax in the Kingdom.

In determining the tax or Zakat profile of a legal entity Resident in the Kingdom, the GAZT applies a “look-through” approach to determine whether the up-stream shareholding structure at any point exists outside of the GCC (in other words, at the ultimate shareholder level). However, the “look-through” approach only applies to shareholders that are GCC Resident persons. Therefore, the percentage of the share capital of a legal entity Resident in the Kingdom that is owned by a shareholder entity incorporated outside the GCC is subject to corporate income tax regardless of the nationalities of the ultimate shareholder in such non-GCC incorporated entity.

Finally, as per the Income Tax Law, legal entities Resident in the Kingdom which are engaged in oil and hydrocarbon and natural gas production are subject to corporate income tax in the Kingdom at levels either between 50 per cent. and 85 per cent. (in the case of oil and hydrocarbon production) depending on the level of total capital investment of such entity or 20 per cent. (in the case of natural gas production) on their gross income, less deduction of allowable costs and certain other tax adjustments, regardless of their shareholders being GCC and/or non-GCC persons.
Resident companies engaged in oil and hydrocarbons production activities as well as engaged in related downstream activities are subject to 20 percent corporate income tax on their profits attributable to downstream activities for the first five years starting from 1 January 2020 if certain conditions are fulfilled.

Zakat

Zakat is an obligation imposed on Muslims by the Shariah law to pay a fixed percentage of their wealth for the relief of poverty.

Zakat is a religious levy subject to varying interpretations and complex computation rules. Separate rules are applicable for the calculation of Zakat by Zakat payers who are engaged in the Kingdom in financing activities (licensed by the Saudi Arabian Monetary Authority) and Zakat payers who are engaged in the Kingdom in non-financing activities. Persons Subject to Zakat (as defined below) include companies that are owned by GCC persons and/or a Permanent Establishment of GCC Persons in the Kingdom (meeting the conditions set out under Article 2(4) of the Zakat Regulations).

This section broadly covers the Zakat consequences of investment in Certificates by investors who are engaged in non-financing activities in the Kingdom. In general, Zakat on Zakat payers engaged in non-financing activities is currently levied on the higher of the adjusted Zakatable profits and the Zakat base. Zakat base, in general, comprises equity, provisions, loans and credit balances (subject to certain conditions) reduced by certain deductible long-term investments, fixed assets etc. plus/minus adjusted profit (loss) for the year for Zakat purposes. The Zakat rate on the Zakat base is 2.5778 per cent. if a Zakat payer is following the Gregorian financial year and 2.5 per cent. if a Zakat payer is following the Hijri financial year. The Zakat rate on adjusted net profit is 2.5 per cent. regardless of the financial year (Gregorian or Hijri) followed by the Zakat payer.

Under Article 5(4) of the Zakat Regulations which are in effect as of the date of this Offering Circular in the Kingdom, receivable loans, subordinated/ additional financing and equivalents provided to the investee are not considered as valid deductible investments for Zakat purposes. Therefore, investments in Certificates (whether short term or long term) are not deductible from the Zakat base of the Certificateholders for Zakat purposes.

Withholding Tax (WHT)

Residents of the Kingdom and the Permanent Establishment of a non-Resident are required to withhold taxes on certain payments to non-Residents of the Kingdom, including to residents of the other GCC countries if such payment is from a source in the Kingdom. The WHT rate varies from 5 percent to 20 percent depending on the nature of the underlying payment. Income earned by Certificate holders from their investments in the Certificates in substance is more of a financing activity and as such it should be considered akin to a Loan Charge as per Article 5(1) of the By-laws to Income Tax Law.

A Loan Charge paid to non-Residents attracts 5 percent WHT unless such WHT is reduced or eliminated pursuant to the terms of an applicable double tax treaty between Saudi Arabia and the country of such non-Resident beneficiary. As at the date of this Offering Circular, no effective tax treaty between Saudi Arabia and the Cayman Islands is in place. Moreover, as of the date of this Offering Circular, the Kingdom had double tax treaties that are currently or about to be effective with 52 countries.

In view of the above, payment of periodic distributions by the Bank to the Trustee (being a non-resident) will be subject to a 5 per cent. WHT as a Loan Charge.

The Mudaraba Agreement provides that payments thereunder by the Bank (in its relevant capacity) shall be made without withholding or deduction for, or on account of, any present or future Taxes (as defined in the Conditions), unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment by the Bank of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee. In addition, Condition 13 (Taxation) provides that all payments by the Trustee in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future
Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee shall pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, subject to certain exceptions described in Condition 13 (Taxation). The Declaration of Trust provides that, in the event that the Trustee fails to comply with any obligation to pay additional amounts pursuant to Condition 13 (Taxation), the Bank will pay to the Delegate (for the benefit of the Certificateholders) an amount equal to the liability of the Trustee in respect of any and all additional amounts required to be paid by it in respect of the Certificates pursuant to those provisions.

Value Added Tax (VAT)

VAT was introduced in Saudi Arabia with effect from 1 January 2018. VAT in Saudi Arabia is generally applicable to goods and services supplied by registered taxpayers in Saudi Arabia.

Where a transaction is considered to be in scope for Saudi Arabia VAT, the treatment can either be exempt, zero-rated (taxable at 0 per cent.) or standard rated (taxable at 5 per cent. or 15 per cent.) depending, but not limited to a number of factors, such as the nature of the supply being provided, and the recipient’s place of residence for VAT purposes. With effect from 1 July 2020, the standard VAT rate was increased from 5 per cent. to 15 per cent.. Certain financial services, including those where the consideration is margin-based (e.g. profit) are treated as exempt from a VAT perspective in Saudi Arabia. The exemption also applies to the issue or transfer of a debt security.

Capital certificates are not defined terms for VAT purposes but are akin to the issuance of securities such as shares. The issue of equity securities is exempt for VAT purposes where the supply is made by a registered taxpayer in Saudi Arabia. However, issuance of equity securities by persons residing outside Saudi Arabia would be outside the scope of VAT in Saudi Arabia. Any additional fee such as administration fees charged in relation to the issuance of a security may be subject to VAT where the supply is made by a registered taxpayer in Saudi Arabia. The additional fee could be subject to a reverse charge mechanism if a service is received by a registered taxpayer in Saudi Arabia from a supplier located outside Saudi Arabia.

Profits or trading gains generated by holding the Certificate by a Resident or non-Resident should be treated as exempt for Saudi Arabia VAT on the basis that the consideration is margin-based.

The precise reporting requirements attached to the various payments and receipts associated with the aforementioned transactions will depend on the residence of the Certificateholder, and whether they are a registered taxpayer for Saudi Arabia VAT purposes. However, with an exception of explicit fees or charges, any gain should not carry a positive VAT charge as they should either be treated as out of scope or exempt for the purposes of Saudi Arabia VAT. As a general overriding rule, the supply of all financial services relating to a real estate located outside Saudi Arabia will be subject to VAT in the country where the real estate is located and outside the scope of Saudi Arabia VAT.

Real Estate Transaction Tax (RETT)

On 2 October 2020, pursuant to Royal Decree, it was announced that certain supplies of real estate by way of sale will be exempt from VAT, and instead may be subject to a new 5 per cent. RETT. The new rules have applied since 4 October 2020.

Pursuant to the Royal Decree No. (A/84), dated 1 October 2020, new rules were announced treating certain supplies of real estate as exempt from VAT and implementing a 5 per cent. RETT. The new rules apply from 4 October 2020.

Specifically, under the new rules, the supply of real estate in Saudi Arabia by way of certain transactions resulting in a transfer of legal ownership or possession, will be VAT exempt. Further, a 5 per cent. RETT will be imposed on certain dealings relating to real estate. These dealings include any legal act transferring ownership or possession of real estate, including - but not limited to - contracts intended for transferring the right of usage or the right to
long-term lease. As an example, this would include; transfer of shares in real estate companies (where the real estate consists of more than 50 per cent. of the capital or assets of the company). RETT will not be applicable if the underlying real estate is located outside Saudi Arabia.

Specific exceptions will apply to the 5 per cent. RETT, and the new tax will not apply on certain types of transactions.

*Capital Gains Tax (CGT)*

According to Article 2 of the Income Tax Law, Persons Subject to Taxation (as defined below) include non-Residents in the Kingdom with taxable income generated from sources in the Kingdom and without a Permanent Establishment for tax purposes in the Kingdom (other than Permanent Establishment of a GCC person as defined under Article 2 of the Zakat Regulations, the treatment of which is discussed in “—Zakat” above).

Further, Article 1(2) of the By-Laws to the Income Tax Law defined the applicable tax on such a Person as to being subject to the following:

(a) WHT, if the income generated is stipulated under Article 68 of the Income Tax Law (as discussed in “—Withholding Tax (“WHT”)” and “—Certain tax and Zakat implications for Certificateholders—Certificateholders who are not Resident in the Kingdom”); and

(b) capital gains tax, if the income is derived from disposal of fixed and traded assets, or from disposal of shares in a resident company under the general provisions of the Income Tax Law.

Based on the above, if the sale of the Certificates by the Certificateholders is considered a source of income in the Kingdom, then the related income (or capital gain) will be subject to 20 per cent. corporate income tax in the Kingdom according to the rules for computation of capital gain tax provided in the Income Tax Law for non-Residents.

Capital gains realised from disposal of securities (such as the Certificates) traded inside or outside the Kingdom are exempt from tax in the Kingdom if the following conditions are met:

- The disposal is carried out in accordance with the regulations of Tadawul or the disposal is carried out outside of the Kingdom, but such securities are also traded on Tadawul; and

- The investor did not hold the securities before the effective date of the Income Tax Law (i.e., 30 July 2004).

The above exemption provided in the Income Tax Law is not applicable to the Certificates, as the Certificates will not be listed on Tadawul in the Kingdom.

*Certain tax and Zakat implications for Certificateholders*  

**(A) Certificateholders who are GCC persons and Resident in the Kingdom**

All income in the nature of a Loan Charge or capital gains realised in respect of the Certificates will be part of such Certificateholder’s Saudi Arabian reportable gross income subject to Zakat. This summary does not consider the extent to which such Certificateholder would be liable to Zakat as a consequence of acquiring, holding or disposing of its Certificates. It should be noted that under Article 5(4) of the Zakat Regulations which is in effect as of the date of this Offering Circular in the Kingdom, investment in Sukuk (whether short term or long term) are not deductible from the Zakat base of the Certificateholders for Zakat purposes.
Certificateholders that are legal entities Resident in the Kingdom owned jointly by GCC persons and non-GCC persons are subject to Zakat and corporate income tax in the Kingdom, based on the percentage of shares held by GCC and non-GCC shareholders, respectively in respect of any income received in the nature of Loan Charge or capital gains realised in respect of the Certificate.

Certificateholders that are GCC Natural Persons and Resident in Saudi Arabia

Certificateholders that are GCC natural persons and Resident in the Kingdom are not subject to Zakat in the Kingdom as per the Zakat Regulations in respect of any income received in the nature of a Loan Charge or capital gains realised in respect of the Certificates, unless such Certificateholder’s investment in the Certificates is connected to such Certificateholder’s business activity in the Kingdom. If such payment is connected to such Certificateholder’s business activity in the Kingdom, such amounts generally will be subject to Zakat in the Kingdom.

(B) Certificateholders who are Non-GCC persons and Resident in the Kingdom

Certificateholders that are non-GCC persons and Resident in the Kingdom will be subject to corporate income tax in the Kingdom.

Income in the nature of a Loan Charge or capital gains realised in respect of the Certificates will be part of such Certificateholder’s Saudi Arabian reportable gross income, subject to 20 per cent. corporate income tax (other than in respect of persons engaged in oil and hydrocarbon and natural gas production).

Certificateholders Resident in the Kingdom and engaged in oil and hydrocarbon and natural gas production in the Kingdom are subject to corporate income tax in the Kingdom. Any income received in the nature of a Loan Charge or capital gains realised in respect of the Certificates is subject to corporate income tax on the gross income, less deduction of allowable costs and certain other tax adjustments between 50 to 85 per cent. (in the case of oil and hydrocarbon production) or 20 per cent. (in the case of natural gas production).

Certificateholders that are non-GCC natural persons and Resident in the Kingdom are not subject to income tax, be it by way of withholding or by way of direct corporate income tax, in respect of any income received in the nature of a Loan Charge or capital gains realised in respect of the Certificates unless such Certificateholder’s investment in the Certificates is connected to such Certificateholder’s business activity in the Kingdom. If such payment is connected to such Certificateholder’s business activity in the Kingdom (including on capital gains realised from disposal of Certificates), such amounts generally will be subject to 20 per cent. corporate income tax in the Kingdom.

(C) Certificateholders who are not Resident in the Kingdom

Certificateholders, either natural persons or legal entities, that are not Resident and do not have a permanent establishment in the Kingdom, (whether such Certificateholders are GCC persons (other than the Kingdom) or non-GCC persons), prima facie, should not be subject to Saudi Arabian tax since any payment (i.e., a Loan Charge) flows from a non-Resident entity (i.e., the Trustee) to Certificateholders that are non-Resident.

However, direct payments by the Bank (if any) that are in the nature of a Loan Charge (other than capital gain realised from disposal of Certificate) in respect of the Certificates (as provided by the Terms and Conditions of the Certificates) to Certificateholders that are resident outside the Kingdom are subject to WHT at a rate of 5 per cent. in the Kingdom. In a few limited instances, Certificateholders may claim a refund of the WHT where a double tax treaty is in place between the Kingdom and the country in which the Certificateholder is resident for tax purposes and where such treaty provides for an exemption, lower tax rate or refund subject to meeting certain conditions and submission of prescribed documents).
The Mudaraba Agreement and the Master Declaration of Trust require the Bank to pay additional amounts in the event that any withholding or deduction is required by applicable law to be made in respect of payments made by it to the Trustee, or by the Trustee to Certificateholders, which are intended to fund Periodic Distribution Amounts and Dissolution Distribution Amounts.

Generally, the capital gains arising from the disposal of Certificates will be subject in the Kingdom to 20 per cent. capital gains tax provided that the resulting capital gain is considered to be a source of income in the Kingdom.

Certificateholders, be it natural persons or legal entities, that are not Resident in the Kingdom (whether such Certificateholders are GCC persons or non-GCC persons) with a Permanent Establishment in the Kingdom for tax purposes as defined in Article 4 of the Income Tax Law (other than Permanent Establishment of a GCC person as defined under Article 2 of the Zakat Regulations) will be subject to corporate income tax on the income earned by the Permanent Establishment in the nature of a Loan Charge or capital gains realised from the disposal of Certificates if such a Loan Charge or capital gains realised from the disposal of Certificates is attributable to the Permanent Establishment’s activities in the Kingdom. A non-resident GCC person with a Permanent Establishment in Saudi Arabia will be subject to income tax unless such person qualifies as a Zakat payer under Article 2 of the Zakat Regulations. If such person qualifies as a Zakat payer, such person will be subject to Zakat on the payment received as Loan Charge or capital gains realised from the disposal of Certificates if such a Loan Charge or capital gains realised from the disposal of Certificates is attributable to the Permanent Establishment’s activities in the Kingdom.

The income earned by the Permanent Establishment in the nature of a Loan Charge or capital gains realised from the Certificates is subject to 20 per cent. corporate income tax (provided that such income from the Certificates is attributable to the Permanent Establishment). Furthermore, any transfer of the profit to the head office of the Permanent Establishment will be considered to be a distribution of profit and will be subject to a 5 per cent. WHT.

(D) Other Taxes

(1) Inheritance Tax

Currently, there is no inheritance or other taxes of a similar nature in the Kingdom.

(2) Residency

Certificateholders will not be deemed to be Resident, domiciled or carrying on business in the Kingdom solely by holding any Certificates.

General

For the purposes of this summary:

Dependent Agent means, as per Article 4(1) of the By-Laws to the Income Tax Law, an agent who:

(a) is authorised to negotiate on behalf of a non-resident;
(b) is authorised to enter into contracts on behalf of a non-resident;
(c) has a stock of goods, owned by a non-resident, located in Saudi Arabia to supply the client’s demands on behalf of the non-resident.

GAZT means the General Authority of Zakat and Tax.

GCC means the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom and the United Arab Emirates.
**GCC person** means (a) a citizen of any of the member country of the Cooperation Council of the Arab States of the Gulf (namely, the Kingdom, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait), (b) a legal entity owned by GCC citizens and established under the laws of a GCC country and (c) public shareholders (or persons who hold shares for speculation) in a resident listed company (irrespective of their nationalities).

The following persons are not considered to be a GCC person irrespective of their nationalities:

(a) Shareholders of Resident legal entities engaged in oil and hydrocarbons production;

(b) Shareholders of Resident legal entities engaged in natural gas production; and

(c) Shareholders of Resident legal entities if such shares are ultimately owned by a Resident legal entity engaged in the oil and hydrocarbon production (directly or indirectly). Effective 1 January 2020, this provision does not apply to shares held directly or indirectly in the resident capital companies listed on Tadawul in Saudi Arabia and shares held by such listed companies in other capital companies.

**Resident** means any natural person or company that satisfies the residency conditions stipulated in Article 3 of the Income Tax Law or any governmental department or ministry, public entity, or other corporate person or entity formed in the Kingdom (Article 1 of the Income Tax Law).

The concept of Residency in the Kingdom as defined in Article 3 of the Income Tax Law is set out below:

(a) A natural person is considered to be a Resident in the Kingdom for a taxable year if he/she meets either of the two following conditions:

(i) he/she has a permanent place of abode in the Kingdom and is physically residing in the Kingdom for a period, in aggregate, of not less than 30 days during the taxable year; or

(ii) he/she is physically residing in the Kingdom for a period of not less than 183 days in the taxable year.

For the purposes of this paragraph, residence in the Kingdom for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside the Kingdom.

(b) A company is considered resident in the Kingdom during the taxable year if it meets either of the following conditions:

(i) it is formed in accordance with the Saudi Arabian Companies Regulations; or

(ii) its central management is located in the Kingdom.

**Loan Charge** as defined in Article 5(1) of the By-Laws to Income Tax Law means an amount paid for the use of money. This includes income realised from loan transactions of any type, whether secured by guarantees or not, or by giving rights to participate in the profits of the debited person or not. It also includes income realised from governmental and non-governmental bonds.

**Persons Subject to Taxation** as defined in Article 2 of the Income Tax Law, are:

(a) a Resident capital company on non-GCC shares (owned directly or indirectly);

(b) a Resident non-GCC natural person who does business in the Kingdom;

(c) a non-Resident who does business in the Kingdom through a Permanent Establishment;
(d) a non-Resident, on income subject to tax from sources within the Kingdom;

(e) a person engaged in the field of natural gas investment;

(f) a person engaged in the production of oil and hydrocarbon products; and

(g) persons subject to taxation also include a resident capital company in respect of those shares owned directly or indirectly by persons operating in oil and hydrocarbon production. Effective 1 January 2020, this provision does not apply to shares held directly or indirectly in the resident capital companies listed on Tadawul in Saudi Arabia and shares held by such listed companies in other capital companies.

**Note**: A capital company, as per Article 1 of the Income Tax Law, is a joint stock company, a limited liability company or a company limited by shares. For purposes of the Income Tax Law, investment funds shall be considered capital companies.

**Persons Subject to Zakat** as per Article 2 of the Zakat Regulations, are:

(a) Saudi and GCC nationals residing in the Kingdom, carrying on business activity in the Kingdom.

(b) Companies (listed and unlisted) Resident in the Kingdom in respect of shares owned by GCC persons, as well as anyone who carries on business activity under a license issued by a competent governmental or administrative authority in accordance with rules established by the authority.

(c) Companies (listed) Resident in the Kingdom in respect of shares owned by Non-GCC persons, other than the founders and their assigns, in accordance with the memorandum of association or statutory documents, and the shareholders of Saudi governmental authorities, bodies and institutions.

(d) Effective 1 January 2020, Resident listed companies (and their Resident investees) with respect to shares owned directly or indirectly by person engaged in oil and hydrocarbon production.

(e) Permanent Establishment of GCC persons as per Article 2(4) of the Zakat Regulations.

The following shall be excluded from the provisions of Article 2(4):

(i) Resident capital companies, in respect of the shares directly/indirectly owned by Zakat payers engaged in the production of oil and hydrocarbons, whether natural or legal persons, resident or non-resident.

(ii) A Zakat payer who is not subject to levy of Zakat per a decision from GAZT.

**Permanent Establishment** for income tax purposes means a permanent place of a non-Resident’s activity through which it carries out its business activity, in full or in part; including business carried out through its agent (an agent having the meaning specified in the Article 4(1) of the By-laws to the Income Tax Law). A non-Resident carrying out an activity in the Kingdom through a licensed branch (as defined in Article 4(b) 4 of the Income Tax Law) is considered to have a Permanent Establishment in the Kingdom.

**Permanent Establishment of GCC persons** is subject to Zakat provided at least two of the following three conditions are met in respect of the central management of such Permanent Establishment (as set out under Article 2(4) of the Zakat Regulations):

(a) Board of Directors’ ordinary meetings which are held regularly and where main policies and decisions relating to management and running of the Permanent Establishment’s business are held in and made from the Kingdom;
(b) senior executive decisions relating to the Permanent Establishment’s functions such as executive directors’/deputies’ decisions are made in the Kingdom; and

(c) the Permanent Establishment’s business is mainly (i.e. 50 per cent. of its revenues) generated from the Kingdom.

**The Proposed Financial Transactions Tax (the FTT)**

On 14 February 2013, the European Commission published a proposal (the *Commission’s Proposal*) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the *participating Member States*). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Certificates are advised to seek their own professional advice in relation to the FTT.

**Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as *FATCA*, a foreign financial institution may be required to withhold on certain payments it makes (foreign passthru payments) to persons that fail to meet certain certification, reporting, or related requirements. The Trustee may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (IGAs), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally Certificates characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date.
Certificateholders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.
SUBSCRIPTION AND SALE

The Joint Lead Managers, the Trustee and the Bank have, in a subscription agreement (the Subscription Agreement) dated 28 June 2021, agreed that the Trustee will sell to the Joint Lead Managers U.S.$500,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe for the Certificates.

In accordance with the terms of the Subscription Agreement, each of the Trustee and the Bank has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the Certificates and to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Certificates or possesses or distributes this Offering Circular and neither the Trustee, the Bank nor any of the other Joint Lead Managers shall have any responsibility therefor.

Neither the Trustee, the Bank nor any of the Joint Lead Managers represents that (i) Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale or (ii) any action has been, or will be, taken in any jurisdiction that would permit a public offering of any Certificates, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

United States

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Certificates (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Certificates and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Certificates to any retail investor in the EEA. For the purposes of this provision, the expression retail investor means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Certificates to any retail investor in the UK. For the purposes of this provision, the expression retail investor means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or the Bank; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the UK.

Cayman Islands

Each Joint Lead Manager has represented and agreed that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom or who is a Saudi person (a Saudi Investor) who acquires any Certificates pursuant to the offering should note that the offer of Certificates is a private placement under the Rules on the Offer of Securities and Continuing Obligations as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017 (as amended, the KSA Regulations), made through an authorised person licensed by the Capital Market Authority, in each case in accordance with the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to “Sophisticated Investors” under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 or, as otherwise required or permitted by, the KSA Regulations. Each Joint Lead Manager has represented and agreed that any offer of Certificates by it to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a “public offer”, an “exempt offer” or a “parallel market offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made in compliance with the restrictions on secondary market activity under the KSA Regulations.
United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an “Exempt Offer” in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority rulebook (the DFSA Rulebook); and

(b) made only to persons who meet the “Professional Client” criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

State of Kuwait

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, marketed and/or sold by it in the State of Kuwait, except through a licensed person duly authorised to undertake such activity pursuant to Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and Regulating of Securities Activities and its executive bylaws (each as amended) (the CML Rules) and unless all necessary approvals from the Kuwait CMA pursuant to the CML Rules, together with the various resolutions, regulations, directives and instructions issued pursuant thereto or in connection therewith (regardless of nomenclature or type), or any other applicable law or regulation in the State of Kuwait, have been given in respect of the offering, marketing and/or sale of the Certificates.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates, except on a private placement basis, to persons in Bahrain who are “accredited investors”.

For this purpose, an accredited investor means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more excluding that person’s principal place of residence;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar (including the Qatar Financial Centre)

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Certificates in Qatar (including the Qatar Financial Centre), except:

(a) in compliance with all applicable laws and regulations of Qatar (including the Qatar Financial Centre); and
(b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar (including the Qatar Financial Centre).

**Japan**

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold, and will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other laws and regulations of Japan.

**Hong Kong**

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates, except for Certificates which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**), other than (a) to “professional investors” as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **Companies Ordinance**); and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

**Malaysia**

Each Joint Lead Manager has represented and agreed that:

(a) this Offering Circular has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and

(b) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Part I of Schedule 6 or Section 229(1)(b) and Part I of Schedule 7 or Section 230(1)(b), read together with Schedule 8 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.
This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Each Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (as modified or amended from time to time, the SFA)) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offer of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and ‘excluded investment products’ (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

The offering of the Certificates in Switzerland is exempt from the requirement to prepare and publish a prospectus under the Swiss Financial Services Act (FinSA) because the Certificates (i) have a minimum denomination of CHF 100,000 (or equivalent in another currency) or more and (ii) will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Offering Circular does not constitute a
prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Certificates.
GENERAL INFORMATION

Listing

Application has been made to the London Stock Exchange for the Certificates to be admitted to trading on the ISM. The ISM is not a regulated market within the meaning of the UK MiFIR. The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the Financial Conduct Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular. It is expected that the admission of the Certificates to trading on the ISM will be granted on or around the Issue Date.

Legal Entity Identifier

The legal entity identifier (LEI) of the Trustee is 549300O8QDCM6RI6GD22.

The LEI of the Bank is 558600FGNP3JML7WY215.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 18 June 2021. The Trustee has obtained all necessary consents, approvals and authorisations in connection with the issue of the Certificates and the entry into the Transaction Documents.

The entry by the Bank into the Transaction Documents was authorised by the directors of the Bank on 26 May 2021.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 235874059 and ISIN XS2358740590.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial performance or financial position of the Bank or the Group since 31 March 2021 and there has been no material adverse change in the financial position or prospects of the Bank or the Group since 31 December 2020.

There has been no significant change in the financial performance or financial position of the Trustee and there has been no material adverse change in the financial position or prospects of the Trustee, in each case since the date of its incorporation.

Litigation

Neither the Trustee nor the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee or the Bank is aware) in the 12 months preceding the date of this Offering Circular which may have or have in such period had a significant effect on the financial position or profitability of the Trustee, the Bank or the Group.
Auditors

The current joint auditors of the Bank are Ernst & Young & Co. Certified Public Accountants (EY) and PricewaterhouseCoopers Certified Public Accountants (PwC). The business address of EY is 13th Floor – King’s Road Tower, King Abdulaziz Road, P.O. Box 1994, Jeddah 21441, Kingdom of Saudi Arabia and the business address of PwC is 5th Floor, Jameel Square, P. O. Box 16415, Jeddah 21464, Kingdom of Saudi Arabia. EY and PwC are independent auditors and registered with SOCPA, the professional body that oversees audit firms in the Kingdom of Saudi Arabia.

The 2019 Financial Statements, incorporated by reference herein, have been jointly audited by EY and KPMG Professional Services (KPMG) (together, the 2019 Auditors), in accordance with International Standards on Auditing that are endorsed in the Kingdom. The 2019 Auditors have issued an unqualified audit report on the 2019 Financial Statements, which is incorporated by reference herein.

The 2020 Financial Statements, incorporated by reference herein, have been jointly audited by KPMG and PwC, in accordance with International Standards on Auditing that are endorsed in the Kingdom. KPMG and PwC have issued an unqualified audit report on the 2020 Financial Statements, which is incorporated by reference herein.

The Interim Financial Statements, incorporated by reference herein, have not been audited but have been jointly reviewed by KPMG and PwC 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, as stated in their review report, incorporated by reference herein.

With respect to the Interim Financial Statements, incorporated by reference herein, KPMG and PwC have jointly reported that they have applied limited procedures in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Auditor of the Entity” that is endorsed in the Kingdom. However, their separate review report dated 2 May 2021, incorporated by reference herein, states that they did not audit and they do not express an opinion on that unaudited interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Since the date of its incorporation, no financial statements of the Trustee have been prepared.

The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

Documents Available

For as long as the Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will, when published, be available for inspection and/or collection from the specified office of the Principal Paying Agent:

(a) the Transaction Documents;
(b) the constitutional documents of the Trustee and the Bank;
(c) the unaudited interim condensed consolidated financial statements of the Bank as at and for the three months ended 31 March 2021, together with the review report thereon and the notes thereto;
(d) the consolidated financial statements of the Bank as at and for the years ended 31 December 2020 and 31 December 2019, in each case, together with the audit reports thereon and the notes thereto;
(e) the most recently published consolidated financial statements of the Bank and interim condensed consolidated financial information of the Bank, in each case, together with any audit or review reports thereon and the notes thereto; and

(f) this Offering Circular together with any supplement to this Offering Circular.


Cayman Islands Data Protection

The Cayman Islands Government enacted the Data Protection Act, 2017 (as amended) of the Cayman Islands (the DPA) on 18 May 2017 which was brought into force on 30 September 2019. The DPA introduces legal requirements for the Trustee based on internationally accepted principles of data privacy.

Prospective investors should note that, by virtue of making investments in the Certificates and the associated interactions with the Trustee and its affiliates and/or delegates, or by virtue of providing the Trustee with personal information on individuals connected with the investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents) such individuals may be providing the Trustee and its affiliates and/or delegates (including, without limitation, the Trustee Administrator) with certain personal information which constitutes personal data within the meaning of the DPA. The Trustee shall act as a data controller in respect of this personal data and its affiliates and/or delegates, such as the Trustee Administrator, may act as data processors (or data controllers in their own right in some circumstances).

For further information on the application of the DPA to the Trustee, please refer to the Privacy Notice which may be accessed at: https://walkersglobal.com/external/SPVDPNotice.pdf, which provides an outline of investors’ data protection rights and obligations as they relate to the investment in the Certificates.

Oversight of the DPA is the responsibility of the Ombudsman’s office of the Cayman Islands. Breach of the DPA by the Trustee could lead to enforcement action by the Ombudsman, including the imposition of remediation orders, monetary penalties or referral for criminal prosecution.

Joint Lead Managers Transacting with the Bank

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank financings) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Trustee, the Bank and their affiliates, including, without limitation, the Certificates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Bank and its affiliates may routinely hedge their credit exposure to the Bank and its affiliates consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.
AUDITORS TO THE BANK

For 2020 Financial Statements and Interim Financial Statements

KPMG Professional Services
9th Floor, Tower A, Zahran Business Centre Prince Sultan Street
P.O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

PricewaterhouseCoopers Certified Public Accountants
5th Floor, Jameel Square
P.O. Box 16415
Jeddah 21464
Kingdom of Saudi Arabia

For 2019 Financial Statements

Ernst & Young & Co. Certified Public Accountants
King’s Road Tower - 13th Floor King Abdulaziz Road (Malek Road)
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