



Arab National Bank

(A Saudi Joint Stock Company)

Interim Condensed Consolidated Financial Statements

For the period ended 30 June 2020

Independent Auditors' Review Report on
Interim Condensed Consolidated Financial Statements

To: The Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Arab National Bank ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2020, and the related interim consolidated statements of income and comprehensive income for the three and six month periods then ended and the related interim consolidated statements of changes in equity and cash flows for the six month period then ended, and other explanatory notes (collectively referred to as "the interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard No. 34 "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

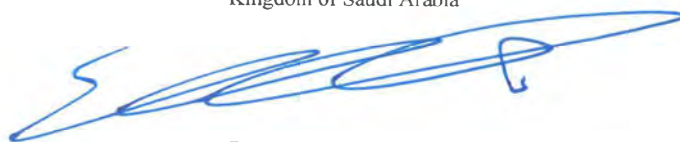
Other Regulatory Matters

As required by Saudi Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note (18) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (18) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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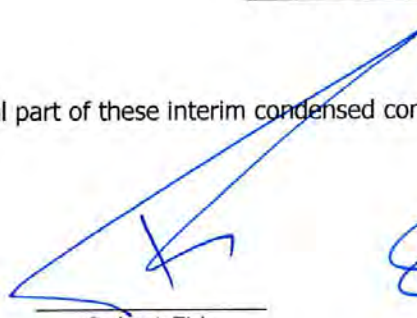
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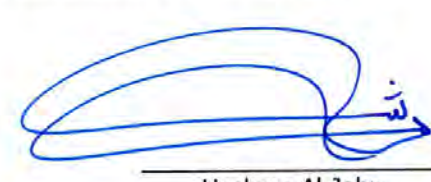
ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR '000

	Notes	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
ASSETS				
Cash and balances with SAMA	5	15,011,091	17,167,044	10,369,394
Due from banks and other financial institutions, net	6	1,342,982	2,067,992	834,931
Positive fair value of derivatives	11	1,020,854	1,225,136	1,253,293
Investments, net	7	43,342,248	38,038,140	32,452,416
Loans and advances, net	8	117,128,954	118,837,121	119,746,213
Investments in associates		1,264,559	889,115	886,553
Other real estate		220,697	222,197	220,697
Property and equipment, net		2,096,693	2,183,641	2,251,932
Other assets		5,868,467	2,812,091	2,885,037
Total assets		187,296,545	183,442,477	170,900,466
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	9	12,808,405	3,082,181	1,402,690
Negative fair value of derivatives	11	4,434,767	2,341,184	2,122,709
Customers' deposits	10	133,896,212	142,128,897	131,911,948
Other liabilities		5,684,675	5,529,026	6,012,721
Sukuk		2,012,345	2,017,903	2,020,601
Total liabilities		158,836,404	155,099,191	143,470,669
Equity				
Equity attributable to equity holders of the Bank				
Share capital	16	15,000,000	15,000,000	15,000,000
Statutory reserve		7,756,000	7,756,000	7,000,000
Other reserves		(86,055)	230,786	133,989
Retained earnings		5,756,971	4,627,232	5,260,099
Proposed dividends		-	694,205	-
Total equity attributable to equity holders of the Bank		28,426,916	28,308,223	27,394,088
Non-controlling interests		33,225	35,063	35,709
Total equity		28,460,141	28,343,286	27,429,797
Total liabilities and equity		187,296,545	183,442,477	170,900,466

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Robert Eid
Managing Director

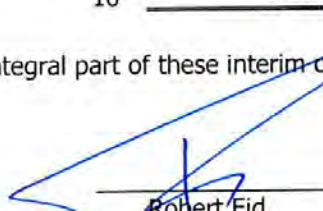

Hesham Al-Jabr
Authorized Board Member


ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME
Amounts in SAR '000 (Unaudited)

	Notes	For the three month period ended		For the six month period ended	
		June 30 2020	June 30 2019	June 30 2020	June 30 2019
Special commission income		1,501,398	1,953,973	3,260,064	3,890,836
Special commission expense		302,347	516,507	770,256	1,088,529
Net special commission income		1,199,051	1,437,466	2,489,808	2,802,307
Fees and commission income, net		120,104	159,060	273,483	301,684
Exchange income, net		97,948	90,152	191,721	183,286
Unrealized (loss) / gain on FVTPL financial instruments, net		77	3,336	(126,281)	5,591
Trading income / (loss), net		376	(4,383)	3,622	(8,937)
Dividend income		30,118	29,876	43,341	47,150
Gain on sale of FVOCI debt financial assets, net		-	-	10,488	-
Other operating income, net		22,052	18,436	73,158	36,016
Total operating income		1,469,726	1,733,943	2,959,340	3,367,097
Salaries and employee related expenses		311,092	314,122	629,434	638,388
Rent and premises related expenses		13,744	15,532	26,756	29,183
Depreciation and amortization		54,741	63,797	112,890	131,733
Other general and administrative expenses		147,813	146,134	303,935	298,465
Total operating expenses before impairment charges		527,390	539,585	1,073,015	1,097,769
Impairment charges for credit losses and other provisions, net	8	345,433	187,584	543,783	335,576
(Reversal of impairment charges) / Impairment charges for other financial assets, net		2,379	(6,902)	(3,440)	6,732
Total operating expenses		875,202	720,267	1,613,358	1,440,077
Net operating income		594,524	1,013,676	1,345,982	1,927,020
Share in earnings of associates, net		1,980	11,063	5,794	17,302
Gain on disposal of investment in an associate		-	-	15,217	-
Net income before zakat and income tax		596,504	1,024,739	1,366,993	1,944,322
Zakat for the period	14	59,955	58,484	128,221	127,404
Income tax for the period	14	54,385	72,240	112,404	144,480
Deferred tax reversal for the period		(2,183)	-	(1,533)	-
Net income for the period		484,347	894,015	1,127,901	1,672,438
Attributable to:					
Equity holders of the Bank		485,952	894,244	1,129,739	1,673,215
Non-controlling interests		(1,605)	(229)	(1,838)	(777)
Net income for the period		484,347	894,015	1,127,901	1,672,438
Basic and diluted earnings per share (expressed in SAR per share)	16	0.32	0.60	0.75	1.11

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer



Robert Eid
Managing Director


Hesham Al-Jabr
Authorized Board Member

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Amounts in SAR '000 (Unaudited)

	<u>For the three month period ended</u>		<u>For the six month period ended</u>	
	<u>June 30 2020</u>	<u>June 30 2019</u>	<u>June 30 2020</u>	<u>June 30 2019</u>
Net income for the period	484,347	894,015	1,127,901	1,672,438
Other comprehensive income				
Items that cannot be reclassified to interim consolidated statement of income in subsequent periods				
<i>Equity instruments at fair value through other comprehensive income:</i>				
• Net changes in fair value	170,533	(6,597)	(216,413)	99,474
Items that can be reclassified to interim consolidated statement of income in subsequent periods				
<i>Debt instruments at fair value through other comprehensive income:</i>				
• Net changes in fair value	82,814	2,754	(103,040)	28,738
• Net amounts transferred to interim consolidated statement of income	4,273	(2,458)	2,612	(794)
Total other comprehensive (loss) / income for the period	257,620	(6,301)	(316,841)	127,418
Total comprehensive income for the period	741,967	887,714	811,060	1,799,856
Attributable to:				
Equity holders of the Bank	743,572	887,943	812,898	1,800,633
Non-controlling interests	(1,605)	(229)	(1,838)	(777)
Total comprehensive income for the period	741,967	887,714	811,060	1,799,856

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Robert Eid
Managing Director


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ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six month period ended June 30, 2020 and 2019
Amounts in SAR '000 (Unaudited)

2020

Balance at December 31, 2019

Changes in equity for the period:

Net changes in fair values of FVOCI equity investments

Net changes in fair values of FVOCI debt instruments

Net transfers to interim consolidated statement of income

Net income for the period

Total comprehensive income for the period

2019 final dividends, net

Balance at the end of the period

Notes	Attributable to equity holders of the Bank							Non-controlling interests	Total equity
	Share capital	Statutory reserve	FVOCI	Other Reserves Actuarial losses on defined benefit plan	Retained earnings	Proposed dividends	Total		
	15,000,000	7,756,000	308,794	(78,008)	4,627,232	694,205	28,308,223	35,063	28,343,286
	-	-	(216,413)	-	-	-	(216,413)	-	(216,413)
	-	-	(103,040)	-	-	-	(103,040)	-	(103,040)
	-	-	2,612	-	-	-	2,612	-	2,612
	-	-	-	-	1,129,739	-	1,129,739	(1,838)	(1,127,901)
	-	-	(316,841)	-	1,129,739	-	812,898	(1,838)	811,060
	-	-	-	-	-	(694,205)	(694,205)	-	(694,205)
	15,000,000	7,756,000	(8,047)	(78,008)	5,756,971	-	28,426,916	33,225	28,460,141

2019

Restated balance at December 31, 2018

Impact of adopting IFRS 16 at January 1, 2019

Changes in equity for the period:

Net changes in fair values of FVOCI equity investments

Net changes in fair values of FVOCI debt instruments

Net transfers to interim consolidated statement of income

Net income for the period

Total comprehensive income for the period

Net loss on derecognition of FVOCI equity investments

Bonus shares

2018 final dividends


Balance at the end of the period

Notes	Share capital	Statutory reserve	FVOCI	Actuarial losses on defined benefit plan	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
	10,000,000	10,000,000	73,216	(80,479)	5,677,522	850,000	26,520,259	36,486	26,556,745
	-	-	-	-	(76,804)	-	(76,804)	-	(76,804)
	-	-	99,474	-	-	-	99,474	-	99,474
	-	-	28,738	-	-	-	28,738	-	28,738
	-	-	(794)	-	-	-	(794)	-	(794)
	-	-	-	-	1,673,215	-	1,673,215	(777)	1,672,438
	-	-	127,418	-	1,673,215	-	1,800,633	(777)	1,799,856
7	-	-	13,834	-	(13,834)	-	-	-	-
16	5,000,000	(3,000,000)	-	-	(2,000,000)	-	-	-	-
	-	-	-	-	-	(850,000)	(850,000)	-	(850,000)
	15,000,000	7,000,000	214,468	(80,479)	5,260,099	-	27,394,088	35,709	27,429,797

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.



Latifa Al-Sabhan
Chief Financial Officer



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Managing Director



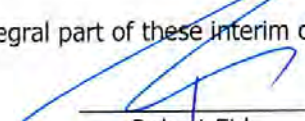
Hesham Al-Jabr
Authorized Board Member

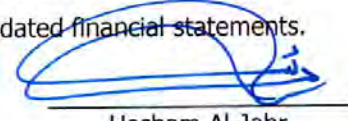
ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the six month period ended June 30
Amounts in SAR '000 (Unaudited)

	Notes	2020	2019
OPERATING ACTIVITIES			
Net income before zakat and income tax		1,366,993	1,944,322
Adjustments to reconcile net income to net cash used in operating activities:			
Amortization of premium on investments not held as FVTPL, net		13,682	1,081
Special commission expense on Sukuk		32,538	43,475
Gain on sale of FVOCI debt and other financial assets, net		(10,488)	-
Unrealized loss / (gains) on revaluation of investments as FVTPL, net		126,281	(5,591)
Dividend income		(43,341)	(47,150)
Depreciation and amortization of property and equipment		112,890	131,733
(Gain) / loss on disposal of property and equipment, net		(18)	3,446
Impairment charges for credit losses and other provisions, net		543,783	335,576
(Reversal of impairment charges) / Impairment charges for other financial assets, net		(3,440)	6,732
Share in earnings of associates, net		(5,794)	(17,302)
Gain on disposal of investment in an associate		(15,217)	-
		2,117,869	2,396,322
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(209,216)	(73,398)
Investments held at FVTPL		(68,395)	8,307
Positive fair value of derivatives		204,283	327,041
Loans and advances		1,426,537	1,172,143
Other real estate, net		1,500	-
Other assets		(3,056,376)	(1,825,348)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		9,726,223	(133,912)
Negative fair value of derivatives		2,093,583	831,326
Customers' deposits		(8,232,685)	(10,143,660)
Other liabilities		(1,723,244)	(620,249)
Zakat and income tax paid		(96,935)	(478,646)
		2,183,144	(8,540,074)
Net cash from / (used in) operating activities			
INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments not held as FVTPL		1,094,865	946,570
Purchase of investments not held as FVTPL		(5,296,341)	(4,451,142)
Purchase of property and equipment		(25,910)	(37,802)
Investment in associate		(354,433)	7,864
Proceeds from sale of property and equipment		18	-
Dividends received		43,341	47,150
		(4,538,460)	(3,487,360)
Net cash used in investing activities			
FINANCING ACTIVITIES			
Dividends paid		(692,145)	(909,018)
Special commission paid on Sukuk		(38,096)	(43,365)
		(730,241)	(952,383)
Net cash used in financing activities			
Net decrease in cash and cash equivalents		(3,085,557)	(12,979,817)
Cash and cash equivalents at the beginning of the period		12,160,632	17,094,956
Cash and cash equivalents at the end of the period	13	9,075,075	4,115,139
Special commission received during the period		3,281,686	3,670,880
Special commission paid during the period		(740,201)	(895,253)
Supplemental non-cash information			
Net changes in fair value of investments held at fair value through other comprehensive income		(319,453)	128,212

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Robert Eid
Managing Director


Hesham Al-Jabr
Authorized Board Member

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements
For the six month period ended June 30, 2020 and 2019

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 137 branches (June 30, 2019: 139 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides its customers non-commission based banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The interim condensed consolidated financial statements comprise the interim condensed financial statements of the Bank and its following subsidiaries (collectively referred to as the Group):

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank has established ANB Invest, a wholly owned subsidiary, a Saudi closed joint stock company, registered in the Kingdom under Commercial Registration No. 1010239908 issued on Shawwal 26, 1428H (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA. The subsidiary commenced its operations effective Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008. On Muharram 19, 1436H (corresponding to November 12, 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company. The objective of the subsidiary was amended and approved by CMA Board of Commissioners on Muharram 28, 1437H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal activity. The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Arabian Monetary Authority's circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

Arabian Heavy Equipment Leasing Company (AHEL)

An 87.5% owned subsidiary (2019: 87.5%) incorporated in the Kingdom, as a Saudi closed joint stock company, under Commercial Registration no 1010267489 issued in Riyadh dated Jumada I 15, 1430H (corresponding to May 10, 2009). The company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah principles. The Bank started consolidating the subsidiary's financial statements effective May 10, 2009, the date the subsidiary started its operations. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to reach 87.5%.

ANB Insurance Agency

A Saudi limited liability company established during 2013 as a wholly owned subsidiary, registered in the Kingdom under Commercial Registration no. 1010396423 issued in Riyadh dated Muharram 28, 1435H (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Arabian Monetary Authority (SAMA) to start its activities in insurance agency and related business on Jumada I 5, 1435H (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Limited

A wholly owned limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase of lands and real estates and invest them through sale or rent in favor of the company, maintenance and management of owners and others' assets as guarantee, sale and purchase of real estates for financing purposes as per SAMA approval No. 361000109161 dated 10/8/1436H.

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the six month period ended June 30, 2020 and 2019

1. General (continued)

ANB Global Markets Limited

The Bank established on January 31, 2017 ANB Global Markets Limited, as a limited liability company registered in the Cayman Islands. The Bank has 100% (2019: 100%) ownership. The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

2. Basis of preparation

The interim condensed consolidated financial statements of the Group as at and for the six month period ended June 30, 2020 have been prepared in accordance with International Accounting Standard 34 interim financial reporting ("IAS 34"), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019.

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

3. Basis of consolidation

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries where necessary to align them with the Bank's interim condensed consolidated financial statements.

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

Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

If the Group loses control over a subsidiary, it:

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

ARAB NATIONAL BANK**(A Saudi Joint Stock Company)****Notes to the Interim Condensed Consolidated Financial Statements (continued)****For the six month period ended June 30, 2020 and 2019****3. Basis of consolidation (continued)**

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the interim consolidated statement of income and within equity in the interim consolidated statement of financial position, separately from the equity holders of the Bank. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests are subsequently adjusted for their share of changes in equity of the consolidated subsidiary after the date of acquisition.

All intra-group assets and liabilities, equity, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation.

4. Significant accounting policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the accounting policy explained below.

Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognised in the statement of income on a systematic basis over the period in which the Bank recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the bank. Where the customer is the ultimate beneficiary, the bank only records the respective receivable and payable amounts. If the Grant is not directly attributable to any cost, it is deferred and amortized over the term of the deposit using effective interest rate.

5. Cash and balances with SAMA

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Cash in hand	1,536,450	1,723,910	2,101,640
Statutory deposit	7,287,505	7,078,289	7,095,207
Reverse repo with SAMA	6,181,000	8,363,000	1,172,000
Other balances	6,136	1,845	547
Total	15,011,091	17,167,044	10,369,394

6. Due from banks and other financial institutions

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Current accounts	552,012	1,133,575	549,131
Money market placements	799,477	938,303	291,821
Less: Impairment	(8,507)	(3,886)	(6,021)
Total	1,342,982	2,067,992	834,931

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7. Investments, net

Investment securities are classified as follows:

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Investments at amortized cost	39,211,907	32,736,543	27,947,999
Investments at FVOCI - equity	1,824,491	1,983,435	1,087,610
Investments at FVOCI - debt	1,826,315	2,791,416	2,901,542
Investments at FVTPL	496,789	554,675	530,561
Less: Impairment	(17,254)	(27,929)	(15,296)
Total	43,342,248	38,038,140	32,452,416

Equity investment securities designated as at FVOCI

Dividend income recognized in the interim consolidated statement of income amounted to SAR 35,402 thousand for the six month period ended June 30, 2020 (June 30, 2019: SAR 31,123 thousand).

8. Loans and advances, net

Loans and advances (all held at amortized cost) comprise the following:

June 30, 2020 (Unaudited)	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	3,495,637	384,766	28,231,548	85,726,380	117,838,331
Non-performing loans and advances, net	4,892	10,450	123,892	2,921,025	3,060,259
Total loans and advances	3,500,529	395,216	28,355,440	88,647,405	120,898,590
Impairment allowance	(136,186)	(35,310)	(400,015)	(3,198,125)	(3,769,636)
Loans and advances, net	3,364,343	359,906	27,955,425	85,449,280	117,128,954

December 31, 2019 (Audited)

Performing loans and advances, gross	4,320,311	468,857	27,251,509	87,699,378	119,740,055
Non-performing loans and advances, net	8,974	7,633	89,022	2,393,020	2,498,649
Total loans and advances	4,329,285	476,490	27,340,531	90,092,398	122,238,704
Impairment allowance	(80,878)	(32,136)	(359,241)	(2,929,328)	(3,401,583)
Loans and advances, net	4,248,407	444,354	26,981,290	87,163,070	118,837,121

June 30, 2019 (Unaudited)

Performing loans and advances, gross	3,549,781	475,394	25,806,871	91,348,756	121,180,802
Non-performing loans and advances, net	4,938	9,300	100,064	1,385,420	1,499,722
Total loans and advances	3,554,719	484,694	25,906,935	92,734,176	122,680,524
Impairment allowance	(44,241)	(36,193)	(375,107)	(2,478,770)	(2,934,311)
Loans and advances, net	3,510,478	448,501	25,531,828	90,255,406	119,746,213

The movement in the allowance for impairment of loans and advances to customers for the six month period ended June 30 are as follows:

	June 30 2020 (Unaudited)	June 30 2019 (Unaudited)
Balance at the beginning of the period	3,401,583	2,677,304
Charge for the period, net	785,128	411,691
Bad debts written off against impairment allowance	(417,075)	(154,684)
Balance at the end of the period	3,769,636	2,934,311

Impairment charge for credit losses, net for the period ended June 30, 2020 amounted to SAR 706,846 thousand (June 30, 2019: SAR 361,752 thousand), including bad debts directly written-off to interim consolidated statement of income amounting to SAR 8,293 thousand (June 30, 2019: SAR 18,356 thousand) and net of recoveries amounting to SAR 86,575 thousand (June 30, 2019: SAR 68,295 thousand).

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8. Loans and advances, net (continued)

An analysis of charges in impairment allowance of loans and advances is as follows:

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
June 30, 2020 (Unaudited)				
Loans and advances to customers at amortized cost				
Balance at January 1, 2020	788,442	924,022	1,689,119	3,401,583
Transfer to 12-month ECL	33,627	(26,629)	(6,998)	-
Transfer to lifetime ECL not credit impaired	(14,225)	27,667	(13,442)	-
Transfer to lifetime ECL credit impaired	(737)	(132,320)	133,057	-
Net charge for the period	233,488	173,616	378,024	785,128
Write-offs	-	-	(417,075)	(417,075)
Balance at June 30, 2020	1,040,595	966,356	1,762,685	3,769,636
June 30, 2019 (Unaudited)				
Loans and advances to customers at amortized cost				
Balance at January 1, 2019	431,022	1,122,906	1,123,376	2,677,304
Transfer to 12-month ECL	83,389	(72,519)	(10,870)	-
Transfer to lifetime ECL not credit impaired	(21,335)	43,737	(22,402)	-
Transfer to lifetime ECL credit impaired	(574)	(12,243)	12,817	-
Net charge for the period	108,199	158,595	144,897	411,691
Write-offs	-	-	(154,684)	(154,684)
Balance at June 30, 2019	600,701	1,240,476	1,093,134	2,934,311

"Life time ECL credit impaired (Stage 3)" includes loss allowance for non-performing loans portfolio along with the impact of other factors to IFRS 9.

Impairment charges for credit losses and other provisions, net as reflected in the interim consolidated statement of income are detailed as follows:

	For the six month period ended	
	June 30 2020 (Unaudited)	June 30 2019 (Unaudited)
Impairment charges for credit losses, net	706,846	361,752
Reversal of provisions for credit-related commitments and contingencies, net	(163,063)	(26,176)
	543,783	335,576

9. Due to banks and other financial institutions

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Current accounts	105,305	178,800	125,859
Money market deposits	12,703,100	2,903,381	1,276,831
Total	12,808,405	3,082,181	1,402,690

10. Customers' deposits

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Demand	69,467,880	66,977,660	63,092,225
Time	58,669,201	68,393,317	62,513,035
Saving	173,489	141,297	137,292
Others	5,585,642	6,616,623	6,169,396
Total	133,896,212	142,128,897	131,911,948

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11. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts, analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	June 30, 2020 (Unaudited)			December 31, 2019 (Audited)			June 30, 2019 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Commission rate and cross currency swaps	501,539	467,223	22,348,297	598,400	561,452	21,730,255	625,007	584,976	20,911,215
Commission rate futures and options	477,329	478,440	14,163,489	565,834	567,318	12,714,748	595,879	594,148	13,095,151
Forward foreign exchange and commodity contracts	38,703	15,811	9,167,099	28,357	6,344	5,268,865	27,986	3,985	2,072,899
Currency and commodity options	858	394	276,670	737	845	210,929	-	52	11,208
Held as fair value hedges:									
Commission rate swaps	2,425	3,472,899	23,470,211	31,808	1,205,225	23,727,537	4,421	939,548	21,077,337
Total	1,020,854	4,434,767	69,425,766	1,225,136	2,341,184	63,652,334	1,253,293	2,122,709	57,167,810

Derivatives have been disclosed at gross amounts as at the date of the interim consolidated statement of financial position, and have not been netted off by cash margins placed and received against derivatives, amounting to SAR 5,094 million placed (December 31, 2019: SAR 2,021 million received, and June 30, 2019: SAR 1,625 million received).

12. Commitments and contingencies

a) Legal proceedings

The Group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings as disclosed at December 31, 2019.

b) Credit related commitments and contingencies

The Group's consolidated credit related commitments and contingencies are as follows:

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Letters of credit	4,242,405	4,811,238	4,734,884
Letters of guarantee	20,168,360	22,596,379	21,812,914
Acceptances	1,562,793	1,452,463	1,380,309
Irrevocable commitments to extend credit	2,443,247	2,606,908	2,989,025
Others	60,844	77,221	83,618
Total	28,477,649	31,544,209	31,000,750

The unutilized portion of non-firm commitments as at June 30, 2020 which can be revoked unilaterally at any time by the Bank, amounts SAR 19,298 million (December 31, 2019: SAR 19,388 million and June 30, 2019: SAR 17,365 million).

13. Cash and cash equivalents

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

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	7,723,586	10,088,755	3,274,187
Due from banks and other financial institutions maturing within 90 days from the acquisition date	1,351,489	2,071,877	840,952
Total	9,075,075	12,160,632	4,115,139

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14. Zakat and Income Tax

On March 14, 2019, the General Authority of Zakat and Tax (the "GAZT") has issued new zakat rules through Ministerial Decree No. 2215 which provides the basis for the calculation of Zakat for companies engaged in financing activities and licensed by SAMA. The new Zakat regulations are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods from January 1, 2019.

Zakat for the period ended June 30, 2020 attributable to Saudi Shareholders amounted to approximately SAR 128.2 million (June 30, 2019: SAR 127.4 million). Income tax payable by the non-Saudi Shareholder on the current period's share of net income is SAR 112.4 million (June 30, 2019: SAR 144.5 million). The provision of Zakat and income tax is estimated based on the results of operations of the Bank for the six month period ended and the consolidated financial position at June 30, 2020.

15. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief executive officer in order to allocate resources to segments and to assess its performance.

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London Branch.

Treasury

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission rate risks.

Investment and brokerage services

Investment management services and asset management activities related to dealing, managing, arranging and advising, and custody of securities.

Other

Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head Office and other supporting departments.

Transactions between the operating segments are reported as recorded in the Group's transfer pricing system. The basis for determining intersegment operating income/(expense) for the current period are consistent with the basis used for June 30, 2019. Segment assets and liabilities comprise mainly operating assets and liabilities.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch in London. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall interim condensed consolidated financial statements.

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15. Operating segments (continued)

The Group's total interim consolidated assets and liabilities as at June 30, 2020 and 2019, its total operating income, expenses and net income for the six month period then ended, by operating segments, are as follows:

June 30, 2020 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	40,759,948	80,209,604	64,215,068	197,277	1,914,648	187,296,545
Investments in associates	-	-	-	515,830	748,729	1,264,559
Total liabilities	66,376,435	70,709,909	19,649,160	73,733	2,027,167	158,836,404
Operating income/(expense) from external customers	1,073,297	1,793,219	(16,321)	105,967	3,178	2,959,340
Intersegment operating income/(expense)	148,690	(610,748)	356,573	-	105,485	-
Total operating income	1,221,987	1,182,471	340,252	105,967	108,663	2,959,340
Of which:						
Net special commission income	1,114,619	970,842	285,470	16,343	102,534	2,489,808
Fees and commission income, net	44,679	203,484	1,107	44,308	(20,095)	273,483
Impairment charges for credit losses and other provisions, net	123,030	420,753	-	-	-	543,783
Impairment reversals for other financial assets, net	-	-	(3,440)	-	-	(3,440)
Depreciation and amortization	84,420	6,134	639	2,760	18,937	112,890
Total operating expenses	762,625	740,288	45,358	39,829	25,258	1,613,358
Share in earnings of associates, net	-	-	-	-	5,794	5,794
Net income attributed to equity holders of the Bank	459,362	442,184	302,893	51,385	(126,085)	1,129,739
Net income attributed to non-controlling interest	-	-	-	-	(1,838)	(1,838)
June 30, 2019 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	40,822,067	83,334,023	44,762,184	91,797	1,890,395	170,900,466
Investments in associates	-	-	-	-	886,553	886,553
Total liabilities	67,871,143	68,341,833	5,455,248	60,289	1,742,156	143,470,669
Operating income/(expense) from external customers	1,109,968	2,235,729	(31,745)	49,384	3,761	3,367,097
Intersegment operating income/(expense)	212,377	(967,537)	604,254	-	150,906	-
Total operating income	1,322,345	1,268,192	572,509	49,384	154,667	3,367,097
Of which:						
Net special commission income	1,166,422	1,042,097	414,501	21,621	157,666	2,802,307
Fees and commission income, net	62,816	219,426	4,535	31,257	(16,350)	301,684
Impairment charges for credit losses and other provisions, net	53,327	282,249	-	-	-	335,576
Impairment charges for other financial assets, net	-	-	6,732	-	-	6,732
Depreciation and amortization	82,058	4,014	593	939	44,129	131,733
Total operating expenses	684,721	613,708	56,371	29,893	55,384	1,440,077
Share in earnings of associates, net	-	-	-	-	17,302	17,302
Net income attributed to equity holders of the Bank	543,936	654,484	516,137	19,491	(60,833)	1,673,215
Net income attributed to non-controlling interest	-	-	-	-	(777)	(777)

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16. Share capital, bonus shares and earnings per share

As at June 30, 2020, the authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares of SAR 10 each (December 31, 2019 and June 30, 2019; 1,500 million shares of SAR 10 each).

During 2019, the Board of Directors has proposed a bonus issue of 500 million shares of SAR 10 each, through a transfer of SAR 3 billion and SAR 2 billion from statutory reserves and retained earnings respectively, which was approved in the shareholders' extraordinary general assembly meeting, held on March 27, 2019.

Basic and diluted earnings per share for the period ended June 30, 2020 and 2019 is calculated by dividing the net income for the period attributable to the equity holders of the Bank by 1,500 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue. The diluted earnings per share is the same as the basic earnings per share.

17. Fair values of financial assets and liabilities

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

- i) In the accessible principal market for the asset or liability; or
- ii) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the interim condensed consolidated financial statements.

Determination of fair value and fair value hierarchy

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

- Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);
- Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: valuation techniques for which any significant input is not based on observable market data.

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17. Fair values of financial assets and liabilities (continued)

a. Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. It does not include fair value hierarchy information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets

June 30, 2020 (Unaudited)	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments at FVTPL	496,789	-	136,753	360,036	496,789
Investments at FVOCI	3,650,806	1,823,598	1,826,315	893	3,650,806
Positive fair value of derivatives	1,020,854	-	1,020,854	-	1,020,854
Financial assets not measured at fair value					
Due from banks and other financial institutions	1,342,982	-	-	-	1,342,982
Investments at amortised cost	39,194,653	-	38,844,277	-	38,844,277
Loans and advances	117,128,954	-	-	123,343,160	123,343,160

December 31, 2019 (Audited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Investments at FVTPL	554,675	-	67,675	487,000	554,675
Investments at FVOCI	4,774,851	1,982,142	2,791,816	893	4,774,851
Positive fair value of derivatives	1,225,136	-	1,225,136	-	1,225,136
Financial assets not measured at fair value					
Due from banks and other financial institutions	2,067,992	-	-	-	2,067,992
Investments at amortised cost	32,708,614	-	33,840,405	-	33,840,405
Loans and advances	118,837,121	-	-	123,018,365	123,018,365

Financial Liabilities

	Carrying value	Fair value			
June 30, 2020 (Unaudited)		Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	4,434,767	-	4,434,767	-	4,434,767
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	12,808,405	-	-	-	12,808,405
Customer deposits	133,896,212	-	-	-	133,896,212
Sukuk	2,012,345	-	-	2,005,049	2,005,049

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17. Fair values of financial assets and liabilities (continued)

a. Carrying amounts and fair value (continued)

Financial Liabilities (continued)

December 31, 2019 (Audited)	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	2,341,184	-	2,341,184	-	2,341,184
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,082,181	-	-	-	3,082,181
Customer deposits	142,128,897	-	-	-	142,128,897
Sukuk	2,017,903	-	-	2,024,235	2,024,235

b. Measurement of fair values

i. Transfer between levels of the fair value hierarchy

There have been no transfers within levels of the fair value hierarchy during the six month period ended June 30, 2020 and 2019.

ii. Level 3 fair values

Reconciliation of Level 3 fair values

The following tables show a reconciliation from the opening balances for Level 3 fair values.

	June 30, 2020		December 31, 2019	
	Investments at FVTPL	Investments at FVOCI	Investments at FVTPL	Investments at FVOCI
Balance at the beginning of the period	487,000	893	476,183	1,893
Total unrealized (loss) / gain in consolidated statement of income	(126,923)	-	12,931	-
Settlements / adjustments	(41)	-	(2,114)	(1,000)
Balance at the end of the period	360,036	893	487,000	893

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17. Fair values of financial assets and liabilities (continued)

b. Measurement of fair values (continued)

iii. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at June 30, 2020, June 30, 2019 and December 31, 2019 as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
FVTPL investments	Fair value is determined based on the investee fund's most recent reported net assets value.	None	Not applicable
FVOCI investments classified as Level 2 include plain vanilla bonds for which market quotes are not available	Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	None	Not applicable
FVOCI investments classified as Level 3 include Private Equity Funds	Fair value is determined based on the fund's most recent reported net assets value.	None	Not applicable
Derivatives classified as Level 2 are comprised of over the counter special commission rate swaps, currency swaps, special commission rate futures and options, spot and forward foreign exchange contracts, currency and commodity options and other derivative financial instruments	These instruments are fair valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs on these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.	None	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 2 include investments held at amortized cost	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to account for any potential model discrepancy or any stressed market conditions.	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 3 include loans and advances and debt issuances	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to the credit spreads to account for any potential model discrepancy or any stressed market conditions.	The higher the credit spread, the lower is the valuation; vice versa.

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18. Capital Adequacy

The Group's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Group's ability to continue as a going concern; and to maintain a strong capital base. During the period, the Group has fully complied with regular capital requirements.

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective starting January 1, 2013. Accordingly, the Group's pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios are as follows:

	June 30 2020 (Unaudited)	December 31 2019 (Audited)	June 30 2019 (Unaudited)
Credit Risk RWA	148,638,215	147,798,558	146,049,700
Operational Risk RWA	13,736,254	13,670,185	13,624,272
Market Risk RWA	1,360,392	1,603,591	2,405,537
Total Pillar-I RWA	163,734,861	163,072,334	162,079,509
Tier I Capital	28,978,205	27,944,791	27,724,861
Tier II Capital	3,189,100	2,951,286	2,738,610
Total Tier I & II Capital	32,167,305	30,896,077	30,463,471
Capital Adequacy Ratio %			
Tier I ratio	17.70%	17.14%	17.09%
Tier I + Tier II ratio	19.65%	18.95%	18.78%

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the SAMA in supervising the Bank.

19. Comparative figures

Certain prior period figures have been reclassified to conform with current period presentation.

20. Impact of Covid-19 on Expected Credit Losses ("ECL") and SAMA programs

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns. The Bank continues to evaluate the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, country, counterparty etc., collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

20. Impact of Covid-19 on Expected Credit Losses ("ECL") and SAMA programs (continued)

These current events and the prevailing economic condition require the Bank to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around adjusting macroeconomic factors used by the Bank in estimation of expected credit losses. In Q1 2020, the Bank made certain adjustments to the macroeconomic factors forecasts and its PDs. During Q2 2020 and as more reliable data became available, the management has further made adjustments to the macroeconomic factors forecast and PDs used by the Bank in the estimation of expected credit losses. The adjustments to macroeconomic factors resulted in an additional ECL of SAR 218 million for the six month period ended June 30, 2020 for the Bank.

The Bank's ECL model continues to be sensitive to macroeconomic variables and scenario weightings. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Bank will continue to reassess its position and the related impact on a regular basis.

At this point in time, it is difficult to ascertain the specific effects the health crisis and government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Bank has therefore concluded that it was too early for any potential credit impairment to be reflected through application of the staging criteria and focused on the macroeconomic model underpinning the PD and LGD determinations. The Bank will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

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

As part of the deferred payments program, the Bank is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower'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 14 September 2020 for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Bank recognising a day 1 modification loss of SAR 103.6 million for the six month period ended June 30, 2020 and this has been presented as part of net financing income. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk. During the six months period ended June 30, 2020 SAR 25.8 million has been charged to the statement of income relating to unwinding of modification losses.

In order to compensate all the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received SAR 1.75 billion of profit free deposit from SAMA during Q1, 2020. Management had determined based on the communication from SAMA, that the government grant 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 grant accounting requirements. This resulted in a total income of SAR 139.4 million, of which SAR 103.6 million has been recognised on day 1 in the interim consolidated statement of income as at March 31, 2020 immediately, with the remaining amount deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the six months period ended June 30, 2020, SAR 8.6 million has been charged to the statement of income relating to unwinding of the day 1 income.

ARAB NATIONAL BANK**(A Saudi Joint Stock Company)****Notes to the Interim Condensed Consolidated Financial Statements (continued)****For the six month period ended June 30, 2020 and 2019****Amounts in SAR '000****20. Impact of Covid-19 on Expected Credit Losses ("ECL") and SAMA programs (continued)**

During Q2 2020, the Bank has received additional profit free deposit from SAMA amounting to SAR 3.29 billion with a tenure of 36 months. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 237.8 million, which has been deferred to be accounted for on a systematic basis. The management has exercised certain judgements in the recognition and measurement of this grant income.

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

In this regard, during Q2 2020, the Bank received SAR 4.02 billion profit free deposit with one year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 71.9 million, which has been deferred to be accounted for on a systematic basis.

As at June 30, 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, the POS and e-commerce service fee programs have had an immaterial impact to the Bank's interim consolidated financial statements.

Health care sector support

Health care sector support In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This has resulted in the Bank recognising a day 1 modification loss of SAR 45.2 million for the six month period ended June 30, 2020 and this has been presented as part of net financing income.

21. IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

- Phase 1 – The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The Group has adopted these amendments along with the hedging relief for pre-replacement hedges.
- Phase 2 – The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at June 30, 2020.

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

ARAB NATIONAL BANK
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Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the six month period ended June 30, 2020 and 2019
Amounts in SAR '000

22. Board of Directors' approval

The interim condensed consolidated financial statements were approved by the Board on Dhul-Hijjah 19, 1441 (corresponding to August 09, 2020).