SAMBA FINANCIAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED June 30, 2020

KPMG Al Fozan & Partners
Certified Public Accountant

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

To the Shareholders of Samba Financial Group
(A Saudi Joint Stock Company)

Introduction

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

Scope of review

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

Conclusion

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

Other regulatory matters

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

Ernst & Young

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23 Dhul-Hijjah 1441H
(13 August 2020)

ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45

SAMBA FINANCIAL GROUP

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

	Notes	Jun 30,2020 (Unaudited) (SR '000)	Dec 31, 2019 (Audited) (SR '000)	Jun 30,2019 (Unaudited) (SR '000)
ASSETS				
Cash and balances with Central Banks		24,162,833	18,138,081	20,865,462
Due from banks and other financial institutions, net		1,339,034	3,628,391	11,961,269
Investments, net	5	93,193,277	85,013,253	79,249,940
Derivatives	10	6,238,418	3,092,221	4,013,301
Loans and advances, net	6	148,087,797	141,595,245	115,062,330
Property and equipment, net		3,136,168	3,066,858	3,117,834
Other assets		3,103,552	1,069,752	1,281,585
Total assets		**279,261,079**	**255,603,801**	**235,551,721**
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		28,634,360	15,646,808	14,249,646
Customer deposits	7	187,259,334	180,165,680	168,305,643
Term loan	8	2,163,629	2,168,095	-
Debt securities in issue	9	5,585,273	3,746,454	-
Derivatives	10	2,160,457	1,192,186	1,957,978
Other liabilities	19	7,084,248	7,235,746	6,466,854
Total liabilities		**232,887,301**	**210,154,969**	**190,980,121**
EQUITY				
Equity attributable to equity holders of the Bank				
Share capital	15	20,000,000	20,000,000	20,000,000
Statutory reserve		18,348,111	18,348,111	17,193,239
General reserve		130,000	130,000	130,000
Fair value and other reserves		2,748,107	2,752,040	2,442,842
Retained earnings		5,999,839	3,696,851	5,695,584
Proposed dividend		-	1,393,898	-
Treasury stocks		(942,219)	(962,080)	(976,000)
Total equity attributable to equity holders of the Bank		**46,283,838**	**45,358,820**	**44,485,665**
Non-controlling interest		89,940	90,012	85,935
Total equity		**46,373,778**	**45,448,832**	**44,571,600**
Total liabilities and equity		**279,261,079**	**255,603,801**	**235,551,721**

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

Abdul Haleem Sheikh
Chief Financial Officer

Rania Nashar
Chief Executive Officer

Ammar Alkhudairy
Chairman

SAMBA FINANCIAL GROUP
STATEMENT OF CONSOLIDATED INCOME
(Unaudited)

	Note	Three months ended Jun 30, 2020 (SR '000)	Three months ended Jun 30, 2019 (SR '000)	Six months ended Jun 30, 2020 (SR '000)	Six months ended Jun 30, 2019 (SR '000)
Special commission income		1,816,139	2,088,178	3,971,888	4,219,698
Special commission expense		425,191	480,561	1,018,491	966,206
Special commission income, net		**1,390,948**	**1,607,617**	**2,953,397**	**3,253,492**
Fees and commission income, net		331,589	296,202	657,278	611,959
Exchange income, net		91,316	63,702	174,683	131,053
(Loss)/income from investment held at FVIS, net		(103,019)	59,590	(81,622)	131,895
Trading income/(loss), net		66,235	(16,481)	137,615	58,330
Gain on FVOCI debt, net		499,310	77,555	839,044	77,683
Other operating income, net		82,700	83,103	109,786	102,152
Total operating income		**2,359,079**	**2,171,288**	**4,790,181**	**4,366,564**
Salaries and employee related expenses		375,468	341,337	790,375	673,468
Rent and premises related expenses		89,216	77,905	168,616	153,230
Depreciation		51,215	47,380	110,415	94,024
Other general and administrative expenses		221,580	201,343	462,917	399,724
Total operating expenses before credit impairment provision		**737,479**	**667,965**	**1,532,323**	**1,320,446**
Provision for credit impairment, net of recoveries	20	462,885	460,810	645,523	781,726
Total operating expenses		**1,200,364**	**1,128,775**	**2,177,846**	**2,102,172**
Net income for the periods before zakat and taxation		**1,158,715**	**1,042,513**	**2,612,335**	**2,264,392**
Zakat for the period	19	172,038	103,000	329,000	243,000
Current and deferred tax for the period	19	31,577	4,283	54,485	21,126
Net income for the periods		**955,100**	**935,230**	**2,228,850**	**2,000,266**
Attributable to:					
Equity holders of the Bank		953,451	934,177	2,226,511	1,998,910
Non-controlling interest		1,649	1,053	2,339	1,356
		955,100	**935,230**	**2,228,850**	**2,000,266**
Basic earnings per share		**0.49**	**0.48**	**1.14**	**1.02**
Diluted earnings per share		**0.47**	**0.47**	**1.11**	**1.00**
for the periods (SR) - note 16					

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

Abdul Haleem Sheikh
Chief Financial Officer

Rania Nashar
Chief Executive Officer

Ammar Alkhudairy
Chairman

SAMBA FINANCIAL GROUP
STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)

	Three months ended		Six months ended	
	Jun 30, 2020 (SR '000)	Jun 30, 2019 (SR '000)	Jun 30, 2020 (SR '000)	Jun 30, 2019 (SR '000)
Net income for the periods	955,100	935,230	2,228,850	2,000,266
Other comprehensive income for the periods - items that will not be reclassified subsequently to the statements of consolidated income:				
FVOCI financial assets - equities:				
- Change in fair values and realised during the period	206,450	307,498	(1,003,649)	818,678
Changes due to remeasurements of employee benefit obligation	248	-	248	-
Other comprehensive income for the periods - items that will be reclassified subsequently to the statements of consolidated income:				
Exchange differences on translation of foreign operations	(1,864)	(52,665)	(24,113)	(52,446)
FVOCI financial assets – debt, net of related ECL :				
- Change in fair values	614,213	694,355	1,591,178	1,342,322
- Transfers to statements of consolidated income	(499,310)	(77,555)	(839,044)	(77,683)
Cash flow hedges:				
- Change in fair values	241,126	22,737	403,449	200,266
- Transfers to statements of consolidated income	(46,606)	(7,237)	(75,241)	(14,510)
Other comprehensive income for the periods	514,257	887,133	52,828	2,216,627
Total comprehensive income for the periods	1,469,357	1,822,363	2,281,678	4,216,893
Attributable to:				
Equity holders of the Bank	1,467,988	1,829,451	2,281,750	4,223,760
Non-controlling interest	1,369	(7,088)	(72)	(6,867)
Total	1,469,357	1,822,363	2,281,678	4,216,893

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

SAMBA FINANCIAL GROUP
STATEMENT OF CONSOLIDATED CHANGES IN EQUITY
(Unaudited)

(**SR ‘0**00)		Attributable to equity holders of the Bank												
					Fair value and other reserves									
For the six months period ended June 30,2020	Note	Share capital	Statutory reserve	General reserve	Exchange translation reserve	FVOCI financial assets	Cash flow hedges	Actuarial gains/(losses) on defined benefit plan	Retained earnings	Proposed dividends	Treasury stocks	Total	Non-controlling interest	Total equity
Balance at the beginning of the period		20,000,000	18,348,111	130,000	(307,021)	3,186,098	(11,723)	(115,314)	3,696,851	1,393,898	(962,080)	45,358,820	90,012	45,448,832
Net changes in treasury stocks		-	-	-	-	-	-	-	17,305	-	19,861	37,166	-	37,166
2019 final dividend paid		-	-	-	-	-	-	-	-	(1,393,898)	-	(1,393,898)	-	(1,393,898)
Subtotal		20,000,000	18,348,111	130,000	(307,021)	3,186,098	(11,723)	(115,314)	3,714,156	-	(942,219)	44,002,088	90,012	44,092,100
Net income for the period		-	-	-	-	-	-	-	2,226,511	-	-	2,226,511	2,339	2,228,850
Other comprehensive income / (loss) for the period		-	-	-	(23,580)	(308,809)	328,208	248	59,172	-	-	55,239	(2,411)	52,828
Total comprehensive income / (loss) for the period		-	-	-	(23,580)	(308,809)	328,208	248	2,285,683	-	-	2,281,750	(72)	2,281,678
Balance at end of the period		20,000,000	18,348,111	130,000	(330,601)	2,877,289	316,485	(115,066)	5,999,839	-	(942,219)	46,283,838	89,940	46,373,778
For the six months period ended June 30, 2019														
Balance at the beginning of the period		20,000,000	17,193,239	130,000	(275,102)	592,891	(99,797)		3,669,995	1,998,000	(996,093)	42,213,133	92,802	42,305,935
Net changes in treasury stocks		-	-	-	-	-	-	-	26,679	-	20,093	46,772	-	46,772
2018 final dividend paid		-	-	-	-	-	-	-	-	(1,998,000)	-	(1,998,000)	-	(1,998,000)
Subtotal		20,000,000	17,193,239	130,000	(275,102)	592,891	(99,797)	-	3,696,674	-	(976,000)	40,261,905	92,802	40,354,707
Net income for the period		-	-	-	-	-	-	-	1,998,910	-	-	1,998,910	1,356	2,000,266
Other comprehensive income / (loss)for the period		-	-	-	(43,841)	2,082,935	185,756	-	-	-	-	2,224,850	(8,223)	2,216,627
Total comprehensive income for the period		-	-	-	(43,841)	2,082,935	185,756		1,998,910	-	-	4,223,760	(6,867)	4,216,893
Balance at end of the period		20,000,000	17,193,239	130,000	(318,943)	2,675,826	85,959	-	5,695,584	-	(976,000)	44,485,665	85,935	44,571,600

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

SAMBA FINANCIAL GROUP
STATEMENT OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Note	Six months ended Jun 30, 2020 (SR '000)	Six months ended Jun 30, 2019 (SR '000)
OPERATING ACTIVITIES			
Net income for the periods before zakat and taxation		**2,612,335**	**2,264,392**
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium and accretion of discount on non-trading investments, net		(20,130)	2,293
(Loss)/Income from investments held at FVIS, net		81,622	(131,895)
Gain on FVOCI debt, net		(839,044)	(77,683)
Depreciation		110,415	94,024
Loss /(gain) on disposal of property and equipment, net		339	(344)
Provision for credit impairment, net of recoveries		645,523	781,726
Interest on term loan and debt securities in issue, net of discount		103,930	-
Net (increase) / decrease in operating assets:			
Statutory deposits with central banks		(806,046)	(41,345)
Due from banks and other financial institutions maturing after ninety days		963,419	8,401,290
Investments held at FVIS		(2,256,926)	348,519
Derivatives		(3,146,197)	(567,529)
Loans and advances		(7,121,717)	(2,133,272)
Other assets		(2,033,800)	(582,946)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		12,987,552	6,378,072
Customer deposits		7,093,654	(1,864,403)
Derivatives		968,271	(499,445)
Other liabilities		265,009	(783,827)
		9,608,209	11,587,627
Zakat and income tax paid		(564,846)	(455,350)
Net cash from operating activities		**9,043,363**	**11,132,277**
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-FVIS investments		43,100,583	2,638,455
Purchase of non-FVIS investments		(48,497,386)	(13,596,182)
Purchase of property and equipment, net of exchange adjustments		(221,675)	(110,497)
Proceeds from sale of property and equipment		41,611	10,657
Net cash used in investing activities		**(5,576,867)**	**(11,057,567)**
FINANCING ACTIVITIES			
Term loan		(30,833)	-
Debt securities		1,761,256	-
Treasury stocks, net		37,166	46,772
Dividends paid		(1,337,427)	(1,976,522)
Net cash from/(used in) financing activities		**430,162**	**(1,929,750)**
Net increase /(decrease) in cash and cash equivalents		**3,896,658**	**(1,855,040)**
Cash and cash equivalents at the beginning of the period	12	11,555,209	23,916,469
Cash and cash equivalents at the end of the period	12	**15,451,867**	**22,061,429**
Special commission received during the period		3,870,883	4,153,024
Special commission paid during the period		1,044,836	915,346
Supplemental non-cash information			
Net changes in fair value and transfers to Statements of Consolidated Income		76,941	2,269,074
Right of Use asset		367,473	379,206

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

Abdul Haleem Sheikh	Rania Nashar	Ammar Alkhudairy
Chief Financial Officer	Chief Executive Officer	Chairman

1. General

Samba Financial Group ("the Bank"), a Joint Stock Company incorporated in the Kingdom of Saudi Arabia ('KSA"), was formed pursuant to Royal Decree No. M/3 dated 26 Rabie Al-Awal 1400H (February 12, 1980). The Bank commenced business on 29 Shaa'ban 1400H (July 12, 1980) when it took over the operations of Citibank in the Kingdom of Saudi Arabia. The Bank operates under commercial registration no. 1010035319 dated 6 Safar 1401H (December 13,1980). The Bank's head office is located at King Abdul Aziz Road, P.O. Box 833, Riyadh 11421, Kingdom of Saudi Arabia.

The objective of the Bank is to provide a full range of banking and related services. The Bank also provides its customers Shariah approved Islamic banking products, which are approved and supervised by an Independent Shariah Board.

The interim condensed consolidated financial statements include financial statements of the Bank and its following subsidiaries, hereinafter collectively referred to as "the Group".

Samba Capital and Investment Management Company (Samba Capital)

In accordance with the securities business regulations issued by the Capital Market Authority (CMA), the Bank has established a wholly owned subsidiary, Samba Capital and Investment Management Company under commercial registration number 1010237159 issued in Riyadh dated 6 Shaa'ban 1428H (August 19, 2007), to manage the Bank's investment services and asset management activities related to dealing, arranging, managing, advising and custody businesses. The company is licensed by the CMA and has commenced its business effective January 19, 2008. Samba Capital was converted from a limited liability company to a closed joint stock company on 28 Rajab 1438H (April 25, 2017), which is the date of commercial registration of the closed joint stock company.

During 2017, Samba Capital has formed a wholly owned subsidiary "Samba Investment Real Estate Company" which is incorporated in the Kingdom of Saudi Arabia under commercial registration number 1010715022 issued in Riyadh dated 23 Shawaal 1438H (July 17, 2017). The company has been formed as a limited liability company (sole ownership) and is engaged in managing real estate projects for and on behalf of a mutual fund managed by Samba Capital.

Samba Bank Limited, Pakistan (SBL)

An 84.51% owned subsidiary incorporated as a banking company in Pakistan and is engaged in commercial banking and related services, and is listed on the Pakistan Stock Exchange.

Co-Invest Offshore Capital Limited (COCL)

A wholly owned company incorporated under the laws of Cayman Islands for the purpose of managing certain overseas investments through an entity; Investment Capital (Cayman) Limited (ICCL) which is fully owned by COCL. ICCL has invested in approximately 41.2% of the share capital of Access Co-Invest Limited, also a Cayman Island limited liability company, which manages these overseas investments.

Samba Real Estate Company

A wholly owned subsidiary incorporated in Saudi Arabia under commercial registration no. 1010234757, issued in Riyadh, dated 9 Jumada II, 1428H (June 24, 2007). The company has been formed with the approval of Saudi Arabian Monetary Authority ("SAMA") for the purpose of managing real estate projects on behalf of the Bank.

Samba Global Markets Limited

A wholly owned company incorporated as limited liability company under the laws of Cayman Islands on February 1, 2016, with the objective of managing certain treasury related transactions. The company started its commercial operations during the fourth quarter of 2016.

Samba Funding Limited

A 99% owned subsidiary incorporated as a limited liability company under the laws of Cayman Islands on June 19, 2019, with the main objective of generating liquidity for the Bank through issuance of bonds. The company started its commercial operations during the third quarter of 2019.

On June 25, 2020 the Bank has announced that it entered into a Framework Agreement with National Commercial Bank (the "Framework Agreement") in order to begin a reciprocal due diligence process and to negotiate definitive and binding terms of a potential merger of Samba Financial Group and National Commercial Bank (the "Proposed Transaction").

The parties have also agreed in the Framework Agreement that they will negotiate definitive agreements in relation to the Proposed Transaction that will set out the relevant commercial terms thereof, including without limitation: (i) the final structure of the Proposed Transaction, (ii) the final exchange ratio, (iii) the name of the merging bank and the approach to its branding, (iv) the composition of the board and the parties' approach to the management of the merging bank, and (v) the location of the head office of the merging bank.

The parties intend to conclude the reciprocal due diligence process and sign the definitive agreements in relation to the Proposed Transaction, if they agree to their final terms, within a period of four months from the date of the announcement.

It must be noted that neither Samba Financial Group nor National Commercial Bank is under an obligation to proceed with the Proposed Transaction. Therefore, there can be no assurance that the Framework Agreement and the reciprocal due diligence process will result in the Proposed Transaction being agreed on a final and binding basis, or that if agreed, the Proposed Transaction will be completed. Completion of the Proposed Transaction will be subject to various conditions including, but not limited to, approval of the Saudi Arabian Monetary Authority, the Capital Market Authority, the General Authority for Competition and the shareholders of each of Samba Financial Group and National Commercial Bank in accordance with applicable legal requirements.

2. Basis of Preparation

The interim condensed consolidated financial statements of the Group as at and for the period ended June 30, 2020 and June 30, 2019, have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organisation for Certified Public Accountants ("SOCPA"). The consolidated financial statements of the Group as at and for the year ended December 31, 2019, have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the SOCPA.

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

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2019.

Financial assets and financial liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the statement of consolidated income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SR) and amounts are rounded to the nearest thousand.

3. Consolidation

These interim condensed consolidated financial statements include the financial position and results of Samba Financial Group and its subsidiary companies. The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank except for COCL whose financial statements are made up to the latest available quarter end for consolidation purposes to meet the Group reporting timetable. Wherever necessary, adjustments have been made to the financial statements of the subsidiaries to align with the Bank's financial statements. Significant inter-group balances and transactions are eliminated upon consolidation.

Subsidiaries are the entities that are controlled by the Bank. The Bank controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred from the Bank. The results of subsidiaries acquired or disposed-off during the period are included in the statements of consolidated income from the date of the acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank in subsidiaries and are presented in the statement of consolidated income and within equity in the statement of consolidated financial position, separately from the equity holders of the Bank.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Bank's share of identifiable net assets acquired is recorded as intangible asset – goodwill.

In addition to the subsidiaries stated above under note 1, the Bank is also a party to special purpose entities namely Ras As Zawar Asset Leasing Company and Saudi Kayan Asset Leasing Company having 50% share in each entity. These are formed with the approval of SAMA solely to facilitate certain Shariah compliant financing arrangements. The Bank has concluded that these entities cannot be consolidated as it does not control these entities. However, the exposures to these entities are included in the Bank's loans and advances portfolio.

4. Significant Accounting Policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Group's 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 statements.

4.1 Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest 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 carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in statement of consolidated income on a systematic basis over the periods in which the bank recognises as expenses the related costs for which the grants 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.

4.2 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 interim condensed 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 16: Leases for COVID-19 rent related concessions.
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

4.3 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 January 1 ,2020 are listed below. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements.

- IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022

5. Investments, net

Investment securities are classified as follows:

	Jun 30, 2020 (Unaudited) (SR'000)	Dec 31, 2019 (Audited) (SR '000)	Jun 30, 2019 (Unaudited) (SR'000)
Held at FVIS	4,503,009	6,100,112	5,840,425
Held at FVOCI - Equity	2,547,711	3,651,273	3,995,401
Held at FVOCI - Debt	72,561,642	61,640,758	57,190,820
Held at amortized cost	13,586,481	13,625,057	12,226,548
Sub-total	93,198,843	85,017,200	79,253,194
Credit impairment provision	(5,566)	(3,947)	(3,254)
Total investments, net	93,193,277	85,013,253	79,249,940

6. Loans and advances, net

The total loans and advances, which are held at amortized cost, are as follows:

	Jun 30, 2020 (Unaudited) (SR'000)	Dec 31, 2019 (Audited) (SR '000)	Jun 30, 2019 (Unaudited) (SR'000)
Credit cards	1,212,274	1,429,127	1,385,891
Consumer loans	18,727,077	17,117,939	16,174,391
Commercial loans and advances	129,411,253	124,223,599	98,746,159
Performing loans and advances	149,350,604	142,770,665	116,306,441
Non-performing loans and advances	2,195,964	1,924,208	1,824,558
Gross loans and advances	151,546,568	144,694,873	118,130,999
Credit impairment provision	(3,458,771)	(3,099,628)	(3,068,669)
Total loans and advances, net	148,087,797	141,595,245	115,062,330

7. Customer Deposits

Customer deposits comprise of the following:

	Jun 30, 2020 (Unaudited) (SR '000)	Dec 31, 2019 (Audited) (SR '000)	Jun 30, 2019 (Unaudited) (SR '000)
Demand	109,684,515	93,714,867	96,094,665
Saving	8,190,771	7,563,306	7,624,572
Time	62,330,951	73,668,526	57,661,097
Other	7,053,097	5,218,981	6,925,309
Total	187,259,334	180,165,680	168,305,643

8. Term Loan

The Bank has entered into a syndicated unsecured floating rate loan arrangement on July 17, 2019 amounting to USD 575 million with a tenor of 3 years for general corporate purposes. The term loan bears commission at market based variable rates and is held at amortised cost.

9. Debt securities in issue

The Bank, through a special purpose vehicle has completed the drawdown of its USD 1 billion denominated notes on October 2, 2019 under a USD 5 billion Euro Medium Term Note program. A second drawdown of USD 500 million was completed on January 29, 2020. The notes are unsecured and have been issued under this program for a period upto seven years and may be subject to early redemption at the option of the Bank subject to the terms and conditions of the issue. The notes are listed on the Irish Stock Exchange plc and are classified as held at amortised cost.

10. Derivatives

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

All derivatives are reported in the interim statement of consolidated financial position at fair value. In addition, where applicable, all such contracts covered by master netting agreements are reported net. Gross positive or negative fair values are netted with the cash collateral received or paid to a given counterparty pursuant to a valid master netting agreement.

	Jun 30, 2020 (Unaudited) **(SR'000**			Dec 31, 2019 (Audited) **(SR '000)**			Jun 30, 2019 (Unaudited) **(SR'000)**		
	Positive Fair Value	Negative Fair Value	Notional Amount	Positive Fair Value	Negative Fair Value	Notional Amount	Positive Fair Value	Negative Fair Value	Notional Amount
Held for trading									
Commission rate swaps	7,286,083	3,649,956	189,881,932	4,479,096	2,897,942	154,532,880	4,075,678	2,588,837	141,855,016
Commission rate futures and options	141,843	122,502	21,730,321	77,300	71,837	17,920,740	66,081	83,726	15,502,963
Forward foreign exchange contracts	78,249	74,052	24,869,110	46,339	92,914	26,396,971	138,656	191,162	16,808,150
Currency Options	26,777	20,646	3,108,969	10,965	8,654	1,322,825	4,660	3,265	645,371
Swaptions	7,537	7,537	22,500,000	3,539	1,520	468,750	19,962	15,139	2,025,000
Equity & commodity options	200,955	140,755	2,402,433	65,787	36,084	2,384,568	90,763	80,125	2,182,679
Held as fair value hedges									
Commission rate futures & options	-	5,730	814,875	-	-	-	-	700	112,875
Commission rate swaps	-	435,267	12,356,250	-	-	-	9,789	-	6,412,500
Held as cash flow hedges									
Commission rate swaps	198,445	375	10,800,000	7,583	131,419	6,600,000	-	21,058	1,000,000
Sub-total	7,939,889	4,456,820	288,463,890	4,690,609	3,240,370	209,626,734	4,405,589	2,984,012	186,544,554
Cash collateral received / paid	(1,701,471)	(2,296,363)		(1,598,388)	(2,048,184)		(392,288)	(1,026,034)	
TOTAL	6,238,418	2,160,457		3,092,221	1,192,186		4,013,301	1,957,978	

11. Loan Commitments and Financial Guarantee Contracts

The Group's loan commitments and financial guarantee contracts are as follows:

	Jun 30, 2020 (Unaudited) (SR '000)	Dec 31, 2019 (Audited) (SR '000)	Jun 30, 2019 (Unaudited) (SR '000)
Letters of credit	4,824,851	4,708,760	6,015,586
Letters of guarantee	29,354,141	30,163,571	29,114,452
Acceptances	1,168,855	1,111,786	1,206,594
Irrevocable commitments to extend credit	4,924,005	3,522,439	4,095,658
Other	986,453	928,719	774,604
Total	41,258,305	40,435,275	41,206,894

The Group also allocates credit impairment provisions against loan commitments and financial guarantee contracts. An amount of SR 500 million calculated in accordance with IFRS 9 and is classified under 'Other Liabilities' as at June 30, 2020. (Dec 31, 2019: SR 489 million, June 30, 2019: SR 501 million).

12. Cash and Cash Equivalents

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

	Jun 30, 2020 (Unaudited) (SR '000)	Dec 31, 2019 (Audited) (SR '000)	Jun 30, 2019 (Unaudited) (SR '000)
Cash and balances with central banks excluding statutory deposits	14,112,833	8,894,127	11,996,875
Due from banks and other financial institutions maturing within ninety days	1,339,034	2,661,082	10,064,554
Total	15,451,867	11,555,209	22,061,429

13. Operating Segments

The Group is organized into the following main operating segments:

Consumer banking - comprises of individual customer time deposits, current, call and savings accounts, as well as credit cards, retail investment products, individual and consumer loans.

Corporate banking - comprises of corporate time deposits, current and call accounts, overdrafts, loans and other credit facilities as well as the Group's customer derivative portfolios and its corporate advisory business.

Treasury - principally manages money market, foreign exchange, commission rate trading and derivatives for corporate and institutional customers as well as for the Group's own account. It is also responsible for funding the Group's operations, maintaining liquidity and managing the Group's investment portfolio and statement of consolidated financial position.

Investment banking - engaged in investment management services and asset management activities related to dealing, managing, arranging, advising and custody businesses. The investment banking business is housed under a separate legal entity Samba Capital and Investment Management Company.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with two overseas branches and four overseas subsidiaries. However, the results of overseas operations are not material to the Group's overall financial position.

Transactions between the operating segments are on normal commercial terms. Funds are ordinarily reallocated between segments, resulting in funding cost transfers. Special commission charged for these funds is based on market-based interbank rates. There are no other material items of income or expense or other internal revenues between the operating segments. The Group's total assets and liabilities as at June 30, 2020 and 2019, together with special commission income net, total operating income, total operating expenses, credit impairment provisions, net income, capital expenditure, and depreciation expense for the periods then ended, by operating segments, are as follows:

	June 30, 2020 (Unaudited)				
SR '000	Consumer Banking	Corporate Banking	Treasury	Investment banking	Total
Total assets	37,403,939	127,395,280	114,107,682	354,178	279,261,079
Total liabilities	102,073,053	93,348,857	37,286,327	179,064	232,887,301
Special commission income, net	959,216	1,230,376	746,588	17,217	2,953,397
Total operating income	1,205,998	1,663,864	1,638,590	281,729	4,790,181
Total operating expenses. -of which:	1,127,319	804,359	126,570	119,598	2,177,846
Depreciation	44,109	62,687	559	3,060	110,415
Provision for credit impairment, net of recoveries	49,377	552,322	43,824	-	645,523
Net income for the period	59,291	703,627	1,325,471	140,461	2,228,850
Capital expenditure	29,664	101,233	90,497	281	221,675

SR'000	June 30, 2019 (Unaudited) Consumer Banking	Corporate banking	Treasury	Investment banking	Total
Total assets	32,871,824	93,317,893	109,287,230	74,774	235,551,721
Total liabilities	91,233,144	81,766,370	17,863,919	116,688	190,980,121
Special commission income, net	1,351,950	1,235,572	634,876	31,094	3,253,492
Total operating income	1,638,322	1,560,721	896,779	270,742	4,366,564
Total operating expenses, of which:	846,438	1,099,186	77,781	78,767	2,102,172
Depreciation	37,300	50,370	752	5,602	94,024
Provision for credit impairment, net of recoveries	35,380	746,182	164	-	781,726
Net income for the period	698,785	403,292	727,953	170,236	2,000,266
Capital expenditure	24,547	45,555	39,760	635	110,497

14 Financial Risk Management

a) Credit Risk

Credit risk is the risk that a customer will fail to discharge its financial obligation to the Group and will cause the Group to incur a financial loss.

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Committee which monitors the overall risk process within the bank and has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Group seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards defined by the Group’s management and through diversification of lending activities to ensure that there is no undue concentration of risks with individuals, or within groups of customers in specific locations or businesses. The Group continually assesses and monitors credit exposures to ensure timely identification of potential problem credits.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Group may also close out transactions and settle on a net present value basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographical location. The Group limits the impact of concentration risk in exposure by setting progressively lower limits for longer tenors and taking security, where considered appropriate, to mitigate such risks.

The Group uses its internal ratings to rate the credit quality of its portfolio. The following categories provides guidance about the credit quality of financial assets measured at amortized cost and debt investments classified as FVOCI.

	June 30, 2020 (Unaudited)			
SR '000	12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Due from banks and other financial institutions at amortized cost	1,346,541	-	-	1,346,541
Debt instrument at amortized cost	13,586,481	-	-	13,586,481
Debt instrument at FVOCI	72,561,642	-	-	72,561,642
Loans and advances at amortized cost	141,381,685	6,967,519	3,197,363	151,546,567
	228,876,349	6,967,519	3,197,363	239,041,231
Less: Credit impairment provision	728,707	706,156	2,036,978	3,471,841
Total	228,147,642	6,261,363	1,160,385	235,569,390
Credit impairment provisions against Loan Commitments and Financial Guarantee Contracts	76,416	82,067	341,516	499,999

	December 31, 2019 (Audited)			
SR '000	12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Due from banks and other financial institutions at amortized cost	3,632,008	-	-	3,632,008
Debt instrument at amortized cost	13,625,057	-	-	13,625,057
Debt instrument at FVOCI	61,208,104	-	-	61,208,104
Loans and advances at amortized cost	134,776,281	6,612,770	3,305,822	144,694,873
	213,241,450	6,612,770	3,305,822	223,160,042
Less: Credit impairment provision	641,611	542,889	1,922,692	3,107,192
Total	212,599,839	6,069,881	1,383,130	220,052,850
Credit impairment provisions against Loan Commitments and Financial Guarantee Contracts	81,007	89,015	319,128	489,150

	June 30, 2019 (Unaudited)			
SR'000	12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Due from banks and other financial institutions at amortized cost	11,977,490	-	-	11,977,490
Debt instrument at amortized cost	12,226,548	-	-	12,226,548
Debt instrument at FVOCI	56,282,199	-	-	56,282,199
Loans and advances at amortized cost	107,461,317	8,107,274	2,562,408	118,130,999
	187,947,554	8,107,274	2,562,408	198,617,236
Less: Credit impairment provision	611,957	669,279	1,806,908	3,088,144
Total	187,335,597	7,437,995	755,500	195,529,092
Credit impairment provisions against Loan Commitments and Financial Guarantee Contracts	77,085	88,776	335,596	501,457

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15. Share Capital

The authorized, issued and fully paid share capital of the Bank consists of 2,000 million shares (2019: 2,000 million shares) of SR 10 each.

16. Basic and Diluted Earnings per Share

Basic earnings per share for the periods ended June, 2020 and 2019 are calculated by dividing the net income for the periods attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period (June 2020:1,957.5 million shares, June 2019: 1,957.1 million shares). Diluted earnings per share for the periods ended June 2020 and 2019 are calculated by dividing the net income for the periods attributable to the equity holders of the Bank by 2,000 million shares.

17. Fair Values of Financial Instruments

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

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

The fair values of the financial assets, financial liabilities and the derivative financial instruments classified under the appropriate valuation hierarchy, is given below:

SR '000	June 30, 2020 (Unaudited)			
Financial Assets:	Level 1	Level 2	Level 3	Total
Investments held at FVIS	430,703	2,330,769	1,741,537	4,503,009
Investments held at FVOCI	20,708,153	54,395,543	5,657	75,109,353
Investments held at amortized cost	-	14,745,433	-	14,745,433
Derivatives	36,096	6,202,322	-	6,238,418
Financial Liabilities:				
Financial liabilities at FVIS	-	658,638	-	658,638
Debt securities in issue	5,705,805	-	-	5,705,805
Derivatives	17,494	2,142,963	-	2,160,457

SR '000	December 31, 2019 (Audited)			
Financial Assets:	Level 1	Level 2	Level 3	Total
Investments held at FVIS	669,664	4,352,293	1,078,155	6,100,112
Investments held at FVOCI	20,627,170	44,659,204	5,657	65,292,031
Investments held at amortized cost	-	13,926,778	-	13,926,778
Derivatives	8,035	3,084,186	-	3,092,221
Financial Liabilities:				
Financial liabilities at FVIS	-	700,344	-	700,344
Debt securities in issue	3,725,888	-	-	3,725,888
Derivatives	2,869	1,189,317	-	1,192,186

SR '000	Jun 30, 2019 (Unaudited)			
Financial Assets:	Level 1	Level 2	Level 3	Total
Investments held at FVIS	1,004,579	3,997,431	838,415	5,840,425
Investments held at FVOCI	20,181,414	40,999,133	5,674	61,186,221
Investments held at amortized cost	-	12,195,196	-	12,195,196
Derivatives	1,633	4,011,668	-	4,013,301
Financial Liabilities:				
Financial liabilities at FVIS	-	761,778	-	761,778
Derivatives	9,326	1,948,652	-	1,957,978

The fair value measurement is based on the presumption that the transaction takes place either:
- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The following table shows the reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy in respect of financial assets held at FVIS and FVOCI.

	Jun 30, 2020 (Unaudited) **SR '000**	Jun 30, 2019 (Unaudited) **SR '000**
Balance at the beginning of the period	1,083,812	795,017
Total realized and unrealized losses in statement of consolidated income and statement of consolidated comprehensive income	(67,381)	4,625
Purchases	832,381	70,368
Settlements	(101,618)	(25,921)
Balance at the end of the period	1,747,194	844,089

The fair values of on-balance sheet financial instruments, except for investments held at amortized cost and loans and advances, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The Group's portfolio of loans and advances to customer is well diversified by industry. More than three quarters of the portfolio reprices within less than a year and accordingly the fair value of this portfolio approximates the carrying value, subject to any significant movement in credit spreads. The fair value of the remaining portfolio is not significantly different from its carrying values. The estimated fair values of the Group's loans and advances portfolio as at June 30, 2020 was SR 148.9 billion (Dec 31, 2019: SR 142 billion, June 30, 2019: SR 115.4 billion).The fair values of special commission bearing customers' deposits, term loan, due from and due to banks and other financial institutions, other assets and other liabilities which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks. During the period, there have been no transfers within levels of the fair value hierarchy.The fair value measurements categorised within Level 3 of the fair value hierarchy are recurring in nature.

The estimated fair values of investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively.

The value obtained from the relevant valuation model may differ, with the transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day-one profit or loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the statements of consolidated income without reversal of deferred day-one profits or losses.

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted.

Investments classified as Level 2 are fair valued using discounted cash flow techniques that generally use observable market data inputs for yield curves, credit spreads and reported net asset values of the funds. Derivatives classified as Level 2 are fair-valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters in which they are traded and are sourced from independent brokers.

Fair values of private equity investments classified in Level 3 are determined based on the investees' latest reported net assets values as at the date of statements of financial position.

18. Capital Adequacy

The Group monitors the adequacy of its capital using the methodology and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of consolidated financial position assets, commitments and contingencies, notional amount of derivatives at a weighted amount to reflect their relative credit risk, operational risk and market risk. During the period, the Group has fully complied with such regulatory capital requirement.

The management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers Group's business plans along with economic conditions which directly and indirectly affects business environment. The overseas subsidiary manages its own capital as prescribed by local regulatory requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III and the related disclosures which are effective from January 1, 2013. Accordingly, calculated under the Basel III framework, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis and on a standalone basis for its significant banking subsidiary calculated for the credit, operational and market risks, are as follows:

Samba Financial Group (consolidated)	Jun 30, 2020 (Unaudited) (SR '000)	Dec 31, 2019 (Audited) (SR '000)	Jun 30, 2019 (Unaudited) (SR '000)
Credit risk RWA	222,722,655	197,079,973	174,310,992
Operational risk RWA	14,656,928	14,220,800	14,220,800
Market risk RWA	19,943,285	16,998,454	16,972,440
Total RWA	257,322,868	228,299,227	205,504,232
Tier I capital	48,045,487	46,907,163	45,526,473
Tier II capital	1,122,181	1,341,038	1,355,291
Total tier I & II capital	49,167,668	48,248,201	46,881,764
Capital Adequacy Ratio %			
Tier I ratio	18.7%	20.5%	22.2%
Tier I + II ratio	19.1%	21.1%	22.8%
Capital adequacy ratios for SBL are as follows:			
Tier I ratio	18.3%	18.0%	17.5%
Tier I + II ratio	19.5%	18.5%	17.6%

19. Zakat and taxation

The breakup of Zakat expense for the years is as under:

	Six months ended	
Zakat	June 30, 2020 **SR '000**	June 30, 2019 **SR '000**
- Zakat - current	329,000	243,000
Total	329,000	243,000

The breakup of current and deferred tax expense, net for the periods is as under:

- Domestic - current	7,106	5,500
- Overseas	48,186	15,534
- Deferred	(807)	92
Total	54,485	21,126

Other liabilities include an amount of SR 1,482 million (Dec 31, 2019: SR 1,482 million, June 30, 2019: SR 1,853 million) payable to the GAZT under the settlement agreement signed by the Bank with GAZT, in accordance with the settlement framework provided by the Royal Decree No. M/26 dated 20/3/1440H (November 28, 2018) and the Ministerial Resolution No. 1260 dated 05/04/1440H (December 12, 2018).

20. Impact of COVID-19 on Expected Credit Losses and SAMA programs

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

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

The prevailing economic conditions post lock down, require the Bank to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Bank in estimation of ECL or revisions to the scenario probabilities currently being used by the Bank in ECL estimation. In Q1 2020, the Bank made certain adjustments to the macroeconomic factors and scenario weightings. During Q2 2020 and as more reliable data becomes available, the management has further made adjustments to the macroeconomic factors used by the Bank in estimation of ECL and/or revision to the scenario probabilities. For the period ended 30 June 2020, the macroeconomic factors update resulted in an additional ECL of SR 67.6 million.

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

The Bank has also recognised overlays of SR 58.9 million for corporate financing. These have been based on a staging analysis performed by the Bank depending on the impacted portfolios.The Bank will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

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

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

As part of the deferred payments program, the Bank is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months without altering the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This payment relief provided to the MSME customers by the Bank has a day-one modification loss impact of SR 8.1 million during 31 March 2020.

To give effect to the guidance issued by SAMA during April 2020, the Bank has also deferred MSME customers classified as Stage 2 and some other stage 1 customers which have met the definition of MSME during Q2 2020 for the same period i.e. 14 March 2020 to 14 September 2020. This has resulted in additional modification loss amounting to SR 4.5 million and SR 45.3 million respectively. The modification losses have been presented as part of net special commission income. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk. During the six months period ended 30 June 2020, SR 26 million has been charged to the statement of income relating to unwinding of modification losses.

In order to compensate all the related cost that the Bank is expected to incur under the SAMA and other public authorities programs, the Bank has received total of SR 2.5 billion of interest free deposit from SAMA during Q1 2020. Management has determined based on the communication with 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 in accordance with government grant accounting requirements.

The SAMA deposit under this program has resulted in a total grant income of SR 154.5 million relating to Q1 2020. The Bank has exercised certain judgements in the recognition and measurement of this grant income. During the six months period ended 30 June 2020, SR 9.4 million has been charged to the statement of income relating to unwinding of the day 1 income.

During Q2 2020, the Bank has received additional interest free deposit from SAMA amounting to SR 109 million with a tenure of 36 months. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 6.7 million which has been deferred over the period of 36 months. The management has exercised certain judgements in the recognition and measurement of this grant income.

As at 30 June 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs.

Furthermore, during the period March 14 to June 30, 2020, the Bank has waived POS and e-commerce service fee amounting to SAR 7.9 million. The Bank is under discussion with SAMA for the reimbursement of such fee. However, since the ultimate beneficiaries in this case are the customers, therefore it is not treated as grant income for the Bank under IAS 20.

SAMA liquidity support for the Saudi banking sector

In line with its monetary and financial stability mandate, SAMA announced a program of injecting an amount of SR 50 billion 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 SR 3.9 billion interest free deposit with approximately 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 subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 45.3 million, of which SR 30 million has been recognized in the statement of income for the period ended 30 June 2020 and with the remaining amount deferred.

Bank'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. This resulted in a day 1 modification loss of SR 19.9 million as at 31 March 2020 and has been unwinded during the period ended 30 June 2020.

21. IBOR Transition (Interest Rate Benchmark Reforms):

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

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The bank 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 bank believes the current market structure supports the continuation of hedge accounting as at 30 June 2020.

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

22. Prior period reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation.