Interim Condensed Consolidated Financial Statements

For the six month period ended
30 June 2019

(Unaudited)

The Saudi British Bank

SABB ساب

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019 Unaudited SAR' 000**	31 December 2018 Audited SAR' 000	30 June 2018 Unaudited SAR' 000
ASSETS			Restated	Restated
Cash and balances with SAMA	5	**23,738,405**	14,101,089	21,128,416
Due from banks and other financial institutions, net	6	**9,128,528**	12,041,294	12,867,954
Positive fair value derivatives	12	**965,082**	562,373	892,761
Investments, net	7	**56,092,480**	34,570,456	32,280,838
Loans and advances, net	8	**158,275,404**	110,325,959	113,361,541
Investment in a joint venture and an associate	9	**624,898**	532,597	542,091
Property and equipment, net		**3,711,898**	1,280,670	1,166,369
Goodwill	25	**14,939,392**	13,806	-
Other assets	10	**2,801,965**	1,248,528	888,713
Total assets		**270,278,052**	174,676,772	183,128,683
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		**3,902,740**	1,013,233	5,661,783
Customers' deposits	11	**196,145,482**	130,506,505	132,930,790
Debt securities in issue		**1,500,535**	1,499,282	2,999,988
Borrowings		**1,697,172**	1,695,308	1,686,963
Negative fair value derivatives	12	**1,276,500**	547,253	721,572
Other liabilities		**10,331,323**	6,839,433	6,041,905
Total liabilities		**214,853,752**	142,101,014	150,043,001
Equity				
Equity attributable to equity holders of the Bank				
Share capital	13	**20,547,945**	15,000,000	15,000,000
Share premium	13	**17,586,986**	-	-
Statutory reserve		**10,991,100**	10,778,261	10,163,817
Other reserves		**290,088**	(3,123)	134,030
Retained earnings		**5,892,921**	5,247,792	7,664,925
Proposed dividends	24	**-**	1,430,954	-
Total equity attributable to equity holders of the Bank		**55,309,040**	32,453,884	32,962,772
Non-controlling interest		**115,260**	121,874	122,910
Total equity		**55,424,300**	32,575,758	33,085,682
Total liabilities and equity		**270,278,052**	174,676,772	183,128,683

Mathew Pearce

Chief Financial Officer

David Dew

Managing Director & Authorized Member

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME
Unaudited

	Notes	Three months ended 30 June 2019 SAR'000	Three months ended 30 June 2018 SAR'000	Six months ended 30 June 2019 SAR'000	Six months ended 30 June 2018 SAR'000
			Restated		Restated
Special commission income		**1,952,583**	1,631,107	**3,749,002**	3,175,089
Special commission expense		**370,051**	240,598	**679,527**	462,033
Net special commission income		**1,582,532**	1,390,509	**3,069,475**	2,713,056
Fee and commission income, net		**245,162**	300,221	**550,396**	607,695
Exchange income, net		**112,695**	107,519	**210,997**	203,681
Income from FVTPL financial instruments, net		**3,452**	-	**4,110**	-
Trading income, net		**19,427**	37,537	**39,601**	84,372
Dividend income		**-**	31,500	**41,999**	31,500
Gains / (losses) on FVOCI debt instruments, net		**23,175**	60	**40,029**	(1,097)
Other operating income / (losses), net		**(3,198)**	1,182	**(3,350)**	(9,033)
Total operating income		**1,983,245**	1,868,528	**3,953,257**	3,630,174
Salaries and employee related expenses		**370,002**	295,847	**699,830**	591,650
Rent and premises related expenses		**5,680**	28,078	**20,909**	62,697
Depreciation and amortisation		**67,998**	33,302	**124,673**	66,210
General and administrative expenses		**278,646**	176,385	**486,032**	339,018
Provision / (reversals) for expected credit losses, net	23	**1,628,374**	(90,819)	**1,719,150**	116,431
Total operating expenses		**2,350,700**	442,793	**3,050,594**	1,176,006
Income / (loss) from operating activities		**(367,455)**	1,425,735	**902,663**	2,454,168
Share in earnings of a joint venture and an associate	9	**49,445**	6,660	**65,535**	17,167
Net income / (loss) for the period before Zakat and income tax		**(318,010)**	1,432,395	**968,198**	2,471,335
Provision / (reversal) for Zakat and income tax – Current		**(30,713)**	597,538	**152,029**	692,808
Provision / (reversal) for income tax – Deferred		**(33,146)**	2,058	**(35,185)**	(26,492)
Net income / (loss) for the period after Zakat and income tax		**(254,151)**	832,799	**851,354**	1,805,019
Attributable to:					
Equity holders of the Bank		**(246,341)**	832,589	**857,968**	1,807,988
Non-controlling interest		**(7,810)**	210	**(6,614)**	(2,969)
Net income / (loss) for the period after Zakat and income tax		**(254,151)**	832,799	**851,354**	1,805,019
Basic and diluted earnings / (loss) per share (SAR)	20	**(0.15)**	0.56	**0.55**	1.21

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	Three months ended		Six months ended	
	30 June 2019 SAR' 000	30 June 2018 SAR' 000	**30 June 2019 SAR' 000**	30 June 2018 SAR' 000
		Restated		Restated
Net income / (loss) for the period	**(254,151)**	832,799	**851,354**	1,805,019
Other comprehensive income / (loss) for the period				
Items that cannot be reclassified to consolidated statement of income in subsequent periods				
- Movement in fair value reserve (FVOCI equity instruments)	**(136,498)**	244,183	**177,388**	380,604
Items that can be reclassified to consolidated statement of income in subsequent periods				
Debt instrument at fair value through other comprehensive income				
- Net change in fair value	**18,497**	(6,421)	**128,718**	(53,086)
- Transfer to consolidated statement of income, net	**(23,175)**	(60)	**(40,029)**	1,097
Cash flow hedges				
- Net change in fair value	**1,072**	3,296	**14,937**	2,679
- Transfer to consolidated statement of income, net	**(759)**	(583)	**(1,510)**	(6,219)
Total other comprehensive income / (loss) for the period	**(140,863)**	240,415	**279,504**	325,075
Total comprehensive income / (loss) for the period	**(395,014)**	1,073,214	**1,130,858**	2,130,094
Attributable to:				
Equity holders of the Bank	**(387,204)**	1,073,004	**1,137,472**	2,133,063
Non-controlling interest	**(7,810)**	210	**(6,614)**	(2,969)
Total	**(395,014)**	1,073,214	**1,130,858**	2,130,094

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six month period ended 30 June
Unaudited

2019	Share capital SAR '000	Share premium SAR'000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividends SAR '000	Total SAR '000	Non-controlling interest SAR '000	Total equity SAR '000
	Attributable to equity holders of the Bank								
Balance at the beginning of the period as reported	**15,000,000**	-	**10,778,261**	**(3,123)**	**5,135,131**	**1,430,954**	**32,341,223**	**121,874**	**32,463,097**
Effect of restatement of deferred tax (note 15)	-	-	-	-	**112,661**	-	**112,661**	-	**112,661**
Restated balance as at 1 January 2019	**15,000,000**	-	**10,778,261**	**(3,123)**	**5,247,792**	**1,430,954**	**32,453,884**	**121,874**	**32,575,758**
Total comprehensive income for the period									
Net income for the period after Zakat and income tax	-	-	-	-	**857,968**	-	**857,968**	**(6,614)**	**851,354**
Net changes in fair value of cash flow hedges	-	-	-	**14,937**	-	-	**14,937**	-	**14,937**
Net changes in fair value of FVOCI equity investments	-	-	-	**177,388**	-	-	**177,388**	-	**177,388**
Net changes in fair value of FVOCI debt instruments	-	-	-	**128,718**	-	-	**128,718**	-	**128,718**
Transfer to interim consolidated statement of income	-	-	-	**(41,539)**	-	-	**(41,539)**	-	**(41,539)**
				279,504	**857,968**		**1,137,472**	**(6,614)**	**1,130,858**
Treasury shares	-	-	-	**11,352**	-	-	**11,352**	-	**11,352**
Business combinations (note 25)	**5,547,945**	**17,586,986**	-	**6,060**	-	-	**23,140,991**	-	**23,140,991**
Employee share plan reserve	-	-	-	**(3,705)**	-	-	**(3,705)**	-	**(3,705)**
Transfer to statutory reserve	-	-	**212,839**	-	**(212,839)**	-	-	-	-
2018 final dividend net of Zakat and income tax	-	-	-	-	-	**(1,430,954)**	**(1,430,954)**	-	**(1,430,954)**
Balance at the end of the period	**20,547,945**	**17,586,986**	**10,991,100**	**290,088**	**5,892,921**	-	**55,309,040**	**115,260**	**55,424,300**
2018									
Balance at the beginning of the period as reported	15,000,000	-	9,545,984	(180,645)	6,385,693	939,650	31,690,682	125,879	31,816,561
Effect of restatement of deferred tax (note 15)	-	-	-	-	89,077	-	89,077	-	89,077
Restated balance as at 1 January 2018	15,000,000	-	9,545,984	(180,645)	6,474,770	939,650	31,779,759	125,879	31,905,638
Total comprehensive income for the period									
Net income for the period after Zakat and income tax	-	-	-	-	1,807,988	-	1,807,988	(2,969)	1,805,019
Net changes in fair value of cash flow hedges	-	-	-	2,679	-	-	2,679	-	2,679
Net changes in fair value of FVOCI equity investments	-	-	-	380,604	-	-	380,604	-	380,604
Net changes in fair value of FVOCI debt instruments	-	-	-	(53,086)	-	-	(53,086)	-	(53,086)
Transfer to interim consolidated statement of income	-	-	-	(5,122)	-	-	(5,122)	-	(5,122)
			-	325,075	1,807,988		2,133,063	(2,969)	2,130,094
Treasury shares	-	-	-	(3,319)	-	-	(3,319)	-	(3,319)
Employee share plan reserve	-	-	-	(7,081)	-	-	(7,081)	-	(7,081)
Transfer to statutory reserve	-	-	617,833	-	(617,833)	-	-	-	-
2017 final dividend net of Zakat and income tax	-	-	-	-	-	(939,650)	(939,650)	-	(939,650)
Balance at the end of the period	15,000,000	-	10,163,817	134,030	7,664,925	-	32,962,772	122,910	33,085,682

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the six month period ended 30 June
Unaudited

	Note	2019 SAR' 000	2018 SAR' 000
OPERATING ACTIVITIES			Restated
Net income before Zakat and income tax for the period		**968,198**	2,471,335
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discount) / amortisation of premium on investments not held as FVTPL investments, net		**(2,053)**	1,970
Depreciation and amortisation		**124,673**	66,210
Income from FVTPL financial instruments, net		**(4,110)**	-
Losses on FVOCI debt instruments, net		**-**	1,097
Gains on non-trading investments, net		**(40,029)**	-
Cash flow hedge gain transfer to interim consolidated statement of income		**(1,510)**	(6,219)
Share in earnings of an associate and a joint venture		**(65,535)**	(17,167)
Provision for expected credit losses, net		**1,719,150**	116,431
Employee share plan reserve		**8,040**	3,630
Derivatives fair value, net		**(15,274)**	-
		2,691,550	2,637,287
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(489,491)**	315,170
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		**1,080,622**	1,211,216
Investments held at FVTPL		**(311,183)**	(35,843)
Loans and advances, net		**342,663**	2,368,940
Other assets and derivatives		**(780,511)**	(58,450)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**2,026,314**	1,970,808
Customers' deposits		**4,802,448**	(7,308,723)
Other liabilities and derivatives		**(897,199)**	301
Net cash from operating activities		**8,465,213**	1,100,706
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		**125,706**	-
Proceeds from sale and maturity of investments not held as FVTPL		**2,202,475**	2,628,303
Purchase of investments not held as FVTPL		**(7,763,859)**	(7,588,900)
Dividend received from investment in a joint venture		**62,638**	-
Cash and cash equivalents acquired through business combination		**2,632,553**	-
Purchase of property and equipment		**(156,615)**	(97,652)
Net cash used in investing activities		**(2,897,102)**	(5,058,249)
FINANCING ACTIVITIES			
Treasury shares purchased		**-**	(14,031)
Debt securities in issue		**1,253**	1,240
Borrowings		**1,864**	4,518
Dividends paid		**(1,462,193)**	(876,628)
Net cash used in financing activities		**(1,459,076)**	(884,901)
Net increase / (decrease) in cash and cash equivalents		**4,109,035**	(4,842,444)
Cash and cash equivalents at beginning of the period		**16,801,572**	30,095,579
Cash and cash equivalents at end of the period	18	**20,910,607**	25,253,135
Special commission received during the period		**3,879,043**	3,064,842
Special commission paid during the period		**626,156**	485,986
Supplemental non cash information			
Net changes in fair value and transfers to interim consolidated statement of income		**279,504**	325,075

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

1. General

The Saudi British Bank ("SABB") is a joint stock company incorporated in the Kingdom of Saudi Arabia and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) by taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank in the Kingdom of Saudi Arabia. The address of SABB's head office is as follows:

The Saudi British Bank
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia

The objectives of SABB are to provide a range of banking services. SABB also provides Shariah approved products, which are approved and supervised by an independent Shariah Board established by SABB.

Further to receipt of regulatory approvals, the shareholders of SABB and Alawwal Bank ("AAB") approved the merger of the two banks at Extraordinary General Meetings held on 15 May 2019 pursuant to Articles 191-193 of the Companies Law and Article 49 (a) (1) of the Merger and Acquisitions Regulations issued by the Capital Markets Authority of the Kingdom of Saudi Arabia (the "CMA"). Please refer to note 25 for details.

SABB has 100% (2018: 100%) ownership interest in a subsidiary, SABB Insurance Agency ("SIA"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB holds 98% of its interest in SIA directly and 2% indirectly through another subsidiary incorporated in the Kingdom of Saudi Arabia. SIA's principal activity is to act as an exclusive insurance agent for SABB Takaful Company ("SABB Takaful") (also a subsidiary company of SABB) within the Kingdom of Saudi Arabia.

SABB has 100% (2018: 100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited ("ARECO"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB holds 99% of its interest in ARECO directly and 1% indirectly through another subsidiary incorporated in the Kingdom of Saudi Arabia. ARECO is engaged in the purchase, sale and lease of land and real estate for investment purposes.

SABB has 100% (2018: 100%) ownership interest in a subsidiary, SABB Real Estate Company Limited ("SABB RE"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB holds 99.8% of its interest in SABB RE directly and 0.2% indirectly through another subsidiary incorporated in the Kingdom of Saudi Arabia. SABB RE's principal activity is the registration of real estate and to hold and manage collateral on behalf of SABB.

SABB has 100% (2018: 100%) directly held ownership interest in a subsidiary, SABB Markets Limited ("SABB Markets"), a limited liability company incorporated in the Cayman Islands. SABB Markets is engaged in derivatives trading and repo activities.

SABB has 65% (2018: 65%) directly held ownership interest in a subsidiary, SABB Takaful, a joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumada Awal 1428H (6 June 2007). SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and to offer family and general Takaful products to individuals and corporates in the Kingdom of Saudi Arabia.

SABB has 51% (2018: 51%) directly held ownership interest in a subsidiary, HSBC Saudi Arabia, a joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010221555 dated 27 Jumada Al-Akhirah 1327H (23 July 2006). HSBC Saudi Arabia was formed in accordance with the Resolution No. 1 39 2007 of the CMA. HSBC Saudi Arabia's principal activity is to engage in the full range of investment banking and advisory services and asset management activities regulated by the CMA related to brokerage, dealing, managing, arranging, advising and taking custody of securities. HSBC Saudi Arabia is a joint venture with HSBC.

SABB has participated in the following three structured entities for the purpose of effecting syndicated loan transactions in the Kingdom of Saudi Arabia and securing collateral rights over specific assets of the borrowers of those facilities under Islamic financing structures. These entities have no other business operations.

1. Saudi Kayan Assets Leasing Company.
2. Rabigh Asset Leasing Company.
3. Yanbu Asset Leasing Company.

SABB directly owns a 50% (2018: 50%) share in each entity. SABB does not consolidate these entities as it does not have the right to variable returns from its involvement with the entities or ability to affect those returns through its power over the entities. The related underlying funding to the relevant borrowers are recorded on SABB's interim consolidated statement of financial position.

SABB has 100% (2018: 0%) directly held ownership interest in a subsidiary, Alawwal Invest, a joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010242378 dated 30 Dhul Hijjah 1428H (9 January 2008). Alawwal Invest was formed in accordance with the CMA's Resolution No. 1 39 2007. Alawwal Invest's principal activity is to engage in investment services and asset management activities regulated by the CMA related to dealing, managing, arranging, advising and taking custody of securities. Alawwal Invest commenced its operations effective on 2 Rabi'II 1429H (8 April 2008). Alawwal Invest became a fully owned subsidiary of SABB as a result of SABB's merger with AAB in 2019.

SABB has 100% (2018: 0%) directly held ownership interest in a subsidiary, Alawwal Real Estate Company ("AREC"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010250772 dated 21 Jumada I 1429H (26 May 2008). AREC's principal activity is the registration of real estate and to hold and manage collateral on behalf of SABB. AREC became a fully owned subsidiary of SABB as a result of SABB's merger with AAB in 2019.

SABB has 100% (2018: 0%) directly held ownership interest in a subsidiary, Alawwal Insurance Agency Company ("AIAC"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010300250 dated 29 Muharram 1432H (4 January 2011). AIAC's principal activity is to act as an insurance agent for Wataniya Insurance Company (WIC), an associate, to sell its insurance products. AIAC became a fully owned subsidiary of SABB as a result of SABB's merger with AAB in 2019.

SABB has 100% (2018: 0%) directly held ownership interest in a subsidiary, Alawwal Financial Markets Limited ("AFM"), a limited liability company incorporated in the Cayman Islands. AFM is engaged in derivatives trading and repo activities. AFM became a fully owned subsidiary of SABB as a result of SABB's merger with AAB in 2019.

SABB has 20% (2018: 0%) directly held ownership interest in an associate, Wataniya Insurance Company ("WIC"), a joint stock company incorporated in the Kingdom of Saudi Arabia formed pursuant to Royal Decree No. M/53 dated Shawwal 21, 1430H (10 October 2009). WIC's principal activity is to engage in Shariah compliant insurance activities and to offer family and general Takaful products to individuals and corporates in the Kingdom of Saudi Arabia. WIC became an associate of SABB as a result of the SABB's merger with AAB in 2019.

These interim condensed consolidated financial statements were approved by the Board of Directors on 28 Dhu'l-Qi'dah 1440H (31 July 2019).

2. Basis of preparation

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with SABB's annual consolidated financial statements as at 31 December 2018. SABB has adopted IFRS 16 Leases from 1 January 2019, IAS 12 Income Taxes from 30 June 2019 and accounting policies for these standards are disclosed in Note 4.

Until the period ended 31 March 2019, the interim condensed consolidated financial statements of the Bank were prepared in accordance with the International Accounting Standard (IAS) 34 – Interim Financial Reporting as modified by SAMA for accounting of Zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to Zakat and income tax). The Bank changed its accounting for Zakat and income tax as mandated by International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 4) and the effects of this change are disclosed in note 15 to the interim condensed consolidated financial statements.

The preparation of these 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 SABB's accounting policies and key sources of estimation uncertainty were the same as those applied to the annual consolidated financial statements as at and for the year ended 31 December 2018, except for the adoption of IFRS 16 Leases and IAS 12 Income Taxes as disclosed above.

SABB presents its interim consolidated statement of financial position in the order of liquidity.

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

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

3. Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of SABB and its subsidiaries, as mentioned in note 1 (collectively referred to as the "Bank"). The financial statements of the subsidiaries are prepared for the same reporting period as that of SABB, using consistent accounting policies, except for SABB Takaful whose financial statements are made up to the previous quarter end for consolidation purposes to meet the group reporting timetable.

Subsidiaries are entities which are directly or indirectly controlled by SABB. SABB controls an entity ("the Investee") over which it is exposed, 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. Subsidiaries are consolidated from the date on which control is transferred to SABB and cease to be consolidated from the date on which the control is transferred from SABB.

Intra-group transactions and balances have been eliminated in preparing these interim condensed consolidated financial statements.

4. Significant accounting policies and impact of changes due to adoption of new standards

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for policies for intangible assets, income tax and the new accounting standard (IFRS 16 – Leases) that the Bank has adopted effective 1 January 2019. The policies for intangible assets, income tax and the impact of the adoption of this standard are explained below:

a. Intangible assets

i. Goodwill

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

ii. Capitalised software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the Bank's interim consolidated statement of income on a straight line basis over the estimated useful life of the software, from the date that it is available for use.

iii. Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with an indefinite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangibles.

b. Change in accounting for Zakat and income tax

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

Previously, Zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA, the Zakat and income tax shall be recognized in the statement of income. The Bank has accounted for this change in the accounting for Zakat and income tax retrospectively and the effects of the above change are disclosed in note 15 to the interim condensed consolidated financial statements. The change has resulted in a decrease of reported net income of the Bank for the six month period ended 30 June 2018 by SAR 666 million.

i. Zakat and income tax

The Bank is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the interim consolidated statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to Zakat.

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 in Saudi Arabia, 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 on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company 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 regulations are 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.

ii. 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 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 recognized 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 is calculated based on tax rates and laws enacted, or substantively enacted, by the reporting date.

c. Change in accounting for IFRS 16 Leases

The standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Bank's Financial Position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, which are amortised over the estimated useful life.

The Bank has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018, discounted using the Bank's incremental interest rate at the time of first time application.

Reconciliation of lease liabilities

Operating lease commitments as at 31 December 2018	**375,685**
Discounted using the Bank's weighted average incremental borrowing rate	**(34,951)**
Short term leases recognised on a straight-line basis as expense	**(6,224)**
Adjustments as a result of treatment of extension options	**318,726**
Lease liability recognised as at 1 January 2019	**653,236**

5. Cash and balances with SAMA

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Cash in hand	**2,380,997**	1,542,528	1,667,452
Statutory deposit	**11,341,097**	7,609,549	7,846,593
Placements with SAMA	**9,848,416**	4,811,666	11,488,086
Other balances	**167,895**	137,346	126,285
Total	**23,738,405**	14,101,089	21,128,416

6. Due from banks and other financial institutions

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Current accounts	**5,026,794**	6,896,890	9,088,967
Money market placements	**4,101,734**	5,144,404	3,778,987
Total	**9,128,528**	12,041,294	12,867,954

The following table sets out information about the credit quality of due from banks and other financial institutions, net.

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired	Total
30 June 2019 (Unaudited)	**9,128,528**	**-**	**-**	**-**	**9,128,528**
31 December 2018 (Audited)	12,041,294	-	-	-	12,041,294

The following table shows reconciliations from the opening to the closing balance of the provision for expected credit losses against due from banks and other financial institutions.

	30 June 2019 (Unaudited)			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2019	**98**	**-**	**-**	**98**
Net charge for the period	**444**	**-**	**-**	**444**
Balance as at 30 June 2019	**542**	**-**	**-**	**542**

	31 December 2018 (Audited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	-	-	-	-
Net charge for the year	98	-	-	98
Balance as at 31 December 2018	98	-	-	98

7. Investments, net

Investment securities are classified as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Investments:			
- FVOCI – Debt	**11,458,762**	11,642,455	12,776,736
- FVOCI – Equity	**1,526,596**	1,346,179	1,396,164
- FVTPL	**1,025,027**	419,133	416,149
- Held at amortised cost	**42,082,095**	21,162,689	17,691,789
Total	**56,092,480**	34,570,456	32,280,838

The following table sets out information about the credit quality of debt instruments measured at amortised cost and FVOCI.

	30 June 2019 (Unaudited)				
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Purchased credit impaired**	**Total**
Debt instruments at amortised cost, net	**42,082,095**	**-**	**-**	**-**	**42,082,095**
Debt instruments at FVOCI, net	**11,458,762**	**-**	**-**	**-**	**11,458,762**

	31 December 2018 (Audited)				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired	Total
Debt instruments at amortised cost, net	21,162,689	-	-	-	21,162,689
Debt instruments at FVOCI, net	11,428,410	214,045	-	-	11,642,455

An analysis of changes in provision for expected credit losses for debt instruments not measured at FVTPL, is as follows:

	30 June 2019 (Unaudited)			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2019	**2,581**	**148**	**16,571**	**19,300**
Transfer to 12 month ECL	**-**	**-**	**-**	**-**
Transfer to lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Transfer to lifetime ECL credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversals) for the period	**7,029**	**(148)**	**-**	**6,881**
Balance as at 30 June 2019	**9,610**	**-**	**16,571**	**26,181**

	31 December 2018 (Audited)			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	3,137	3,640	16,571	23,348
Transfers to 12 month ECL	598	(598)	-	-
Transfer to lifetime ECL not credit impaired	(16)	16	-	-
Net reversal for the year	(1,138)	(2,910)	-	(4,048)
Balance as at 31 December 2018	2,581	148	16,571	19,300

8. Loans and advances, net

Loans and advances are comprised of the following:

	30 June 2019 (Unaudited)			
	Credit cards	**Other retail lending**	**Corporate and institutional lending**	**Total**
12 month ECL	**2,154,066**	**32,888,771**	**106,752,667**	**141,795,504**
Life time ECL not credit impaired	**51,600**	**618,023**	**14,464,107**	**15,133,730**
Lifetime ECL credit impaired	**62,417**	**382,975**	**4,583,271**	**5,028,663**
Purchased or originated credit impaired	**5,190**	**316,111**	**2,217,476**	**2,538,777**
Total loans and advances, gross	**2,273,273**	**34,205,880**	**128,017,521**	**164,496,674**
Provision for expected credit losses, net	**(233,278)**	**(783,674)**	**(5,204,318)**	**(6,221,270)**
Loans and advances, net	**2,039,995**	**33,422,206**	**122,813,203**	**158,275,404**

	31 December 2018 (Audited)			
	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,051,745	19,005,609	73,990,690	95,048,044
Life time ECL not credit impaired	63,406	668,949	15,407,624	16,139,979
Lifetime ECL credit impaired	71,065	392,834	3,366,066	3,829,965
Purchased or originated credit impaired	-	58,583	-	58,583
Total loans and advances, gross	2,186,216	20,125,975	92,764,380	115,076,571
Provision for expected credit losses, net	(195,050)	(686,621)	(3,868,941)	(4,750,612)
Loans and advances, net	1,991,166	19,439,354	88,895,439	110,325,959

Lifetime ECL credit impaired includes non-performing loans and advances of SAR 4,556 million (31 December 2018: SAR 3,326 million). It also includes exposures that are now performing but have yet to complete a period of 12 months of performance ("the curing period") to be eligible to be upgraded to a not-impaired category.

The financial assets recorded in each stage have the following characteristics:

12 month ECL not credit impaired (stage 1): and without significant increase in credit risk on which a 12-month allowance for ECL is recognised;

Life time ECL not credit impaired (stage 2): a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;

Lifetime ECL credit impaired (stage 3): objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised; and

Purchased or originated credit impaired (‘POCI’): purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised. Purchased loans include those acquired through the merger with AAB that meet the criteria for Stage 3.

The following table shows reconciliations from the opening to the closing balance of the provision for expected credit losses against loans and advances.

	30 June 2019 (Unaudited)				
	12 month ECL	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Purchased or originated credit impaired**	**Total**
Balance at 1 January 2019	**366,723**	**1,624,813**	**2,716,152**	**42,924**	**4,750,612**
Transfer to 12 month ECL	**35,784**	**(27,857)**	**(7,927)**	**-**	**-**
Transfer to lifetime ECL not credit impaired	**(5,337)**	**12,548**	**(7,211)**	**-**	**-**
Transfer to lifetime ECL credit impaired	**(3,517)**	**(88,567)**	**92,084**	**-**	**-**
Net charge for the period	**390,792**	**378,377**	**688,818**	**12,671**	**1,470,658**
Balance as at 30 June 2019	**784,445**	**1,899,314**	**3,481,916**	**55,595**	**6,221,270**

	31 December 2018 (Audited)				
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Purchased or originated credit impaired	Total
Balance at 1 January 2018	517,743	1,951,464	2,201,897	30,969	4,702,073
Transfer to 12 month ECL	299,344	(286,794)	(12,550)	-	-
Transfer to lifetime ECL not credit impaired	(41,087)	155,415	(114,328)	-	-
Transfer to lifetime ECL credit impaired	(9,600)	(313,956)	323,556	-	-
Net charge / (reversal) for the year	(399,677)	118,684	420,581	11,955	151,543
Write-offs	-	-	(103,004)	-	(103,004)
Balance as at 31 December 2018	366,723	1,624,813	2,716,152	42,924	4,750,612

9. Investment in a joint venture and an associate

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
HSBC Saudi Arabia – a Joint Venture			
Balance at beginning of the period / year	**532,597**	524,924	524,924
Share in earnings	**65,535**	65,551	17,167
Dividend received	**(62,638)**	(57,878)	-
	535,494	532,597	542,091
Wataniya – an Associate			
Balance at beginning of the period / year	**-**	-	-
Acquired through business combination	**89,404**	-	
	89,404	-	-
Total	**624,898**	532,597	542,091

SABB owns 51% (2018: 51%) of the shares of HSBC Saudi Arabia, a joint venture with HSBC. At present, no single investor group can direct the activities of the entity without cooperation of the other. Both investors can appoint an equal number of board members and thereby board resolutions require joint decision making. Hence, SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios. HSBC Saudi Arabia is an authorised person licensed by the CMA to carry out securities business activities.

SABB announced on the Tadawul website on 21 April 2019 that it entered into a binding agreement with HSBC Asia Holdings B.V. (a related party and shareholder in SABB) on 18 April 2019 for the sale of 1,000,000 shares in the share capital of HSBC Saudi Arabia (the "Shares"), representing 2% of the issued share capital of HSBC Saudi Arabia, for a total value of SAR 36,000,000 (the "Transaction"). Following completion of the Transaction, SABB will (directly and indirectly) be the owner of 49%, and HSBC Asia Holdings B.V. will become the owner of 51%, of the shares in HSBC Saudi Arabia.

Completion of the Transaction is subject to certain agreed contractual conditions and shareholder and regulatory approvals, including the approval of the CMA.

The Transaction will allow HSBC Saudi Arabia to further benefit from the international experience of the HSBC Group. The Transaction is not expected to have a material effect on SABB’s day to day operations and is expected to be reflected as a profit in the financial records of SABB for the period in which the Transaction is completed.

Upon completion of the Transaction, SABB and HSBC Asia Holdings B.V. will also enter into an amended shareholders' agreement in respect of their ownership in HSBC Saudi Arabia (the "Shareholders' Agreement"). The amendments to be made to the Shareholders Agreement mainly relate to the governance and management of HSBC Saudi Arabia (including the board composition) and will reflect the change in ownership resulting from the Transaction, as a result of which SABB's joint control and governance rights over HSBC Saudi Arabia will be lost.

SABB intends to use the proceeds from the sale to support its activities generally.

During the year, SABB acquired a 20% ownership stake in an associate, Wataniya, as a result of the Bank's merger with AAB. The primary activity of Wataniya is to offer insurance products as an extension to the Bank's existing retail banking offering.

10. Other assets

As at 30 June 2019 other assets include an amount of SAR 1,094 million (31 December 2018; Nil), plus accrued interest, consisting of balances that the Bank expects to receive from its related parties under settlement agreements resulting from merger transaction with AAB.

11. Customers' deposits

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Demand	**125,717,898**	82,086,159	83,318,516
Savings	**2,309,409**	7,823,077	7,549,646
Time	**66,335,516**	39,560,510	41,084,305
Margin deposits	**1,782,659**	1,036,759	978,323
Total	**196,145,482**	130,506,505	132,930,790

12. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments 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 Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	30 June 2019 (Unaudited)			31 December 2018 (Audited)			30 June 2018 (Unaudited)		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading:									
Special commission rate swaps	**738,339**	**(676,205)**	**63,169,516**	283,080	(271,665)	39,675,381	390,550	(363,625)	41,161,905
Special commission rate options	**152,373**	**(157,005)**	**16,083,980**	128,632	(135,847)	18,386,296	183,037	(187,352)	19,782,428
Forward foreign exchange contracts	**13,726**	**(20,224)**	**7,322,763**	18,852	(14,135)	3,710,093	35,197	(17,764)	3,696,623
Currency options	**3,629**	**(3,282)**	**5,754,514**	133	(133)	5,513,328	7,913	(7,927)	17,185,534
Currency swaps	**10,629**	**(10,201)**	**1,487,500**	11,962	(11,113)	1,487,500	38,821	(37,638)	2,967,512
Others	**7,984**	**(7,984)**	**360,836**	5,198	(5,198)	360,835	16,397	(16,397)	360,836
Derivatives held as fair value hedges:									
Special commission rate swaps	**2,840**	**(382,335)**	**9,559,825**	76,710	(84,558)	9,420,627	187,622	(44,919)	8,986,875
Derivatives held as cash flow hedges:									
Special commission rate swaps	**5,960**	**(3,930)**	**645,000**	13,169	(10,716)	1,190,000	5,491	(18,195)	1,190,000
Currency swaps	**29,602**	**(15,334)**	**1,762,500**	24,637	(13,888)	1,462,500	27,733	(27,755)	1,536,043
Total	**965,082**	**(1,276,500)**	**106,146,434**	562,373	(547,253)	81,206,560	892,761	(721,572)	96,867,756

13. Share capital

The merger between SABB and AAB was effected by a capital issuance of 554,794,522 shares of SAR 10 each by SABB to the shareholders of AAB, in a share swap transaction at the exchange rate of 0.48535396 shares of SABB for each share of AAB. Pursuant to the transaction, the shares of AAB were delisted from Tadawul Stock Exchange.

The newly issued share capital added to the outstanding shares of SABB already in issue (being the share capital of the surviving legal entity at the time of merger) constitutes the share capital of SABB.

Upon completion of the merger, the authorised, issued and fully paid share capital of SABB consists of 2,054,794,522 shares of SAR 10 each (2018: 1,500,000,000 shares of SAR 10 each) with a share premium resulting from the transaction of SAR 17,586,986 thousands. The ownership of the SABB's share capital is as follows:

	2019	*2018*
Saudi shareholders	**60%**	60%
HSBC Holdings BV	**29%**	40%
(a wholly owned subsidiary of HSBC Holdings Plc)		
NatWest Markets N.V.	**4%**	-
Banco Santander S.A.	**3%**	-
Stichting Administratiekantoor Beheer Financiele Instellingen	**4%**	-

14. Share based payments

SABB has Share Based Equity Settled Bonus payment plans outstanding at 30 June 2019. Under the terms of these plans, SABB's eligible employees are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, SABB delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions. The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

As part of the merger, SABB has continued AAB share based payment plan with the same terms and conditions. Employees entitled to shares under the AAB equity settled share-based payment plan shall be granted shares of SABB on the same exchange ratio of 0.48535396 SABB share for each AAB share that was applied to the merger transaction.

15. Zakat and income tax

In March 2019, new Zakat Regulations were issued by GAZT under resolution No. 2215 dated 7/7/1440 (14 March 2019) (the "Zakat Regulations") which provided a new basis for calculation of Zakat for companies engaged in financing activities. The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability. SABB is subject to pay corporate income tax to reflect the portion of the shareholder base that is non-Saudi (2019 and 2018: 40%). Corporate income tax is calculated at a rate of 20%, applied to the share of taxable income of the non-saudi shareholders.

In 2018, SABB reached a settlement agreement (the "Settlement Agreement") with GAZT for Zakat claims pertaining to fiscal years 2006 to 2017 resulting in an agreed amount of SAR 1,628.1 million which will be recovered from SABB's Saudi shareholders in accordance with SABB's by-laws.

Under the Settlement Agreement, SABB paid 20% of total Zakat liability amounting to SAR 325.6 million in December 2018 and the remaining amount of SAR 1,302.5 million will be settled in equal installments of SAR 260.5 million each year until the end of the fiscal year 2023. In addition, SABB assumed the remaining Zakat liabilities of AAB owed to GAZT, totalling SAR 299.6 million and payable in 5 annual installments of SAR 60 million through 2023.

The change in the accounting for Zakat and income tax (as explained in note 4) has the following impact on the line items of the interim consolidated statements of income, financial position and changes in equity.

As at and for the six-month period ended 30 June 2018:

Financial statements impacted	Description	Before the restatement for the six-month period ended 30 June 2018	Effect of restatement	As restated as at and for the six-month period ended 30 June 2018
Statement of changes in equity	Provision for Zakat and income tax	692,808	(692,808)	-
Statement of income	Zakat and income tax expenses (current and deferred)	-	(666,316)	(666,316)
Statement of income	Earnings per share	1.65	(0.44)	1.21
Statement of financial position	Deferred tax asset	-	115,569	115,569

As at and for the three-month period ended 30 June 2018:

Financial statements impacted	Description	Before the restatement for the three-month period ended 30 June 2018	Effect of restatement	As restated as at and for the three-month period ended 30 June 2018
Statement of changes in equity	Provision for Zakat and income tax	597,538	(597,538)	-
Statement of income	Zakat and income tax expenses (current and deferred)	-	(599,596)	(599,596)
Statement of income	Earnings per share	0.96	(0.40)	0.56
Statement of financial position	Deferred tax asset	-	115,569	115,569

As at 31 December 2018:

Financial statement impacted	Description	Before the restatement as at 31 December 2018	Effect of restatement	As restated as at 31 December 2018
Statement of financial position	Deferred tax asset	-	112,661	112,661
Statement of financial position	Retained earnings	-	112,661	112,661

As at 1 January 2018:

Financial statement impacted	Description	Before the restatement as at 1 January 2018	Effect of restatement	As restated as at 1 January 2018
Statement of financial position	Deferred tax asset	-	89,077	89,077
Statement of financial position	Retained earnings	-	89,077	89,077

The below table represents the movements in the current Zakat and income tax liability.

	30 June 2019	30 June 2018
Opening Zakat and income tax liability	**1,736,447**	200,060
Charge for the period	**152,029**	692,808
Acquired through business combination	**392,633**	-
Payment of Zakat and income tax liability	**(549,506)**	(232,960)
Closing Zakat and income tax liability	**1,731,603**	659,908

In June 2018, SABB recognised a provision for an amount of SAR 500 million to reflect the potential exposure arising from a future settlement of an ongoing industry wide issue relating to the disallowance of long-term investments and addition of long term financing to the Zakat base.

16. Deferred tax

Deferred tax arises on end of service benefits, impairment allowance, unrecognized losses, etc. 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 taxation purposes. The following table shows the movement in deferred tax:

	30 June 2019	30 June 2018
Opening deferred tax asset	**112,661**	89,077
Deferred tax income	**35,185**	26,492
Acquired through business combination	**31,006**	-
Closing deferred tax asset	**178,852**	115,569

17. Commitments and contingencies

a. Legal proceedings

As at 30 June 2019, there are legal proceedings outstanding against SABB. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b. Credit related commitments and contingencies

The credit related commitments and contingencies are as follows:

	30 June 2019 (Unaudited)				
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Purchase or originated credit impaired**	**Total**
Letters of credit	**14,511,543**	**515,869**	**829**	**80,735**	**15,108,976**
Letters of guarantee	**67,502,025**	**6,088,669**	**1,538,775**	**1,476,452**	**76,605,921**
Acceptances	**2,466,676**	**681,361**	**25,735**	**3,479**	**3,177,251**
Irrevocable commitments to extend credit	**7,634,211**	**118,083**	**585,415**	**-**	**8,337,709**
Total	**92,114,455**	**7,403,982**	**2,150,754**	**1,560,666**	**103,229,857**

	31 December 2018 (Audited)				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchase or originated credit impaired	Total
Letters of credit	10,710,328	1,064,271	1,006	-	11,775,605
Letters of guarantee	46,405,235	6,502,070	353,931	-	53,261,236
Acceptances	2,359,214	625,588	-	-	2,984,802
Irrevocable commitments to extend credit	2,836,679	112,493	585,415	-	3,534,587
Total	62,311,456	8,304,422	940,352	-	71,556,230

The following table shows reconciliations from the opening to the closing balance of the provision for expected credit losses against off balance sheet exposures.

	30 June 2019 (Unaudited)				
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Purchase or originated credit impaired**	**Total**
Balance at 1 January 2019	**31,331**	**237,530**	**156,235**	**-**	**425,096**
Transfer to 12 month ECL	**567**	**(7)**	**(560)**	**-**	**-**
Transfer to lifetime ECL not credit impaired	**(494)**	**494**	**-**	**-**	**-**
Transfer to lifetime ECL credit impaired	**-**	**(8,400)**	**8,400**	**-**	**-**
Net charge / (reversals) for the period	**16,715**	**(189,329)**	**371,483**	**-**	**198,869**
Acquired through business combination	**7,662**	**-**	**-**	**1,389,196**	**1,396,858**
Balance as at 30 June 2019	**55,781**	**40,288**	**535,558**	**1,389,196**	**2,020,823**

	31 December 2018 (Audited)				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchase or originated credit impaired	Total
Balance at 1 January 2018	142,642	347,158	260	-	490,060
Transfer to 12 month ECL	38,580	(38,580)	-	-	-
Transfer to lifetime ECL not credit impaired	(2,308)	81,677	(79,369)	-	-
Transfer to lifetime ECL credit impaired	(75)	(29,360)	29,435	-	-
Net charge / (reversals) for the year	(147,508)	(123,365)	205,909	-	(64,964)
Balance as at 31 December 2018	31,331	237,530	156,235	-	425,096

c. Status of Zakat and income tax

SABB has received tax assessments for fiscal years 2005 to 2009 in which the GAZT raised additional demands for income tax and withholding tax. Together with assessments relating to AAB for fiscal years from 2006 to 2013, SABB will continue to contest its appeals before the Appellate Committee for Resolution of tax disputes and expects a favourable outcome of the aforementioned appeals. The amounts are not material.

18. Cash and cash equivalents

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	**12,397,308**	6,491,540	13,281,823
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	**8,513,299**	10,310,032	11,971,312
Total	**20,910,607**	16,801,572	25,253,135

19. Operating segments

The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities being the majority of the balance.

The Bank's reportable segments are as follows:

Retail Banking – caters mainly to the banking requirements of personal and private banking customers.

Corporate and Institutional Banking – caters mainly to the banking requirements of corporate and institutional banking customers.

Treasury – manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and managing the Bank's investment portfolio and liquidity position.

Others – includes activities of the Bank's investment in its insurance subsidiary and associate, SABB Takaful and Wataniya, as well as a subsidiary and joint venture for investment banking and brokerage, Alawwal Invest and HSBC Saudi Arabia, equity investments, and merger-related expenses. It also includes elimination of inter-group income and expense items.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 30 June 2019 and 2018, its total operating income and expenses, and the results for the six months period then ended, by operating segment, are as follows:

30 June 2019 (Unaudited)	**Retail Banking**	**Corporate & Institutional Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
Total assets	**43,980,409**	**127,719,277**	**88,212,278**	**10,366,088**	**270,278,052**
Total liabilities	**90,598,289**	**106,778,844**	**14,905,172**	**2,571,447**	**214,853,752**
Total operating income	**1,367,366**	**1,948,084**	**581,753**	**56,054**	**3,953,257**
Provision for expected credit losses, net	**167,502**	**1,544,324**	**7,324**	**-**	**1,719,150**
Other operating expenses	**694,585**	**390,283**	**84,741**	**161,835**	**1,331,444**
Share in earnings of an associate and a joint venture	**-**	**-**	**-**	**65,535**	**65,535**
Net income for the period before Zakat and income tax	**505,279**	**13,477**	**489,688**	**(40,246)**	**968,198**

30 June 2018 (Unaudited)	Retail Banking	Corporate & Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	27,002,741	89,477,479	63,781,869	2,866,594	183,128,683
Total liabilities	59,405,233	71,444,976	18,649,001	543,791	150,043,001
Total operating income	1,312,931	1,695,817	595,431	25,995	3,630,174
Provision / (reversals) for expected credit losses, net	123,460	(7,020)	(9)	-	116,431
Other operating expenses	612,581	363,603	79,958	3,433	1,059,575
Share in earnings of an associate and a joint venture	-	-	-	17,167	17,167
Net income for the period before Zakat and income tax	576,890	1,339,234	515,482	39,729	2,471,335

Total operating income by operating segments

30 June 2019 (Unaudited)	**Retail Banking**	**Corporate & Institutional Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
External	**935,748**	**2,363,920**	**607,880**	**45,709**	**3,953,257**
Inter-segment	**431,618**	**(415,836)**	**(26,127)**	**10,345**	**-**
Total operating income	**1,367,366**	**1,948,084**	**581,753**	**56,054**	**3,953,257**

30 June 2018 (Unaudited)	Retail Banking	Corporate & Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
External	990,861	2,164,504	448,814	25,995	3,630,174
Inter-segment	322,070	(468,687)	146,617	-	-
Total operating income	1,312,931	1,695,817	595,431	25,995	3,630,174

20. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 30 June 2019 and 30 June 2018 are calculated by dividing the net income for the periods by the weighted average number of shares outstanding during the period.

21. Capital adequacy

The Bank's objectives when managing capital are to ensure the Bank remains within minimum regulatory requirements set by SAMA, continues as a going concern and supports customers throughout the economic cycle.

The Bank monitors the adequacy of its capital using the methodology and ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its assets, commitments and contingencies, and notional amounts of derivatives at a weighted amount to reflect their relative risk.

SAMA through its circular number 391000029731 dated 15/03/1439AH (3/12/2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS shall be transitioned over five years.

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	**213,915,609**	155,438,168	157,117,048
Operational Risk RWA	**19,265,850**	12,434,259	12,649,995
Market Risk RWA	**2,488,246**	1,510,175	1,265,288
Total RWA	**235,669,705**	169,382,602	171,032,331
Tier I Capital	**41,368,807**	33,359,762	34,325,703
Tier II Capital	**2,971,420**	2,700,534	3,759,076
Total I & II Capital	**44,340,227**	36,060,296	38,084,779
Capital Adequacy Ratio %			
Tier I ratio	**17.55%**	19.69%	20.07%
Tier I + Tier II ratio	**18.81%**	21.29%	22.27%

22. 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 in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Consequently, differences can arise between the carrying values and fair value estimates.

The fair values of recognised financial instruments are not materially different from their carrying values, except for loans and advances, customer deposits and investments held at amortised cost.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

30 June 2019 (Unaudited)	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Positive fair value derivatives	**965,082**	**-**	**965,082**	**-**	**965,082**
Investments, net, held as FVTPL	**1,025,027**	**749,427**	**275,600**	**-**	**1,025,027**
Investments, net, held as FVOCI	**12,985,358**	**1,497,278**	**11,458,762**	**29,318**	**12,985,358**
Financial assets not measured at fair value					
Due from banks and other financial institutions	**9,128,528**	**-**	**9,128,528**	**-**	**9,128,528**
Investments, net, held at amortised cost	**42,082,095**	**204,137**	**42,469,778**	**-**	**42,673,915**
Loans and advances, net	**158,275,404**	**-**	**-**	**157,620,901**	**157,620,901**
Financial liabilities measured at fair value					
Negative fair value derivatives	**1,276,500**	**-**	**1,276,500**	**-**	**1,276,500**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**3,902,740**	**-**	**3,902,740**	**-**	**3,902,740**
Customers' deposits	**196,145,482**	**-**	**196,276,704**	**-**	**196,276,704**
Debt securities in issue	**1,500,535**	**-**	**1,500,535**	**-**	**1,500,535**
Borrowings	**1,697,172**	**-**	**1,697,172**	**-**	**1,697,172**

31 December 2018 (Audited)	**Carrying value**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Positive fair value derivatives	562,373	-	562,373	-	562,373
Investments, net, held as FVTPL	419,133	-	419,133	-	419,133
Investments, net, held as FVOCI	12,988,634	1,318,781	11,642,455	27,398	12,988,634
Financial assets not measured at fair value					
Due from banks and other financial institutions	12,041,294	-	12,041,294	-	12,041,294
Investments, net, held at amortised cost	21,162,689	-	21,028,501	-	21,028,501
Loans and advances, net	110,325,959	-	-	109,316,526	109,316,526
Financial liabilities measured at fair value					
Negative fair value derivatives	547,253	-	547,253	-	547,253
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,013,233	-	1,013,233	-	1,013,233
Customers' deposits	130,506,505	-	130,624,132	-	130,624,132
Debt securities in issue	1,499,282	-	1,499,282	-	1,499,282
Borrowings	1,695,308	-	1,695,308	-	1,695,308

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate options, forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives 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 relevant to the markets in which they are traded and are sourced from widely used market data service providers.

FVOCI investments classified as Level 2 include bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

FVOCI investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net assets value as at the reporting date. The movement in Level 3 financial instruments during the period relates to fair value and capital repayment movement only.

Fair values of listed investments are determined using bid marked prices. Fair values of unlisted investments are determined using valuation techniques that incorporate the prices and future earning streams of equivalent quoted securities.

Loans and advances are classified as Level 3, the fair value of which is determined by discounting future cash flows using risk adjusted expected SAIBOR rates.

The fair values of due from and due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since these are short dated and the current market special commission rates for similar financial instruments are not significantly different from the contracted rates.

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

Debt securities in issue and borrowings are floating rate instruments that re-price within a year and accordingly the fair value of this portfolio approximates the carrying value. The fair value of the remaining portfolio is not significantly different from its carrying value.

There were no transfers between the levels of fair value hierarchies during the period.

The values obtained from valuation models may be different from the transaction price of financial instruments on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortised 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 interim consolidated income statement without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market process and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

23. Financial risk management

Credit Risk

The Board of Directors is responsible for the overall risk management approach within SABB and for reviewing its effectiveness.

The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, risk management strategies, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk on credit related commitments and contingencies and derivatives.

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses external rating, of major rating agencies, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases the Bank may also close out transactions to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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 Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or market sector. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for expected credit losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in market for the adequacy of the provision.

a. Provision for expected credit losses, net

The following table shows the provision for expected credit losses for Due from banks and other financial institutions, Investments, Loans and advances and off balance sheet exposures:

	Notes	**30 June 2019 (Unaudited)**	30 June 2018 (Unaudited)
Net provision for expected credit losses:			
Due from banks and other financial institutions	6	**444**	-
Investments	7	**6,881**	(9)
Loans and advances	8	**1,470,658**	66,159
Off balance sheet exposures	17	**198,869**	(13,226)
Write-offs net of recoveries of debts previously written-off		**42,298**	63,507
Net charge for the period		**1,719,150**	116,431

b. Collateral

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. This collateral mostly includes time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collateral are held mainly against commercial and consumer 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.

24. Interim dividend

Subsequent to the period ended 30 June 2019, an interim dividend net of Zakat and income tax of SAR 1,185 million (2018: SAR 1,266 million) has been approved for payment to shareholders. This equates to SAR 0.60 per share for Saudi shareholders net of Zakat (2018: SAR 0.96 per share). The income tax of the foreign shareholders will be deducted from their share of the dividend.

25. Business combination

Further to receipt of regulatory approvals, on 16 June 2019 SABB completed a statutory merger with AAB. On this date, the net assets and business activities of AAB were transferred to SABB in exchange for newly issued shares of SABB. The AAB legal entity ceased to exist following the transfer. Shares of AAB were cancelled and the new shares in SABB were issued to shareholders of AAB at an exchange ratio of 0.48535396 new SABB share for each AAB share. The issue of new shares has increased SABB’s paid-up capital by 37% from SAR 15,000,000,000 to SAR 20,547,945,220 and the number of its issued shares have increased from 1,500,000,000 to 2,054,794,522. SABB and AAB’s original shareholders owned 73% and 27% respectively, of the combined bank on a fully diluted basis on the merger date.

The merger has been accounted for using the acquisition method under IFRS 3 – Business Combinations (the “Standard”) with SABB being the acquirer and AAB being the acquiree. As required by the Standard, SABB is currently in the process of allocating the purchase consideration to the identifiable assets, liabilities and contingent liabilities acquired. The Bank has, however, accounted for the acquisition based on provisional fair values of the acquired assets and assumed liabilities as at the acquisition date. Adjustment to the provisional values will be finalised within twelve months of the date of acquisition as allowed by the Standard.

The Merger will create the Kingdom’s third-largest bank (according to the total assets as of 31 March 2019G), a top-tier retail and corporate bank, and provide access to a global banking network by diversifying its shareholders and customers base to facilitate the flow of investment capital into Saudi Arabia and the growth of international trade. SABB will be well positioned to support the Saudi economy, Saudi residents and Saudi companies in Saudi Arabia and internationally. The benefits of the merger created post completion of the transaction are expected to be fully realized in the earnings of the merged bank two to three years subsequent to the completion of the transaction on 16 June 2019.

a. Purchase consideration

The purchase consideration was determined to be SAR 23,140,991 thousands which consisted of the issue of 554,794,522 new shares to the shareholders of AAB and an additional SAR 6,060 thousands representing SABB's grant of shares to AAB employees under its legacy Share Based Equity Settled Bonus. The fair value of the new issued shares of SABB was determined on the basis of the closing market price of the ordinary shares of SAR 41.70 per share on the Tadawul stock exchange on the last trading date prior to the acquisition date of 16 June 2019. Issue costs which were directly attributable to the issue of the shares were not material. As a result there was an increase in share capital and share premium of SAR 5,547,945 thousands and SAR 17,586,986 thousands, respectively.

b. Merger related costs

During the period ended 30 June 2019, the Bank incurred merger related integration and transaction costs on account of fees paid to third parties for legal, valuation and transaction services as well as costs of in-house staff and third party consultants working on the merger amounting to SAR 133 million (2018: Nil). These costs have been included in 'Salaries and employee related expenses' and 'General and administrative expenses' in the interim consolidated statement of income amounting to SAR 28 million and SAR 105 million respectively. The trend in costs attributable to integration activities may increase during 2019 and 2020 in line with an increase in the pace of activities post completion and are expected to be in line with total spend set out in the shareholder circular presented to shareholders of SABB at the Extraordinary General Meeting held on 15 May 2019.

c. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts at fair value of assets acquired and liabilities assumed at the date of acquisition.

	16 June 2019
Assets	
Cash and balances with SAMA	**4,933,326**
Due from banks and other financial institutions	**966,284**
Positive fair value derivatives	**169,649**
Investments, net	**15,470,050**
Loans and advances, net	**49,363,159**
Investment in an associate	**89,404**
Property and equipment, net	**1,464,126**
Other assets	**1,557,406**
Total assets	**74,013,404**
Liabilities	
Due to banks and other financial institutions	**863,192**
Customers' deposits	**60,836,530**
Negative fair value derivatives	**137,110**
Other liabilities	**3,961,167**
Total liabilities	**65,797,999**
Alawwal Bank net assets as at acquisition date	**8,215,405**
Provisional goodwill arising from the acquisition	**14,925,586**
Total purchase consideration	**23,140,991**

d. Acquired receivables

For each class of acquired receivables, the fair value, gross contractual amounts receivable and the best estimate of the contractual cash flows not expected to be collected are as follows:

	Fair value of the acquired receivables	Gross contractual amount receivable	The contractual cash flows not expected to be collected
Due from banks and other financial institutions	**966,284**	**966,343**	**59**
Investments	**15,470,050**	**15,597,717**	**127,667**
Loans and advances	**49,363,159**	**58,441,324**	**9,078,165**
Other financial assets	**89,404**	**54,204**	**-**
Total	**65,888,897**	**75,059,588**	**9,205,891**

In addition, non-receivable assets and liabilities were subject to fair value adjustments, such as property and equipment.

e. Goodwill

The Bank is in the process of undertaking a comprehensive purchase price allocation which is expected to be completed within twelve months from the acquisition date and will focus on, but is not limited to, finalising valuation adjustments to the following:

- recognition of intangible assets including core deposits and other customer relationships;
- loans and advances;
- properties and equipment;
- other recognized financial and non-financial assets and liabilities.

A provisional purchase price allocation has been included in the financial statements. Subsequent adjustments during the measurement period will occur as the Bank completes its estimation of fair values of assets acquired and liabilities assumed. The accounting for the fair value of the acquired AAB financial assets and liabilities is provisional due to the inherent complexity and judgement associated with identifying intangible assets, and determining the fair value of identified intangible assets and on-balance sheet items.

The goodwill is primarily attributable to the expected future earnings of the acquired business and synergies created.

The goodwill includes goodwill on acquisition of AAB amounting to SAR 14,925,586. The remaining amount of goodwill relates to SABB Takaful.

f. Impact on Bank’s results

From the date of acquisition until 30 June 2019, Alawwal bank contributed operating income of SAR 137 million and a net loss before Zakat and income tax of SAR 343 million to the Bank’s results. If the acquisition had occurred on 1 January 2019, management estimates that combined operating income and net income before Zakat and income tax for the period would be SAR 5.6 billion and SAR 1.5 billion, respectively. In determining these amounts, the Bank has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019. The closing financial statements of AAB are subject to finalization of audit.

26. Comparative figures

Certain other prior period figures have been reclassified to conform with the current period's presentation.

27. Board of directors’ approval

These interim condensed consolidated financial statements were approved by the Board of Directors on 28 Dhu’l-Qi’dah 1440H (31 July 2019G).