



**Arab National Bank**  
(A Saudi Joint Stock Company)

**Interim Condensed Consolidated Financial Statements**  
**For the period ended 30 September 2020**

**Independent Auditors' Review Report on  
Interim Condensed Consolidated Financial Statements**

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

**Introduction**

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

**Scope of Review**

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

**Conclusion**

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

**Other Regulatory Matters**

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

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

	<b>September 30</b>	December 31	September 30
	<b>2020</b>	2019	2019
<b>Notes</b>	<b>(Unaudited)</b>	(Audited)	(Unaudited)
<b>ASSETS</b>			
Cash and balances with SAMA	5 <b>14,326,974</b>	17,167,044	9,961,897
Due from banks and other financial institutions, net	6 <b>2,459,433</b>	2,067,992	694,459
Positive fair value of derivatives	11 <b>970,621</b>	1,225,136	1,216,518
Investments, net	7 <b>43,387,214</b>	38,038,140	34,030,359
Loans and advances, net	8 <b>118,058,060</b>	118,837,121	117,880,257
Investments in associates	<b>1,277,356</b>	889,115	878,435
Other real estate	<b>220,697</b>	222,197	222,197
Property and equipment, net	<b>2,058,274</b>	2,183,641	2,214,563
Other assets	<b>5,767,806</b>	2,812,091	3,826,748
<b>Total assets</b>	<b><u>188,526,435</u></b>	<u>183,442,477</u>	<u>170,925,433</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	9 <b>11,074,833</b>	3,082,181	1,734,433
Negative fair value of derivatives	11 <b>4,009,410</b>	2,341,184	2,778,117
Customers' deposits	10 <b>136,724,824</b>	142,128,897	130,921,417
Other liabilities	<b>5,320,351</b>	5,529,026	5,798,922
Sukuk	<b>2,025,707</b>	2,017,903	2,042,898
<b>Total liabilities</b>	<b><u>159,155,125</u></b>	<u>155,099,191</u>	<u>143,275,787</u>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Bank</b>			
Share capital	16 <b>15,000,000</b>	15,000,000	15,000,000
Statutory reserve	<b>7,756,000</b>	7,756,000	7,000,000
Other reserves	<b>157,755</b>	230,786	51,840
Retained earnings	<b>6,424,994</b>	4,627,232	5,562,180
Proposed dividends	-	694,205	-
<b>Total equity attributable to equity holders of the Bank</b>	<b><u>29,338,749</u></b>	<u>28,308,223</u>	<u>27,614,020</u>
Non-controlling interests	<b>32,561</b>	35,063	35,626
<b>Total equity</b>	<b><u>29,371,310</u></b>	<u>28,343,286</u>	<u>27,649,646</u>
<b>Total liabilities and equity</b>	<b><u>188,526,435</u></b>	<u>183,442,477</u>	<u>170,925,433</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)**

	<b>For the three month period ended</b>		<b>For the nine month period ended</b>		
	<b>Notes</b>	<b>September 30 2020</b>	September 30 2019	<b>September 30 2020</b>	September 30 2019
Special commission income		<b>1,405,650</b>	1,916,201	<b>4,665,714</b>	5,807,037
Special commission expense		<b>195,012</b>	505,764	<b>965,268</b>	1,594,293
<b>Net special commission income</b>		<b>1,210,638</b>	1,410,437	<b>3,700,446</b>	4,212,744
Fees and commission income, net		<b>154,057</b>	187,468	<b>427,540</b>	489,152
Exchange income, net		<b>69,405</b>	91,253	<b>261,126</b>	274,539
Unrealized (loss) / gain on FVTPL financial instruments, net		<b>(240)</b>	5,691	<b>(126,521)</b>	11,282
Trading income / (loss), net		<b>1,466</b>	(1,355)	<b>5,088</b>	(10,292)
Dividend income		<b>15,655</b>	22,286	<b>58,996</b>	69,436
Gain on sale of FVOCI debt financial assets, net		-	407	<b>10,488</b>	407
Other operating income, net		<b>12,848</b>	20,522	<b>86,005</b>	56,538
<b>Total operating income</b>		<b>1,463,829</b>	1,736,709	<b>4,423,168</b>	5,103,806
Salaries and employee related expenses		<b>295,986</b>	317,580	<b>925,420</b>	955,968
Rent and premises related expenses		<b>15,708</b>	14,360	<b>42,464</b>	43,543
Depreciation and amortization		<b>53,736</b>	61,289	<b>166,626</b>	193,022
Other general and administrative expenses		<b>140,314</b>	146,416	<b>444,248</b>	444,881
<b>Total operating expenses before impairment charges</b>		<b>505,744</b>	539,645	<b>1,578,758</b>	1,637,414
Impairment charges for credit losses and other provisions, net	8	<b>203,681</b>	210,355	<b>747,464</b>	545,931
(Reversal of impairment charges) / Impairment charges for other financial assets, net		<b>(7,831)</b>	16,829	<b>(11,271)</b>	23,561
<b>Total operating expenses</b>		<b>701,594</b>	766,829	<b>2,314,951</b>	2,206,906
<b>Net operating income</b>		<b>762,235</b>	969,880	<b>2,108,217</b>	2,896,900
Share in earnings / (loss) of associates, net		<b>21,720</b>	(18,279)	<b>27,514</b>	(977)
Gain on disposal of investment in an associate		-	-	<b>15,217</b>	-
<b>Net income before zakat and income tax</b>		<b>783,955</b>	951,601	<b>2,150,948</b>	2,895,923
Zakat for the period	14	<b>61,865</b>	49,840	<b>190,086</b>	177,244
Income tax for the period	14	<b>54,154</b>	72,000	<b>166,558</b>	216,480
Deferred tax reversal for the period		-	(4,919)	<b>(1,533)</b>	(4,919)
<b>Net income for the period</b>		<b>667,936</b>	834,680	<b>1,795,837</b>	2,507,118
<b>Attributable to:</b>					
Equity holders of the Bank		<b>668,600</b>	834,763	<b>1,798,339</b>	2,507,978
Non-controlling interests		<b>(664)</b>	(83)	<b>(2,502)</b>	(860)
<b>Net income for the period</b>		<b>667,936</b>	834,680	<b>1,795,837</b>	2,507,118
<b>Basic and diluted earnings per share (expressed in SAR per share)</b>	16	<b>0.45</b>	0.56	<b>1.20</b>	1.67

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

Latifa Al-Sabhan  
Chief Financial Officer

Robert Eid  
Managing Director

Hesham Al-Jabr  
Authorized Board Member

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

	<u>For the three month period ended</u>		<u>For the nine month period ended</u>	
	<u>September 30 2020</u>	<u>September 30 2019</u>	<u>September 30 2020</u>	<u>September 30 2019</u>
<b>Net income for the period</b>	<b>667,936</b>	834,680	<b>1,795,837</b>	2,507,118
<b>Other comprehensive income</b>				
<b>Items that cannot be reclassified to interim consolidated statement of income in subsequent periods</b>				
<i>Equity instruments at fair value through other comprehensive income:</i>				
- Net changes in fair value	<b>222,250</b>	(95,274)	<b>5,837</b>	4,200
<b>Items that can be reclassified to interim consolidated statement of income in subsequent periods</b>				
<i>Debt instruments at fair value through other comprehensive income:</i>				
- Net changes in fair value	<b>25,538</b>	11,069	<b>(77,502)</b>	39,807
- Net amounts transferred to interim consolidated statement of income	<b>(4,555)</b>	2,056	<b>(1,943)</b>	1,262
<b>Total other comprehensive (loss) / income for the period</b>	<b>243,233</b>	(82,149)	<b>(73,608)</b>	45,269
<b>Total comprehensive income for the period</b>	<b>911,169</b>	752,531	<b>1,722,229</b>	2,552,387
<b>Attributable to:</b>				
Equity holders of the Bank	<b>911,833</b>	752,614	<b>1,724,731</b>	2,553,247
Non-controlling interests	<b>(664)</b>	(83)	<b>(2,502)</b>	(860)
<b>Total comprehensive income for the period</b>	<b>911,169</b>	752,531	<b>1,722,229</b>	2,552,387

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

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Chief Financial Officer

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Hesham Al-Jabr  
Authorized Board Member

**ARAB NATIONAL BANK**  
**(A Saudi Joint Stock Company)**  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the nine month period ended September 30, 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							
<b>2020</b>											
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	
<b>Changes in equity for the period:</b>											
Net changes in fair values of FVOCI equity investments		-	-	5,837	-	-	-	5,837	-	5,837	
Net changes in fair values of FVOCI debt instruments		-	-	(77,502)	-	-	-	(77,502)	-	(77,502)	
Net transfers to interim consolidated statement of income		-	-	(1,943)	-	-	-	(1,943)	-	(1,943)	
Net income for the period		-	-	-	-	1,798,339	-	1,798,339	(2,502)	1,795,837	
<b>Total comprehensive income for the period</b>		-	-	(73,608)	-	1,798,339	-	1,724,731	(2,502)	1,722,229	
Net loss on derecognition of FVOCI equity investments		-	-	577	-	(577)	-	-	-	-	
2019 final dividends, net		-	-	-	-	-	(694,205)	(694,205)	-	(694,205)	
<b>Balance at the end of the period</b>		<b>15,000,000</b>	<b>7,756,000</b>	<b>235,763</b>	<b>(78,008)</b>	<b>6,424,994</b>	<b>-</b>	<b>29,338,749</b>	<b>32,561</b>	<b>29,371,310</b>	
<b>2019</b>											
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)	
<b>Changes in equity for the period:</b>											
Net changes in fair values of FVOCI equity investments		-	-	4,200	-	-	-	4,200	-	4,200	
Net changes in fair values of FVOCI debt instruments		-	-	39,807	-	-	-	39,807	-	39,807	
Net transfers to interim consolidated statement of income		-	-	1,262	-	-	-	1,262	-	1,262	
Net income for the period		-	-	-	-	2,507,978	-	2,507,978	(860)	2,507,118	
<b>Total comprehensive income for the period</b>		-	-	45,269	-	2,507,978	-	2,553,247	(860)	2,552,387	
Net loss on derecognition of FVOCI equity investments		-	-	13,834	-	(13,834)	-	-	-	-	
Bonus shares	16	5,000,000	(3,000,000)	-	-	(2,000,000)	-	-	-	-	
2018 final dividends, net		-	-	-	-	-	(850,000)	(850,000)	-	(850,000)	
2019 interim dividend, net		-	-	-	-	(532,682)	-	(532,682)	-	(532,682)	
<b>Balance at the end of the period</b>		<b>15,000,000</b>	<b>7,000,000</b>	<b>132,319</b>	<b>(80,479)</b>	<b>5,562,180</b>	<b>-</b>	<b>27,614,020</b>	<b>35,626</b>	<b>27,649,646</b>	

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 CASH FLOWS**  
**For the nine month period ended September 30**  
**Amounts in SAR '000 (Unaudited)**

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b>OPERATING ACTIVITIES</b>			
<b>Net income before zakat and income tax</b>		<b>2,150,948</b>	2,895,923
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>			
Amortization of premium on investments not held as FVTPL, net		<b>20,640</b>	994
Special commission expense on Sukuk		<b>45,900</b>	65,772
Gain on sale of FVOCI debt and other financial assets, net		<b>(10,488)</b>	(407)
Unrealized loss / (gains) on revaluation of investments as FVTPL, net		<b>126,521</b>	(11,282)
Dividend income		<b>(58,996)</b>	(69,436)
Depreciation and amortization of property and equipment		<b>166,626</b>	193,022
Loss on disposal of property and equipment, net		<b>58</b>	3,458
Impairment charges for credit losses and other provisions, net		<b>747,464</b>	545,931
(Reversal of impairment charges) / Impairment charges for other financial assets, net		<b>(11,271)</b>	23,561
Share in (earnings) / Loss of associates, net		<b>(27,514)</b>	977
Gain on disposal of investment in an associate		<b>(15,217)</b>	-
		<b>3,134,671</b>	3,648,513
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with SAMA		<b>(14,537)</b>	135,971
Investments held at FVTPL		<b>(58,087)</b>	(7,943)
Positive fair value of derivatives		<b>254,515</b>	363,816
Loans and advances		<b>228,088</b>	2,985,286
Other real estate, net		<b>1,500</b>	(1,500)
Other assets		<b>(2,957,247)</b>	(2,702,730)
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		<b>7,992,651</b>	197,831
Negative fair value of derivatives		<b>1,668,226</b>	1,486,733
Customers' deposits		<b>(5,404,072)</b>	(11,134,191)
Other liabilities		<b>(1,365,187)</b>	(1,481,411)
Zakat and income tax paid		<b>(568,283)</b>	(532,305)
<b>Net cash from / (used in) operating activities</b>		<b>2,912,238</b>	(7,041,930)
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of investments not held as FVTPL		<b>1,786,481</b>	1,190,695
Purchase of investments not held as FVTPL		<b>(6,080,573)</b>	(5,846,482)
Purchase of property and equipment		<b>(41,163)</b>	7,864
Investment in associate		<b>(367,231)</b>	(62,244)
Proceeds from sale of property and equipment		<b>50</b>	511
Dividends received		<b>58,996</b>	69,436
<b>Net cash used in investing activities</b>		<b>(4,643,440)</b>	(4,640,220)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		<b>(693,235)</b>	(1,588,753)
Special commission paid on Sukuk		<b>(38,096)</b>	(43,365)
<b>Net cash used in financing activities</b>		<b>(731,331)</b>	(1,632,118)
<b>Net decrease in cash and cash equivalents</b>		<b>(2,462,533)</b>	(13,314,268)
Cash and cash equivalents at the beginning of the period		<b>12,160,632</b>	17,094,956
<b>Cash and cash equivalents at the end of the period</b>	13	<b>9,698,099</b>	3,780,688
Special commission received during the period		<b>4,700,297</b>	5,569,573
Special commission paid during the period		<b>(943,931)</b>	(1,236,334)
<b>Supplemental non-cash information</b>			
Net changes in fair value of investments held at fair value through other comprehensive income		<b>(71,665)</b>	44,007

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

Latifa Al-Sabhan  
Chief Financial Officer

Robert Eid  
Managing Director

Hesham Al-Jabr  
Authorized Board Member

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

**1. General**

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 137 branches (September 30, 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 nine month period ended September 30, 2020 and 2019**

**1. General (continued)**

**ANB Global Markets Limited**

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

**2. Basis of preparation**

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

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

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

**3. Basis of consolidation**

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

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

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

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

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

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

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

If the Group loses control over a subsidiary, it:

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

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**3. Basis of consolidation (continued)**

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

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

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

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

**4. Significant accounting policies**

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

**Government grant**

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

**5. Cash and balances with SAMA**

	<b>September 30 2020 (Unaudited)</b>	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Cash in hand	<b>1,497,025</b>	1,723,910	1,853,031
Statutory deposit	<b>7,092,826</b>	7,078,289	6,885,838
Reverse repo with SAMA	<b>5,726,000</b>	8,363,000	1,220,000
Other balances	<b>11,123</b>	1,845	3,028
<b>Total</b>	<b>14,326,974</b>	17,167,044	9,961,897

**6. Due from banks and other financial institutions**

	<b>September 30 2020 (Unaudited)</b>	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Current accounts	<b>395,634</b>	1,133,575	590,872
Money market placements	<b>2,068,317</b>	938,303	113,757
Less: Impairment	<b>(4,518)</b>	(3,886)	(10,170)
<b>Total</b>	<b>2,459,433</b>	2,067,992	694,459

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**7. Investments, net**

Investment securities are classified as follows:

	<b>September 30 2020 (Unaudited)</b>	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Investments at amortized cost	<b>39,004,547</b>	32,736,543	29,735,709
Investments at FVOCI - equity	<b>1,966,751</b>	1,983,435	992,318
Investments at FVOCI - debt	<b>1,922,649</b>	2,791,416	2,792,363
Investments at FVTPL	<b>511,233</b>	554,675	535,888
Less: Impairment	<b>(17,966)</b>	(27,929)	(25,919)
<b>Total</b>	<b><u>43,387,214</u></b>	<u>38,038,140</u>	<u>34,030,359</u>

**Equity investment securities designated as at FVOCI**

Dividend income recognized in the interim consolidated statement of income amounted to SAR 51,057 thousand for the nine month period ended September 30, 2020 (September 30, 2019: SAR 45,556 thousand).

**8. Loans and advances, net**

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

		<b>Credit cards</b>	<b>Consumer loans</b>	<b>Commercial loans and others</b>	<b>Total</b>
<b>September 30, 2020 (Unaudited)</b>	<b>Overdrafts</b>				
Performing loans and advances, gross	<b>3,471,149</b>	<b>390,638</b>	<b>28,757,819</b>	<b>85,593,423</b>	<b>118,213,029</b>
Non-performing loans and advances, net	<b>32,118</b>	<b>8,057</b>	<b>79,276</b>	<b>3,592,675</b>	<b>3,712,126</b>
Total loans and advances	<b>3,503,267</b>	<b>398,695</b>	<b>28,837,095</b>	<b>89,186,098</b>	<b>121,925,155</b>
Impairment allowance	<b>(85,687)</b>	<b>(31,681)</b>	<b>(391,765)</b>	<b>(3,357,962)</b>	<b>(3,867,095)</b>
<b>Loans and advances, net</b>	<b><u>3,417,580</u></b>	<b><u>367,014</u></b>	<b><u>28,445,330</u></b>	<b><u>85,828,136</u></b>	<b><u>118,058,060</u></b>
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>
September 30, 2019 (Unaudited)					
Performing loans and advances, gross	3,109,638	485,021	26,540,281	89,156,656	119,291,596
Non-performing loans and advances, net	8,232	8,492	99,353	1,517,377	1,633,454
Total loans and advances	3,117,870	493,513	26,639,634	90,674,033	120,925,050
Impairment allowance	(46,161)	(30,784)	(375,937)	(2,591,911)	(3,044,793)
Loans and advances, net	<u>3,071,709</u>	<u>462,729</u>	<u>26,263,697</u>	<u>88,082,122</u>	<u>117,880,257</u>

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

	<b>September 30 2020 (Unaudited)</b>	September 30 2019 (Unaudited)
Balance at the beginning of the period	<b>3,401,583</b>	2,677,304
Charge for the period, net	<b>1,001,253</b>	597,757
Bad debts written off against impairment allowance	<b>(535,741)</b>	(230,268)
<b>Balance at the end of the period</b>	<b><u>3,867,095</u></b>	<u>3,044,793</u>

Impairment charge for credit losses, net for the period ended September 30, 2020 amounted to SAR 894,099 thousand (September 30, 2019: SAR 529,295 thousand), including bad debts directly written-off to interim consolidated statement of income amounting to SAR 13,381 thousand (September 30, 2019: SAR 37,150 thousand) and net of recoveries amounting to SAR 120,535 thousand (September 30, 2019: SAR 105,612 thousand).

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**8. Loans and advances, net (continued)**

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

<b>September 30, 2020 (Unaudited)</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Loans and advances to customers at amortized cost</b>				
Balance at January 1, 2020	788,442	924,022	1,689,119	3,401,583
Transfer to 12-month ECL	34,881	(24,665)	(10,216)	-
Transfer to lifetime ECL not credit impaired	(22,335)	40,428	(18,093)	-
Transfer to lifetime ECL credit impaired	(1,020)	(185,317)	186,337	-
Net charge for the period	33,498	159,402	808,353	1,001,253
Write-offs	-	-	(535,741)	(535,741)
<b>Balance at September 30, 2020</b>	<b>833,466</b>	<b>913,870</b>	<b>2,119,759</b>	<b>3,867,095</b>
September 30, 2019 (Unaudited)	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
<b>Loans and advances to customers at amortized cost</b>				
Balance at January 1, 2019	431,022	1,122,906	1,123,376	2,677,304
Transfer to 12-month ECL	104,167	(88,578)	(15,589)	-
Transfer to lifetime ECL not credit impaired	(23,225)	50,253	(27,028)	-
Transfer to lifetime ECL credit impaired	(1,159)	(108,838)	109,997	-
Net charge for the period	172,855	181,458	243,444	597,757
Write-offs	-	-	(230,268)	(230,268)
Balance at September 30, 2019	683,660	1,157,201	1,203,932	3,044,793

"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:

	<b>For the nine month period ended</b>	
	<b>September 30 2020 (Unaudited)</b>	September 30 2019 (Unaudited)
Impairment charges for credit losses, net	894,099	529,295
(Reversal) /charge of provisions for credit-related commitments and contingencies, net	(146,635)	16,636
	<b>747,464</b>	<b>545,931</b>

**9. Due to banks and other financial institutions**

	<b>September 30 2020 (Unaudited)</b>	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Current accounts	254,064	178,800	189,558
Money market deposits	10,820,769	2,903,381	1,544,875
<b>Total</b>	<b>11,074,833</b>	<b>3,082,181</b>	<b>1,734,433</b>

**10. Customers' deposits**

	<b>September 30 2020 (Unaudited)</b>	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Demand	71,316,749	66,977,660	65,436,490
Time	59,825,008	68,393,317	58,749,403
Saving	186,830	141,297	140,068
Others	5,396,237	6,616,623	6,595,456
<b>Total</b>	<b>136,724,824</b>	<b>142,128,897</b>	<b>130,921,417</b>

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**11. Derivatives**

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

	September 30, 2020 (Unaudited)			December 31, 2019 (Audited)			September 30, 2019 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
<b>Held for trading:</b>									
Commission rate and cross currency swaps	466,369	433,110	19,125,336	598,400	561,452	21,730,255	612,746	573,034	21,254,464
Commission rate futures and options	466,723	467,607	12,621,175	565,834	567,318	12,714,748	563,234	561,707	15,508,295
Forward foreign exchange and commodity contracts	34,476	10,969	6,199,658	28,357	6,344	5,268,865	33,499	10,091	4,493,244
Currency and commodity options	283	609	251,567	737	845	210,929	329	195	163,712
<b>Held as fair value hedges:</b>									
Commission rate swaps	2,770	3,097,115	23,347,709	31,808	1,205,225	23,727,537	6,710	1,633,090	22,664,169
<b>Total</b>	<b>970,621</b>	<b>4,009,410</b>	<b>61,545,445</b>	<b>1,225,136</b>	<b>2,341,184</b>	<b>63,652,334</b>	<b>1,216,518</b>	<b>2,778,117</b>	<b>64,083,884</b>

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 4,576 million placed (December 31, 2019: SAR 2,021 million received, and September 30, 2019: SAR 2,659 million received).

**12. Commitments and contingencies**

**a) Legal proceedings**

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

**b) Credit related commitments and contingencies**

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

	September 30 2020 (Unaudited)	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Letters of credit	4,751,904	4,811,238	4,718,460
Letters of guarantee	17,965,358	22,596,379	23,104,196
Acceptances	1,463,220	1,452,463	1,090,155
Irrevocable commitments to extend credit	1,400,336	2,606,908	2,642,607
Others	19,297	77,221	80,278
<b>Total</b>	<b>25,600,115</b>	<b>31,544,209</b>	<b>31,635,696</b>

The unutilized portion of non-firm commitments as at September 30, 2020 which can be revoked unilaterally at any time by the Bank, amounts SAR 22,526 million (December 31, 2019: SAR 19,388 million and September 30, 2019: SAR 17,303 million).

**13. Cash and cash equivalents**

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

	September 30 2020 (Unaudited)	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	7,234,148	10,088,755	3,076,059
Due from banks and other financial institutions maturing within 90 days from the acquisition date	2,463,951	2,071,877	704,629
<b>Total</b>	<b>9,698,099</b>	<b>12,160,632</b>	<b>3,780,688</b>

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**14. Zakat and Income Tax**

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

Zakat for the period ended September 30, 2020 attributable to Saudi Shareholders amounted to approximately SAR 190.1 million (September 30, 2019: SAR 177.2 million). Income tax attributable to the non-Saudi Shareholder on the current period's share of net income is SAR 166.6 million (September 30, 2019: SAR 216.5 million). The provision of Zakat and income tax is estimated based on the results of operations of the Bank for the nine month period ended and the consolidated financial position at September 30, 2020.

**15. Operating segments**

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

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

**Retail banking**

Deposit, credit and investment products for individuals.

**Corporate banking**

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

**Treasury**

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

**Investment and brokerage services**

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

**Other**

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

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

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

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**15. Operating segments (continued)**

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

<b>September 30, 2020 (Unaudited)</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury</b>	<b>Investment and brokerage services</b>	<b>Other</b>	<b>Total</b>
Total assets	41,518,920	80,443,810	64,544,408	742,067	1,277,230	188,526,435
Investments in associates	-	-	-	517,256	760,100	1,277,356
Total liabilities	65,587,125	74,405,692	17,579,354	80,824	1,502,130	159,155,125
Operating income from external customers	1,639,570	2,568,347	58,651	147,244	9,356	4,423,168
Intersegment operating income/(expense)	119,029	(836,990)	597,871	-	120,090	-
Total operating income	1,758,599	1,731,357	656,522	147,244	129,446	4,423,168
Of which:						
Net special commission income	1,602,751	1,415,792	543,263	21,954	116,686	3,700,446
Fees and commission income, net	66,044	303,863	1,450	78,113	(21,930)	427,540
Impairment charges for credit losses and other provisions, net	146,755	600,709	-	-	-	747,464
Impairment reversals for other financial assets, net	-	-	(11,271)	-	-	(11,271)
Depreciation and amortization	125,523	8,826	961	4,067	27,249	166,626
Total operating expenses	1,075,696	1,085,840	64,069	59,852	29,494	2,314,951
Share in earnings of associates, net	-	-	-	-	27,514	27,514
Net income attributed to equity holders of the Bank	682,902	645,517	592,447	65,625	(188,152)	1,798,339
Net income attributed to non-controlling interest	-	-	-	-	(2,502)	(2,502)
<b>September 30, 2019 (Unaudited)</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury</b>	<b>Investment and brokerage services</b>	<b>Other</b>	<b>Total</b>
Total assets	40,608,873	81,369,294	46,993,133	100,581	1,853,552	170,925,433
Investments in associates	-	-	-	-	878,435	878,435
Total liabilities	67,984,330	66,956,734	6,581,229	55,469	1,698,025	143,275,787
Operating income/(expense) from external customers	1,705,803	3,358,601	(80,303)	73,423	46,282	5,103,806
Intersegment operating income/(expense)	345,558	(1,414,874)	857,721	-	211,595	-
Total operating income	2,051,361	1,943,727	777,418	73,423	257,877	5,103,806
Of which:						
Net special commission income	1,794,037	1,584,660	540,782	31,183	262,082	4,212,744
Fees and commission income, net	112,458	349,062	6,074	45,711	(24,153)	489,152
Impairment charges for credit losses and other provisions, net	105,001	440,930	-	-	-	545,931
Impairment charges for other financial assets, net	-	-	23,561	-	-	23,561
Depreciation and amortization	122,960	6,385	872	1,415	61,390	193,022
Total operating expenses	1,092,891	908,468	95,683	47,377	62,487	2,206,906
Share in earnings of associates, net	-	-	-	-	(977)	(977)
Net income attributed to equity holders of the Bank	815,810	1,035,259	681,735	26,046	(50,872)	2,507,978
Net income attributed to non-controlling interest	-	-	-	-	(860)	(860)

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**16. Share capital, bonus shares and earnings per share**

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

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

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

**17. Fair values of financial assets and liabilities**

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

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

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

**Determination of fair value and fair value hierarchy**

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

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

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

**a. Carrying amounts and fair value**

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

**Financial assets**

<b>September 30, 2020 (Unaudited)</b>	<b>Carrying value</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets measured at fair value</b>					
Investments at FVTPL	511,233	-	151,374	359,859	511,233
Investments at FVOCI	3,889,400	1,965,440	1,923,067	893	3,889,400
Positive fair value of derivatives	970,621	-	970,621	-	970,621
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions	2,459,433	-	-	-	2,459,433
Investments at amortised cost	39,004,547	-	38,378,391	-	38,378,391
Loans and advances	118,058,060	-	-	123,877,537	123,877,537

<b>December 31, 2019 (Audited)</b>	<b>Carrying value</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets measured at fair value</b>					
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
<b>Financial assets not measured at fair value</b>					
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**

<b>September 30, 2020 (Unaudited)</b>	<b>Carrying value</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial liabilities measured at fair value</b>					
Negative fair value of derivatives	4,009,410	-	4,009,410	-	4,009,410
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	11,074,833	-	-	-	11,074,833
Customer deposits	136,724,824	-	-	-	136,724,824
Sukuk	2,025,707	-	-	2,025,707	2,025,707

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

**a. Carrying amounts and fair value (continued)**

**Financial Liabilities (continued)**

December 31, 2019 (Audited)	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial liabilities measured at fair value</b>					
Negative fair value of derivatives	2,341,184	-	2,341,184	-	2,341,184
<b>Financial liabilities not measured at fair value</b>					
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 nine month period ended September 30, 2020 and 2019.

**ii. Level 3 fair values**

**Reconciliation of Level 3 fair values**

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

	<b>September 30, 2020</b>		December 31, 2019	
	<b>Investments at FVTPL</b>	<b>Investments at FVOCI</b>	Investments at FVTPL	Investments at FVOCI
Balance at the beginning of the period	<b>487,000</b>	<b>893</b>	476,183	1,893
Total unrealized (loss) / gain in consolidated statement of income	<b>(126,586)</b>	-	12,931	-
Settlements / adjustments	<b>(555)</b>	-	(2,114)	(1,000)
Balance at the end of the period	<b>359,859</b>	<b>893</b>	487,000	893

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

**b. Measurement of fair values (continued)**

**iii. Valuation technique and significant unobservable inputs**

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

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

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**18. Capital Adequacy**

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

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

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

	<b>September 30 2020 (Unaudited)</b>	December 31 2019 (Audited)	September 30 2019 (Unaudited)
Credit Risk RWA	<b>147,303,613</b>	147,798,558	147,230,594
Operational Risk RWA	<b>13,843,613</b>	13,670,185	13,615,678
Market Risk RWA	<b>1,288,336</b>	1,603,591	2,065,483
<b>Total Pillar-I RWA</b>	<b>162,435,562</b>	163,072,334	162,911,755
Tier I Capital	<b>29,890,037</b>	27,944,791	27,944,792
Tier II Capital	<b>3,041,784</b>	2,951,286	2,958,048
<b>Total Tier I &amp; II Capital</b>	<b>32,931,821</b>	30,896,077	30,902,840
<b>Capital Adequacy Ratio %</b>			
Tier I ratio	<b>18.40%</b>	17.14%	17.15%
Tier I + Tier II ratio	<b>20.27%</b>	18.95%	18.97%

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

**19. Subsequent event**

Subsequent to the period ended September 30, 2020, the Bank issued a fixed rate Tier 2 Sukuk amounting to USD 750 million (SAR 2.8 billion). The Sukuk will be matured in 2030, however, the Bank has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the sukuk. The Sukuk is listed at London stock exchange (LSE) and carry a special commission rate of 3.326% per annum.

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

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Bank continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

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

The Bank has also revised certain inputs and assumptions used for the determination of expected credit losses ("ECL"). The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Bank in its ECL model including observed default rates;
- refinement of staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. 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 adjustments to macroeconomic factors resulted in an additional ECL of SAR 37.4 million for the nine month period ended September 30, 2020 for the Bank.

**SAMA support programs and initiatives**

**Private Sector Financing Support Program ("PSFSP")**

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

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

As part of the deferred payments program, the Bank is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14, 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 resulted in modification losses which have been presented as part of net financing income. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk. This has resulted in the Bank recognising a day 1 modification loss of SAR 103.6 million for the nine month period ended September 30, 2020 and this has been presented as part of net financing income. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Further to the above, on September 01, 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until December 14, 2020. The Bank has affected the payment reliefs by deferring the instalments falling due within the period from September 15, 2020 to December 14, 2020 for a period of additional three 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 the arrangement. This resulted in the Bank recognizing an additional modification loss of SAR 24.3 million during the period ended September 30, 2020.

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Bank has recognised SAR 127.9 million of related modification losses of which SAR 61.9 million has been charged to the statement of income relating to unwinding of modification losses.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, during the nine months period ended September 30, 2020 the Bank received profit free deposits from SAMA amounting to SAR 5.04 billion with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. By the end of September 30, 2020, total income of SAR 377.2 million has been recognised in the statement of income and SR 249.3 million deferred. The management has exercised certain

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

judgements in the recognition and measurement of this grant income. During the nine months period ended 30 September 2020, SAR 17.3 million has been charged to the statement of income relating to unwinding.

As at September 30, 2020, the Bank has participated in SAMA's facility guarantee programs and the accounting impact for the period is immaterial.

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

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

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

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

**Health care sector support**

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

**21. IBOR Transition (Interest Rate Benchmark Reforms):**

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

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

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

**22. Board of Directors' approval**

The interim condensed consolidated financial statements were approved by the Board on Rabi Awal 10, 1442 (corresponding to October 27, 2020).