Auditors' Report

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

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 43.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances As of December 31, 2018, the gross loans and advances of the Group were Saudi Riyals (SAR) 61,208 million against which an impairment allowance of SAR 1,796 million was maintained. Effective January 1, 2018, the Group has adopted IFRS 9 "Financial Instruments" which introduced a forward looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives.	We obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9 and assessed the underlying assumptions and the data used.

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Key audit matter	How our audit addressed the key audit matter
The adoption of IFRS 9 resulted in a reduction of the Group's equity as of January 1, 2018 by SAR 643 million. The impact of transition is explained in note 3(a)(a2) to the consolidated financial statements. We considered this as a key audit matter as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: 1. Categorisation of loans and advances in Stage 1, 2 and 3 based on the identification of: (a) exposures with significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / default exposures. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors etc. 3. The need to apply overlays to reflect current or future external factors that might not be captured by the expected credit loss model. 4. Disclosures resulting from the adoption of IFRS 9 and the related incremental disclosures of IFRS 7 "Financial Instruments : Disclosures". *Refer to the significant accounting policies note 3(a)(a2) to the consolidated financial statements for the adoption of IFRS 9 – "Financial Instruments" and significant accounting policy relating to impairment of financial assets, note 2(d)(d1) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 and note 33 which contains the disclosure of impairment against loans and advances and details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	We evaluated the design and implementation, and tested the operating effectiveness of controls over: • the modelling process including governance over monitoring of the models and approval of key assumptions; • the classification of borrowers in various stages and timely identification of SICR and determination of default or individually impaired exposures; and • integrity of data inputs into the ECL model. We assessed the underlying assumptions including forwad looking assumptions used by the Group in ECL calculations. We assessed the Group's criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages. For a sample of customers, we assessed: • the internal ratings determined by the management based on the Group's internal rating model and checked that their ratings were in line with the ratings used in the ECL model; • the staging as identified by management; and • management's computation of ECL. We assessed the underlying assumptions including forward looking assumptions used by the Group in ECL calculation. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculation as of December 31, 2018. Where relevant, we involved specialists to assist us in review of model calculations and data integrity. As the Goup has used the modified restrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of adjustments to the Group's equity as of January 1, 2018 (as a result of adoption of IFRS 9). We assessed the accuracy and adequacy of disclosures included by the managemnet in the consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges loan-processing fees upfront to customers. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, such fees are considered in making an adjustment to the effective yield, and income is recognised using that effective yield and classified as "Special Commission Income". However, due to the large volume of transactions with mostly insignificant fee amounts, management used certain thresholds and assumptions for recognition of such fees. We considered this as a key audit matter since the use of thresholds and assumptions could result in a material over / under-statement of the Group's profitability for the year. *Refer to the summary of significant accounting policies note 3(j)(j3) to the consolidated financial statements.*	We evaluated the design and implementation and tested the operating effectiveness of the key controls over the consistent application of the management's thresholds and assumptions for recognition of such fees. We evaluated the assumptions used and thresholds established by the Group for making adjustments to the effective yield of loans and advances and recording such adjustment. We obtained management's assessment of the impact of the use of thresholds and assumptions and performed the following: • on a sample basis, traced the historical and current year data used by management to source documents; and • assessed management's estimation of the impact on special commission income.
Valuation of Investments held as fair value through other comprehensive income (FVOCI) which are not traded in an active market Investments held as FVOCI comprise a portfolio of corporate bonds and sukuk and equity instruments. These instruments are measured at fair value with the corresponding unrealized fair value changes recognised in other comprehensive income. Whilst the majority of the fair values of the Group's investments were obtained directly from active markets as of December 31, 2018, the Group held an amount of SAR 7.7 billion of unquoted investments. The fair value of these investments is determined through the application of valuation techniques, which often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those investments not traded in an active market and where the internal modelling techniques use: • significant observable valuation inputs (i.e. level 2 investments); and • significant unobservable valuation inputs (i.e. level 3 investments) Estimation uncertainty is particularly high for level 3 investments.	We evaluated the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuation of investments classified as FVOCI which are not traded in an active market. We reviewed the methodology and assessed the appropriateness of valuation models and inputs used by management to value the investments held as FVOCI through involving our experts. We tested the valuation of a sample of FVOCI investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation such as comparable entity data and liquidity discounts by benchmarking them with external data.

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Key audit matter	How our audit addressed the key audit matter
In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data. The valuation of the Group's investments held as FVOCI and FVTPL in level 2 and level 3 categories is considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(b)(b3), note 34 which explains the investment valuation methodology used by the Group and note 2(d)(d2) which explains critical judgments and estimates for fair value measurement.*	
Impairment of investments in debt instruments As of December 31, 2018, the Group held an amount of SAR 24.2 billion of investments in debt instruments classified as fair value through other comprehensive income (FVOCI). FVOCI investments primarily comprised of sovereign and corporate bonds/sukuk which are subject to impairment assessment using the expected credit loss model due to either adverse market conditions and / or liquidity constraints faced by the issuers. The expected credit losses on these debt investments have been determined in accordance with IFRS 9 Financial Instruments from January 1, 2018. As of December 31, 2018, the Group recognized an amount of SAR 75.5 million as an ECL on FVOCI debt investments. We considered this as a key audit matter as the Group makes complex and subjective judgements and makes assumptions relating to the determination of impairment against investments and the timing of such recognition. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(b)(b9) for the accounting policy relating to the impairment of financial assets, note 2(e) for impairment of debt investments, and note 33 for the disclosures of credit risk.*	We obtained an understanding of management's assessment of impairment of investments in debt instruments including the IFRS 9 implementation process, the Group's impairment allowance policy and ECL modelling methodology. We compared the ECL methodology with the requirements of IFRS 9 and assessed the underlying assumptions and the data used. We evaluated the design and implementation and tested the operating effectiveness of relevant controls over the data inputs and the ECL model. We assessed and tested the material modeling assumptions with a focus on the: • key portfolio and counterparty modeling parameters and assumptions adopted by the Group for the corporate and sovereign bonds/sukuk; • macroeconomic variables selected and the scenario weightings applied; and • timely identification of exposures with a significant deterioration in credit quality.

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Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments The Group has entered into various commission rate swaps, commission rate options, foreign exchange forward contracts and foreign exchange options which are over the counter (OTC) derivatives. The valuation of these contracts is subjective and is determined through the application of valuation techniques that often involves the execrcise of judgement and the use of assumptions and estimates. The majority of these derivatives are held for trading purposes; however, certain commission rate swaps are categorized as fair value hedges in the consolidated financial statements. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, also impact the hedge accounting. Due to the significance of the derivative financial instruments and related estimation and uncertainty, we have assessed the valuation of derivative financial insturments as a key audit matter. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(g) which explains derivative financial instruments and hedge accounting, note 11 which discloses the derivative positions and note 34 which explains the fair values of financial assets and liabilities.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives, including testing of relevant controls covering the fair valuation processes for derivatives. We selected a sample of derivatives and performed the following: • tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • checked the accuracy and appropriateness of the key inputs to the valuation models; • involved our valuation experts to perform an independent valuation of the derivatives and compared the results with management's valuation; and • checked hedge effectiveness performed by the Group and the related hedge accounting.
Valuation of associated company put option The Group's derivatives as of December 31, 2018 includes a put option with a positive fair value of SAR 418 million (note 11). This put option is embedded within the agreement (the Agreement) with the other shareholder in an associated company and gives the Group an option to sell its share in the associated company to the other shareholder based on a strike price determined in accordance with the Agreement. In accordance with the Group's accounting policy, this put option is segregated from the Agreement and is measured at its fair value.	We inspected the agreement to obtain an understanding of the principal terms of the put option. We considered the put option valuation performed by the management and assessed the methodology and key assumptions used by the management. We involved our experts to assess the reasonableness of the valuation of the associated company put option provided by the management.

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Key audit matter	How our audit addressed the key audit matter
The Group uses an option pricing model to fair value the put option which requires certain inputs which are not observable in the current market place. These inputs include historical results of the associated company and other inputs which require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. This is considered as a key audit matter as the valuation of this put option, as mentioned above, requires management to exercise judgment. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(g) which explains the accounting policy for derivative financial instruments and hedge accounting, note 11 which explains the put option positions and note 34 which explains the fair values of financial assets and liabilities.*	

Other Information

The Board of Directors of the Bank ("the Directors") are responsible for the other information in the Bank's annual report. The other information consists of the information included in the Bank's 2018 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain jointly responsible for our audit opinion.

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

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

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

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Report on other legal and regulatory requirements

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

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February 10, 2019