



Arab National Bank
(A Saudi Joint Stock Company)

**Interim Condensed Consolidated Financial Statements
For the period ended June 30, 2023**

(Unaudited)



KPMG Professional Services

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Date 10/3/1419
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INDEPENDENT AUDITORS' REVIEW REPORT ON THE 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 of June 30, 2023, 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 statement of changes in equity and cash flows for the six month periods 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 34 "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion


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

Other Regulatory Matters

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

KPMG Professional Services


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Muharram 9, 1445H
(July 27, 2023)


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

	Notes	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
ASSETS				
Cash and balances with SAMA	5	11,190,079	12,434,197	15,124,321
Due from banks and other financial institutions, net	6	1,895,823	6,048,035	1,791,991
Positive fair value of derivatives	13	2,546,283	2,959,669	3,162,667
Investments, net	7	44,645,249	41,017,758	40,111,130
Loans and advances, net	8	148,851,768	143,828,819	143,055,324
Investments in associates		986,364	978,683	995,910
Other real estate owned		1,300,220	1,318,150	1,251,150
Property, equipment and right of use assets, net		2,327,341	2,231,227	2,187,475
Other assets		2,240,510	1,811,555	2,148,000
Total assets		215,983,637	212,628,093	209,827,968
LIABILITIES AND EQUITY				
Liabilities				
Due to banks, SAMA and other financial institutions	11	11,849,890	13,511,268	20,125,517
Negative fair value of derivatives	13	1,731,300	2,164,241	1,902,201
Customers' deposits	12	158,377,785	154,871,266	146,791,318
Sukuk		2,828,855	2,829,092	2,828,810
Other liabilities		7,460,544	6,894,569	7,125,459
Total liabilities		182,248,374	180,270,436	178,773,305
Equity				
Equity attributable to equity holders of the Bank				
Share capital	18	15,000,000	15,000,000	15,000,000
Statutory reserve		9,630,000	9,630,000	8,862,000
Other reserves		207,205	58,504	477,506
Retained earnings		8,872,804	6,819,244	6,688,733
Proposed dividends	18	-	826,616	-
Total equity attributable to equity holders of the Bank		33,710,009	32,334,364	31,028,239
Total equity attributable to non-controlling interests		25,254	23,293	26,424
Total equity		33,735,263	32,357,657	31,054,663
Total liabilities and equity		215,983,637	212,628,093	209,827,968

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid Al-Rasheed
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	<u>For the three months ended 30 June</u>		<u>For the six months ended 30 June</u>	
		2023	2022	2023	2022
Special commission income		3,038,913	1,711,865	5,864,695	3,046,047
Special commission expense		1,308,563	402,064	2,401,727	551,740
Net special commission income		1,730,350	1,309,801	3,462,968	2,494,307
Fees and commission income		440,613	345,283	836,428	681,676
Fees and commission expense		256,099	219,547	500,817	428,346
Fees and commission income, net		184,514	125,736	335,611	253,330
Exchange income, net		76,673	75,451	162,102	146,786
Gain on FVSI financial instruments, net		21,565	56,041	13,044	66,911
Trading income, net		8,337	13,994	27,426	33,691
Dividend income		39,661	80,039	63,166	97,931
(Loss)/ gain on sale of non-trading investments, net		(25)	-	155,853	-
Other operating income, net		26,707	12,554	48,101	35,190
Total operating income		2,087,782	1,673,616	4,268,271	3,128,146
Salaries and employee related expenses		367,153	332,917	734,762	662,316
Rent and premises related expenses		13,115	12,960	24,879	25,200
Depreciation and amortisation		56,325	52,749	112,053	106,872
Other general and administrative expenses		236,967	175,712	461,045	354,595
Total operating expenses before impairment charges		673,560	574,338	1,332,739	1,148,983
Impairment charges for expected credit losses (ECL), net	9	267,751	281,950	515,896	437,408
Impairment charge for other real estate owned		-	-	50,000	-
Total operating expenses		941,311	856,288	1,898,635	1,586,391
Net operating income		1,146,471	817,328	2,369,636	1,541,755
Share in earnings of associates, net		16,421	21,226	26,478	33,741
Gain on disposal of investment in associate	10	-	-	-	36,050
Net income before zakat and income tax		1,162,892	838,554	2,396,114	1,611,546
Zakat	16	84,785	67,982	159,570	131,964
Income tax	16	89,262	65,393	188,023	125,992
Charge/ (reversal) of deferred tax		1,500	(2,201)	(7,000)	(4,607)
Net income for the period		987,345	707,380	2,055,521	1,358,197
Attributable to:					
Equity holders of the Bank		985,976	707,693	2,053,560	1,358,416
Non-controlling interest		1,369	(313)	1,961	(219)
Net income for the period		987,345	707,380	2,055,521	1,358,197
Basic and diluted earnings per share (expressed in SAR per share)	18	0.66	0.47	1.37	0.91

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid Al-Rasheed
Managing Director

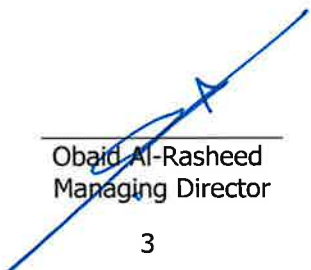

Hesham Al-Jabr
Authorized Board Member

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

	<u>For the three months ended 30 June</u>		<u>For the six months ended 30 June</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net income for the period	987,345	707,380	2,055,521	1,358,197
Other comprehensive income:				
<i>Items that will not be reclassified to interim consolidated statement of income in subsequent periods</i>				
Equity instruments at FVOCI:				
- Net changes in fair value	146,204	(270,176)	174,661	57,242
<i>Items that may be reclassified to interim consolidated statement of income in subsequent periods</i>				
Debt instruments at FVOCI:				
- Net changes in fair value	(38,729)	(50,994)	(20,149)	(47,035)
Cash flow hedge:				
- Effective portion of change in the fair value	(27,582)	(27,297)	(5,811)	(75,569)
Total other comprehensive income/ (loss) for the period	79,893	(348,467)	148,701	(65,362)
Total comprehensive income for the period	1,067,238	358,913	2,204,222	1,292,835
Attributable to:				
Equity holders of the Bank	1,065,869	359,226	2,202,261	1,293,054
Non-controlling interests	1,369	(313)	1,961	(219)
Total comprehensive income for the period	1,067,238	358,913	2,204,222	1,292,835

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid Al-Rasheed
Managing Director


Hesham Al-Jabr
Authorized Board Member

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022
Amounts in SAR '000 (Unaudited)

Attributable to equity holders of the Bank										
Notes	Other Reserves					Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	Instruments at FVOCI	Cash flow hedge reserve	Actuarial losses on defined benefit plan					
2023										
Balance as at December 31, 2022	15,000,000	9,630,000	303,579	(116,139)	(128,936)	6,819,244	826,616	32,334,364	23,293	32,357,657
Changes in equity for the period:										
Net changes in fair values of FVOCI equity investments	-	-	174,661	-	-	-	-	174,661	-	174,661
Net changes in fair values of FVOCI debt instruments	-	-	(20,149)	-	-	-	-	(20,149)	-	(20,149)
Net changes in fair value of cash flow hedges	-	-	-	(5,811)	-	-	-	(5,811)	-	(5,811)
Net income for the period	-	-	-	-	-	2,053,560	-	2,053,560	1,961	2,055,521
Total comprehensive income for the period	-	-	154,512	(5,811)	-	2,053,560	-	2,202,261	1,961	2,204,222
2022 final dividends	-	-	-	-	-	-	(826,616)	(826,616)	-	(826,616)
Balance as at June 30, 2023	15,000,000	9,630,000	458,091	(121,950)	(128,936)	8,872,804	-	33,710,009	25,254	33,735,263
2022										
Balance as at December 31, 2021	15,000,000	8,862,000	644,360	(423)	(101,069)	6,046,534	649,692	31,101,094	26,643	31,127,737
Changes in equity for the period:										
Net changes in fair values of FVOCI equity investments	-	-	57,242	-	-	-	-	57,242	-	57,242
Net changes in fair values of FVOCI debt instruments	-	-	(47,035)	-	-	-	-	(47,035)	-	(47,035)
Net changes in fair value of cash flow hedges	-	-	-	(75,569)	-	-	-	(75,569)	-	(75,569)
Net income for the period	-	-	-	-	-	1,358,416	-	1,358,416	(219)	1,358,197
Total comprehensive income for the period	-	-	10,207	(75,569)	-	1,358,416	-	1,293,054	(219)	1,292,835
2021 final dividends	-	-	-	-	-	-	(649,692)	(649,692)	-	(649,692)
2022 interim dividend	-	-	-	-	-	(716,217)	-	(716,217)	-	(716,217)
Balance as at June, 30 2022	15,000,000	8,862,000	654,567	(75,992)	(101,069)	6,688,733	-	31,028,239	26,424	31,054,663

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid Al-Rasheed
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 MONTHS ENDED JUNE 30, 2023 AND 2022
Amounts in SAR '000 (Unaudited)

	Notes	2023	2022
OPERATING ACTIVITIES			
Net income before zakat and income tax		2,396,114	1,611,546
Adjustments to reconcile net income to net cash (used in) operating activities:			
Accretion of discounts and amortisation of premium on investments not held as FVSI, net		(39,984)	9,970
Special commission expense on Sukuk		46,512	46,511
Gain on sale of non-trading investments, net		(155,853)	-
Gain on FVSI financial instruments, net		(13,044)	(66,911)
Dividend income		(63,166)	(97,931)
Depreciation and amortisation		112,053	106,872
Gain on disposal of property and equipment, net		(8,812)	(1,052)
Impairment charges for expected credit losses (ECL), net		515,896	437,408
Impairment charges for other real estate owned		50,000	-
Share in earnings of associates, net		(26,478)	(33,741)
Gain on disposal of investment in associate	10	-	(36,050)
		2,813,238	1,976,622
Net (increase)/ decrease in operating assets:			
Statutory deposit with SAMA		(173,635)	(758,474)
Investments held at FVSI		(18,245)	79,950
Positive fair value of derivatives		413,386	(2,195,182)
Loans and advances		(5,090,415)	(17,841,114)
Other real estate owned		(32,070)	82,913
Other assets		(388,971)	1,254,981
Net increase/ (decrease) in operating liabilities:			
Due to banks, SAMA and other financial institutions		(1,661,378)	5,918,409
Negative fair value of derivatives		(432,941)	(315,012)
Customers' deposits		3,506,519	11,077,433
Other liabilities		194,308	(29,118)
Zakat and income tax paid		(502,314)	(424,839)
Net cash (used in) operating activities		(1,372,518)	(1,173,431)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments not held as FVSI		1,200,846	4,759,909
Purchase of investments not held as FVSI		(4,466,915)	(722,250)
Dividend received/ disposal of investment in associates, net		18,797	229,616
Proceeds from sale of property and equipment		13,241	3,061
Purchase of property and equipment		(154,333)	(87,075)
Dividend received		63,166	97,931
Net cash (used in)/ generated from investing activities		(3,325,198)	4,281,192
FINANCING ACTIVITIES			
Dividend paid		(826,616)	(649,692)
Special commission paid on Sukuk		(46,275)	(46,801)
Net cash (used in) financing activities		(872,891)	(696,493)
Net (decrease)/ increase in cash and cash equivalents		(5,570,607)	2,411,268
Cash and cash equivalents at the beginning of the period		10,409,597	6,572,336
Cash and cash equivalents at the end of the period	15	4,838,990	8,983,604

Supplemental non-cash information


Net changes in fair value of investments held at FVOCI	154,512	10,207
Net changes in fair value of cash flow hedges	(5,811)	(75,569)

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.



Latifa Al-Sabhan
Chief Financial Officer

Obaid Al-Rasheed
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 months ended June 30, 2023 and 2022

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 126 branches (December 31, 2022: 127 and June 30, 2022: 129 branches), 62 remittance centres (December 31, 2022: 75 and June 30, 2022: 80 remittance centres) in the Kingdom of Saudi Arabia (the Kingdom) and one branch in the United Kingdom. The address of the Group'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 that are approved and supervised by an independent Shariah Board established by the Bank.

The Bank is regulated by the Saudi Central Bank (SAMA).

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

ANB Capital (formerly ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank has established ANB Invest, a wholly owned subsidiary and 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 consisting of 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 on Muharram 3, 1429H (corresponding to 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 Central Bank (SAMA) circular No. 371000014867 dated Safar 5, 1437H, and the CMA's circular No. S/6/16287/15 dated Rabi' Al-Awal 10, 1437H. The General Assembly of ANB Capital approved on Dhu Al-Qi'dah, 28, 1443H (corresponding to June 27, 2022) to change the name of the company from ANB Invest to ANB Capital.

Arabian Heavy Equipment Leasing Company (AHEL)

An 87.5% owned subsidiary 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.

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 SAMA to start its activities in insurance agency and related business on Jumada I 5, 1435H (corresponding to March 6, 2014).

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements
For the six months ended June 30, 2023 and 2022

1. General (continued)

ANB Insurance Agency (continued)

In reference to the Article No (75) of the Insurance Companies Control Law, the company requested to discontinue its operation on July 19, 2020 (corresponding to Dhul Qadah 28, 1441H). The request was approved by SAMA on Rabih Al-Thani 4, 1442H (corresponding to November 19, 2020). The same was communicated to the Ministry of Commerce. The Company is currently in the process of completing the closure procedures with the relevant regulatory bodies.

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 land and real estate 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 Shaban 10, 1436H.

ANB Global Markets Limited

The Bank established ANB Global Markets Limited on Jumada I 3, 1438H (corresponding to January 31, 2017), as a limited liability company registered in the Cayman Islands. The Bank has 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 months period ended June 30, 2023 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34), as endorsed in the Kingdom and other standards and announcements issued by the Saudi Organization for Chartered and Professional 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, 2022.

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.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The new Regulations for Companies issued through Royal Decree M/132 on Dhul Hijjah 1, 1443H (corresponding to June 30, 2022) (hereinafter referred as "the Law") came into force on Jumada II 26, 1444H (corresponding to January 19, 2023). For certain provisions of the Law, full compliance is expected not later than two years from Jumada II 26, 1444H (corresponding to January 19, 2023). The management is in process of assessing the impact of the new Regulations and will amend its By-Laws for any changes to align the By-laws to the provisions of the Regulations. Consequently, the Bank shall present the amended By-Laws to the shareholders in their General Assembly meeting for their ratification.

3. Impact of changes in accounting policies due to adoption of new standards

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the 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, 2022, except for the adoption of new standards effective as of January 1, 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2023, but do not have an impact on the interim condensed consolidated financial statements of the Group.

- *Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8:* The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. Effective for annual periods beginning on or after January 1, 2023.

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements
For the six months ended June 30, 2023 and 2022
Amounts in SAR '000

3. Impact of changes in accounting policies due to adoption of new standards (continued)

New standards, interpretations and amendments adopted by the Group (continued)

- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction: These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. Effective annual periods beginning on or after January 1, 2023.
- IFRS 17, 'Insurance contracts', as amended in December 2021: This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. Effective for annual periods beginning on or after January 1, 2023.

Accounting standards issued but not yet effective

- Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities: These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.

Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

Note that the IASB has issued a new exposure draft proposing changes to this amendment. Effective date is deferred until accounting periods starting not earlier than January 1, 2024.

- Amendments to IFRS 10 and IAS 28: Sale or contribution of Assets between an Investor and its Associate or Joint Ventures. Available for optional adoption/effective date deferred indefinitely.
- Amendment to IFRS 16, Lease Liability in a Sale and Leaseback: Lease Liability in a Sale and Leaseback amends IFRS 16 by adding subsequent measurement requirements for sale and leaseback transactions. Effective date is January 1, 2024.
- Amendments to IAS 1, Non-current Liabilities with Covenants: Non-current Liabilities with Covenants amends IAS 1 Presentation of Financial Statements. The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current. Effective date is January 1, 2024.

4. Significant accounting policies and estimates

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, 2022, except for the adoption of new standards effective as of January 1, 2023 as disclosed in note 3 above.

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements
For the six months ended June 30, 2023 and 2022
Amounts in SAR '000

5. Cash and balances with SAMA

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Cash in hand	1,270,460	1,200,580	1,240,194
Cash held with others*	367,097	421,275	417,557
Statutory deposit	8,250,032	8,076,397	7,937,599
Reverse repo with SAMA	1,300,810	2,722,000	5,526,464
Current account with SAMA	1,680	13,945	2,507
Total	11,190,079	12,434,197	15,124,321

* Cash held in custody with SAMA approved custodians.

6. Due from banks and other financial institutions, net

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Current accounts	615,531	911,515	896,862
Money market placements	1,283,412	5,140,282	900,020
Less: ECL allowance	(3,120)	(3,762)	(4,891)
Total	1,895,823	6,048,035	1,791,991

7. Investments, net

Investment securities are classified as follows:

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Investments at amortised cost	37,066,362	36,758,208	35,913,000
Investments at FVOCI - equity	2,667,548	2,335,427	2,473,100
Investments at FVOCI - debt	4,280,242	1,327,381	1,138,259
Investments at FVSI	650,100	618,811	600,690
Less: ECL allowance	(19,003)	(22,069)	(13,919)
Total	44,645,249	41,017,758	40,111,130

Equity investment designated as at FVOCI

Dividend income recognised from equity investment at FVOCI in the interim consolidated statement of income amounted to SAR 47,121 thousand for the six months ended June 30, 2023 (June 30, 2022: SAR 42,478 thousand).

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8. Loans and advances, net

Loans and advances are held at amortised cost and comprise the following:

	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
June 30, 2023 (Unaudited)					
Performing loans and advances, gross	3,549,455	894,620	39,132,203	106,005,881	149,582,159
Non-performing loans and advances	14,306	32,272	132,092	3,329,134	3,507,804
Total loans and advances	3,563,761	926,892	39,264,295	109,335,015	153,089,963
Less: ECL allowance	(122,041)	(73,130)	(410,392)	(3,632,632)	(4,238,195)
Loans and advances, net	3,441,720	853,762	38,853,903	105,702,383	148,851,768
December 31, 2022 (Audited)					
Performing loans and advances, gross	3,018,285	726,303	36,202,582	105,154,502	145,101,672
Non-performing loans and advances	26,729	12,076	70,894	2,537,256	2,646,955
Total loans and advances	3,045,014	738,379	36,273,476	107,691,758	147,748,627
Less: ECL allowance	(183,314)	(63,458)	(366,072)	(3,306,964)	(3,919,808)
Loans and advances, net	2,861,700	674,921	35,907,404	104,384,794	143,828,819
June 30, 2022 (Unaudited)					
Performing loans and advances, gross	3,467,200	586,583	34,668,182	105,263,582	143,985,547
Non-performing loans and advances	28,232	9,282	74,885	2,483,692	2,596,091
Total loans and advances	3,495,432	595,865	34,743,067	107,747,274	146,581,638
Less: ECL allowance	(111,086)	(51,350)	(369,859)	(2,994,019)	(3,526,314)
Loans and advances, net	3,384,346	544,515	34,373,208	104,753,255	143,055,324

The movement in the expected credit losses of loans and advances to customers is as follows:

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Balance at the beginning of the period/ year	3,919,808	3,113,457	3,113,457
Charge for the period/ year, net	611,645	1,076,393	583,052
Bad debts written off against impairment allowance	(293,258)	(270,042)	(170,195)
Balance at the end of the period/ year	4,238,195	3,919,808	3,526,314

The net impairment charge for credit losses for the period ended June 30, 2023 amounted to SAR 569,307 thousand (December 31, 2022: SAR 896,672 thousand; June 30, 2022: SAR 520,821 thousand), including bad debts directly written-off to interim consolidated statement of income amounting to SAR 9,803 thousand (December 31, 2022: SAR 39,575 thousand; June 30, 2022: SAR 6,022 thousand) and net of recoveries amounting to SAR 52,141 thousand (December 31, 2022: SAR 219,296 thousand; June 30, 2022: SAR 68,253 thousand).

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8. Loans and advances, net (continued)

An analysis of changes in the ECL allowance of loans and advances as follows:

	Stage1 (12-month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Lifetime ECL credit impaired)	Total
June 30, 2023 (Unaudited)				
Balance at January 1, 2023	1,012,772	1,348,817	1,558,219	3,919,808
Transfer to 12-month ECL	40,433	(32,522)	(7,911)	-
Transfer to lifetime ECL not credit impaired	(53,432)	61,027	(7,595)	-
Transfer to lifetime ECL credit impaired	(1,761)	(498,026)	499,787	-
Net charge for the period	25,807	89,979	495,859	611,645
Write-offs	-	-	(293,258)	(293,258)
Balance at June 30, 2023	1,023,819	969,275	2,245,101	4,238,195

	Stage1 (12-month ECL)	Stage 2 (Life time ECL not credit impaired)	Stage 3 (Lifetime ECL credit impaired)	Total
June 30, 2022 (Unaudited)				
Balance at January 1, 2022	1,014,039	948,641	1,150,777	3,113,457
Transfer to 12-month ECL	74,432	(72,334)	(2,098)	-
Transfer to lifetime ECL not credit impaired	(23,955)	29,636	(5,681)	-
Transfer to lifetime ECL credit impaired	(721)	(39,109)	39,830	-
Net (reversal)/ charge for the period	(246,352)	510,182	319,222	583,052
Write-offs	-	-	(170,195)	(170,195)
Balance at June 30, 2022	817,443	1,377,016	1,331,855	3,526,314

Lifetime ECL credit impaired (stage 3) loans and advances includes loss allowance for the non-performing loans portfolio along with the impact of other factors of IFRS 9.

9. Impairment charge for expected credit losses (ECL), net

Net ECL allowance charges as reflected in the interim consolidated statement of income are detailed as follows:

	For the three months ended		For the six months ended	
	June 30 2023 (Unaudited)	June 30 2022 (Unaudited)	June 30 2023 (Unaudited)	June 30 2022 (Unaudited)
ECL allowance charges for loans and advances, net	265,817	308,440	569,307	520,821
(Reversal)/ charges of other ECL allowance, net	(3,905)	(6,860)	411	(3,409)
Charge/ (reversal) of provisions for credit-related commitments and contingencies, net	5,839	(19,630)	(53,822)	(80,004)
Total	267,751	281,950	515,896	437,408

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10. Investments in associates

Saudi Home Loans Company

The Bank participated in the setting up of Saudi Home Loans Company (SHL). The associate's authorised capital was SAR 1 billion and its issued and paid-up capital was SAR 1 billion. The Bank's share of the paid-up capital amounted to SAR 400 million, (40 million shares at SAR 10 per share), representing 40% of the issued share capital of the associate.

The associate is a specialised Islamic home and real estate finance company with all its products and services being fully Shariah compliant. The associate was launched at the end of the fourth quarter of 2007 and is equity accounted.

During Q1 2022, the Group offered 30% of its shareholding (12 million shares) as part of the company's initial public offering (IPO) for a gain of SAR 36.05 million, which was recognised as a realised gain on partial disposal of an investment in an associate in the interim consolidated statement of income.

In Q2 2022, the Group purchased 1.4 million shares for an amount of SAR 28 million (SAR 20 per share), representing 1.4% of the issued share capital of SHL.

The Group continues to classify its remaining interest of 29.4% in the company (29.4 million shares) as an Associate as the Bank still exercises significant influence over SHL. Details of the Group's other investments in associates can be found in the annual financial statements for the year ended December 31, 2022.

11. Due to banks, SAMA and other financial institutions

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Current accounts	97,190	264,253	68,020
Money market deposits	3,004,403	1,565,181	1,783,189
Repo with SAMA	2,179,512	3,699,076	6,848,022
Deposits from SAMA	6,568,785	7,982,758	11,426,286
Total	11,849,890	13,511,268	20,125,517

12. Customers' deposits

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Demand	75,986,646	75,063,732	76,299,520
Time	77,794,910	73,200,002	60,200,162
Saving	364,400	311,438	321,242
Others	4,231,829	6,296,094	9,970,394
Total	158,377,785	154,871,266	146,791,318

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13. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts, analysed by their term to maturity. The notional amounts provide an indication of the volumes of transactions outstanding at the end of the period. It does 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 derivatives, nor to market risk.

	June 30, 2023 (Unaudited)			December 31, 2022 (Audited)			June 30, 2022 (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	1,615,560	1,574,337	36,328,150	880,647	842,540	27,343,969	677,708	639,183	34,400,469
Commission rate futures and options	27,837	25,898	1,210,949	1,172,982	1,170,846	14,855,479	850,933	853,481	15,235,170
Forward foreign exchange and commodity contracts	29,718	8,743	5,061,060	58,254	34,502	3,756,307	344,229	324,713	9,651,036
Currency and commodity options	572	372	144,332	30	142	51,937	607	1,040	469,671
Held as fair value hedges:									
Commission rate swaps	872,596	-	9,165,741	847,756	72	9,033,594	1,289,190	7,792	16,326,368
Held as cash flow hedges:									
Commission rate swaps	-	121,950	1,800,000	-	116,139	1,800,000	-	75,992	1,800,000
Total	2,546,283	1,731,300	53,710,232	2,959,669	2,164,241	56,841,286	3,162,667	1,902,201	77,882,714

Derivatives have not been netted off by cash margins placed or received.

14. 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 in December 31, 2022 annual financial statements.

b) Credit related commitments and contingencies

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

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Letters of credit	4,988,358	4,482,890	4,633,806
Letters of guarantee	20,890,762	18,893,151	18,247,324
Acceptances	1,321,137	1,142,586	1,100,220
Irrevocable commitments to extend credit	2,584,563	1,926,584	2,566,476
Others	9,750	13,500	13,500
Total	29,794,570	26,458,711	26,561,326

The unutilised portion of non-firm commitments as at June 30, 2023 that can be revoked unilaterally at any time by the Group, amounted to SAR 26,755 million (December 31, 2022: SAR 24,516 million; June 30, 2022: SAR 22,150 million).

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15. Cash and cash equivalents

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

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	2,940,047	4,357,800	7,186,722
Due from banks and other financial institutions maturing within 90 days from the acquisition date	1,898,943	6,051,797	1,796,882
Total	4,838,990	10,409,597	8,983,604

16. Zakat and Income Tax

Zakat attributable to Saudi shareholders for the period ended June 30, 2023 amounted to SAR 159.6 million (June 30, 2022: SAR 132.0 million). Income tax attributable to the non-Saudi shareholder on the current period's share of net income is SAR 188.0 million (June 30, 2022: SAR 126.0 million). The provision of zakat and income tax is estimated based on the respective interim consolidated financial position as at June 30, 2023 and the results of the operations of the Group for the six months then ended. There are no significant changes in the Bank's zakat and income tax assessments to those discussed in the Group's annual financial statements for the year ended December 31, 2022.

17. 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 their performance.

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

Retail banking

Deposit, credit and investment products for individuals and the Bank's London Branch.

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses.

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 the year ended December 31, 2022. 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 United Kingdom. However, 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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17. Operating segments (continued)

The Group's total consolidated assets and liabilities as at June 30, 2023 and 2022 and its total operating income, expenses and net income for the six months then ended, by operating segments, are as follows:

June 30, 2023 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	59,418,823	95,314,552	58,857,910	648,348	1,744,004	215,983,637
Investments in associates	-	-	-	348,399	637,965	986,364
Total liabilities	82,984,974	80,220,266	17,420,189	113,480	1,509,465	182,248,374
Operating income from external customers	971,871	3,069,148	110,935	180,748	(64,431)	4,268,271
Intersegment operating income/(expense)	908,477	(1,381,126)	292,322	-	180,327	-
Total operating income	1,880,348	1,688,022	403,257	180,748	115,896	4,268,271
Of which:						
Net special commission income	1,856,124	1,359,377	22,588	82,704	142,175	3,462,968
Impairment charge for expected credit losses (ECL), net	122,454	393,031	411	-	-	515,896
Impairment charges for other real estate owned	-	-	-	-	50,000	50,000
Depreciation and amortization	82,720	14,825	357	2,421	11,730	112,053
Total operating expenses	941,747	776,804	76,148	59,385	44,551	1,898,635
Share in earnings of associates, net	-	-	-	18,881	7,597	26,478
Net income before zakat and income tax	938,601	911,218	327,109	140,244	78,942	2,396,114
June 30, 2022 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	53,567,112	94,636,444	59,372,336	531,018	1,721,058	209,827,968
Investments in associates	-	-	-	355,384	640,526	995,910
Total liabilities	72,971,170	77,849,948	26,036,995	93,384	1,821,808	178,773,305
Operating income from external customers	1,117,340	1,668,248	291,327	123,165	(71,934)	3,128,146
Intersegment operating income/(expense)	(82,979)	(558,226)	540,771	-	100,434	-
Total operating income	1,034,361	1,110,022	832,098	123,165	28,500	3,128,146
Of which:						
Net special commission income	1,002,250	832,151	549,051	34,975	75,880	2,494,307
Impairment charge for expected credit losses (ECL), net	91,003	349,814	(3,409)	-	-	437,408
Depreciation and amortization	74,605	14,868	328	2,072	14,999	106,872
Total operating expenses	727,800	761,207	51,383	43,866	2,135	1,586,391
Share in earnings of associates, net	-	-	-	15,909	53,882	69,791
Net income before zakat and income tax	306,561	348,815	780,715	95,208	80,247	1,611,546

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18. Share capital, dividends and basic and diluted earnings per share

Share capital

As at June 30, 2023, the authorised, issued and fully paid share capital of the Bank consists of 1,500 million shares of SAR 10 each (June 30, 2022 and December 31, 2022: 1,500 million shares of SAR 10 each).

Dividends

- a) In December 12, 2021 the Board recommended to pay cash dividends of SAR 675 million from net income for the year after deducting zakat for the second half of 2021. This proposed final dividend resulted in a net payment of SAR 0.45 per share to Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) was deducted from their share of the dividend. This cash dividend distribution was approved in the Extraordinary General Assembly meeting dated April 12, 2022.
- b) On June 26, 2022 the Board has approved to pay cash dividends of SAR 750 million for the first half of 2022 after deducting zakat. This interim dividend will result in a net payment of SAR 0.50 per share to Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) was deducted from their share of the dividend. This interim dividend was distributed on July 18, 2022.
- c) In December 20, 2022 the Board recommended to pay cash dividends of SAR 900 million from net income for the year after deducting zakat for the second half of 2022. This proposed final dividend resulted in a net payment of SAR 0.60 per share to Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) will be deducted from their share of the dividend. This cash dividend distribution was approved by the General Assembly in the meeting held in March 28, 2023.

Basic and diluted earnings per share

Basic and diluted earnings per share for the periods ended June 30, 2023 and 2022 are calculated by dividing the net income for the period attributable to the equity holders of the Bank by 1,500 million shares. The diluted earnings per share is the same as the basic earnings per share.

19. 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 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.

The Group 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 significant inputs are not based on observable market data.

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

a. Carrying amounts and fair value

The following table shows the carrying amount and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. 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

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
June 30, 2023 (Unaudited)					
Financial assets measured at fair value					
Investments at FVSI	650,100	-	172,454	477,646	650,100
Investments at FVOCI	6,947,790	2,666,655	4,280,242	893	6,947,790
Positive fair value of derivatives	2,546,283	-	2,546,283	-	2,546,283
Financial assets not measured at fair value					
Investments at amortised cost, net	37,047,359	-	35,977,696	-	35,977,696
Loans and advances, net	148,851,768	-	-	145,013,850	145,013,850
December 31, 2022 (Audited)					
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments at FVSI	618,811	-	136,727	482,084	618,811
Investments at FVOCI	3,662,808	2,335,427	1,326,488	893	3,662,808
Positive fair value of derivatives	2,959,669	-	2,959,669	-	2,959,669
Financial assets not measured at fair value					
Investments at amortised cost, net	36,736,139	-	34,737,144	-	34,737,144
Loans and advances, net	143,828,819	-	-	142,194,677	142,194,677
June 30, 2022 (Unaudited)					
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments at FVSI	600,690	-	105,197	495,493	600,690
Investments at FVOCI	3,611,359	2,473,100	1,137,366	893	3,611,359
Positive fair value of derivatives	3,162,667	-	3,162,667	-	3,162,667
Financial assets not measured at fair value					
Investments at amortised cost, net	35,899,081	-	35,636,139	-	35,636,139
Loans and advances, net	143,055,324	-	-	143,702,873	143,702,873

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

a. Carrying amounts and fair value (continued)

Financial Liabilities

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
June 30, 2023 (Unaudited)					
Financial liabilities measured at fair value					
Negative fair value of derivatives	1,731,300	-	1,731,300	-	1,731,300
Financial liabilities not measured at fair value					
Sukuk	2,828,855	-	2,648,053	-	2,648,053
December 31, 2022 (Audited)	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	2,164,241	-	2,164,241	-	2,164,241
Financial liabilities not measured at fair value					
Sukuk	2,829,092	-	2,654,409	-	2,654,409
June 30, 2022 (Unaudited)	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	1,902,201	-	1,902,201	-	1,902,201
Financial liabilities not measured at fair value					
Sukuk	2,828,810	-	2,660,034	-	2,660,034

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 months period ended June 30, 2023 and 2022.

ii. Level 3 fair values

The following table shows the movement of Level 3 fair values.

	June 30, 2023		June 30, 2022	
	Investments at FVSI	Investments at FVOCI	Investments at FVSI	Investments at FVOCI
Balance at the beginning of the period	482,084	893	429,973	893
Total unrealised (loss)/ gain in the interim consolidated statement of	(4,438)	-	67,104	-
Settlements / adjustments	-	-	(1,584)	-
Balance at the end of the period	477,646	893	495,493	893

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19. 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, 2023 and 2022 and December 31, 2022 as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
FVSI 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 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, 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 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

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

b. Measurement of fair values (continued)

iii. Valuation technique and significant unobservable inputs (continued)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
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 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.
Other real estate asset	Earning Before Tax, Depreciation and Amortization (EBITDA) margins has been forecasted based on market and similar properties, assuming construction of a hotel on the property, taking into account the expected growth rate, room occupancy rate, rate per room, discount rate, yield, construction cost and other costs.	<ul style="list-style-type: none"> – EBITDA forecast – Discount rate and Yield rate – Room occupancy rate – Rent per room 	<ul style="list-style-type: none"> – EBITDA has been forecasted as higher or (lower). – The discount rate or yield were lower or (higher). – The occupancy rate were higher or (lower). – The rent per room were higher or (lower).

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20. 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 regulatory 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 amounts of derivatives at a weighted amount to reflect their relative risk.

The current period figures are presented as per Basel III revised framework issued by SAMA effective from January 1, 2023 and applied prospectively. The prior periods figures are not restated, but are presented based on Basel III previous framework and guidance.

Accordingly, the Group's Pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios are as follows:

	June 30 2023 (Unaudited)	December 31 2022 (Audited)	June 30 2022 (Unaudited)
Credit Risk RWA	166,249,320	163,404,276	162,581,802
Operational Risk RWA	9,113,477	15,716,196	15,075,836
Market Risk RWA	3,262,985	1,981,945	1,783,727
Total Pillar-I RWA	178,625,782	181,102,417	179,441,365
 Tier I Capital	 33,893,772	 31,875,272	 31,395,764
Tier II Capital	4,067,429	3,953,833	3,736,675
Total Tier I & II Capital	37,961,201	35,829,105	35,132,439
 Capital Adequacy Ratio %			
Tier I ratio	18.97%	17.60%	17.50%
Tier I + Tier II ratio	21.25%	19.78%	19.58%

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.

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21. IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major profit rate benchmarks are being undertaken globally. The IASB has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of an interest rate benchmark, including the replacement of an existing London Inter-bank Offer Rate ("LIBOR") with an alternative Risk-Free Rate ("RFR").

Management had put in place a robust transition project for those contracts which reference LIBOR and to transition them to the alternate benchmarks as applicable. This transition project considered changes to systems, processes, risk management policies, and models, as well as accounting implications. Further, the Group has actively approached customers for awareness and led communication and negotiations with affected counterparties. As of June 30, 2023, most of the impacted financial instruments have transitioned to alternate reference rate. The Bank has no exposure to any other LIBOR rates.

22. Comparative figures

Certain prior period figures have been reclassified to conform with current period presentation, which are not material in nature to the consolidated financial statements.

23. Board of Directors' approval

The interim condensed consolidated financial statements were approved by the Board on Muharram 02, 1445 (corresponding to July 20, 2023).