



Arab National Bank

(A Saudi Joint Stock Company)

Interim Condensed Consolidated Financial Statements

For the period ended 31st March 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 31 March 2020, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three 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 (19) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (19) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

Ernst & Young & Co.
(Certified Public Accountants)
P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

KPMG Al Fozan & Partners
(Certified Public Accountants)
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354

Dr. Abdullah Hamad Al Fozan
Certified Public Accountant
License No. 348

9 Shawwal 1441H
(1 June 2020)



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

	Notes	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited) Restated
ASSETS				
Cash and balances with SAMA	6	9,211,724	17,167,044	10,148,778
Due from banks and other financial institutions, net	7	1,520,449	2,067,992	1,348,496
Positive fair value of derivatives	12	1,066,273	1,225,136	1,305,243
Investments, net	8	43,396,881	38,038,140	30,954,653
Loans and advances, net	9	119,937,868	118,837,121	120,192,656
Investments in associates		850,789	889,115	875,491
Other real estate		222,197	222,197	220,697
Property and equipment, net		2,134,541	2,183,641	2,298,507
Other assets		6,530,394	2,812,091	1,336,538
Total assets		<u>184,871,116</u>	<u>183,442,477</u>	<u>168,681,059</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	10	8,589,682	3,082,181	1,895,602
Negative fair value of derivatives	12	4,281,706	2,341,184	1,438,674
Customers' deposits	11	135,983,498	142,128,897	130,312,422
Other liabilities		6,261,209	5,529,026	6,450,343
Sukuk		2,036,847	2,017,903	2,041,935
Total liabilities		<u>157,152,942</u>	<u>155,099,191</u>	<u>142,138,976</u>
Equity				
Equity attributable to equity holders of the Bank				
Share capital	17	15,000,000	15,000,000	15,000,000
Statutory reserve		7,756,000	7,756,000	7,000,000
Other reserves		(343,675)	230,786	126,456
Retained earnings		5,271,019	4,627,232	4,379,689
Proposed dividends		-	694,205	-
Total equity attributable to equity holders of the Bank		27,683,344	28,308,223	26,506,145
Non-controlling interests		34,830	35,063	35,938
Total equity		<u>27,718,174</u>	<u>28,343,286</u>	<u>26,542,083</u>
Total liabilities and equity		<u>184,871,116</u>	<u>183,442,477</u>	<u>168,681,059</u>

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)

		For the three month period ended	
	Notes	March 31 2020	March 31 2019 Restated
Special commission income		1,758,666	1,936,863
Special commission expense		467,909	572,022
Net special commission income		1,290,757	1,364,841
Fees and commission income, net		153,379	142,624
Exchange income, net		93,773	93,134
Unrealized (loss) / gain on FVTPL financial instruments, net		(126,358)	2,255
Trading income / (loss), net		3,246	(4,554)
Dividend income		13,223	17,274
Gain on sale of FVOCI debt and other financial assets, net		10,488	-
Other operating income, net		51,106	17,580
Total operating income		1,489,614	1,633,154
Salaries and employee related expenses		318,342	324,266
Rent and premises related expenses		13,012	13,651
Depreciation and amortization		58,149	67,936
Other general and administrative expenses		156,122	152,331
Total operating expenses before impairment charges		545,625	558,184
Impairment charges for credit losses and other provisions, net	9	198,350	147,992
Impairment (reversal) / charges for other financial assets, net		(5,819)	13,634
Total operating expenses		738,156	719,810
Net operating income		751,458	913,344
Share in earnings of associates, net		3,814	6,239
Gain on disposal of investment in an associate		15,217	-
Net income before zakat and income tax		770,489	919,583
Zakat charge for the period	15	68,266	68,920
Income tax charge for the period	15	58,019	72,240
Deferred tax charge for the period		650	-
Net income for the period		643,554	778,423
Attributable to:			
Equity holders of the Bank		643,787	778,971
Non-controlling interests		(233)	(548)
Net income for the period		643,554	778,423
Basic and diluted earnings per share (expressed in SAR)	17	0.43	0.52

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>March 31, 2020</u>	<u>March 31, 2019</u> Restated
Net income for the period	643,554	778,423
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	(386,946)	106,071
<i>Items that can be reclassified to interim consolidated statement of income in subsequent periods</i>		
<i>Debt instruments at fair value through other comprehensive income:</i>		
- Net changes in fair value	(185,854)	25,984
- Net amounts transferred to interim consolidated statement of income	(1,661)	1,664
Total other comprehensive (loss) / income for the period	(574,461)	133,719
Total comprehensive income for the period	69,093	912,142
Attributable to:		
Equity holders of the Bank	69,326	912,690
Non-controlling interests	(233)	(548)
Total comprehensive income for the period	69,093	912,142

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

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ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three month period ended March 31, 2020 and 2019
Amounts in SAR `000 (Unaudited)

	Attributable to equity holders of the Bank										
	Notes	Share capital	Statutory reserve	Other Reserves			Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
				FVOCI	Actuarial losses on defined benefit plan						
2020											
Balance at December 31, 2019		15,000,000	7,756,000	308,794	(78,008)	4,627,232	694,205	28,308,223	35,063	28,343,286	
Changes in equity for the period:											
Net changes in fair values of FVOCI equity investments		-	-	(386,946)	-	-	-	(386,946)	-	(386,946)	
Net changes in fair values of FVOCI debt instruments		-	-	(185,854)	-	-	-	(185,854)	-	(185,854)	
Net transfers to interim consolidated statement of income		-	-	(1,661)	-	-	-	(1,661)	-	(1,661)	
Net income for the period		-	-	-	-	643,787	-	643,787	(233)	643,554	
Total comprehensive income for the period		-	-	(574,461)	-	643,787	-	69,326	(233)	69,093	
2019 final dividends, net		-	-	-	-	-	(694,205)	(694,205)	-	(694,205)	
Balance at the end of the period		15,000,000	7,756,000	(265,667)	(78,008)	5,271,019	-	27,683,344	34,830	27,718,174	
2019											
Restated balance at December 31, 2018		10,000,000	10,000,000	73,216	(80,479)	5,677,522	850,000	26,520,259	36,486	26,556,745	
Impact of adopting IFRS 16 at January 1, 2019		-	-	-	-	(76,804)	-	(76,804)	-	(76,804)	
Changes in equity for the period:											
Net changes in fair values of FVOCI equity investments		-	-	106,071	-	-	-	106,071	-	106,071	
Net changes in fair values of FVOCI debt instruments		-	-	25,984	-	-	-	25,984	-	25,984	
Net transfers to interim consolidated statement of income		-	-	1,664	-	-	-	1,664	-	1,664	
Net income for the period (restated)		-	-	-	-	778,971	-	778,971	(548)	778,423	
Total comprehensive income for the period		-	-	133,719	-	778,971	-	912,690	(548)	912,142	
Bonus shares	17	5,000,000	(3,000,000)	-	-	(2,000,000)	-	-	-	-	
2018 final dividends		-	-	-	-	-	(850,000)	(850,000)	-	(850,000)	
Balance at the end of the period (restated)		15,000,000	7,000,000	206,935	(80,479)	4,379,689	-	26,506,145	35,938	26,542,083	

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

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ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the three month period ended March 31
Amounts in SAR '000 (Unaudited)

	Notes	2020	2019 Restated
OPERATING ACTIVITIES			
Net income before zakat and income tax		770,489	919,583
Adjustments to reconcile net income to net cash used in operating activities:			
Amortization of premium on investments not held as FVTPL, net		4,784	698
Special commission expense on Sukuk		18,944	21,444
Gain on sale of FVOCI debt and other financial assets, net		(10,488)	-
Unrealized loss / (gains) on revaluation of investments as FVTPL, net		126,358	(2,255)
Dividend income		(13,223)	(17,274)
Depreciation and amortization of property and equipment		58,149	67,936
(Gain) / loss on disposal of property and equipment, net		(18)	1,104
Impairment charges for credit losses and other provisions, net		198,350	147,992
(Reversal of impairment charges) / Impairment charges for other financial assets, net		(5,819)	13,634
Share in earnings of associates, net		(3,814)	(6,239)
Gain on disposal of investment in an associate		(15,217)	-
		1,128,495	1,146,623
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(318,951)	(290,535)
Investments held at FVTPL		(59,956)	(418)
Positive fair value of derivatives		158,863	275,091
Loans and advances		(873,724)	814,962
Other assets		(3,718,303)	(275,826)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		5,507,501	359,000
Negative fair value of derivatives		1,940,523	147,290
Customers' deposits		(6,145,399)	(11,743,186)
Other liabilities		(2,139,002)	(518,938)
Net cash used in operating activities		(4,519,953)	(10,085,937)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments not held as FVTPL		951,264	254,414
Purchase of investments not held as FVTPL		(5,243,835)	(2,925,785)
Purchase of property and equipment		(9,049)	(18,239)
Investment in associate		57,357	7,864
Proceeds from sale of property and equipment		18	2
Dividends received		13,223	17,274
Net cash used in investing activities		(4,231,022)	(2,664,470)
FINANCING ACTIVITIES			
Dividends paid		(2,090)	(25,513)
Zakat and income tax paid		(63,252)	(130,059)
Net cash used in financing activities		(65,342)	(155,572)
Net decrease in cash and cash equivalents		(8,816,317)	(12,905,979)
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	14	3,344,315	4,188,977
Special commission received during the period		1,779,761	1,742,694
Special commission paid during the period		(450,274)	(398,976)
Supplemental non-cash information			
Net changes in fair value of investments held at fair value through other comprehensive income		(572,800)	132,055

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

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ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements
For the three month period ended March 31, 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 (March 31, 2019: 138 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 three month period ended March 31, 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 three months period ended March 31, 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.

Until the period ended March 31, 2019, the interim condensed consolidated financial statements of the Group were prepared in accordance with the International Accounting Standard (IAS) 34 – Interim Financial Reporting as modified by SAMA for accounting of Zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to Zakat and income tax).

On July 17, 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 5 to the interim condensed consolidated financial statements.

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 three elements of control. Consolidation of a subsidiary begins when the Group

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three month period ended March 31, 2020 and 2019

3. Basis of consolidation (continued)

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.

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.

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.

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
Notes to the Interim Condensed Consolidated Financial Statements (continued)
For the three month period ended March 31, 2020 and 2019
Amounts in SAR '000

5. Impact of changes in accounting policies

The change in the accounting for zakat and income tax (as explained in note 2) has the following impact on the statement of income, statement of financial position and changes in equity.

As at and for the three month period ended March 31, 2019:

Financial statements impacted	Account	Before the restatement for the three-month period ended March 31, 2019	Effect of restatement	As restated as at and for the three-month period ended March 31, 2019
Statement of changes in equity	Provision for zakat (retained earnings)	68,920	(68,920)	-
	Provision for income tax (retained earnings)	72,240	(72,240)	-
Statement of income	Zakat for the period	-	68,920	68,920
	Income tax for the period	-	72,240	72,240
	Earnings per share (expressed in SAR per share)	0.61	(0.09)	0.52
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326

6. Cash and balances with SAMA

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Cash in hand	1,704,470	1,723,910	1,639,968
Statutory deposit	7,397,240	7,078,289	7,312,344
Reverse repo with SAMA	104,000	8,363,000	1,187,000
Other balances	6,014	1,845	9,466
Total	9,211,724	17,167,044	10,148,778

7. Due from banks and other financial institutions

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Current accounts	404,017	1,133,575	636,400
Money market placements	1,125,815	938,303	716,143
Less: Impairment	(9,383)	(3,886)	(4,047)
Total	1,520,449	2,067,992	1,348,496

8. Investments, net

Investment securities are classified as follows:

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Investments at amortized cost	39,337,515	32,736,543	26,135,651
Investments at FVOCI - equity	1,653,950	1,983,435	1,094,203
Investments at FVOCI - debt	1,930,773	2,791,416	3,228,012
Investments at FVTPL	488,274	554,675	518,500
Less: Impairment	(13,631)	(27,929)	(21,713)
Total	43,396,881	38,038,140	30,954,653

Equity investment securities designated as at FVOCI

No equity investments designated at FVOCI were disposed off during the period. Dividend income recognized in the interim consolidated statement of income amounted to SAR 5,283 thousand for the three months period ended March 31, 2020 (March 31, 2019: SAR 9,015 thousand).

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9. Loans and advances, net

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

March 31, 2020 (Unaudited)	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	4,107,458	421,930	28,178,031	88,314,206	121,021,625
Non-performing loans and advances, net	9,326	10,190	75,594	2,413,431	2,508,541
Total loans and advances	4,116,784	432,120	28,253,625	90,727,637	123,530,166
Impairment allowance	(128,658)	(35,045)	(356,461)	(3,072,134)	(3,592,298)
Loans and advances, net	<u>3,988,126</u>	<u>397,075</u>	<u>27,897,164</u>	<u>87,655,503</u>	<u>119,937,868</u>

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	<u>4,248,407</u>	<u>444,354</u>	<u>26,981,290</u>	<u>87,163,070</u>	<u>118,837,121</u>

March 31, 2019 (Unaudited)

Performing loans and advances, gross	3,835,707	476,300	25,126,824	92,053,172	121,492,003
Non-performing loans and advances, net	5,096	9,816	75,048	1,384,229	1,474,189
Total loans and advances	3,840,803	486,116	25,201,872	93,437,401	122,966,192
Impairment allowance	(29,088)	(33,209)	(400,097)	(2,311,142)	(2,773,536)
Loans and advances, net	<u>3,811,715</u>	<u>452,907</u>	<u>24,801,775</u>	<u>91,126,259</u>	<u>120,192,656</u>

The movement in the allowance for impairment of loans and advances to customers for the three month period ended March 31 are as follows:

	March 31 2020 (Unaudited)	March 31 2019 (Unaudited)
Balance at the beginning of the period	3,401,583	2,677,304
Charge for the period, net	259,594	174,920
Bad debts written off against impairment allowance	(68,879)	(78,688)
Balance at the end of the period	<u>3,592,298</u>	<u>2,773,536</u>

Impairment charge for credit losses, net for the period ended March 31, 2020 amounted to SAR 189,467 thousand (March 31, 2019: SAR 153,692 thousand), including bad debts directly written-off to interim consolidated statement of income amounting to SAR 564 thousand (March 31, 2019: SAR 13,728 thousand) and net of recoveries amounting to SAR 70,691 thousand (March 31, 2019: SAR 34,956 thousand).

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

March 31, 2020 (Unaudited)	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
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	9,214	(7,879)	(1,335)	-
Transfer to lifetime ECL not credit – impaired	(6,980)	13,251	(6,271)	-
Transfer to lifetime ECL credit impaired	(22)	(11,111)	11,133	-
Net charge for the period	171,091	23,756	64,747	259,594
Write-offs	-	-	(68,879)	(68,879)
Balance at March 31, 2020	<u>961,745</u>	<u>942,039</u>	<u>1,688,514</u>	<u>3,592,298</u>

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9. Loans and advances, net (continued)

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
March 31, 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	28,582	(24,270)	(4,312)	-
Transfer to lifetime ECL not credit – impaired	(16,296)	27,637	(11,341)	-
Transfer to lifetime ECL credit impaired	-	(3,356)	3,356	-
Net charge for the period	97,387	31,666	45,867	174,920
Write-offs	-	-	(78,688)	(78,688)
Balance at March 31, 2019	540,695	1,154,583	1,078,258	2,773,536

“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 three month period ended	
	March 31 2020 (Unaudited)	March 31 2019 (Unaudited)
Impairment charges for credit losses, net	189,467	153,692
Charge / (reversal) of provisions for credit-related commitments and contingencies, net	8,883	(5,700)
	198,350	147,992

10. Due to banks and other financial institutions

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Current accounts	111,977	178,800	110,129
Money market deposits	8,477,705	2,903,381	1,785,473
Total	8,589,682	3,082,181	1,895,602

11. Customers' deposits

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Demand	65,411,650	66,977,660	64,467,275
Time	65,093,737	68,393,317	59,426,205
Saving	159,352	141,297	122,457
Others	5,318,759	6,616,623	6,296,485
Total	135,983,498	142,128,897	130,312,422

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12. 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.

	March 31, 2020 (Unaudited)			December 31, 2019 (Audited)			March 31, 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	515,782	478,541	24,558,104	598,400	561,452	21,730,255	651,224	609,712	20,927,780
Commission rate futures and options	485,062	486,234	12,671,826	565,834	567,318	12,714,748	572,649	571,444	16,859,714
Forward foreign exchange and commodity contracts	55,603	32,513	10,562,676	28,357	6,344	5,268,865	33,184	8,968	1,634,852
Currency and commodity options	8,030	6,845	589,620	737	845	210,929	1,198	1,114	97,694
Held as fair value hedges:									
Commission rate swaps	1,796	3,277,573	23,594,563	31,808	1,205,225	23,727,537	46,988	247,436	20,447,385
Total	1,066,273	4,281,706	71,976,789	1,225,136	2,341,184	63,652,334	1,305,243	1,438,674	59,967,425

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 5,101 million placed (December 31, 2019: SAR 2,021 million received, and March 31, 2019: SAR 642 million received).

13. 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:

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Letters of credit	4,574,511	4,811,238	5,373,588
Letters of guarantee	21,290,641	22,596,379	22,287,605
Acceptances	1,397,536	1,452,463	1,244,042
Irrevocable commitments to extend credit	1,820,150	2,606,908	3,539,135
Others	64,639	77,221	84,363
Total	29,147,477	31,544,209	32,528,733

The unutilized portion of non-firm commitments as at March 31, 2020 which can be revoked unilaterally at any time by the Bank, amounts SAR 19,307 million (December 31, 2019: SAR 19,388 million and March 31, 2019: SAR 16,926 million).

14. Cash and cash equivalents

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

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	1,814,484	10,088,755	2,836,434
Due from banks and other financial institutions maturing within 90 days from the acquisition date	1,529,831	2,071,877	1,352,543
Total	3,344,315	12,160,632	4,188,977

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15. 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. Despite providing a new basis for calculating the Zakat base, Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base.

Zakat for the period ended March 31, 2020 attributable to Saudi Shareholders amounted to approximately SAR 68.3 million (March 31, 2019: SAR 68.9 million). Income tax payable by the non-Saudi Shareholder on the current period's share of net income is SAR 58.0 million (March 31, 2019: SAR 72.2 million). The provision of Zakat and income tax is estimated based on the results of operations of the Bank for the three month period ended and the consolidated financial position at March 31, 2020.

16. 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 March 31, 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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16. Operating segments (continued)

The Group's total interim consolidated assets and liabilities as at March 31, 2020 and 2019, its total operating income, expenses and net income for the three month period then ended, by operating segments, are as follows:

March 31, 2020 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	41,393,949	82,326,688	59,170,051	190,793	1,789,635	184,871,116
Investments in associates	-	-	-	211,001	639,788	850,789
Total liabilities	66,159,445	73,196,610	15,002,153	88,324	2,706,410	157,152,942
Operating income/(expense) from external customers	559,812	844,650	15,100	65,297	4,755	1,489,614
Intersegment operating income/(expense)	87,061	(346,157)	177,205	-	81,891	-
Total operating income	646,873	498,493	192,305	65,297	86,646	1,489,614
Of which:						
Net special commission income	588,217	485,424	128,611	9,258	79,247	1,290,757
Fees and commission income, net	24,112	112,900	2,682	23,058	(9,373)	153,379
Impairment charges for credit losses and other provisions, net	41,051	157,299	-	-	-	198,350
Impairment reversals for other financial assets, net	-	-	(5,819)	-	-	(5,819)
Depreciation and amortization	42,852	3,008	318	1,379	10,592	58,149
Total operating expenses	369,969	327,055	19,341	18,397	3,394	738,156
Share in earnings of associates, net	-	-	-	-	3,814	3,814
Net income attributed to equity holders of the Bank	276,904	171,438	172,964	39,880	(17,399)	643,787
Net income attributed to non-controlling interest	-	-	-	-	(233)	(233)
March 31, 2019 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets (restated)	39,392,303	84,067,424	42,570,355	99,579	2,551,398	168,681,059
Investments in associates	-	-	-	211,046	664,445	875,491
Total liabilities	67,830,407	65,477,345	5,159,598	46,353	3,625,273	142,138,976
Operating income /(expense) from external customers	512,764	1,116,522	(15,181)	22,093	(3,044)	1,633,154
Intersegment operating income/(expense)	105,862	(486,733)	288,075	-	92,796	-
Total operating income	618,626	629,789	272,894	22,093	89,752	1,633,154
Of which:						
Net special commission income	554,836	515,748	194,175	10,656	89,426	1,364,841
Fees and commission income, net	30,934	110,895	1,632	14,749	(15,586)	142,624
Impairment charges for credit losses and other provisions, net	22,357	125,635	-	-	-	147,992
Impairment charges for other financial assets, net	-	-	13,634	-	-	13,634
Depreciation and amortization	21,454	1,888	300	467	43,827	67,936
Total operating expenses	353,361	312,826	35,665	12,194	5,764	719,810
Share in earnings of associates, net	-	-	-	-	6,239	6,239
Net income attributed to equity holders of the Bank (restated)	265,265	316,963	237,229	9,899	(50,385)	778,971
Net income attributed to non-controlling interest	-	-	-	-	(548)	(548)

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As at March 31, 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 March 31, 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 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 March 31, 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.

18. 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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18. 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

March 31, 2020 (Unaudited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Investments at FVTPL	488,274	-	127,851	360,423	488,274
Investments at FVOCI	3,584,723	1,652,666	1,931,164	893	3,584,723
Positive fair value of derivatives	1,066,273	-	1,066,273	-	1,066,273
Financial assets not measured at fair value					
Due from banks and other financial institutions	1,520,449	-	-	-	1,520,449
Investments at amortised cost	39,323,884	-	41,116,381	-	41,116,381
Loans and advances	119,937,868	-	-	125,701,531	125,701,531

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

March 31, 2020 (Unaudited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at fair value					
Negative fair value of derivatives	4,281,706	-	4,281,706	-	4,281,706
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	8,589,682	-	-	-	8,589,682
Customer deposits	135,983,498	-	-	-	135,983,498
Sukuk	2,036,847	-	-	1,914,217	1,914,217

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18. 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 three month period ended March 31, 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.

	March 31, 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 gain in consolidated statement of income	(126,536)	-	12,931	-
Settlements / adjustments	(41)	-	(2,114)	(1,000)
Balance at the end of the period	360,423	893	487,000	893

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18. 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 March 31, 2020, March 31 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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19. 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:

	March 31 2020 (Unaudited)	December 31 2019 (Audited)	March 31 2019 (Unaudited)
Credit Risk RWA	153,646,161	147,798,558	146,555,893
Operational Risk RWA	13,796,547	13,670,185	13,606,915
Market Risk RWA	3,574,327	1,603,591	1,960,557
Total Pillar-I RWA	<u>171,017,035</u>	<u>163,072,334</u>	<u>162,123,365</u>
Tier I Capital	28,234,632	27,944,791	26,772,592
Tier II Capital	3,118,334	2,951,286	2,719,103
Total Tier I & II Capital	<u>31,352,966</u>	<u>30,896,077</u>	<u>29,491,695</u>
Capital Adequacy Ratio %			
Tier I ratio	16.51%	17.14%	16.51%
Tier I + Tier II ratio	18.33%	18.95%	18.19%

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.

20. Comparative figures

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

21. 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 Bank has evaluated 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.

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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. The adjustments to macroeconomic factors resulted in an additional ECL of SR 289 million for the Bank. 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

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 SR 103.6 million as at 31 March 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.

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 SR 1.75 billion of profit free deposit from SAMA. 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 SR 139.4 million, of which SR 103.6 million has been recognised in the statement of income as at 31 March 2020 immediately, with the remaining amount deferred. The management has exercised certain judgements in the recognition and measurement of this grant income.

As at 31 March 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 financial statements.

During April 2020, SAMA has issued a guidance around Accounting and Regulatory Treatment of COVID19 Extraordinary Support Measures. The Bank will consider the guidance issued and evaluate the accounting impact in Q2 2020 accordingly.

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 SR 41.8 million as at 31 March 2020 and this has been presented as part of net financing income.

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22. Board of Directors' approval

The interim condensed consolidated financial statements were approved by the Board on Ramadan 28, 1441 (corresponding to May 21, 2020).