



Arab National Bank

(A Saudi Joint Stock Company)

Consolidated Financial Statements For the year ended 31 December 2020



KPMG Al Fozan & Partners
Certified Public Accountants



Independent Auditors' Report
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Arab National Bank ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory notes from 1 to 43.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "the IFRSs as endorsed in the Kingdom of Saudi Arabia").

Basis for opinion

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

Key audit matters

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



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Independent Auditors' Report

To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of loans and advances</i></p> <p>As at 31 December 2020, the gross loans and advances of the Group amounted to SAR 117.39 billion against which an expected credit loss ("ECL") allowance of SAR 4.03 billion was recorded.</p> <p>The determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. Further, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook and hence, has increased the level of judgement needed to determine the ECL. The key areas of judgement include:</p> <ol style="list-style-type: none"> 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: <ul style="list-style-type: none"> (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. <p>In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the loans and advances ('Lifetime ECL').</p> <p>The Group has applied additional judgement to identify and estimate the likelihood of borrowers that may have experienced SICR despite the various government support programs that resulted in deferrals to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves.</p> 2. Assumptions used in the ECL model for determining the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of borrower, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages. 	<ul style="list-style-type: none"> ■ We obtained and updated our understanding of management's assessment of ECL allowance against financing including the Group's internal rating model, accounting policy, model methodology including any key changes made in light of the COVID-19 pandemic. ■ We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9 <i>Financial Instruments</i>. ■ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant General IT controls and specific IT application controls) over: <ul style="list-style-type: none"> • the ECL modelling process, including governance over monitoring of the models and approval of key assumptions used in the model and any manual adjustments made to the output of the model; • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; • the IT systems and applications underpinning the ECL model; and • the integrity of data inputs into the ECL model. ■ For a sample of customers, we assessed: <ul style="list-style-type: none"> • the internal ratings determined by management based on the Group's internal rating model and considered these assigned ratings in light of the external market conditions and available industry information, in particular, considering the impacts of the COVID-19 pandemic and also assessed whether these were consistent with the ratings used as input in the ECL model; • the staging as identified by management; and • management's computations for ECL.



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Independent auditors' report

To the shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of loans and advances (continued)</i></p> <p>3. The need to apply overlays using credit judgement to reflect all relevant risk factors that might not be captured by the ECL model.</p> <p>4. Disclosures relating to IFRS 9 and related incremental disclosures of IFRS 7.</p> <p>We considered this as a key audit matter as the application of these judgments, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as of December 31, 2020.</p> <p><i>Refer to the summary of significant accounting policies note 3 for the impairment of financial assets; note 2 (f) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to ECL on financial assets and the impairment assessment methodology used by the Group; note 7 which contains the disclosure of impairment losses on financial assets and the impairment assessment methodology used by the Group; and note 32 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</i></p>	<ul style="list-style-type: none"> ■ We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's loan portfolio including for customers who were eligible for deferral of loan instalments under government support programs with specific focus on customers operating in sectors most affected by the COVID-19 pandemic. ■ We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. ■ We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. ■ We tested the completeness and accuracy of data forming the basis of the ECL calculations as at 31 December 2020. ■ Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating inputs and assessing reasonableness of assumptions used in ECL model particularly around the macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in any manual adjustments made to the output from ECL model. ■ We assessed the adequacy of disclosures in the consolidated financial statements.



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Independent auditors' report

To the shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of Derivatives</p> <p>The Group has entered into various derivative transactions, including commission rate and cross currency swaps ("swaps"), forward foreign exchange and commodity contracts ("forwards"), commission rate futures ("futures") and commission rate options ("options"). Swaps, forwards and options derivative contracts are over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations including adjustments to counterparty's own credit risk.</p> <p>The majority of these derivatives are held for trading purposes; however, certain commission rate swaps are also categorized as fair value hedges in the consolidated financial statements.</p> <p>An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and in case of hedge ineffectiveness also impact the hedge accounting.</p> <p>We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation, where complex modelling techniques and valuation inputs that are not market observable are being used.</p> <p><i>Refer to note 3 (p) of the consolidated financial statements for the accounting policy relating to valuation of derivatives and note 11 which explains the derivative positions and valuation methodology used by the Group.</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for the valuation of derivatives including the testing of relevant automated controls covering the fair valuation process for derivatives.</p> <p>We selected a sample of derivatives and:</p> <ul style="list-style-type: none"> ■ Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; ■ Checked the accuracy and appropriateness of the key inputs to the valuation model; ■ Involved valuation specialists to assist in performing an independent valuation of the derivatives and compared the result with the management's valuation; ■ Checked hedge effectiveness performed by the Group and the related hedge accounting and assessed if these were in line with the requirements of the relevant accounting and reporting standards; and ■ Considered the adequacy of the disclosures in the financial statements relating to the the valuation basis and inputs used in the fair value measurement.



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Independent auditors' report

To the shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>SAMA support program and related government grant</p> <p>In response to the COVID-19 pandemic, the Saudi Central Bank ("SAMA") launched a number of initiatives including the liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME"). The PSFSP included the deferred payments program whereby the Group deferred the instalments payable by MSMEs during a period from 14 March 2020 to 31 March 2021.</p> <p>In order to compensate the Group with respect to the losses incurred in connection with the above liquidity support programme and PSFSP, the Group received profit-free deposits of varying maturities amounting in aggregate to SAR 5.04 billion as at 31 December 2020. The difference between the fair value of deposits calculated using market rates of deposits of similar size and tenure, and the profit-free deposits has been considered as a government grant and has been accounted for in accordance with the International Accounting Standard 20: <i>Government Grants</i> ("IAS 20").</p> <p>We considered the accounting treatment of the these profit free deposits, as a government grant, as a key audit matter because:</p> <ul style="list-style-type: none"> ■ These represent significant events and material transactions that occurred during the period and thereby required significant auditors' attention; and ■ the recognition and measurement of government grant involved significant management judgement including but not limited to: <ul style="list-style-type: none"> • determining the appropriate discount rate to be used to calculate the grant income on the deposit; and • identifying the objective of each individual deposit and determining whether it is linked to deferral of loans or is received to support liquidity which impacted the timing of recognition and measurement of the grant. <p><i>Refer to the significant accounting policies note 3 to the consolidated financial statements which details the government grant accounting policy; note 2 (f) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the government grant recognition and note 41 which contains the disclosure of SAMA support programs and details of the government grant received over the year from SAMA.</i></p>	<ul style="list-style-type: none"> ■ We obtained an understanding of the various programs and initiatives taken by SAMA and considered the objectives of the various deposits received by the Group in order to assess whether the IAS 20 criteria were met for government grant recognition. ■ We inspected the details of the deposit received during the year by the Group including inspecting the amounts received, the terms of the deposits and their maturity, ■ We assessed the reasonableness of the relevant discount rate used for the computation of the government grant. ■ We tested the accuracy of the government grant computation and assessed the basis for the timing of recognition of the government grant such that it matches the expenses/related costs that the grant was intended to compensate. ■ We assessed the adequacy of the disclosures included by management in the consolidated financial statements in relation to government grant as required by IAS 20.



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Independent auditors' report

To the shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

Report on the audit of the consolidated financial statements (continued)

Other information included in the Group's 2020 annual report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as endorsed in the Kingdom of Saudi Arabia, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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



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Independent auditors' report

To the shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

Report on the audit of the consolidated financial statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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



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Independent auditors' report

To the shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

Report on the audit of the consolidated financial statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2020.

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(4 March 2021)

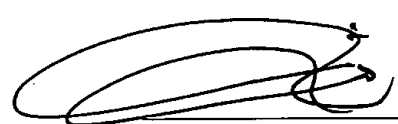
Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2020 and 2019
(Amounts in SAR '000)

	Notes	2020	2019
ASSETS			
Cash and balances with SAMA	4	12,633,339	17,167,044
Due from banks and other financial institutions, net	5	1,081,984	2,067,992
Positive fair value of derivatives	11	994,828	1,225,136
Investments, net	6	43,774,875	38,038,140
Loans and advances, net	7	113,362,613	118,837,121
Investments in associates	8	1,289,732	889,115
Other real estate		219,977	222,197
Property, equipment and right of use assets, net	9	2,300,770	2,183,641
Other assets	10	4,737,724	2,812,091
Total assets		180,395,842	183,442,477
LIABILITIES AND EQUITY			
Liabilities			
Due to banks, SAMA and other financial institutions	12	9,797,744	3,082,181
Negative fair value of derivatives	11	3,446,905	2,341,184
Customers' deposits	13	129,352,176	142,128,897
Sukuk	15	2,829,654	2,017,903
Other liabilities	14	5,203,219	5,529,026
Total liabilities		150,629,698	155,099,191
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	15,000,000	15,000,000
Statutory reserve	17	8,317,000	7,756,000
Other reserves		279,460	230,786
Retained earnings		6,137,867	4,627,232
Proposed dividends	27	-	694,205
Total equity attributable to equity holders of the Bank		29,734,327	28,308,223
Non-controlling interest		31,817	35,063
Total equity		29,766,144	28,343,286
Total liabilities and equity		180,395,842	183,442,477

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid A. Al-Rasheed
Managing Director

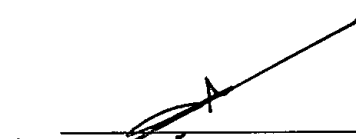

Hesham Al-Jabr
Authorized Board Member

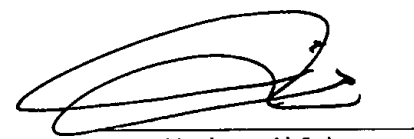
Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2020 and 2019
(Amounts in SAR '000)

	Notes	2020	2019
Special commission income	19	5,991,789	7,632,624
Special commission expense	19	1,123,132	2,079,685
Net special commission income		4,868,657	5,552,939
Fee and commission income	20	1,235,703	1,290,651
Fee and commission expense	20	686,014	632,920
Fees and commission income, net		549,689	657,731
Exchange income, net		321,663	362,798
Unrealized (losses) / gains on investments at FVTPL, net		(117,424)	10,127
Trading income / (losses), net	21	5,416	(10,393)
Dividend income	22	83,375	84,531
Gains on sale of investments in debt instruments, net	23	10,488	407
Other operating income, net	24	102,375	74,698
Total operating income		5,824,239	6,732,838
Salaries and employee related expenses	29	1,192,068	1,281,170
Rent and premises related expenses		62,283	57,698
Depreciation and amortization	9	220,272	253,207
Other general and administrative expenses		571,927	610,782
Total operating expenses before impairment charges		2,046,550	2,202,857
Allowance charges for expected credit losses and other provisions, net	25	1,282,202	970,596
(Reversal of impairment charges) / impairment charges for other financial assets, net		(11,408)	18,466
Total operating expenses		3,317,344	3,191,919
Net operating income		2,506,895	3,540,919
Share in earnings of associates, net	8	49,562	9,711
Gain on disposal of investment in an associate	8	15,217	-
Net income before Zakat and income tax		2,571,674	3,550,630
Zakat charge for the year	27	284,966	248,628
Income tax charge for the year	27	222,155	286,996
Deferred tax reversal for the year	27	(4,413)	(6,806)
Net income for the year		2,068,966	3,021,812
Attributable to:			
Equity holders of the Bank		2,072,212	3,023,235
Non-controlling interest		(3,246)	(1,423)
Net income for the year		2,068,966	3,021,812
Basic and diluted earnings per share (expressed in SAR)	26	1.38	2.02

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid A. Al-Rasheed
Managing Director

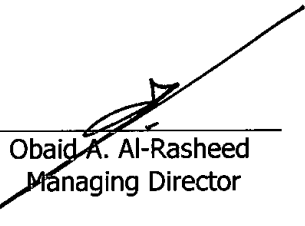

Hesham Al-Jabr
Authorized Board Member

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2020 and 2019
(Amounts in SAR '000)

	Notes	2020	2019
Net income for the year		2,068,966	3,021,812
Other comprehensive income:			
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods</i>			
Equity instruments at fair value through other comprehensive income:			
- Net changes in fair value		58,109	144,755
Actuarial gains on defined benefit plans	30	21,342	2,471
<i>Items that may be reclassified to the consolidated statement of income in subsequent periods</i>			
Debt instruments at fair value through other comprehensive income:			
- Net changes in fair value		(31,147)	76,548
- Net amounts transferred to consolidated statement of income		(207)	441
Total other comprehensive income for the year		48,097	224,215
Total comprehensive income for the year		2,117,063	3,246,027
Attributable to:			
Equity holders of the Bank		2,120,309	3,247,450
Non-controlling interest		(3,246)	(1,423)
Total comprehensive income for the year		2,117,063	3,246,027

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid A. Al-Rasheed
Managing Director


Hesham Al-Jabr
Authorized Board Member

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2020 and 2019
(Amounts in SAR '000)

Attributable to equity holders of the Bank										
Other Reserves										
	Notes	Share capital	Statutory reserve	FVOCI	Actuarial (losses)/gains on defined benefit plan	Retained earnings	Proposed dividends	Total	Non-controlling interests	Total equity
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 year:										
Net changes in fair values of FVOCI equity investments		-	-	58,109	-	-	-	58,109	-	58,109
Net changes in fair values of FVOCI debt instruments		-	-	(31,147)	-	-	-	(31,147)	-	(31,147)
Actuarial gains	30	-	-	-	21,342	-	-	21,342	-	21,342
Net transfers to consolidated statement of income		-	-	(207)	-	-	-	(207)	-	(207)
Net income for the year		-	-	-	-	2,072,212	-	2,072,212	(3,246)	2,068,966
Total comprehensive income for the year		-	-	26,755	21,342	2,072,212	-	2,120,309	(3,246)	2,117,063
Net loss on derecognition of FVOCI equity investments	6	-	-	577	-	(577)	-	-	-	-
Transfer to statutory reserve	17	-	561,000	-	-	(561,000)	-	-	-	-
2019 final dividends	27	-	-	-	-	-	(694,205)	(694,205)	-	(694,205)
Balance at the end of the year		15,000,000	8,317,000	336,126	(56,666)	6,137,867	-	29,734,327	31,817	29,766,144
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 year:										
Net changes in fair values of FVOCI equity investments		-	-	144,755	-	-	-	144,755	-	144,755
Net changes in fair values of FVOCI debt instruments		-	-	76,548	-	-	-	76,548	-	76,548
Actuarial gains	30	-	-	-	2,471	-	-	2,471	-	2,471
Net transfers to consolidated statement of income		-	-	441	-	-	-	441	-	441
Net income for the year		-	-	-	-	3,023,235	-	3,023,235	(1,423)	3,021,812
Total comprehensive income for the year		-	-	221,744	2,471	3,023,235	-	3,247,450	(1,423)	3,246,027
Net loss on derecognition of FVOCI equity investments	6	-	-	13,834	-	(13,834)	-	-	-	-
Transfer to statutory reserve	17	-	756,000	-	-	(756,000)	-	-	-	-
Bonus shares	16	5,000,000	(3,000,000)	-	-	(2,000,000)	-	-	-	-
2018 final dividends	27	-	-	-	-	-	(850,000)	(850,000)	-	(850,000)
2019 proposed dividend	27	-	-	-	-	(694,205)	694,205	-	-	-
2019 interim dividend, net	27	-	-	-	-	(532,682)	-	(532,682)	-	(532,682)
Balance at the end of the year		15,000,000	7,756,000	308,794	(78,008)	4,627,232	694,205	28,308,223	35,063	28,343,286


Latifa Al-Sabhan
Chief Financial Officer

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.


Obaid A. Al-Kasheed
Managing Director

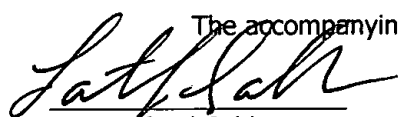

Hesham Al-Jabr
Authorized Board Member

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2020 and 2019

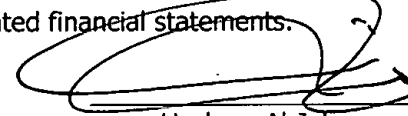
(Amounts in SAR '000)

	Notes	2020	2019
OPERATING ACTIVITIES			
Net income before zakat and income tax		2,571,674	3,550,630
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium on investments not held as FVTPL, net		28,268	1,567
Special commission expense on Sukuk		63,663	85,129
Gains on sale of investments in debt instruments, net	23	(10,488)	(407)
Unrealized losses / (gains) on FVTPL financial instruments, net		117,424	(10,127)
Dividend income	22	(83,375)	(84,531)
Depreciation and amortization	9	220,272	253,207
Losses on disposal of property and equipment, net	24	46	3,562
Allowance charges for expected credit losses and other provisions, net	25	1,282,202	970,596
(Reversal of impairment charges) / impairment charges for other financial assets, net		(11,408)	18,466
Share in earnings of associates, net	8	(49,562)	(9,711)
Gain on disposal of investment in associate	8	(15,217)	-
Loss on sale of other real estate		1,220	-
		4,114,719	4,778,381
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(216,406)	(56,480)
Investments held at FVTPL		(121,164)	(27,885)
Positive fair value of derivatives		230,308	355,198
Loans and advances, net		4,160,843	1,523,788
Other assets		(1,925,633)	(1,752,400)
Other real estate		1,000	(1,500)
Net increase / (decrease) in operating liabilities:			
Due to banks, SAMA and other financial institutions		6,715,563	1,545,579
Negative fair value of derivatives		1,105,721	1,049,800
Customers' deposits		(12,776,722)	73,289
Other liabilities		749,477	(1,246,692)
		2,037,706	6,241,078
Zakat and income tax paid		(745,083)	(639,315)
Net cash from operating activities		1,292,623	5,601,763
INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments not held as FVTPL		2,041,748	1,244,108
Purchase of investments not held as FVTPL		(8,680,354)	(10,016,642)
Investment in associate		(351,055)	7,872
Purchase of property and equipment		(75,819)	(78,876)
Proceeds from sale of property and equipment		75	1,551
Dividends received		83,375	84,531
Net cash used in investing activities		(6,982,030)	(8,757,456)
FINANCING ACTIVITIES			
Redemption of debt security in issue		(2,000,000)	-
Proceeds from issuance of Sukuk		2,812,762	-
Dividends paid		(695,196)	(1,589,809)
Payment of lease liabilities		(96,473)	(101,105)
Special commission paid on Sukuk		(64,675)	(87,717)
Net cash used in financing activities		(43,582)	(1,778,631)
Net decrease in cash and cash equivalents		(5,732,989)	(4,934,324)
Cash and cash equivalents at the beginning of the year		12,160,632	17,094,956
Cash and cash equivalents at the end of the year	28	6,427,643	12,160,632
Special commission received during the year		6,227,857	7,498,875
Special commission paid during the year		(1,488,820)	(1,784,605)
Supplemental non-cash information			
Net changes in fair value of investments held at fair value through other comprehensive income		26,962	221,303

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.


Latifa Al-Sabhan
Chief Financial Officer


Obaid A. Al-Rasheed
Managing Director


Hesham Al-Jabr
Authorized Board Member

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2020 and 2019
(Amounts in SAR '000)

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 136 branches (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 consolidated financial statements comprise the financial statements of the Bank and the 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 from 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 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 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).

In reference to the Article No (75) of the Insurance Company Control Law, the company requested to seize its operation at July 19, 2020 (corresponding to Dhul Qadah 28, 1441H). The request has been approved by the Central Bank at Rabi Al-Akhar 4, 1442H (corresponding to November 19, 2020). The same was communicated to the Ministry of Commerce. The Company is currently under the process of completing the closure procedures with related regulatory bodies.

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2020 and 2019
(Amounts in SAR '000)

1. General (continued)

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi 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.

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% ownership in the investee. The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared;

- i) in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") referred to as "IFRS as endorsed in KSA"; and
- ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-laws of the Bank.

The consolidated financial statements of the Group at year end December 31, 2020 and consolidated financial statements at year end December 31, 2019, were prepared in compliance with IFRS respectively, 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") and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

b) Basis of measurement and presentation

The consolidated financial statements are prepared on a going concern basis under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), FVOCI investments, and employee defined benefit obligations which are stated at present value of their obligation using the projected unit credit method. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship and otherwise adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position is stated broadly in order of liquidity.

c) Going concern

In making the going concern assessment, the Bank has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources etc.

d) Basis of consolidation

The financial statements of the subsidiaries are prepared for the same reporting year 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 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 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 it 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.

2. Basis of preparation (continued)

d) Basis of consolidation (continued)

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 arrangement 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 over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the 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 the consolidated statement of income; and
- Reclassifies the Group's share of components previously recognised in other comprehensive income to the consolidated statement of income 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 Group and are presented separately in the consolidated statement of income and separately from equity holders of the Bank within equity in the consolidated statement of financial position. Any losses related to the non-controlling interest in a subsidiary are allocated to non-controlling interest even if doing so causes non-controlling interest 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 recognised 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 interest is subsequently adjusted for the Group's share of changes in the 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.

e) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. Except as otherwise indicated, the financial information presented in SAR has been rounded off to the nearest thousand.

f) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the current circumstances.

2. Basis of preparation (continued)

f) Critical accounting judgements, estimates and assumptions (continued)

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing 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 unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Group 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. The Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Group believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Expected credit losses (ECL) on financial assets

The measurement of ECL under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:
 - The Group's internal credit grading model, which assigns Probabilities of Defaults (PDs) to the individual grades;
 - The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
 - The segmentation of financial assets when their ECL is assessed on a collective basis;
 - Development of ECL models, including the various formulas and the choice of inputs;
 - Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.
 - (i) Fair value measurement (Note 36)
 - (ii) Allowance for expected credit losses of FVOCI debt investments (Note 32)
 - (iii) Classification of investments at Amortised Cost (Note 6)

2. Basis of preparation (continued)

f) Critical accounting judgements, estimates and assumptions (continued)

- (iv) Determination of control over investees
- (v) Provisions for liabilities and charges
- (vi) Define benefit plans (Note 30)
- (vii) Going concern
- (viii) Deferred tax
- (ix) Government grant (Note 12)
- (x) Depreciation and amortization (Note 9)

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

a. Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective January 1, 2020 replacing amending or adding to the corresponding accounting policies set out in 2019 annual consolidated financial statement.

b. Government grant

The Bank recognises 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 amortised over the term of the deposit using effective interest rate.

c. New standards, interpretations and amendments adopted by the Group

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020. The management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

d. Accounting Standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Group's accounting year beginning on or after January 1, 2021 are listed below. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements.

- COVID-19 – Related Rent Concessions (Amendments to IFRS 16)
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January 1, 2022

On or after January 1, 2023:

- IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)]

3. Summary of significant accounting policies (continued)

e. Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates of cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at FVOCI

Debt instrument

Debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income (OCI). Interest income and foreign exchange gains and losses are recognised in the consolidated statement of income.

Equity Instruments

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument basis.

Financial Asset at FVTPL

All other financial assets are classified measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

3. Summary of significant accounting policies (continued)

e. Classification of financial assets (continued)

Business model assessment (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Designation at fair value through profit or loss

At initial recognition, the Group may designate certain financial assets at FVTPL. The designated financial assets (if any) are required to be managed, evaluated and reported internally on a fair value basis.

f. Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium and costs that are an integral part of the Effective Interest Rate ("EIR").

g. Derecognition

i) Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated statement of income.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the

3. Summary of significant accounting policies (continued)

g. Derecognition (continued)

i) Financial assets (continued)

asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

ii) Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

h. Modifications of financial assets and financial liabilities

i) Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised with the difference recognised as a de-recognition gain or loss and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with allowance for expected credit losses. In other cases, it is presented as interest income.

ii) Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

i. Allowance for expected credit losses

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions;
- Financial assets that are debt instruments;
- Lease receivables;
- Loans and advances;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No allowance for expected credit losses is recognised on FVOCI equity investments.

The Group measures allowances for credit losses at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

3. Summary of significant accounting policies (continued)

i. Allowance for credit expected losses (continued)

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original EIR of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of allowance for expected credit losses. In addition, loan that is overdue for 90 days or more is considered impaired.

In assessing of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3. Summary of significant accounting policies (continued)

i. Allowance for expected credit losses (continued)

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve. Allowances for expected credit losses are recognised in the consolidated statement of income and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to allowance charges for expected credit losses and other provisions.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for its internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

j. Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

3. Summary of significant accounting policies (continued)

j. Financial guarantees and loan commitments (continued)

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Group recognises expected credit loss allowance.

k. Revenue/expenses recognition

Special commission income and expenses

Special commission income and expense are recognised in the consolidated statement of income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortised cost and special commission income

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Exchange income / (loss)

Exchange income / loss is recognised when earned / incurred.

Fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the special commission income / expense as applicable.

Income from asset management and brokerage are recognised at a point-in-time when the performance obligation of the Group is satisfied.

Investment banking and corporate finance fee revenues are recognised over the period of time when the performance obligations are met in accordance with the applicable terms of the contract.

Other fee and commission income – including account servicing fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed and performance obligations are achieved as point-in-time. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

3. Summary of significant accounting policies (continued)

k. Revenue/expenses recognition (continued)

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Dividend income is recognised when the right to receive income is established.

Net trading income / (loss)

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL.

l. Rendering of services

The Group provides various services to its customer. These services are either rendered separately or bundled together with rendering of other services.

Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Group is satisfied when the Group carries out the transaction, which is considered as a performance obligation satisfied at a point in time, which triggers immediate recognition of the revenue, as the Group will have no further commitments.

Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Group attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Group's efforts to transfer the services for that period. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised.

The Group has concluded that revenue from rendering of various services related to Trade finance, Corporate finance and advisory and other banking services, should be recognised at the point when services are rendered i.e. when performance obligation is satisfied. Whereas the Group recognises revenue for free services related to credit card, over the period of providing such services.

m. Customer Loyalty Program

The Group offers a customer loyalty program (reward points), which allows card holders to earn points that can be redeemed at certain Partner outlets. The Group allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative standalone selling price. The amount of revenue allocated to reward points is deferred and released to the consolidated statement of income when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

n. Investments in associates

An associate is an entity in which the Bank holds and/or has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity accounted or recoverable amount.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

After application of the equity method of accounting, the Group determines whether it is necessary to recognise an additional allowance for expected credit losses on its investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of allowance for expected credit losses as the difference

3. Summary of significant accounting policies (continued)

n. Investments in associates (continued)

between the recoverable amount of the associate and its carrying value and recognises the amount in share of earnings of associates in the consolidated statement of income.

o. Settlement date accounting

All regular-way purchases and sales of financial assets are accounted for on settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or market convention. For financial instruments held at fair value, the Group accounts for any change in fair values between the trade date and the settlement date.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

p. Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps and currency and commission rate options are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in fair values depends on classifying derivatives into the following categories:

i) Derivatives held for trading

Changes in the fair value of derivatives held for trading are taken directly to the consolidated statement of income and disclosed under trading income, net. Derivatives held for trading also include derivatives which do not qualify for hedge accounting and embedded derivatives.

ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- a. the host contract is not an asset in the scope of IFRS 9;
- b. the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- c. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value. with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

iii) Hedge accounting

As indicated in the accounting policies below, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship.

3. Summary of significant accounting policies (continued)

p. Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting (continued)

Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis. In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from fair valuing the hedging instruments to fair value is recognised immediately in the consolidated statement of income. An equal and opposite adjustment is made against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is

sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and its face value is amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in other reserves through the consolidated statement of comprehensive income. The ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Group expects that all or a portion of a loss recognised in other reserve will not be recovered in one or more future periods, it reclassifies the amount that is not to be recovered into the consolidated statement of income.

Where the hedged forecasted transaction results in the recognition of a non-financial asset or liability, the associated gains or losses that had previously been recognised in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability at the time such asset or liability is recognised.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, the forecasted transaction is no longer expected to occur or the Group revokes the designation. At that time, any cumulative gain or loss on the hedging instrument that was previously recognised in other reserves is retained in equity until the forecasted transaction occurs. Where it is not expected that the forecasted transaction will occur and that it will affect the consolidated statement of income, the net cumulative gain or loss recognised in other reserves is transferred to the consolidated statement of income.

q. Foreign currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Bank's functional currency. Each entity determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the date of the consolidated statement of financial position.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective profits rate and payments during the year and the amortised cost in foreign currency translated at exchange rate at the end of the year.

Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of comprehensive income.

Foreign currency differences arising from the translation of the following items are recognised in OCI:

Available-for-sale equity instruments (before January 1, 2019) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from January 1, 2019);

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3. Summary of significant accounting policies (continued)

q. Foreign currencies (continued)

As at the reporting date, the assets and liabilities of foreign operations are translated into SAR at the rate of exchange as at the reporting date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in the consolidated statement of other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

r. Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by an accounting standard or interpretation and as specifically disclosed in these accounting policies.

s. Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised on the consolidated statement of financial position and are measured in accordance with relevant accounting policies for trading securities, investments held as FVTPL, FVOCI and at amortised cost. The counterparty liability for amounts received under these agreements is included in Due to banks and other financial institutions or Customers' deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in cash and balances with SAMA, due from banks and other financial institutions or Loans and advances, as appropriate. The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

t. Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate.

Subsequent to initial recognition, write downs to fair value, less costs to sell, is charged to the consolidated statement of income. Similarly, subsequent gains in fair value less costs to sell are recognised as income to the extent that it does not exceed the cumulative write down. Gains or losses on disposal are recognised in the consolidated statement of income.

u. Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and accumulated allowance for expected credit losses. Freehold land is not depreciated.

Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of assets as follows:

Buildings	33 years
Leasehold improvements	shorter of lease term or useful life
Furniture, equipment and vehicles	3 to 10 years

3. Summary of significant accounting policies (continued)

u. Property and equipment (continued)

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

v. Investment property

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. The estimated useful live of buildings is (30-33) years.

No depreciation is charged on land and capital work-in-progress.

The useful live and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected inflow of economic benefits from these assets.

The Group determines at each reporting date whether there is objective evidence that investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognised in the consolidated statement of income.

w. Provisions

Provisions other than allowance charges for expected credit losses are recognised when a reliable estimate can be made of a present legal or constructive obligation as a result of past events that is more likely than not to lead to an outflow of resources to settle the obligation.

x. Accounting for leases

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the group and the group can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

The Group applies a cost model, and measures the right of use of an asset at cost;

1. less any accumulated depreciation and any accumulated impairment losses; and
2. adjusted for any re-measurement of the lease liability for lease modifications

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

After the commencement date, the Group measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability; and
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

3. Summary of significant accounting policies (continued)

x. Accounting for leases (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in consolidated statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term."

y. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA (excluding statutory deposit) and due from banks and other financial institutions maturing within 90 days.

z. End-of-service benefits

Benefits payable to the employees of the Group at the end of their services are recognized based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position.

aa. Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of a subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

bb. Zakat and income tax

The basis of preparation has been changed effective from the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, zakat and income tax were recognised in the consolidated statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, the zakat and income tax shall be recognised in the consolidated statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively.

Zakat

The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). The Zakat expense is charged to the consolidated statement of income. Zakat is not accounted for on the same basis as income tax and as such no deferred tax is required to be calculated.

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

3. Summary of significant accounting policies (continued)

bb. Zakat and income tax (continued)

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. A deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in consolidated statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

cc. Investment management services

The Group offers investment services to its customers, through its subsidiary, which include management of certain investment funds. The Group's share of these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the (consolidated) financial statements.

dd. Shari'ah compliant banking products

In addition to conventional banking, the Group offers its customers the following non-special commission based banking products, which are approved by its Shari'ah Board, as follows:

High level definitions of non-commission based products

- (i) Murabaha** is an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
- (ii) Ijarah** is an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.
- (iii) Tawarruq** is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

These non-commission based banking products are included in "loans and advances" and are in conformity with the related accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

	2020	2019
Cash in hand	1,358,600	1,723,910
Statutory deposit	7,294,695	7,078,289
Reverse repo with SAMA	3,975,890	8,363,000
Current account	4,154	1,845
Total	12,633,339	17,167,044

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated on average balance. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and is therefore not part of cash and cash equivalents (note 28). The Bank holds balances with SAMA which has investment grade credit rating.

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5. Due from banks and other financial institutions

	2020	2019
Current accounts	1,088,249	1,133,575
Money market placements	750	938,303
Less: allowance for expected credit losses	(7,015)	(3,886)
Total	1,081,984	2,067,992

The following table further explains changes in gross carrying amount of the due from banks and other financial institutions:

December 31, 2020				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	2,071,878	-	-	2,071,878
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	(750)	-	750	-
Changes in exposures and remeasurements	(982,879)	-	-	(982,879)
Write-offs	-	-	-	-
Balance at December 31, 2020	1,088,249	-	750	1,088,999

December 31, 2019				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2019	1,136,499	-	-	1,136,499
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	935,379	-	-	935,379
Write-offs	-	-	-	-
Balance at December 31, 2019	2,071,878	-	-	2,071,878

An analysis of changes in loss allowance for due from banks and other financial institutions is, as follows:

December 31, 2020				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance balance as at January 1, 2020	3,886	-	-	3,886
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	2,379	-	750	3,129
Write-offs	-	-	-	-
Loss allowance at December 31, 2020	6,265	-	750	7,015

December 31, 2019				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance balance as at January 1, 2019	2,451	-	-	2,451
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	1,435	-	-	1,435
Write-offs	-	-	-	-
Balance at December 31, 2019	3,886	-	-	3,886

The above balances do not include any Shariah compliant products.

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6. Investments, net

a) Investment securities are classified as follows:

	2020	2019
Investments at amortised cost	39,278,082	32,736,543
Equity investments at FVOCI	2,098,464	1,983,435
Debt investments at FVOCI	1,852,935	2,791,416
Investments at FVTPL	558,415	554,675
Less: Allowance for expected credit losses	(13,021)	(27,929)
Total	43,774,875	38,038,140

Certain equity investments designated at FVOCI were disposed off during the year and cumulative net loss transferred within the equity related to these investments amounted to SAR 577 thousands (December 31, 2019: SAR 13,834 thousands). Dividend income recognised in the consolidated statement of income amounted to SAR 67,601 thousands for the year ended December 31, 2020 (December 31, 2019: SAR 53,030 thousands).

b) Investments by type of securities:

	Domestic		International		Total	
	2020	2019	2020	2019	2020	2019
Fixed rate securities	25,174,801	19,191,214	3,239,983	3,357,953	28,414,784	22,549,167
Floating rate securities	12,716,233	12,978,792	-	-	12,716,233	12,978,792
Equities	2,098,027	1,983,034	437	401	2,098,464	1,983,435
Other	188,344	67,675	370,071	487,000	558,415	554,675
Less: Allowance for Expected credit losses	(13,021)	(27,696)	-	(233)	(13,021)	(27,929)
Total	40,164,384	34,193,019	3,610,491	3,845,121	43,774,875	38,038,140

The allowance for expected credit losses relates to debt instruments carried at amortised cost only. The reversal of allowance for expected credit losses on debt instruments at FVOCI amounts to SAR 207 thousand (2019: 441 thousand), which has been charged to the consolidated statement of income.

c) Staging details by class of investments:

The following table further explains changes in gross carrying amount of debt investments at amortised cost:

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	32,736,543	-	-	32,736,543
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	6,541,539	-	-	6,541,539
Write-offs	-	-	-	-
Balance at December 31, 2020	39,278,082	-	-	39,278,082
	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2019	23,539,433	-	-	23,539,433
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	9,197,110	-	-	9,197,110
Write-offs	-	-	-	-
Balance at December 31, 2019	32,736,543	-	-	32,736,543

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6. Investments, net (continued)

c) Staging details by class of investments (continued):

The following table further explains changes in gross carrying amount of debt investments at FVOCI:

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	2,783,708	7,708	-	2,791,416
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	(938,432)	(49)	-	(938,481)
Write-offs	-	-	-	-
Balance at December 31, 2020	1,845,276	7,659	-	1,852,935

	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2019	2,824,286	-	-	2,824,286
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	(7,500)	7,500	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Changes in exposures and remeasurements	(33,078)	208	-	(32,870)
Write-offs	-	-	-	-
Balance at December 31, 2019	2,783,708	7,708	-	2,791,416

The analysis of changes in loss allowance for debt instruments carried at amortised cost

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at January 1, 2020	27,929	-	-	27,929
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net reversal for the year	(14,908)	-	-	(14,908)
Write-offs	-	-	-	-
Balance at December 31, 2020	13,021	-	-	13,021

	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at January 1, 2019	11,339	-	-	11,339
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	16,590	-	-	16,590
Write-offs	-	-	-	-
Balance at December 31, 2019	27,929	-	-	27,929

The analysis of changes in loss allowance for debt instruments carried at FVOCI

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at January 1, 2020	4,958	144	-	5,102
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	345	25	-	370
Write-offs	-	-	-	-
Balance at December 31, 2020	5,303	169	-	5,472

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6. Investments, net (continued)

c) Staging details by class of investments (continued):

	December 31, 2019		
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired
Loss allowance as at January 1, 2019	4,661	-	-
Transfers to 12 month ECL	-	-	-
Transfers to Life time ECL not credit impaired	(144)	144	-
Transfers to Life time ECL credit impaired	-	-	-
Net charge for the year	441	-	-
Write-offs	-	-	-
Balance at December 31, 2019	4,958	144	-

d) The analysis of the composition of investments is as follows:

	2020			2019		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	3,241,505	25,173,279	28,414,784	3,357,952	19,191,215	22,549,167
Floating rate securities	-	12,716,233	12,716,233	-	12,978,792	12,978,792
Equities	2,097,134	1,330	2,098,464	1,982,141	1,294	1,983,435
Others	-	558,415	558,415	-	554,675	554,675
Less: Allowance for expected credit losses	-	(13,021)	(13,021)	-	(27,929)	(27,929)
Investments, net	5,338,639	38,436,236	43,774,875	5,340,093	32,698,047	38,038,140

Unquoted fixed rate securities and floating rate notes are mainly Sukuk, treasury bills and Saudi Government Bonds; and others mainly include investments in mutual funds.

e) The analysis of unrealized gains and losses and fair values of investments held at amortised cost is as follows:

	2020				2019			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed rate securities	26,947,153	2,451,408	(341,076)	29,057,485	20,345,759	1,136,169	(127,777)	21,354,151
Floating rate securities	12,330,929	146,845	-	12,477,774	12,390,784	135,005	(11,606)	12,514,183
Less: Allowance for expected credit losses	(13,021)	-	-	(13,021)	(27,929)	-	-	(27,929)
Total	39,265,061	2,598,253	(341,076)	41,522,238	32,708,614	1,271,174	(139,383)	33,840,405

f) The analysis of investments by counter-party is as follows:

	2020	2019
Government and quasi government	41,558,234	35,758,067
Banks and other financial institutions	500,199	903,824
Corporate	937,464	816,788
Other	778,978	559,461
Total	43,774,875	38,038,140

Investments include SAR 1,009 million (2019: 2,821 million), which have been pledged under repurchase agreement with other banks and customers. The market value of such investments are SAR 1,206 million (2019: 2,866 million).

The above includes Shariah based investments as follows:

	2020	2019
Investments at amortized cost	26,364,671	20,116,171
Equity investments at FVOCI	1,891,987	1,641,671
Debt investments at FVOCI	1,090,796	1,297,968
Other - mutual funds	188,343	67,676
Less: Allowance for expected credit losses	(10,008)	(16,294)
Total	29,525,789	23,107,192

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7. Loans and advances, net

a) Loans and advances (held at amortised cost) comprise the following:

2020	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	2,667,942	385,974	29,149,545	81,124,510	113,327,971
Non-performing loans and advances, net	30,296	5,968	73,956	3,949,483	4,059,703
Total loans and advances	2,698,238	391,942	29,223,501	85,073,993	117,387,674
Allowance for expected credit losses	(125,645)	(36,527)	(376,968)	(3,485,921)	(4,025,061)
Loans and advances, net	2,572,593	355,415	28,846,533	81,588,072	113,362,613
2019					
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
Allowance for expected credit losses	(80,878)	(32,136)	(359,241)	(2,929,328)	(3,401,583)
Loans and advances, net	4,248,407	444,354	26,981,290	87,163,070	118,837,121

The above includes Shariah based loans and advances as below:

	2020	2019
Murabaha	25,204,937	18,972,511
Tawarruq	52,202,608	55,540,650
Others	2,710,090	4,842,910
Less: Allowance for expected credit losses	(2,568,597)	(1,820,701)
Total	77,549,038	77,535,370

The following table further explains changes in gross carrying amount:

	December 31, 2020			
Total Loans and advances	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	104,673,940	15,000,891	2,563,873	122,238,704
Transfer to 12-month ECL	1,530,256	(1,516,454)	(13,802)	-
Transfer to lifetime ECL not credit - impaired	(3,731,891)	3,749,094	(17,203)	-
Transfer to lifetime ECL credit impaired	(281,596)	(2,043,413)	2,325,009	-
Changes in exposures and remeasurements	(810,298)	(3,318,274)	250,810	(3,877,762)
Write-offs	-	-	(973,268)	(973,268)
Balance at December 31, 2020	101,380,411	11,871,844	4,135,419	117,387,674

	December 31, 2019			
Total Loans and advances	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2019	101,038,326	21,086,444	1,590,774	123,715,544
Transfer to 12-month ECL	6,535,162	(6,514,002)	(21,160)	-
Transfer to lifetime ECL not credit - impaired	(4,270,905)	4,300,593	(29,688)	-
Transfer to lifetime ECL credit impaired	(178,020)	(1,249,322)	1,427,342	-
Changes in exposures and remeasurements	1,549,377	(2,622,822)	(96,339)	(1,169,784)
Write-offs	-	-	(307,056)	(307,056)
Balance at December 31, 2019	104,673,940	15,000,891	2,563,873	122,238,704

	December 31, 2020			
Overdrafts	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount at January 1, 2020	3,842,508	478,003	8,774	4,329,285
Transfer to 12-month ECL	6,585	(6,585)	-	-
Transfer to lifetime ECL not credit - impaired	(110,020)	110,020	-	-
Transfer to lifetime ECL credit impaired	-	(26,827)	26,827	-
Changes in exposures and remeasurements	(1,300,088)	(326,791)	(4,168)	(1,631,047)
Write-offs	-	-	-	-
Balance at December 31, 2020	2,438,985	227,820	31,433	2,698,238

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7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) comprise the following: (continued)

	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdrafts				
Gross carrying amount at January 1, 2019	3,403,032	284,125	13,074	3,700,231
Transfer to 12-month ECL	25,630	(25,630)	-	-
Transfer to lifetime ECL not credit - impaired	(171,814)	171,814	-	-
Transfer to lifetime ECL credit impaired	(2,313)	(10,925)	13,238	-
Changes in exposures and remeasurements	587,973	58,619	(17,538)	629,054
Write-offs	-	-	-	-
Balance at December 31, 2019	3,842,508	478,003	8,774	4,329,285

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit Cards				
Gross carrying amount as at January 1, 2020	400,633	67,101	8,756	476,490
Transfer to 12-month ECL	27,933	(27,563)	(370)	-
Transfer to lifetime ECL not credit - impaired	(56,995)	57,385	(390)	-
Transfer to lifetime ECL credit impaired	(3,157)	(1,770)	4,927	-
Changes in exposures and remeasurements	(53,312)	(25,432)	16,681	(62,063)
Write-offs	-	-	(22,485)	(22,485)
Balance at December 31, 2020	315,102	69,721	7,119	391,942

	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit Cards				
Gross carrying amount as at January 1, 2019	356,286	138,833	13,156	508,275
Transfer to 12-month ECL	74,938	(74,568)	(370)	-
Transfer to lifetime ECL not credit - impaired	(31,099)	31,426	(327)	-
Transfer to lifetime ECL credit impaired	(2,901)	(3,067)	5,968	-
Changes in exposures and remeasurements	3,409	(25,523)	16,405	(5,709)
Write-offs	-	-	(26,076)	(26,076)
Balance at December 31, 2019	400,633	67,101	8,756	476,490

	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer Loans				
Gross carrying amount as at January 1, 2020	25,362,241	1,829,960	148,330	27,340,531
Transfer to 12-month ECL	390,691	(377,259)	(13,432)	-
Transfer to lifetime ECL not credit - impaired	(1,126,545)	1,143,358	(16,813)	-
Transfer to lifetime ECL credit impaired	(69,646)	(68,878)	138,524	-
Changes in exposures and remeasurements	2,618,370	(611,004)	97,751	2,105,117
Write-offs	-	-	(222,147)	(222,147)
Balance at December 31, 2020	27,175,111	1,916,177	132,213	29,223,501

	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer Loans				
Gross carrying amount as at January 1, 2019	22,200,218	2,103,621	176,465	24,480,304
Transfer to 12-month ECL	545,873	(525,083)	(20,790)	-
Transfer to lifetime ECL not credit - impaired	(951,110)	978,963	(27,853)	-
Transfer to lifetime ECL credit impaired	(61,419)	(85,000)	146,419	-
Changes in exposures and remeasurements	3,628,679	(642,541)	153,709	3,139,847
Write-offs	-	-	(279,620)	(279,620)
Balance at December 31, 2019	25,362,241	1,829,960	148,330	27,340,531

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7. Loans and advances, net (continued)

a) Loans and advances (held at amortised cost) comprise the following: (continued)

Commercial Loans and others	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2020	75,068,558	12,625,827	2,398,013	90,092,398
Transfer to 12-month ECL	1,105,047	(1,105,047)	-	-
Transfer to lifetime ECL not credit - impaired	(2,438,331)	2,438,331	-	-
Transfer to lifetime ECL credit impaired	(208,793)	(1,945,938)	2,154,731	-
Changes in exposures and remeasurements	(2,075,268)	(2,355,047)	140,546	(4,289,769)
Write-offs	-	-	(728,636)	(728,636)
Balance at December 31, 2020	71,451,213	9,658,126	3,964,654	85,073,993

Commercial Loans and others	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Gross carrying amount as at January 1, 2019	75,078,790	18,559,865	1,388,079	95,026,734
Transfer to 12-month ECL	5,888,721	(5,888,721)	-	-
Transfer to lifetime ECL not credit - impaired	(3,116,882)	3,118,390	(1,508)	-
Transfer to lifetime ECL credit impaired	(111,387)	(1,150,330)	1,261,717	-
Changes in exposures and remeasurements	(2,670,684)	(2,013,377)	(248,915)	(4,932,976)
Write-offs	-	-	(1,360)	(1,360)
Balance at December 31, 2019	75,068,558	12,625,827	2,398,013	90,092,398

b) Allowance for expected credit losses

Movement in impairment allowances for credit losses are as follows:

2020	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Allowance for expected credit losses balance at January 1, 2020	80,878	32,136	359,241	2,929,328	3,401,583
Charges for the year, net	44,767	26,876	239,874	1,285,229	1,596,746
Written off against allowance	-	(22,485)	(222,147)	(728,636)	(973,268)
Allowance for expected credit losses balance at the end of the year	125,645	36,527	376,968	3,485,921	4,025,061

2019	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Allowance for expected credit losses balance at January 1, 2019	22,066	35,953	432,806	2,186,479	2,677,304
Charges for the year, net	58,812	22,259	206,055	744,209	1,031,335
Written off against allowance	-	(26,076)	(279,620)	(1,360)	(307,056)
Allowance for expected credit losses balance at the end of the year	80,878	32,136	359,241	2,929,328	3,401,583

Allowance for expected credit losses, net for the year ended December 31, 2020 amounted to SAR 1,434,258 thousand (2019: SAR 926,039 thousand) (note 25), including bad debts directly written-off to consolidated income statement amounting to SAR 18,286 thousand (2019: SAR 39,937 thousand), and net of recoveries amounting to SAR 180,774 thousand (2019: SAR 145,233 thousand).

An analysis of changes in allowance for expected credit losses of loans and advances is as follows:

ECL on Total Loans and advances	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 1, 2020	788,442	924,022	1,689,119	3,401,583
Transfer to 12-month ECL	60,518	(48,400)	(12,118)	-
Transfer to lifetime ECL not credit - impaired	(22,187)	35,588	(13,401)	-
Transfer to lifetime ECL credit impaired	(2,691)	(220,201)	222,892	-
Net charge for the year	189,025	271,822	1,135,899	1,596,746
Write-offs	-	-	(973,268)	(973,268)
Balance at December 31, 2020	1,013,107	962,831	2,049,123	4,025,061

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7. Loans and advances, net (continued)

b) Allowance for expected credit losses (continued)

ECL on Total Loans and advances	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2019	431,022	1,122,906	1,123,376	2,677,304
Transfer to 12-month ECL	356,694	(341,007)	(15,687)	-
Transfer to lifetime ECL not credit - impaired	(24,992)	48,410	(23,418)	-
Transfer to lifetime ECL credit impaired	(1,507)	(143,148)	144,655	-
Net charge for the year	27,225	236,861	767,249	1,031,335
Write-offs	-	-	(307,056)	(307,056)
Balance at December 31, 2019	788,442	924,022	1,689,119	3,401,583

ECL on overdrafts	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2020	24,905	22,389	33,584	80,878
Transfer to 12-month ECL	445	(445)	-	-
Transfer to lifetime ECL not credit - impaired	(489)	489	-	-
Transfer to lifetime ECL credit impaired	-	(7,441)	7,441	-
Net charge for the year	6,667	172	37,928	44,767
Write-offs	-	-	-	-
Balance at December 31, 2020	31,528	15,164	78,953	125,645

ECL on overdrafts	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at at January 1, 2019	9,037	6,323	6,706	22,066
Transfer to 12-month ECL	88	(88)	-	-
Transfer to lifetime ECL not credit - impaired	(3,207)	3,207	-	-
Transfer to lifetime ECL credit impaired	(11)	(803)	814	-
Net charge for the year	18,998	13,750	26,064	58,812
Write-offs	-	-	-	-
Balance at December 31, 2019	24,905	22,389	33,584	80,878

ECL on Credit Cards	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2020	19,516	6,454	6,166	32,136
Transfer to 12-month ECL	2,693	(2,283)	(410)	-
Transfer to lifetime ECL not credit - impaired	(1,739)	2,142	(403)	-
Transfer to lifetime ECL credit impaired	(147)	(218)	365	-
Net charge for the year	1,335	3,456	22,085	26,876
Write-offs	-	-	(22,485)	(22,485)
Balance at December 31, 2020	21,658	9,551	5,318	36,527

ECL on Credit Cards	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2019	15,172	10,389	10,392	35,953
Transfer to 12-month ECL	5,219	(4,791)	(428)	-
Transfer to lifetime ECL not credit - impaired	(1,089)	1,420	(331)	-
Transfer to lifetime ECL credit impaired	(133)	(288)	421	-
Net charge / (reversal) for the year	347	(276)	22,188	22,259
Write-offs	-	-	(26,076)	(26,076)
Balance at December 31, 2019	19,516	6,454	6,166	32,136

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7. Loans and advances, net (continued)

b) Allowance for expected credit losses (continued)

ECL on Consumer Loans	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2020	190,575	49,016	119,650	359,241
Transfer to 12-month ECL	22,417	(10,709)	(11,708)	-
Transfer to lifetime ECL not credit - impaired	(8,449)	21,447	(12,998)	-
Transfer to lifetime ECL credit impaired	(810)	(3,750)	4,560	-
Net (reversal) / charge for the year	(1,150)	10,832	230,192	239,874
Write-offs	-	-	(222,147)	(222,147)
Balance at December 31, 2020	202,583	66,836	107,549	376,968

ECL on Consumer Loans	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2019	211,349	81,653	139,804	432,806
Transfer to 12-month ECL	33,262	(18,003)	(15,259)	-
Transfer to lifetime ECL not credit - impaired	(9,696)	32,714	(23,018)	-
Transfer to lifetime ECL credit impaired	(1,124)	(5,511)	6,635	-
Net (reversal) / charge for the year	(43,216)	(41,837)	291,108	206,055
Write-offs	-	-	(279,620)	(279,620)
Balance at December 31, 2019	190,575	49,016	119,650	359,241

ECL on Commercial Loans and others	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2020	553,446	846,163	1,529,719	2,929,328
Transfer to 12-month ECL	34,963	(34,963)	-	-
Transfer to lifetime ECL not credit - impaired	(11,510)	11,510	-	-
Transfer to lifetime ECL credit impaired	(1,733)	(208,792)	210,525	-
Net charge for the year	182,172	257,362	845,695	1,285,229
Write-offs	-	-	(728,636)	(728,636)
Balance at December 31, 2020	757,338	871,280	1,857,303	3,485,921

ECL on Commercial Loans and others	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Balance at January 1, 2019	195,464	1,024,541	966,474	2,186,479
Transfer to 12-month ECL	318,125	(318,125)	-	-
Transfer to lifetime ECL not credit - impaired	(11,000)	11,069	(69)	-
Transfer to lifetime ECL credit impaired	(239)	(136,546)	136,785	-
Net charge for the year	51,096	265,224	427,889	744,209
Write-offs	-	-	(1,360)	(1,360)
Balance at December 31, 2019	553,446	846,163	1,529,719	2,929,328

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7. Loans and advances, net (continued)

c) Economic sector risk concentration for loans and advances and allowance for expected credit losses are as follows:

	Performing	Non-performing	Allowance for expected credit losses	Loans and advances, net
2020				
1. Government and quasi government	-	-	-	-
2. Banks and other financial institutions	3,144,434	12,678	(23,858)	3,133,254
3. Agriculture and fishing	661,049	-	(943)	660,106
4. Manufacturing	9,463,323	1,323,176	(877,985)	9,908,514
5. Mining and quarrying	172,982	-	(1,010)	171,972
6. Electricity, water, gas and health services	5,869,678	2,945	(84,637)	5,787,986
7. Building and construction	7,077,273	1,358,895	(1,126,018)	7,310,150
8. Commerce	10,916,957	562,334	(456,113)	11,023,178
9. Transportation and communication	7,680,257	2,166	(250,355)	7,432,068
10. Services	3,505,188	9,610	(96,059)	3,418,739
11. Consumer loans and credit cards	29,535,519	79,924	(413,496)	29,201,947
12. Other	35,301,311	707,975	(694,587)	35,314,699
Total	113,327,971	4,059,703	(4,025,061)	113,362,613
2019				
1. Government and quasi government	14,862	-	(70)	14,792
2. Banks and other financial institutions	2,903,612	138	(10,738)	2,893,012
3. Agriculture and fishing	988,371	39,828	(42,429)	985,770
4. Manufacturing	11,006,165	1,470,544	(1,029,300)	11,447,409
5. Mining and quarrying	165,235	-	(763)	164,472
6. Electricity, water, gas and health services	6,084,292	241	(82,497)	6,002,036
7. Building and construction	7,802,185	473,343	(697,379)	7,578,149
8. Commerce	12,543,641	332,354	(339,966)	12,536,029
9. Transportation and communication	7,312,072	1,804	(207,206)	7,106,670
10. Services	3,825,542	20,488	(69,555)	3,776,475
11. Consumer loans and credit cards	27,720,366	96,655	(391,377)	27,425,644
12. Other	39,373,712	63,254	(530,303)	38,906,663
Total	119,740,055	2,498,649	(3,401,583)	118,837,121

8. Investments in associates

	2020	2019
Balance at beginning of the year	889,115	887,276
Investment made during the year / (dividend)	393,308	(7,872)
Share in earnings, net	49,562	9,711
Sale of investment of an associate	(42,253)	-
Balance at end of the year	1,289,732	889,115

Saudi Home Loans Company

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

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

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8. Investments in associates (continued)

MetLife – AIG – ANB Cooperative Insurance Company

The Bank participated in the setting up of MetLife – AIG – ANB Cooperative Insurance Company (the MetLife) in the Kingdom. MetLife's authorized and issued capital was SAR 180 million representing 18 million shares (at nominal value of 10 SAR per share) as at December 31, 2019; of which the Bank owns 5.4 million shares (representing 30%) .

At December 31, 2019 the MetLife's shares was listed on the Saudi Arabian Stock Exchange and the quoted value of the Bank's investment in its associate was SAR 104.2 million).

The Company signed a binding merger agreement with Walaa Cooperative Insurance Company (Walaa) before the year end 2019. The company received approvals from all relevant government and regulatory authorities including SAMA and CMA. On January 27, 2020, the merger was approved in Extraordinary General Assemblies held by both companies. At March 1, 2020 the resolution to merge MetLife AIG ANB cooperative insurance company in Walaa cooperative insurance company was announced. Accordingly, the company was canceled from listing on Tadawul.

ANBI Business Gate Fund

The Bank owns indirectly 25.47% of ANBI Business Gate Fund (the Fund), which is a closed-ended private placement real estate investment fund launched on August 25, 2014 for a period of 5 years starting from date of closure of first offering on January 11, 2015. The Fund's activity is to acquire real estate assets, an income generating real estate property located in the city of Riyadh, out of which the Fund will receive rental and hotel operating income over the Fund term.

At December 10, 2019, the Fund's board of directors resolved to extend the Fund's duration by additional six months ending on July 13, 2020. The said resolution was approved by the Unitholders. At June 21, 2020 an extension by additional 6 months ending December 31, 2020 was approved by the fund's board of directors.

At December 14, 2020 the fund's board of directors resolved to extend the fund's duration by additional 5 years ending December 31, 2025. The said resolution was approved by the unit holders.

The Group has accounted from January 11, 2020 its share in the Fund on financial information prepared on a going concern basis.

Sara Second Real Estate Investment Fund (Sara Second Fund)

The Group invested in the Sara Second Real Estate Investment Fund, a CMA regulated, private, closed ended fund formed to acquire an income generating residential compound in Khobar. The Fund commenced operations in May 2020 and ANB Group's ownership interest in the Fund is 31.9%.

The Group's share of associates' financial statements:

	ANBI Business Gate Fund		Saudi Home Loans Company	
	2020	2019	2020	2019
Total assets	420,850	410,764	1,808,361	1,785,531
Total liabilities	214,807	200,565	1,176,819	1,183,132
Total equity	206,044	210,199	631,542	602,400
Total income	44,161	29,047	76,727	64,414
Total expenses	(40,180)	(28,770)	(45,413)	(40,334)

	MetLife – AIG – ANB Cooperative Insurance Company (*)		Sara Second Fund	
	2020	2019	2020	2019
Total assets	-	129,663	638,160	-
Total liabilities	-	87,410	219,588	-
Total equity	-	42,253	418,572	-
Total income	-	9,772	37,091	-
Total expenses	-	(13,625)	(18,605)	-

(*) Based on latest available financial information.

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9. Property, equipment and right of use assets, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Work-in-progress	Total
Cost (2020)						
Balance at beginning of the year	1,388,707	1,415,220	788,452	1,238,567	61,946	4,892,892
Additions	-	276,822	4,655	27,384	28,661	337,522
Disposals	(10,357)	(2,198)	(37,482)	(2,755)	(134)	(52,926)
Transfers	-	2,442	1,319	5,131	(8,892)	-
Balance at end of the year	1,378,350	1,692,286	756,944	1,268,327	81,581	5,177,488

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Work-in-progress	Total
Cost (2019)						
Balance at beginning of the year	1,396,978	606,148	787,923	1,188,515	69,140	4,048,704
Adjustment on transition to IFRS 16	-	796,819	-	-	-	796,819
Additions	5	9,618	5,252	37,058	26,943	78,876
Disposals	(8,276)	(12,591)	(5,468)	(3,691)	(1,481)	(31,507)
Transfers	-	15,226	745	16,685	(32,656)	-
Balance at end of the year	1,388,707	1,415,220	788,452	1,238,567	61,946	4,892,892

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Work-in-progress	Total
Accumulated depreciation (2020)						
Balance at beginning of the year	450,119	575,234	561,606	1,122,292	-	2,709,251
Charge for the year	30,722	110,947	36,593	42,010	-	220,272
Disposals / adjustments	(10,357)	(2,278)	(37,414)	(2,756)	-	(52,805)
Balance at end of the year	470,484	683,903	560,785	1,161,546	-	2,876,718
Net book value						
As at December 31, 2020	907,866	1,008,383	196,159	106,781	81,581	2,300,770

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Work-in-progress	Total
Accumulated depreciation (2019)						
Balance at beginning of the year	424,675	473,671	525,836	1,072,031	-	2,496,213
Charge for the year	31,465	112,718	55,072	53,952	-	253,207
Disposals / adjustments	(6,021)	(11,155)	(19,302)	(3,691)	-	(40,169)
Balance at end of the year	450,119	575,234	561,606	1,122,292	-	2,709,251
Net book value						
As at December 31, 2019	938,588	839,986	226,846	116,275	61,946	2,183,641

Leasehold improvements include an amount of SAR 904.4 million represents right of use assets, net (2019: SAR 716.5 million).

10. Other assets

	2020	2019
Prepaid expenses	123,721	118,453
Derivatives collateral margins	3,827,864	2,021,803
Other	786,139	671,835
Total	4,737,724	2,812,091

11. Derivative financial instruments

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency swaps, fixed commission payments and principal are exchanged in different currencies. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price on a date in the future. Forwards are customized contracts transacted in the over the counter market.

Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges with changes in fair values settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for the cash settlement, on a specified future date or series of dates, of the difference between the contracted commission rate and the market rate calculated on a notional principal.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell, on a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order to, inter alia, enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting, price differentials between markets or products.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors (the Board) within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the set limits. The Board has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap to within the set limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for hedge accounting and related derivatives are accounted for as held for trading.

The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses commission rate swaps and commission rate futures to hedge against commission rate risk arising from specifically identified fixed commission rate exposures.

The Group also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as either fair value or cash flow hedges.

The tables below show the notional amounts and the positive and negative fair values of derivative financial instruments analyzed by the term to maturity and monthly average. The notional amounts, which provide an

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11. Derivative financial instruments (continued)

Held For Hedging purposes (continued)

indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2020								
Held for trading:								
Commission rate and cross currency swaps	466,134	434,504	18,923,116	200,000	545,000	10,595,173	7,582,943	20,977,613
Commission rate futures and options	475,365	476,175	12,622,282	-	20,000	397,143	12,205,139	13,814,268
Forward foreign exchange and commodity contracts	37,719	14,389	4,616,536	2,809,455	1,804,563	2,518	-	7,445,802
Currency and commodity options	290	222	134,364	134,364	-	-	-	286,328
Held as fair value hedges:								
Commission rate swaps	15,320	2,521,615	23,139,238	-	-	3,664,035	19,475,203	23,550,020
Total	994,828	3,446,905	59,435,536	3,143,819	2,369,563	14,658,869	39,263,285	66,074,031

	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2019								
Held for trading:								
Commission rate and cross currency swaps	598,400	561,452	21,730,255	-	4,513,160	9,818,452	7,398,643	21,108,834
Commission rate futures and options	565,834	567,318	12,714,748	7,500	-	502,857	12,204,391	14,597,594
Forward foreign exchange and commodity contracts	28,357	6,344	5,268,865	3,288,004	1,980,861	-	-	2,955,462
Currency and commodity options	737	845	210,929	171,933	38,996	-	-	126,209
Held as fair value hedges:								
Commission rate swaps	31,808	1,205,225	23,727,537	197,539	168,300	2,739,051	20,622,647	21,351,533
Total	1,225,136	2,341,184	63,652,334	3,664,976	6,701,317	13,060,360	40,225,681	60,139,632

The above includes Shariah approved derivatives products as follows:

	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2020								
Held for trading:								
Commission rate and cross currency swaps	96,522	167,922	5,518,476	-	-	2,450,566	3,067,910	5,969,878
Commission rate futures and options	469,729	3,728	6,102,589	-	-	-	6,102,589	6,102,049
Total	566,251	171,650	11,621,065	-	-	2,450,566	9,170,499	12,071,927
2019								
Held for trading:								
Commission rate and cross currency swaps	82,734	375,616	5,998,586	-	790,252	2,286,400	2,921,934	5,809,609
Commission rate futures and options	549,961	12,771	6,102,195	-	-	-	6,102,195	5,931,391
Total	632,695	388,387	12,100,781	-	790,252	2,286,400	9,024,129	11,741,000

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11. Derivative financial instruments (continued)

Held For Hedging purposes (continued)

Derivatives have been disclosed at gross amounts as at the reporting date and have not been netted off by cash margins placed and received against derivatives, which are detailed as follows:

	2020	2019
Held for trading:		
Commission rate and cross currency swaps	1,665,937	820,751
Commission rate futures and options	228,232	119,284
Forward foreign exchange and commodity contracts	34,055	9,606
Currency and commodity options	344	1,019
Held as fair value hedges:		
Commission rate swaps	1,899,950	1,070,442
Total	3,828,518	2,021,102

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value:

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2020						
Fixed commission rate investments	17,273,551	15,519,859	Fair value	Commission rate	15,320	1,937,993
Fixed commission rate loans	8,453,916	7,870,826	Fair value	Commission rate	-	583,622
2019						
Fixed commission rate investments	16,397,969	15,434,423	Fair value	Commission rate	455	970,382
Fixed commission rate loans	8,498,016	7,293,114	Fair value	Commission rate	31,353	234,843

The Group is not exposed to variability in future commission rate cash flows on non-trading assets and liabilities which bear commission at a variable rate. The Group did not use commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Group is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. For the years ended December 31, 2020 and 2019 the Group had no outstanding cash flow hedges.

Approximately 26.8% (2019: 39%) of the positive fair value of the Group's derivatives are entered into with financial institutions and approximately 47% (2019: 45%) of the positive fair value contracts are with any single counterparty at the reporting date. Derivative activities are mainly carried out by the Group's treasury segment.

12. Due to banks, SAMA and other financial institutions

	2020	2019
Current accounts	103,822	178,800
Money market deposits	1,064,049	2,903,381
Commission free deposits from SAMA (notes 3b and 41)	8,629,873	-
Total	9,797,744	3,082,181

The above balances do not include any Shariah compliant products. Money market deposits include repurchase agreement with Saudi Central Bank, amounting to SAR 194 million as of December 31, 2020 (2019: nil).

13. Customers' deposits

	2020	2019
Demand	76,241,408	66,977,660
Time	47,205,310	68,393,317
Saving	219,031	141,297
Other	5,686,427	6,616,623
Total	129,352,176	142,128,897

Time deposits includes SAR nil (2019: SAR 2,837 million) deposits against sale of securities with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 2,084 million (2019: SAR 2,314 million) of margins held against irrevocable commitments.

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13. Customers' deposits (continued)

The above include Shariah approved customer deposits as below:

	2020	2019
Demand	44,834,564	42,487,634
Time	28,719,534	30,567,377
Other	161,310	127,624
Total	73,715,408	73,182,635

Customers' deposits include foreign currency deposits as follows:

	2020	2019
Demand	3,022,932	2,387,836
Time	5,557,610	10,713,694
Saving	5,796	2,617
Other	162,339	254,266
Total	8,748,677	13,358,413

14. Other liabilities

	2020	2019
Provision for end of service benefits (note 30)	537,013	545,849
Loss allowance on loan commitment and financial guarantee contracts (14 a)	594,615	746,671
Accrued expenses	565,278	642,450
Zakat and income tax accrual / provision payable (note 27)	606,215	845,214
Lease liability	948,523	760,925
Others	1,951,575	1,987,917
Total	5,203,219	5,529,026

a) Movement in the carrying gross exposure and provision for credit related commitments and contingencies:

The following table explains changes in gross carrying amount of the commitments and financial guarantee contracts to help explain their significance to the changes in the loss allowance for the same periods.

<u>December 31, 2020</u>	Credit Loss allowance				Gross exposure of credit commitments and contingencies (at credit equivalents)			
	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at the beginning of the year	68,773	47,307	630,591	746,671	9,180,703	1,351,650	129,220	10,661,573
Transfer to 12-month ECL	1,032	(1,032)	-	-	83,053	(83,053)	-	-
Transfer to life time ECL, not credit impaired	(2,159)	2,159	-	-	(433,726)	433,726	-	-
Transfer to life time ECL, credit impaired	(9)	(1,105)	1,114	-	(1,500)	(8,856)	10,356	-
New commitments, net of expired / matured commitments	-	-	-	-	(245,799)	(1,177,341)	(9,859)	(1,432,999)
Net charge / (reversal) for the year	4,793	2,135	(158,984)	(152,056)	-	-	-	-
Balance as at December 31, 2020	72,430	49,464	472,721	594,615	8,582,731	516,126	129,717	9,228,574
<u>December 31, 2019</u>	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	12-month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at the beginning of the year	21,704	55,894	624,516	702,114	8,142,608	672,854	126,884	8,942,346
Transfer to 12-month ECL	2,830	(2,830)	-	-	52,311	(52,311)	-	-
Transfer to life time ECL, not credit impaired	(754)	754	-	-	(425,548)	425,548	-	-
Transfer to life time ECL, credit impaired	-	(119)	119	-	(1,600)	(39,217)	40,817	-
New commitments, net of expired / matured commitments	-	-	-	-	1,412,932	344,776	(38,481)	1,719,227
Net charge / (reversal) for the year	44,993	(6,392)	5,956	44,557	-	-	-	-
Balance as at December 31, 2019	68,773	47,307	630,591	746,671	9,180,703	1,351,650	129,220	10,661,573

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15. Sukuk

On October 7, 2015 the Bank issued SAR 2 billion, 10 year subordinated and unsecured Tier II Capital (Sukuk), callable in 5 years. These Sukuk carried a special commission rate of SIBOR plus 140 bps. On October 7, 2020 the Bank exercised its call option to early redeem 100% of the principal amount of outstanding notes, together with the accrued interests till the option redemption date.

On October 21, 2020 the Bank issued USD 750 million 10 year subordinated Tier II capital (Sukuk) callable in 5 years and carrying a special commission rate of 3.326%.

16. Share capital

As at December 31, 2020, the authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares of SAR 10 each (2019: 1,500 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2020	2019
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

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 December 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. The diluted earnings per share is the same as the basic earnings per share.

17. Statutory reserve

In accordance with the Saudi Arabian Banking Control Law and the By Laws of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. Accordingly, SAR 561 million has been transferred from 2020 net income to statutory reserve (2019: SAR 756 million). The statutory reserve is not currently available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2020 and 2019 there were legal proceedings of a routine nature outstanding against the Group. No material provision has been made as professional legal advice indicates that it is not probable that a significant loss will arise.

b) Capital commitments

As at December 31, 2020 the Group had capital commitments of SAR 39.2 million (2019: SAR 45.2 million) in respect of building and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure of the Bank's commitments and contingencies is as follows:

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,637,358	2,054,542	101,634	-	4,793,534
Letters of guarantee	3,441,142	10,347,873	3,442,582	18,709	17,250,306
Acceptances	685,063	1,221,646	5,677	-	1,912,386
Irrevocable commitments to extend credit	38,513	168,396	1,884,622	68,958	2,160,489
Other	-	-	-	16,102	16,102
Total	6,802,076	13,792,457	5,434,515	103,769	26,132,817

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,690,480	2,064,017	56,741	-	4,811,238
Letters of guarantee	5,060,819	13,320,278	4,177,864	37,418	22,596,379
Acceptances	357,707	1,094,756	-	-	1,452,463
Irrevocable commitments to extend credit	870,305	45,833	1,690,770	-	2,606,908
Other	-	-	-	77,221	77,221
Total	8,979,311	16,524,884	5,925,375	114,639	31,544,209

The unutilized portion of non-firm commitments for commercial and corporate loans as at December 31, 2020, which can be revoked unilaterally at any time by the Bank, amounts to SAR 18,471 million (2019: SAR 19,388 million).

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2020	2019
Corporate	20,611,097	28,182,213
Banks and other financial institutions	5,505,618	2,635,176
Other	16,102	726,820
Total	26,132,817	31,544,209

d) Assets pledged

Securities pledged under repurchase agreements with other banks include government and non-government bonds. Assets pledged as collateral with other financial institutions for security are as follows:

	2020		2019	
	Assets	Related liabilities	Assets	Related liabilities
Held at amortised cost (notes 6f, 12 and 13)	1,008,633	194,000	2,820,898	2,829,028

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19. Net special commission income

	2020	2019
Special commission income		
Investments:		
FVOCI	51,661	115,960
Amortised cost	858,185	889,916
	909,846	1,005,876
Due from banks and other financial institutions	229,681	213,732
Loans and advances	4,852,262	6,413,016
Total	5,991,789	7,632,624
Special commission expense		
Due to banks, SAMA and other financial institutions	26,673	52,765
Customers' deposits	1,006,978	1,911,479
Sukuk	63,663	85,129
Other	25,818	30,312
Total	1,123,132	2,079,685
Net special commission income	4,868,657	5,552,939

Net special commission income for the years ended December 31, 2020 and 2019 include income from shariah transactions amounting to SAR 3,955 million and SAR 3,780 million, respectively.

20. Fees and commission income, net

	2020	2019
Fee and commission income		
Share trading and fund management	127,652	79,219
Trade finance	204,138	213,569
Credit cards	214,668	222,861
Credit facilities	332,136	501,398
Other banking services	357,109	273,604
Total	1,235,703	1,290,651
Fee and commission expense		
Credit cards	141,896	193,069
Credit facilities	176,263	227,049
Other banking services	367,855	212,802
Total	686,014	632,920
Fees and commission income, net	549,689	657,731

21. Trading income / (loss), net

	2020	2019
Debt securities	(20)	(8,442)
Derivatives	5,436	(1,951)
Total	5,416	(10,393)

22. Dividend income

	2020	2019
FVTPL investments	15,774	31,501
FVOCI investments	67,601	53,030
Total	83,375	84,531

23. Gain on sale of investments in debt instruments, net

	2020	2019
FVOCI – Debt investments	4,642	407
Investments at amortized cost	5,846	-
Total	10,488	407

24. Other operating income, net

	2020	2019
Rental income, net	42,715	65,614
Losses on disposal of property and equipment, net	(46)	(3,562)
Others	59,706	12,646
Total	102,375	74,698

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25. Allowance charges for expected credit losses and other provisions, net

	2020	2019
Allowance charges for expected credit losses, net (note 7)	1,434,258	926,039
(Reversal) Provision for credit-related commitments and contingencies (note 14 a)	(152,056)	44,557
Total	<u>1,282,202</u>	<u>970,596</u>

26. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended December 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.

27. Dividends, Zakat and Income Tax

- (a) On December 24, 2019 the Board recommended to pay cash dividends of SAR 750 million from net income for the year. After deducting zakat this proposed final dividend will result in a net payment of SAR 0.50 per share to Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) will be deducted from their share of the dividend.
- (b) An interim dividend of SAR 750 million was approved on July 04, 2019 for payment to shareholders. After deducting zakat, this interim dividend resulted in a net payment of SAR 0.50 per share to the Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) was deducted from their share of the dividend.

(c) Zakat and income tax

The dividends are paid to Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Zakat

Zakat for the year attributable to Saudi Shareholders amounted to approximately SAR 285 million (2019: SAR 249 million).

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 222 million (2019: SAR 287 million).

Zakat Claims Settlement with the General Authority of Zakat and Income Tax (GAZT)

The Group has filed its Zakat and Income Tax returns with GAZT and paid Zakat and Income Tax for financial years up to and including the year 2019 and received assessments for the years up to 2013 in which the GAZT raised additional demands. On December 20, 2018 the Group has reached a settlement agreement with GAZT to settle Zakat liability amounting to SAR 649 million for previous years and accordingly all assessments are finalized until 2017. The settlement agreement requires the Bank to settle 20% of the agreed Zakat liability upfront and the remaining to be settled over a period of five years. Yet, the settlement agreement resulted in an increase in shareholders' equity in the amount of SAR 1,113 million being surplus in Zakat provision for the years up to and including the year 2017, and the Zakat provision has been disclosed in note 14 to the accompanying consolidated financial statements.

27. Dividends, Zakat and Income Tax (continued)

(c) Zakat and income tax (continued)

Zakat Claims Settlement with the General Authority of Zakat and Income Tax (GAZT) (continued)

Deferred Tax

The components and movements of deferred tax is as follows:

	2020		
	Opening deferred tax	Recognized in P&L	Closing deferred tax
Accelerated depreciation for accounting purposes	15,310	(6,116)	9,194
Provision for employee benefit obligation	39,344	5,844	45,188
Provision for losses	8,565	4,685	13,250
Total	63,219	4,413	67,632
	2019		
	Opening deferred tax	Recognized in P&L	Closing deferred tax
Accelerated depreciation for accounting purposes	6,650	8,660	15,310
Provision for employee benefit obligation	38,729	615	39,344
Provision for losses	11,034	(2,469)	8,565
Total	56,413	6,806	63,219

28. Cash and cash equivalents

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

	2020	2019
Cash and balances with SAMA excluding statutory deposit (note 4)	5,338,644	10,088,755
Due from banks and other financial institutions maturing within ninety days of acquisition	1,088,999	2,071,877
Total	6,427,643	12,160,632

29. Compensation practices

The Bank has implemented a "Risk-Based Compensation Policy" in compliance with the rules issued by SAMA, which are consistent with the principles and standards of the Financial Stability Board (FSB). The policy was approved by the Board and gives highest consideration to the alignment of compensation with risk and provides a competitive and balanced package of fixed and variable compensation. The policy ensures that compensation takes into account the likelihood and timelines of earnings and its impact on the Bank's capital. It also focuses on promoting effective risk management, achieving financial stability and dealing with risks posed by the Bank's compensation practices. The Bank takes into account all types of existing and potential material risks and ensures a balance between general industry practices and bank-specific factors such as business model, financial condition, operating performance, market perception, business prospects and appropriate managerial judgement, etc.

The Board, while determining and approving the bonus pool of the Bank, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, etc. Similarly, while allocating the Bank-wide bonus pool to business units, due consideration is given to the type of business transacted, level of risk assumed, relative importance of earnings, distinctive business drivers, historical bonus pool, current performance and the business unit's consistency of performance.

The Board has ultimate responsibility for promoting effective governance and sound compensation practices. In order to assist it in overseeing the Compensation policies design and its operation, the Board has appointed a Nomination & Compensation Committee. The Nomination & Compensation Committee comprises three non-executives members of the Board and is chaired by an independent member of the Board. The Committee has full authority on behalf of the Board to review and where considered appropriate propose changes to the Bank's compensation policy and practices and recommend the same to the Board, for its approval and to ensure adequacy and effectiveness of the policy in meeting its intended objectives. The Committee also reviews the level and composition of remuneration of key executives of the Bank and recommends a risk-adjusted bonus pool to the Board, for approval.

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29. Compensation practices (continued)

The governance process ensures that the Compensation Policy is consistently applied and operates as intended. The Bank has established an oversight mechanism to regularly evaluate the design characteristics of compensation practices and their implementation.

2020	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2020
1.	Senior executive requiring SAMA no objections	20	41,937	37,618
2.	Employees engaged in risk taking activities	189	90,318	33,662
3.	Employees engaged in control functions	546	144,344	26,029
4.	Other employees	3,204	603,764	75,773
	Total	3,959	880,363	173,082
	Variable compensation accrued in 2020		149,171	
	Other employment related costs*		162,534	
	Total salaries and employee related expenses		1,192,068	

2019	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2019
1.	Senior executive requiring SAMA no objections	20	40,443	33,405
2.	Employees engaged in risk taking activities	189	96,118	32,933
3.	Employees engaged in control functions	558	147,290	23,996
4.	Other employees	3,403	628,105	67,337
	Total	4,170	911,956	157,671
	Variable compensation accrued in 2019		146,000	
	Other employment related costs*		223,214	
	Total salaries and employee related expenses		1,281,170	

*Other employee related costs include end of service benefits, GOSI, business travel, training and development, and other employees' benefits.

30. Employee benefit obligation

a) General description

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

b) The amounts recognised in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2020	2019
Defined benefit obligation at the beginning of the year	545,849	536,942
Past service cost	114	451
Current service cost	48,250	50,227
Special commission cost	17,592	23,677
Benefits paid	(53,450)	(62,977)
Remeasurements due to actuarial gain	(21,342)	(2,471)
Defined benefit obligation at the end of the year	537,013	545,849

c) Charge for the year

	2020	2019
Current service cost	48,250	50,227
Special commission cost	17,592	23,677
Past service cost	114	451
	65,956	74,355

d) Re-measurement recognised in Other comprehensive income

	2020	2019
Gain from change in experience assumptions	(4,170)	(11,271)
(Gain) / loss from change in financial assumptions	(17,172)	8,800
	(21,342)	(2,471)

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30. Employee benefit obligation (continued)

e) Principal actuarial assumptions (in respect of the employee benefit scheme)

	2020	2019
Discount rate	2.6%	3.4%
Expected rate of salary increase	2%	3%
Normal retirement age	11.4 years	11.7 years

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2020 and 2019 based on the principal actuarial assumptions disclosed in note (e) above.

2020	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+1%	(47,528)	-
	-1%	-	56,022
Expected rate of salary increase	+1%	55,786	-
	-1%	-	(48,222)
Normal retirement age	+20%	(1,786)	-
	-20%	-	1,361
2019			
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+1%	(47,402)	-
	-1%	-	55,903
Expected rate of salary increase	+1%	55,552	-
	-1%	-	(48,001)
Normal retirement age	+20%	(3,093)	-
	-20%	-	2,863

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

g) Expected maturity

Expected maturity analysis of undiscounted define benefit obligation for the end of service plan is as follows:

Less than a year	(1-2) years	(3-5) years	Over 5 years	Total as at December 31, 2020
69,322	63,384	151,474	263,504	547,684
Less than a year	(1-2) years	(3-5) years	Over 5 years	Total as at December 31, 2019
59,718	61,157	165,325	276,197	562,397

The weighted average duration of the defined benefit obligation as of December 31, 2020 is 11.4 years (2019: 11.7 years).

31. 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 the 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.

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31. Operating segments (continued)

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

Other

Includes income on capital and unallocated costs and assets and liabilities of Head Office and other supporting departments.

Transactions between operating segments are reported as recorded in the Group's transfer pricing system. The basis for determining intersegment operating income/(expense) for the current year are consistent with the basis used for December 31, 2019. Segment assets and liabilities comprise mainly operating assets and liabilities.

The Group's primary business is conducted in the Kingdom 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 consolidated financial statements.

- a) The Group's total assets and liabilities as at December 31, 2020 and 2019 and its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

2020	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	40,672,018	76,951,380	60,532,743	779,503	1,460,198	180,395,842
Investments in associates	-	-	-	517,273	772,459	1,289,732
Total liabilities	65,167,293	67,453,814	16,294,583	81,581	1,632,427	150,629,698
Operating income from external customers	2,189,483	3,323,672	101,902	193,337	15,845	5,824,239
Intersegment operating income/(expense)	18,137	(1,029,988)	875,721	-	136,130	-
Total operating income	2,207,620	2,293,684	977,623	193,337	151,975	5,824,239
Of which:						
Net special commission income	2,029,990	1,886,069	794,594	26,739	131,265	4,868,657
Fees and commission income, net	64,741	393,890	(1,042)	128,275	(36,175)	549,689
Allowance charges for expected credit losses and other provisions, net	80,199	1,202,003	-	-	-	1,282,202
Reversal of impairment charges for other financial assets, net	-	-	(11,408)	-	-	(11,408)
Depreciation and amortization	165,665	9,600	1,276	5,051	38,680	220,272
Total operating expenses	1,326,222	1,786,533	84,877	83,813	35,899	3,317,344
Share in earnings of associates, net	-	-	-	-	49,562	49,562
Net income attributable to equity holders of the Bank	881,398	478,800	921,097	73,625	(282,708)	2,072,212
Net income attributable to non-controlling interest	-	-	-	-	(3,246)	(3,246)

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31. Operating segments (continued)

Other (continued)

2019	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	41,072,411	82,064,505	58,297,036	123,769	1,884,756	183,442,477
Investments in associates	-	-	-	210,533	678,582	889,115
Total liabilities	67,106,110	78,622,167	7,264,746	82,651	2,023,517	155,099,191
Operating income (loss) from external customers	2,293,210	4,378,455	(133,582)	120,627	74,128	6,732,838
Intersegment operating income/(expense)	456,739	(1,810,822)	1,090,431	-	263,652	-
Total operating income	2,749,949	2,567,633	956,849	120,627	337,780	6,732,838
Of which:						
Net special commission income	2,449,436	2,091,326	669,220	40,145	302,812	5,552,939
Fees and commission income, net	138,542	463,037	6,321	84,383	(34,552)	657,731
Allowance charges for expected credit losses and other provisions, net	209,031	761,565	-	-	-	970,596
Impairment charges for other financial assets, net	-	-	18,466	-	-	18,466
Depreciation and amortization	185,984	8,719	1,212	4,519	52,773	253,207
Total operating expenses	1,620,488	1,388,180	115,548	62,564	5,139	3,191,919
Share in earnings of associates, net	-	-	-	-	9,711	9,711
Net income attributable to equity holders of the Bank	1,129,461	1,179,453	841,301	32,117	(159,097)	3,023,235
Net income attributable to non-controlling interest	-	-	-	-	(1,423)	(1,423)

b) The Group's credit exposure by operating segments is as follows:

	Retail Banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
2020						
Total assets	38,901,484	76,644,881	56,648,630	188,343	758,185	173,141,523
Credit-related commitment and contingencies	1,101,713	11,298,533	119,667	8,051	56,220	12,584,184
Derivatives	-	1,025,703	2,652,005	-	-	3,677,708
2019						
Total assets	37,882,399	81,785,733	56,098,408	67,641	666,456	176,500,637
Credit-related commitment and contingencies	1,328,777	13,519,076	112,114	38,611	56,389	15,054,967
Derivatives	-	1,974,940	1,119,341	-	-	3,094,281

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property, equipment and right of use assets, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 33a).

32. Credit Risk

Credit risk is the risk that a customer or counter-party may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from the potential that a customer or counter-party is either unwilling to perform an obligation or its ability to perform such an obligation is impaired, resulting in an economic loss to the Bank. The Bank is exposed to credit risk when its business units extend credit to counterparties. The Bank's Executive Committee (ExCom)/Board provides oversight of Credit Risk through the documented Credit Policy.

The enterprise-wide requirements for identification, assessment, monitoring and reporting of credit risk is set by the Risk Management Group, while business/support units are accountable for the credit risks within their respective areas, aligning business strategies with Bank's risk appetite.

32. Credit Risk (continued)

Credit Risk policies and procedures are established to provide control of credit portfolios through periodic assessment of the credit standing of borrowers and quantifying maximum permissible exposures to specific borrowers. Such individuals and/or groups exposures are monitored periodically on a portfolio basis. The Bank's Credit Policy provides detailed guidelines to manage credit risk effectively; it is reviewed and updated from time to time based on experience, emerging issues, best market practices and directives from regulatory authorities. The Credit Policy is designed to ensure clear recognition of credit risk management strategies and objectives, which, inter-alia, include:

- i. Strengthening and enhancing Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.
- ii. Strengthening and enhancing credit portfolio management process.
- iii. Strengthening and enhancing Bank's systems and procedures for early problem recognition.
- iv. Compliance with local regulatory requirement and industry's best practices for credit risk management.

The Credit Policy addresses all functions and activities related to the credit process including the underwriting criteria. It stipulates Bank's appetite for risk, which, inter-alia, provides guidance on the target markets (Corporate, Commercial/Small and Medium Enterprises (SMEs), Consumer and High Net-Worth Individuals) and desirable type of borrowers/industries. Some criteria are product-specific and are governed by individual credit product policies while others generally include credit quality standards, purpose and terms of facilities, undesirable loans, credit analysis, concentrations of credit, repayment ability, compliance with laws & regulations, expected losses and documentation.

Portfolio Monitoring

Portfolio management is ensured through diversification of the credit portfolio on the basis of tenor, industries/business segments, risk grades and geographical areas to avoid the risk of over-exposure to certain economic sectors/credit products, which might be impacted by unfavorable developments in the economy. The Bank broadly uses borrower and sector criteria for mitigating concentration risk. The Bank's business is predominantly concentrated in Saudi Arabia, minimizing cross-currency risk although geographical concentration remains but this is considered acceptable and within Bank's risk appetite.

Consumer Banking portfolio is a diversified one since relatively small exposures are approved to a large number of individuals, based mainly on assignment of salary or security with exposure caps on products/employers, etc.

Risk Measurement and Reporting System

Credit Risk tracks trends and identifies weaknesses in the quality of corporate, commercial, retail and private banking loans portfolio by employing:

- i. Obligor and Facility risk rating system to assess the quality of obligor and riskiness of facilities; and
- ii. Periodic reviews and reporting of aggregate statistics on asset diversification and credit quality for key segments of the portfolio.

Rating system is established with the objective to:

- i. place the responsibility on business units to regularly evaluate credit risk on exposures and identify problems within their portfolios;
- ii. establish early warning signals for detecting deterioration in credit quality;
- iii. set standards for business units to submit their inputs on problematic exposures; and
- iv. provide guidelines to respond and take remedial actions as soon as deterioration in credit quality is detected.

The Bank classifies its exposures into 13 risk categories, of which 10 are for performing obligors and 3 are for non-performing obligors. Rating is assigned to a borrower through a system-based methodology, which takes into account financial and non-financial information, translating into a grade and Probability of Default (PD) for the relationship.

Facility Risk Rating (FRR), which assesses the riskiness of facilities, is used for deriving the Loss Given Default (LGD) for a relationship, thus assigning separate rating for obligor and facility characteristics.

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually. These reports are comprehensive, have wide scope and address several issues including:

- i. Portfolio quality, industry concentration and large exposures;
- ii. Product concentration, credit monitoring and concentration of shares held by the Bank as collateral; and
- iii. Past due follow-up, customer-provisioning details and provision movement.

Retail portfolio comprises of personal loans, credit cards, housing loans and auto leasing.

32. Credit Risk (continued)

Risk Measurement and Reporting System (continued)

Individual customers are assessed on the basis of standardized pre-set criteria for specific schemes to assess eligibility for each of the above products. Delinquent customers, based on days past due (bucket-wise), are classified as non-performing.

Major portion of retail portfolio is personal loans, which are granted against salary assignments to borrowers who are employees of approved list of acceptable employers, mainly government departments. The main criteria for lending to this portfolio include approved employer, minimum salary requirements, length of service and pre-specified Debt Service Ratio (DSR). Housing loan and auto leasing products are considered generally secured since the underlying assets are owned by the Bank and leased to customers, thus mitigating risk to a large extent.

The Bank has developed application score-cards and behavior score-cards, using internal and external data, to evaluate, monitor and control consumer credits as this is expected to go a long way in making consumer credit risk management more effective and efficient.

Asset Quality

Corporate and commercial exposures are considered non-performing and placed on non-accrual status in the following circumstances:

- The principal of loan or interest payment remains past due more than 90 days after its due date;
- The outstanding of an overdraft remains in excess of approved limit for more than 90 days or the overdraft account is in-active for more than 180 days.

Non-performing exposures migrate across the non-performing risk grades (Substandard, Doubtful and Loss) according to their days past due and/or deterioration in credit quality.

In determining whether a corporate exposure has become impaired, the Bank makes judgments as to whether there is any observable data indicating decrease in the estimated future cash flows. This evidence may include an indication that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics, when estimating the cash flows.

The methodology and assumptions used for estimating both - the amount and timing of future cash flows - are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Consumer assets are considered non-performing and placed on non-accrual status if payment remains past due more than 90 days after its due date.

Credit quality analysis

- The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Due from Bank and other financial institutions				
Investment grade	1,082,134	-	-	1,082,134
Non-investment grade	6,115	-	-	6,115
Unrated	-	-	750	750
Gross carrying amount	1,088,249	-	750	1,088,999

	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Due from Bank and other financial institutions				
Investment grade	1,908,577	-	-	1,908,577
Non-investment grade	125,946	-	-	125,946
Unrated	37,355	-	-	37,355
Gross carrying amount	2,071,878	-	-	2,071,878

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32. Credit Risk (continued)

Credit quality analysis (continued)

	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loans and advances to customers at amortised cost				
Grades 1-8: Low – fair risk	101,341,631	7,183,230	46,092	108,570,953
Grades 9-10: Watch list	38,781	4,688,613	29,624	4,757,018
Grades 11-13 Substandard, Doubtful, Loss	-	-	4,059,703	4,059,703
Gross carrying amount	101,380,412	11,871,843	4,135,419	117,387,674

	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loans and advances to customers at amortised cost				
Grades 1-8: Low – fair risk	104,673,939	9,421,947	34,745	114,130,631
Grades 9-10: Watch list	-	5,578,944	30,480	5,609,424
Grades 11-13 Substandard, Doubtful, Loss	-	-	2,498,649	2,498,649
Gross carrying amount	104,673,939	15,000,891	2,563,874	122,238,704

	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loans and advances to customers at amortised cost – Consumer Loans and Credit cards				
Grades 1-8: Low – fair risk	27,490,213	1,822,047	34,935	29,347,195
Grades 9-10: Watch list	-	163,851	24,473	188,324
Grades 11-13: Substandard, doubtful, loss	-	-	79,924	79,924
Gross carrying amount	27,490,213	1,985,898	139,332	29,615,443

	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loans and advances to customers at amortised cost – Consumer Loans and Credit cards				
Grades 1-8: Low – fair risk	25,762,875	1,705,871	34,745	27,503,491
Grades 9-10: Watch list	-	191,189	25,686	216,875
Grades 11-13: Substandard, doubtful, loss	-	-	96,655	96,655
Gross carrying amount	25,762,875	1,897,060	157,086	27,817,021

	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loans and advances to customers at amortised cost – Commercial Loans, Overdrafts and others				
Grades 1-8: Low – fair risk	73,851,417	5,361,184	11,157	79,223,758
Grades 9-10: Watch list	38,781	4,524,762	5,151	4,568,694
Grades 11-13: Substandard, doubtful, loss	-	-	3,979,779	3,979,779
Gross carrying amount	73,890,198	9,885,946	3,996,087	87,772,231

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32. Credit Risk (continued)

Credit quality analysis (continued)

	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loans and advances to customers at amortised cost – Commercial Loans, Overdrafts and others				
Grades 1-8: Low – fair risk	78,911,064	7,716,076	-	86,627,140
Grades 9-10: Watch list	-	5,387,755	4,794	5,392,549
Grades 11-13: Substandard, doubtful, loss	-	-	2,401,994	2,401,994
Gross carrying amount	<u>78,911,064</u>	<u>13,103,831</u>	<u>2,406,788</u>	<u>94,421,683</u>

	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Debt investment securities at amortised cost				
Investment grade	37,554,047	-	-	37,554,047
Non-investment grade	-	-	-	-
Unrated	1,724,035	-	-	1,724,035
Gross carrying amount	<u>39,278,082</u>	<u>-</u>	<u>-</u>	<u>39,278,082</u>

	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Debt investment securities at amortised cost				
Investment grade	31,181,613	-	-	31,181,613
Non-investment grade	-	-	-	-
Unrated	1,554,930	-	-	1,554,930
Gross carrying amount	<u>32,736,543</u>	<u>-</u>	<u>-</u>	<u>32,736,543</u>

	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Debt investment securities at FVOCI				
Investment grade	1,559,530	-	-	1,559,530
Non-investment grade	-	7,659	-	7,659
Unrated	285,746	-	-	285,746
Carrying amount – fair value	<u>1,845,276</u>	<u>7,659</u>	<u>-</u>	<u>1,852,935</u>

	December 31, 2019			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Debt investment securities at FVOCI				
Investment grade	2,208,886	-	-	2,208,886
Non-investment grade	86,242	7,708	-	93,950
Unrated	488,580	-	-	488,580
Carrying amount – fair value	<u>2,783,708</u>	<u>7,708</u>	<u>-</u>	<u>2,791,416</u>

Investment Grade comprises investments having credit rating equivalent to Standard & Poor's AAA to BBB. The unrated investments comprise mainly corporate debt securities, sukuk, mutual funds and investment in equities.

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32. Credit Risk (continued)

Credit quality analysis (continued)

	December 31, 2020			Total
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Credit-related commitments and contingencies				
Grades 1-8: Low - fair risk	8,573,478	471,142	491	9,045,111
Grades 9-10: Watch list	9,253	44,984	1,849	56,086
Grades 11-13: Substandard, doubtful, loss	-	-	127,377	127,377
Gross carrying amount	8,582,731	516,126	129,717	9,228,574
December 31, 2019				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit-related commitments and contingencies				
Grades 1-8: Low - fair risk	9,180,703	1,272,557	-	10,453,260
Grades 9-10: Watch list	-	79,093	-	79,093
Grades 11-13: Substandard, doubtful, loss	-	-	129,220	129,220
Gross carrying amount	9,180,703	1,351,650	129,220	10,661,573

b. Credit analysis of financial assets held as FVTPL

The following table sets out the credit analysis for financial assets measured at FVTPL.

	December 31, 2020	December 31, 2019
Investment funds		
Investment grade	-	-
Non-investment grade	-	-
Unrated	558,415	554,675
Total carrying amount - Fair value	558,415	554,675

c. Amounts arising from ECL - Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

Consideration due to COVID-19

In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer note 41 for further details). The exercise of the deferment option by a customer, in its own, is not consider by the Bank as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

32. Credit Risk (continued)

Credit quality analysis (continued)

c. Amounts arising from ECL - Significant increase in credit risk (continued)

Credit risk grades

The Bank allocates credit risk grades to each exposure based on a variety of variables that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases significantly as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 8 and 9.

The 12 months PIT PD for the exposures in grade 1 to 8 ranges from 0.39% to 9.96%. The 12 months PIT PD for grade 9 and 10 (watch list) goes up to 51.85%.

Credit risk grade or score is allocated to corporate exposures at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade or score. The monitoring of exposures involve use of the following data:

Corporate exposures	Retail exposures
<ul style="list-style-type: none"> Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes etc. Data from credit reference agencies, press articles, changes in external credit ratings. Quoted bond and credit default swap (CDS) prices for the borrower where available. Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities. 	<ul style="list-style-type: none"> Internally collected data and customer behavior data – e.g. utilization of credit card facilities Affordability metrics External data from credit reference agencies including default information.

i) Generating the term structure of PD

Credit risk grades are a primary input in the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For retail portfolios, SIMAH information is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change over a period of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. For most exposures, key macro-economic indicators include Oil Price, GDP growth, Government Expenditures, Share Price Index and Employment.

Based on the available economic data and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts to adjust its estimates of PDs.

32. Credit Risk (continued)

Credit quality analysis (continued)

c. Amounts arising from ECL - Significant increase in credit risk (continued)

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and a backstop based on delinquency.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date when full payment became due.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- i. the criteria can identify significant increases in credit risk before an exposure is in default;
- ii. the criteria do not align with the point in time when an asset becomes 30 days past due; and
- iii. there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- i. its remaining Net Present Value (NPV) of the cash-flows at the reporting date based on the modified terms; with
- ii. the remaining NPV of the cash-flows calculated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. As per Bank's policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the restructuring policy.

For financial assets modified as part of the Bank's policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar restructuring action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of restructuring may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

32. Credit Risk (continued)

Credit quality analysis (continued)

c. Amounts arising from ECL - Significant increase in credit risk (continued)

iv) Definition of 'Default'

The following criteria are used to determine obligor default. The obligor:

- i. Has an obligation which is 90 (or more) days past due.
- ii. Has an obligation for which the Bank has stopped accruing interest.
- iii. Has obligation(s) that has/have been restructured with loss to the Bank.
- iv. Has an obligation that is classified as non-performing by the Bank.
- v. Has an obligation that the Bank has charged off in part or in full.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- i. Qualitative - e.g. breaches of covenant;
- ii. Quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- iii. based on data developed internally and obtained from external sources.

Inputs to the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts provided by agencies, such as Moody's Economic Data services.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio using an analysis of historical data and estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2020 included the following ranges of key indicators.

Economic Indicators	2020	2019
GDP	Upside 30% Base case 40% Downside 30%	Upside 30% Base case 40% Downside 30%
Brent oil prices	Upside 30% Base case 40% Downside 30%	Upside 30% Base case 40% Downside 30%
Tadawul all shares index	Upside 30% Base case 40% Downside 30%	Upside 30% Base case 40% Downside 30%

Consideration due to COVID 19:

1. Type of overlooking

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year.

2. Scenario assumptions

As at 31 December 2020, the scenario assumptions are updated to reflect the current situation of COVID-19, this included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn.

32. Credit Risk (continued)

Credit quality analysis (continued)

c. Amounts arising from ECL - Significant increase in credit risk (continued)

v) Incorporation of forward looking information (continued)

3. Probability weightings

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank's credit portfolios in determining them.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years. To account for the impact of COVID-19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2020 ECL model			Forecast calendar years used in 2019 ECL model		
	2021	2022	2023	2021	2022	2023
GDP	855	878	899	885	904	923
Brent oil prices (USD \$)	53.22	61.59	63.77	65.81	66.42	67.46
Tadawul all shares index	9,129	9,754	10,143	9,721	9,595	9,796

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by the Bank:

December 31, 2020	Due from Bank and other financial institutions	Investments	Loans and advances	Commitments and contingencies	Total
Most likely (Base case)	6,817	12,241	3,399,054	220,709	3,638,821
More optimistic (Upside)	6,155	10,618	3,284,857	214,642	3,516,272
More pessimistic (Downside)	10,643	32,199	4,218,311	264,882	4,526,035

vi) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral and recovery costs of any collateral that is integral to the financial asset. For secured retail loans, asset value / type are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

32. Credit Risk (continued)

Credit quality analysis (continued)

c. Amounts arising from ECL - Significant increase in credit risk (continued)

vi) Measurement of ECL (continued)

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect, however this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of significant increase in credit risk at the facility level, prompting such action. This longer period is estimated considering the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Sensitivity of ECL allowance:

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the yearend:

Assumptions sensitized	PL Impact (2020)
Changes in Macro-economic factors while other assumptions kept constant:	
Decrease in Oil price by 1%	8,077
Decrease in GDP by 1%	12,618
Decrease in Tadawul all shares index by 1%	4,113
Scenario weightages:	
Base scenario sensitized by - 5% with corresponding change in downside	44,361
Base scenario increase by + 5% with corresponding change in upside	6,127

d. Aging of loans and advances (past due but not impaired)

	Credit cards	Consumer loans	Commercial loans, overdrafts and others	Total
2020				
Past due (1-30) days	15,557	655,594	101,934	773,085
Past due (31-60) days	2,547	125,905	198,496	326,948
Past due (61-90) days	1,713	58,159	8,858	68,730
Past due (91-180) days	-	-	229,289	229,289
Above 180 days	-	-	448,600	448,600
Total	19,817	839,658	987,177	1,846,652

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32. Credit Risk (continued)

Credit quality analysis (continued)

d. Aging of loans and advances (past due but not impaired) (continued)

<u>2019</u>	Credit cards	Consumer loans	Commercial loans, overdrafts and others	Total
Past due (1-30) days	17,105	669,257	168,223	854,585
Past due (31-60) days	2,866	131,410	94,632	228,908
Past due (61-90) days	5,496	51,417	94,905	151,818
Past due (91-180) days	-	-	118,766	118,766
Above 180 days	-	-	835,873	835,873
Total	<u>25,467</u>	<u>852,084</u>	<u>1,312,399</u>	<u>2,189,950</u>

e. Collateral

In the ordinary course of lending activities, the Bank hold collaterals as security to mitigate credit risk. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The Bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements. The collateral for commercial and corporate loans are as follows:

	<u>2020</u>	<u>2019</u>
Nature of collateral held as security		
Listed securities	25,906,859	24,878,682
Properties	26,811,643	25,294,454
Others	7,442,752	7,178,073
Total	<u>60,161,254</u>	<u>57,351,209</u>

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33. Concentration risk of financial assets with credit risk exposure and financial liabilities

a) Geographical concentration

The bank's main credit exposure by geographical region is as follows:

	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
2020								
Assets								
Cash and balances with SAMA								
Cash in hand	1,357,816	-	784	-	-	-	-	1,358,600
Balances with SAMA	11,274,739	-	-	-	-	-	-	11,274,739
Due from banks and other financial institutions								
Current accounts	-	92,061	95,535	585,418	-	306,309	1,911	1,081,234
Money market placements	-	750	-	-	-	-	-	750
Investments, net								
Held as FVTPL	188,343	-	179	2,643	-	-	367,250	558,415
Held as FVOCI	3,697,987	252,975	437	-	-	-	-	3,951,399
Held at amortized cost	39,265,061	-	-	-	-	-	-	39,265,061
Positive fair value of derivatives								
Held for trading	296,109	5,796	677,603	-	-	-	-	979,508
Held as fair value hedges	-	-	15,320	-	-	-	-	15,320
Loans and advances, net								
Overdraft	2,537,255	-	33,648	-	-	-	1,690	2,572,593
Credit cards	355,415	-	-	-	-	-	-	355,415
Consumer loans	28,846,384	-	149	-	-	-	-	28,846,533
Commercial loans and others	79,169,821	560,730	1,765,788	-	-	-	91,733	81,588,072
Other assets								
Accounts receivable	4,614,003	-	-	-	-	-	-	4,614,003
Total assets	171,602,933	912,312	2,589,443	588,061	-	306,309	462,584	176,461,642
Liabilities								
Due to banks, SAMA and other financial institutions								
Current accounts	-	83,338	1,411	18,165	-	908	-	103,822
Money market deposits & commission free deposits from SAMA	8,823,993	711,415	158,514	-	-	-	-	9,693,922
Customers' deposits								
Demand	76,030,063	121,093	57,768	-	-	528	31,956	76,241,408
Time	47,117,625	1,514	82,205	-	-	-	3,966	47,205,310
Saving	219,031	-	-	-	-	-	-	219,031
Other	5,686,427	-	-	-	-	-	-	5,686,427
Negative fair value of derivatives								
Held for trading	33,846	4,256	887,188	-	-	-	-	925,290
Held as fair value hedges	27,763	14,145	2,479,707	-	-	-	-	2,521,615
Other liabilities								
Accrued expenses and accounts payable	4,068,841	-	2,750	-	-	-	-	4,071,591
Sukuk	2,829,654	-	-	-	-	-	-	2,829,654
Total liabilities	144,837,243	935,761	3,669,543	18,165	-	1,436	35,922	149,498,070
Commitments and contingencies								
Letters of credit	2,455,448	593,016	915,114	55,876	41,103	732,955	22	4,793,534
Letters of guarantee	14,678,966	684,566	1,301,882	6,041	-	578,851	-	17,250,306
Acceptances	337,410	110,458	494,982	149,386	-	820,150	-	1,912,386
Irrevocable commitments to extend credit	2,160,489	-	-	-	-	-	-	2,160,489
Other	16,102	-	-	-	-	-	-	16,102
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	546,810	46,740	1,664,241	-	-	-	537,234	2,795,025
Held as fair value hedges	1,288	296	881,099	-	-	-	-	882,683
Commitments and contingencies								
Letters of credit	491,090	118,603	183,023	11,175	8,221	146,591	4	958,707
Letters of guarantee	7,339,124	342,283	650,941	3,021	-	289,426	-	8,624,795
Acceptances	337,410	110,458	494,982	149,386	-	820,150	-	1,912,386
Irrevocable commitments to extend credit	1,080,245	-	-	-	-	-	-	1,080,245
Other	8,051	-	-	-	-	-	-	8,051

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33. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

a) Geographical concentration (continued)

<u>2019</u>	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA								
Cash in hand	1,721,999	-	1,911	-	-	-	-	1,723,910
Balances with SAMA	15,443,134	-	-	-	-	-	-	15,443,134
Due from banks and other financial institutions								
Current accounts	-	87,870	177,137	699,036	-	165,166	480	1,129,689
Money market placements	375,035	188,256	375,012	-	-	-	-	938,303
Investments, net								
Held as FVTPL	67,675	-	262	2,956	-	-	483,782	554,675
Held as FVOCI	4,194,127	558,648	22,076	-	-	-	-	4,774,851
Held at amortized cost	32,633,534	75,080	-	-	-	-	-	32,708,614
Positive fair value of derivatives								
Held for trading	228,037	3,076	962,215	-	-	-	-	1,193,328
Held as fair value hedges	649	-	31,159	-	-	-	-	31,808
Loans and advances, net								
Overdraft	4,219,494	-	28,840	-	-	-	73	4,248,407
Credit cards	444,354	-	-	-	-	-	-	444,354
Consumer loans	26,981,093	-	197	-	-	-	-	26,981,290
Commercial loans and others	84,692,630	625,416	1,745,986	-	-	-	99,038	87,163,070
Other assets								
Accounts receivable	2,693,638	-	-	-	-	-	-	2,693,638
Total assets	173,695,399	1,538,346	3,344,795	701,992	-	165,166	583,373	180,029,071
Liabilities								
Due to banks, SAMA and other financial institutions								
Current accounts	-	175,601	1,243	100	-	1,856	-	178,800
Money market deposits	-	2,547,120	356,261	-	-	-	-	2,903,381
Customers' deposits								
Demand	66,801,190	104,387	31,670	-	-	527	39,886	66,977,660
Time	68,315,579	1,905	72,623	486	-	-	2,724	68,393,317
Saving	141,297	-	-	-	-	-	-	141,297
Other	6,616,623	-	-	-	-	-	-	6,616,623
Negative fair value of derivatives								
Held for trading	23,139	2,372	1,110,448	-	-	-	-	1,135,959
Held as fair value hedges	11,452	10,098	1,183,675	-	-	-	-	1,205,225
Other liabilities								
Accrued expenses and accounts payable	5,524,968	-	4,058	-	-	-	-	5,529,026
Sukuk	2,017,903	-	-	-	-	-	-	2,017,903
Total liabilities	149,452,151	2,841,483	2,759,978	586	-	2,383	42,610	155,099,191
Commitments and contingencies								
Letters of credit	2,190,461	804,258	827,529	124,570	30,840	825,529	8,051	4,811,238
Letters of guarantee	19,158,853	978,477	1,650,582	6,889	-	755,566	46,012	22,596,379
Acceptances	612,747	82,119	285,282	355,666	-	116,527	122	1,452,463
Irrevocable commitments to extend credit	2,606,908	-	-	-	-	-	-	2,606,908
Other	77,221	-	-	-	-	-	-	77,221
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	1,788,466	59,597	218,422	-	-	-	-	2,066,485
Held as fair value hedges	4,436	2,833	1,020,527	-	-	-	-	1,027,796
Commitments and contingencies								
Letters of credit	438,092	160,852	165,506	24,914	6,168	165,106	1,610	962,248
Letters of guarantee	9,579,427	489,239	825,291	3,445	-	377,783	23,006	11,298,191
Acceptances	612,747	82,119	285,282	355,666	-	116,527	122	1,452,463
Irrevocable commitments to extend credit	1,303,454	-	-	-	-	-	-	1,303,454
Other	38,611	-	-	-	-	-	-	38,611

Credit equivalent amounts reflect the amounts that result from translating the Bank's off consolidated statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to commitments being exercised.

33. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

b) The distributions by geographical concentration of non-performing loans and advances and allowance for expected credit losses are as follows:

	Non-Performing Loans, net				Allowance for expected credit losses			
	Overdraft	Credit cards	Consumer loans	Commercial loans and others	Overdraft	Credit cards	Consumer loans	Commercial loans and others
2020								
Saudi Arabia	30,296	5,968	73,956	3,949,483	125,645	36,527	376,968	3,485,921
	Non-Performing Loans, net				Allowance for expected credit losses			
	Overdraft	Credit cards	Consumer loans	Commercial loans and others	Overdraft	Credit cards	Consumer loans	Commercial loans and others
2019								
Saudi Arabia	8,974	7,633	89,022	2,393,020	80,878	32,136	359,241	2,929,328

34. Market risk

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading, non-trading or banking-book.

a) Market risk - Trading book

The Board has set limits for the acceptable level of risk in managing the trading book. To manage market risk in the trading book, the Bank periodically applies a VaR (Value at Risk) methodology to assess the market risk positions held and to estimate the potential economic loss based on a set of parameters and assumptions regarding changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses risk models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use thereof has limitations due to it being based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR that the bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VaR should occur, on average, not more than once every hundred days.

The VaR represents the market risk in a portfolio at the close of a business day. It does not account for any losses that may occur beyond the defined confidence interval. Actual trading results can, however, differ from the VaR calculations. VaR does not provide a meaningful indication of profits and losses in stressed market conditions.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within a one day horizon. This is considered to be a realistic assumption in most cases but may not be true in situations where there is severe market liquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed VaR.
- VaR is calculated on an end of day basis and does not reflect exposures that may arise on positions during the trading day.
- VaR is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of VaR are recognised by supplementing the VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank carries out stress testing on its trading book to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset and Liabilities Committee (ALCO) for review.

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34. Market risk (continued)

a) Market risk - Trading book (continued)

The Bank's calculated VaR for the years ended December 31, 2020 and 2019 is as follows. All the figures are in SAR million:

	2020				2019			
	Year-end	Average	High	Low	Year-end	Average	High	Low
Special commission rate risk	0.3306	0.3397	4.0519	0.0062	0.0490	0.5600	4.0657	0.0092
Foreign exchange risk	0.8109	0.7941	2.5953	0.2122	0.4558	0.6488	4.1152	0.1212
Diversification effect *	(0.1817)	(0.2621)	n/m	n/m	(0.2778)	(0.2526)	n/m	n/m
Total VaR (one day measure)	0.9598	0.8717	4.0948	0.1162	0.2270	0.9562	5.2293	0.1715

* Total VaR is less than the sum of the VaR of the different market risk types due to risk offsets resulting from a portfolio diversification effect.

n/m – It is not meaningful to compute a diversification effect because the high and low may occur on different days for different risk types.

b) Market risk: non-trading or banking book

Market risk on non-trading or banking positions mainly arises from commission rate and foreign currency exposures and equity price changes.

i) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure positions are maintained within the established gap limits.

The following table shows the sensitivity of the Group's consolidated statement of income and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impact of assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at year end, after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate FVOCI / AFS financial assets, including the effect of any associated hedges as at December 31, 2020 and 2019, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SAR million.

2020							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	32.37	-	-	(0.07)	(0.01)	(0.08)
USD	+10	15.64	-	-	(0.43)	0.15	(0.28)
Others	+10	0.68	-	-	-	(0.00)	(0.00)

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(32.37)	-	-	0.07	0.01	0.08
USD	-10	(15.64)	-	-	0.43	(0.15)	0.28
Others	-10	(0.68)	-	-	-	0.00	0.00

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34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

2019							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	38.90	-	-	(0.03)	(0.16)	(0.19)
USD	+10	10.80	(0.05)	(0.07)	(0.09)	(0.06)	(0.27)
Others	+10	0.50	-	(0.02)	-	-	(0.02)

Currency	Decrease in basis points	Sensitivity of Special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(38.90)	-	-	0.03	0.16	0.19
USD	-10	(10.80)	0.05	0.07	0.09	0.06	0.27
Others	-10	(0.50)	-	0.02	-	-	0.02

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risk. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities and derivatives, credit related commitment and contingencies that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

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34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	5,338,644	-	-	-	7,294,695	12,633,339
Due from banks and other financial institutions	750	-	-	-	1,081,234	1,081,984
Positive fair value derivatives	38,619	42,240	305,671	608,298	-	994,828
Investments, net						
Held as FVTPL	-	-	-	-	558,415	558,415
Held as FVOCI	273,672	280,510	281,097	1,017,657	2,098,463	3,951,399
Held at amortised cost	11,825,326	2,725,310	2,244,256	22,470,169	-	39,265,061
Loans and advances, net						
Overdrafts	2,572,593	-	-	-	-	2,572,593
Credit cards	355,415	-	-	-	-	355,415
Consumer loans	1,926,362	4,011,748	13,726,149	9,182,274	-	28,846,533
Commercial loans and others	54,769,512	23,170,151	3,552,800	95,609	-	81,588,072
Other assets – accounts receivable	-	-	-	-	4,614,003	4,614,003
Total assets	77,100,893	30,229,959	20,109,973	33,374,007	15,646,810	176,461,642
Liabilities						
Due to banks, SAMA and other financial institutions	870,045	4,024,570	4,799,307	-	103,822	9,797,744
Negative fair value derivatives	56,492	32,191	807,922	2,550,300	-	3,446,905
Customers' deposits	35,520,016	12,577,220	8,921	-	81,246,019	129,352,176
Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,071,591	4,071,591
Sukuk	-	-	2,829,654	-	-	2,829,654
Total liabilities	36,446,553	16,633,981	8,445,804	2,550,300	85,421,432	149,498,070
Commission rate sensitivity on financial assets and liabilities financial position gap	40,654,340	13,595,978	11,664,169	30,823,707	(69,774,622)	26,963,572
Commission rate sensitivity for commitments and contingencies	13,813,992	8,390,030	(4,264,661)	(17,939,361)	-	-
Total commission rate sensitivity gap	54,468,332	21,986,008	7,399,508	12,884,346	(69,774,622)	26,963,572
Cumulative commission rate sensitivity gap	54,468,332	76,454,340	83,853,848	96,738,194	26,963,572	-

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34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

<u>2019</u>	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	8,363,000	-	-	-	8,804,044	17,167,044
Due from banks and other financial institutions	938,303	-	-	-	1,129,689	2,067,992
Positive fair value derivatives	9,813	28,978	156,316	1,030,029	-	1,225,136
Investments, net						
Held as FVTPL	-	-	-	-	554,675	554,675
Held as FVOCI	527,838	395,966	481,829	1,385,783	1,983,435	4,774,851
Held at amortised cost	11,829,250	1,338,600	3,398,502	16,142,262	-	32,708,614
Loans and advances, net						
Overdrafts	4,248,407	-	-	-	-	4,248,407
Credit cards	444,354	-	-	-	-	444,354
Consumer loans	1,606,146	4,613,125	14,216,962	6,545,057	-	26,981,290
Commercial loans and others	54,762,204	26,488,912	4,863,353	1,048,601	-	87,163,070
Other assets – accounts receivable	-	-	-	-	2,693,638	2,693,638
Total assets	82,729,315	32,865,581	23,116,962	26,151,732	15,165,481	180,029,071
Liabilities						
Due to banks, SAMA and other financial institutions	2,903,381	-	-	-	178,800	3,082,181
Negative fair value derivatives	5,008	11,994	174,083	2,150,099	-	2,341,184
Customers' deposits	40,627,864	25,191,089	2,715,661	-	73,594,283	142,128,897
Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,236,506	4,236,506
Sukuk	-	2,017,903	-	-	-	2,017,903
Total liabilities	43,536,253	27,220,986	2,889,744	2,150,099	78,009,589	153,806,671
Commission rate sensitivity on financial assets and liabilities	39,193,062	5,644,595	20,227,218	24,001,633	(62,844,108)	26,222,400
Commission rate sensitivity for commitments and contingencies	13,989,626	8,413,076	(3,399,388)	(19,003,314)	-	-
Total commission rate sensitivity gap	53,182,688	14,057,671	16,827,830	4,998,319	(62,844,108)	26,222,400
Cumulative commission rate sensitivity gap	53,182,688	67,240,359	84,068,189	89,066,508	26,222,400	-

The off consolidated statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

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34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

ii) Currency risk

Currency risk represents the risk of changes in the value of financial instruments due to changes in foreign exchange rates. Foreign currency risk exposures that arise in the banking book are transferred to the trading book and are managed as part of the trading portfolio. The Board sets various types of currency risk limits that are monitored daily, including position, stop-loss and VaR limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR with all other variables held constant, on the consolidated statement of income (due to changes in fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to changes in fair values of currency swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity whereas, a negative effect shows a potential net reduction in the consolidated statement of income or equity, and are disclosed in SAR million.

<u>Currency risk exposures</u>	2020		2019	
	Changes in currency rate in %	Effect on net income	Changes in currency rate in %	Effect on net income
US Dollar	+5	8.399	+5	94.737
	-5	(8.399)	-5	(94.737)
Euro	+3	(0.005)	+3	(0.089)
	-3	0.005	-3	0.089
Pound Sterling	+3	(0.110)	+3	(0.126)
	-3	0.110	-3	0.126

iii) Currency position

The Bank manages exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. These limits are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	Long (short)	Long (short)
	2020	2019
US Dollar	167,982	1,894,741
Euro	(162)	(2,974)
Pound Sterling	(3,668)	(4,206)

iv) Equity price risk

Equity price risk refers to the risk of a decrease in the fair values of equities in the non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's FVOCI / available for sale equity investments due to reasonable possible change in equity indices, with all other variables held constant is as follows:

<u>Market indices</u>	2020		2019	
	Change in index %	Effect in SAR'000	Change in index %	Effect in SAR'000
Tadawul	+5	104,857	+5	99,107
	-5	(104,857)	-5	(99,107)

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35. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up suddenly. To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind and maintains a healthy balance of cash, cash equivalents and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2019: 7%) of total demand deposits and 4% (2019: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets that can be converted into cash within 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

2020	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks, SAMA and other financial institutions	974,053	3,916,028	4,862,979	-	103,822	9,856,882
Customers' deposits	35,233,251	12,790,611	166,618	-	81,246,019	129,436,499
Derivative financial instruments						
Contractual amounts payable	173,902	577,648	2,211,849	2,756,640	-	5,720,039
Contractual amounts receivable	(58,698)	(195,831)	(744,253)	(2,160,802)	-	(3,159,584)
Sukuk	16,630	78,213	379,632	3,239,683	-	3,714,158
Other liabilities	-	-	-	-	5,203,219	5,203,219
Total financial liabilities	36,339,138	17,166,669	6,876,825	3,835,521	86,553,060	150,771,213
2019	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks, SAMA and other financial institutions	2,904,507	-	-	-	178,800	3,083,307
Customers' deposits	40,100,686	26,873,889	2,962,887	-	72,704,718	142,642,180
Derivative financial instruments						
Contractual amounts payable	246,725	700,038	2,784,404	3,371,758	-	7,102,925
Contractual amounts receivable	(223,242)	(640,096)	(2,133,889)	(2,466,632)	-	(5,463,859)
Sukuk	17,903	57,436	287,943	2,074,272	-	2,437,554
Other liabilities	-	-	-	-	5,529,026	5,529,026
Total financial liabilities	43,046,579	26,991,267	3,901,345	2,979,398	78,412,544	155,331,133

ii) Maturity profile of Bank's financial assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See note (i) above for the Bank's contractual undiscounted financial liabilities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and

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35. Liquidity risk (continued)

ii) Maturity profile of Bank's financial assets and liabilities (continued)

approval by ALCO. Daily reports cover the liquidity position of the Bank, operating subsidiaries and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	5,338,644	-	-	-	7,294,695	12,633,339
Due from banks and other financial institutions	750	-	-	-	1,081,234	1,081,984
Positive fair value of derivatives	38,619	42,240	305,671	608,298	-	994,828
Investments, net						
Held as FVTPL	-	-	-	-	558,415	558,415
Held as FVOCI	-	-	597,080	1,255,856	2,098,463	3,951,399
Held at amortised cost	-	342,658	4,581,635	34,340,768	-	39,265,061
Loans and advances, net						
Overdraft	2,572,593	-	-	-	-	2,572,593
Credit cards	355,415	-	-	-	-	355,415
Consumer loans	1,717,791	3,953,793	13,615,817	9,559,132	-	28,846,533
Commercial loans and others	36,625,816	18,593,249	17,498,970	8,870,037	-	81,588,072
Other assets - Accounts receivable	-	-	-	-	4,614,003	4,614,003
Total assets	46,649,628	22,931,940	36,599,173	54,634,091	15,646,810	176,461,642
Liabilities						
Due to banks, SAMA and other financial institutions	869,920	4,039,699	4,784,303	-	103,822	9,797,744
Negative fair value of derivatives	56,492	32,191	807,922	2,550,300	-	3,446,905
Customers' deposits	35,577,256	12,519,870	9,031	-	81,246,019	129,352,176
Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,071,591	4,071,591
Sukuk	-	16,890	-	2,812,764	-	2,829,654
Total liabilities	36,503,668	16,608,650	5,601,256	5,363,064	85,421,432	149,498,070

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35. Liquidity risk (continued)

ii) Maturity profile of Bank's financial assets and liabilities (continued)

<u>2019</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>No fixed maturity</u>	<u>Total</u>
Assets						
Cash and balances with SAMA	8,363,000	-	-	-	8,804,044	17,167,044
Due from banks and other financial institutions	938,303	-	-	-	1,129,689	2,067,992
Positive fair value of derivatives	9,813	28,978	156,316	1,030,029	-	1,225,136
Investments, net						
Held as FVTPL	-	-	-	-	554,675	554,675
Held as FVOCI	256,596	97,673	421,526	2,015,621	1,983,435	4,774,851
Held at amortised cost	-	802,247	4,500,644	27,405,723	-	32,708,614
Loans and advances, net						
Overdraft	4,248,407	-	-	-	-	4,248,407
Credit cards	444,354	-	-	-	-	444,354
Consumer loans	1,624,784	4,572,565	14,232,909	6,551,032	-	26,981,290
Commercial loans and others	37,442,155	19,823,193	20,295,425	9,602,297	-	87,163,070
Other assets - Accounts receivable	-	-	-	-	2,693,638	2,693,638
Total assets	53,327,412	25,324,656	39,606,820	46,604,702	15,165,481	180,029,071
Liabilities						
Due to banks, SAMA and other financial institutions	2,903,381	-	-	-	178,800	3,082,181
Negative fair value of derivatives	5,008	11,994	174,083	2,150,099	-	2,341,184
Customers' deposits	40,627,864	25,194,219	2,712,531	-	73,594,283	142,128,897
Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,236,506	4,236,506
Sukuk	-	17,903	-	2,000,000	-	2,017,903
Total liabilities	43,536,253	25,224,116	2,886,614	4,150,099	78,009,589	153,806,671

36. 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 in either:

- The accessible principal market for the asset or liability; or
- The absence of a principal market, in the most advantageous accessible market for the asset or liability.

The fair values of on-consolidated statement of financial position financial instruments are not significantly different from their carrying amounts included in the 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 inputs are not based on observable market data.

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36. 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 the 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

December 31, 2020	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Investments at FVTPL	558,415	-	185,418	372,997	558,415
Investments at FVOCI	3,951,399	2,097,133	1,853,373	893	3,951,399
Positive fair value of derivatives	994,828	-	994,828	-	994,828
Financial assets not measured at fair value					
Due from banks and other financial institutions	1,081,984	-	-	-	1,081,984
Investments at amortised cost	39,265,061	-	41,522,238	-	41,522,238
Loans and advances	113,362,613	-	-	119,841,435	119,841,435

December 31, 2019	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
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

		Fair value			
December 31, 2020	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	3,446,905	-	3,446,905	-	3,446,905
Financial liabilities not measured at fair value					
Due to banks, SAMA and other financial institutions	9,797,744	-	-	-	9,797,744
Customers' Deposits	129,352,176	-	-	-	129,352,176
Sukuk	2,829,654	-	-	2,829,654	2,829,654

December 31, 2019	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, SAMA and other financial institutions	3,082,181	-	-	-	3,082,181
Customers' Deposits	142,128,897	-	-	-	142,128,897
Sukuk	2,017,903	-	-	2,024,235	2,024,235

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

b. Measurement of fair values

i. Transfer between levels of the fair value hierarchy

There have been no transfers between levels of the fair value hierarchy during the years ended December 31, 2020 and 2019.

ii. Level 3 fair values

Reconciliation of Level 3 fair values

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

	2020		2019	
	Investments at FVTPL	Investments at FVOCI	Investments at FVTPL	Investments at FVOCI
Balance at the beginning of the year	487,000	893	476,183	1,893
Total unrealized gain in consolidated statement of income	(115,147)	-	12,931	-
Settlements / adjustments	1,144	-	(2,114)	(1,000)
Balance at the end of the year	372,997	893	487,000	893

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 December 31, 2020 and 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, cross currency swaps, special commission rate futures and options, 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

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

b. Measurement of fair values (continued)

iii. Valuation technique and significant unobservable inputs (continued)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets and liabilities that are disclosed at fair value and classified as Level 2 include investments held at amortised 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.

▪ **Impact of COVID-19 on assessment of fair value of the Bank's unquoted investments:**

The COVID-19 led management to expand the inputs and analysis to support the current fair value methodology for its unquoted investments. The Bank used following additional criteria, in the absence of recent pricing activity and based on availability of information with the Bank:

- review of performance of investments following onset of COVID-19 related lockdowns and restrictions, to ensure the valuation adequately reflected the adverse impact due to the global pandemic;
- cost reduction and cash flow measures put in place by the investee management to limit COVID-19 impact; and trajectory of the businesses through the recovery period following COVID-19 lockdown period and impact on long-term revenue generating potential.

Given that the unquoted investments were predominately composed of fixed income securities issued by the KSA government, the adverse impact resulted from the Covid-19 pandemic was largely limited to the private equity and hedge fund investments, total amounted to SAR 558 million on 31 December 2020. Valuations for such investments are provided by independent external sources, and the negative impact has been taken into the Profits and Losses as all such investments are classified under Fair Value through Profits and Losses.

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37. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board, the related party transactions are performed on an arm's length basis. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

a) The balances as at December 31 resulting from transactions with related parties included in the consolidated financial statements are as follows:

	2020	2019
Non-Saudi Major Shareholder and their Affiliates:		
Due from banks and other financial institutions	28,673	46,650
Due to banks and other financial institutions	600,828	1,356,849
Commitments and contingencies	1,402,699	1,722,960
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	5,912,293	7,066,534
Customers' deposits	6,875,297	11,755,608
Commitments and contingencies	1,732,474	2,253,916
Bank's mutual funds and others:		
Investments	266,201	67,676
Loans and advances	1,228,678	1,163,781
Customers' deposits	410,899	584,281
Associates:		
Investments in associates	1,255,803	855,186
Loans and advances	3,211,099	2,650,413
Customers' deposits	16,508	52,153
Commitments and contingencies	100	47,543
Local sukuk		-

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

b) Income and expense transactions with related parties included in these consolidated financial statements are as follows:

	2020	2019
Special commission income	273,261	381,708
Special commission expense	(266,521)	(324,950)
Fees and commission income	60,250	58,535
Gain on disposal of investment in an associate	15,217	-
Share in earnings of associates, net	49,562	9,711
Directors' remuneration	(6,709)	(6,935)
Miscellaneous expenses	(50,298)	(42,571)
Insurance contracts	(31,690)	(825)

c) The total amount of compensation paid to key management personnel during the year is as follows:

	2020	2019
Short-term employee benefits (Salaries and allowances)	61,830	59,273
Post-employment benefits (End of service indemnity and social security)	7,376	7,040

Key management personnel are those persons, including an executive director, having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Bank.

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38. Capital Adequacy

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

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its 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:

	2020	2019
Credit Risk RWA	140,270,140	147,798,558
Operational Risk RWA	14,022,208	13,670,185
Market Risk RWA	1,120,163	1,603,591
Total Pillar I RWA	155,412,511	163,072,334
Tier I Capital	30,285,615	27,944,791
Tier II Capital	3,953,227	2,951,286
Total Tier I & II Capital	34,238,842	30,896,077
Capital Adequacy Ratio %		
Tier I ratio	19.49%	17.14%
Tier I + Tier II ratio	22.03%	18.95%

The increase in regulatory capital for the year is mainly due to the contribution of current-year profit.

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 SAMA in supervising the Bank.

39. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 6,398 million (2019: SAR 4,808 million).

The financial statements of these funds are not consolidated with these consolidated financial statements, as the Group is not significantly exposed to variability of return and hence do not qualify to be considered as a subsidiary. However, the Group's share of these non-consolidated funds is included in FVTPL investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

40. 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 December 31, 2020.

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40. IBOR Transition (Interest Rate Benchmark Reforms) (continued):

The Group has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the methods of transition. The Group anticipates that IBOR reform will have operational, risk management, accounting, legal and Shariah impacts across all of its business lines. The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which exposures have reference to IBOR, whether such legal contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties, as well as system implications. The IBOR Committee collaborates with other business functions and reports to ALCO as needed. The IBOR Committee is currently conducting a comprehensive assessment (financial and non-financial) on the transition for which it can be identified as to whether or not a significant impact is determined. This would include a quantitative impact assessment that would gauge the potential impact of such transition.

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.

The table below shows the Bank's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

December 31, 2020	Non-derivative financial assets – carrying value	Non-derivative financial liabilities carrying value	Derivatives nominal amount
LIBOR EUR (1 months)	30,673	-	-
LIBOR GBP (3 months)	828,413	-	223,157
LIBOR GBP (6 months)	42,770	-	-
LIBOR USD (1 month)	1,267,699	-	9,932,008
LIBOR USD (3 months)	333,491	-	15,200,798
LIBOR USD (6 months)	1,367,319	-	11,063,536
Total	3,870,365	-	36,419,499

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

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;
- Facility guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14 for a period of six months and then further deferring the instalments falling due within the period from September 15, 2020 to December 14, 2020 for a period of three months without increasing the facility tenure.

The accounting impact of these changes in terms of the credit facilities has been assessed and were 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.

Further to the above, SAMA on December 8, 2020 extended the deferred payment program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from December 15, 2020 to March 31, 2021 without increasing the facility tenure. The accounting impact of these changes in terms

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

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

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 the Bank recognizing an additional modification loss of SAR 56.5 million.

As a result of the above program and related extensions, the Bank has deferred the payments SR 5.7 billion on MSMEs portfolio and accordingly, has recognised total modification losses of SAR 184.4 million during the year. The total exposures against these customers amounted to SAR 16.8 billion as at the year end.

The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has taken SR 100.6 million of overlays to reflect potential further credit deterioration.

The Bank has booked SR 208 million incremental total ECL for the MSME portfolio having total exposure of SR 16.8 billion.

If the balance of COVID-19 support packages in stage (1) move to stage (2), an additional ECL provisions would be provided during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, during the year ended December 31, 2020 the Bank received profit free deposits in number of tranches 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. This resulted in a total income of SAR 421.1 million at the end of December 31, 2020, in which, SAR 184.4 million has been recognised in the statement of income and SR 236.7 million has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended December 31, 2020 SAR 39 million has been recognized in the statement of income relating to unwinding of the day one income.

As at December 31, 2020, the Bank has participated in SAMA's facility guarantee programs and the accounting impact for the period is immaterial.

Furthermore, during the year ended 31 December 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SR 13.5 million.

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 SR 71.9 million, of which SR 57.3 million has been recognised in the statement of income for the year ended 31 December 2020 and with the remaining amount deferred.

Banks's initiative - 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.

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

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

Banks's initiative - Health care sector support (continued)

This has resulted in the Bank recognising a day 1 modification loss of SAR 45.2 million for the year ended December 31, 2020 and this has been presented as part of net financing income. As the three month period for this voluntarily postponed payments ended; therefore, the Bank has completely unwounded the impact during the year ended December 31, 2020.

42. Comparative figures

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

43. Board of directors' approval

The consolidated financial statements were approved by the Board on 11 Rajab, 1442 (corresponding to February 23, 2021).