

# **Interim Condensed Consolidated Financial Statements**

For the nine month period ended  
30 September 2018

(Unaudited)

**The Saudi British Bank**

**SABB**  **ساب**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2018 Unaudited SAR' 000	31 December 2017 Audited SAR' 000	30 September 2017 Unaudited SAR' 000
	Notes			
<b>ASSETS</b>				
Cash and balances with SAMA		13,158,213	26,874,499	19,074,049
Due from banks and other financial institutions		11,917,518	13,490,700	15,385,665
Positive fair value derivatives	9	953,962	532,364	476,068
Investments, net	5	33,958,182	26,976,751	25,251,708
Loans and advances, net	6	112,127,566	117,006,087	116,685,780
Investment in an associate and a joint venture	7	493,874	524,924	626,347
Property and equipment, net		1,205,486	1,134,927	1,061,199
Other assets		1,124,495	1,075,092	920,004
<b>Total assets</b>		<b>174,939,296</b>	<b>187,615,344</b>	<b>179,480,820</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		1,198,473	3,690,975	1,658,753
Customers' deposits	8	129,327,583	140,239,513	134,565,021
Debt securities in issue		3,031,227	2,998,748	3,023,222
Borrowings		1,693,581	1,682,445	1,685,151
Negative fair value derivatives	9	763,218	481,195	445,405
Other liabilities		6,075,150	5,051,997	5,357,733
<b>Total liabilities</b>		<b>142,089,232</b>	<b>154,144,873</b>	<b>146,735,285</b>
<b>Equity</b>				
<b>Equity attributable to equity holders of the Bank</b>				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		10,163,817	9,545,984	9,098,625
Other reserves		211,954	488	41,766
Retained earnings		7,351,247	7,858,470	8,605,144
Proposed dividends		-	939,650	-
<b>Total equity attributable to equity holders of the Bank</b>		<b>32,727,018</b>	<b>33,344,592</b>	<b>32,745,535</b>
Non-controlling interest		123,046	125,879	-
<b>Total equity</b>		<b>32,850,064</b>	<b>33,470,471</b>	<b>32,745,535</b>
<b>Total liabilities and equity</b>		<b>174,939,296</b>	<b>187,615,344</b>	<b>179,480,820</b>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF INCOME

Unaudited

	Notes	Three months ended		Nine months ended	
		30	30	30	30
		September 2018 SAR'000	September 2017 SAR'000	September 2018 SAR'000	September 2017 SAR'000
Special commission income		1,709,900	1,490,672	4,884,989	4,523,024
Special commission expense		296,160	232,397	758,193	729,779
<b>Net special commission income</b>		<b>1,413,740</b>	<b>1,258,275</b>	<b>4,126,796</b>	<b>3,793,245</b>
Fee and commission income, net		282,717	302,373	913,156	969,194
Exchange income, net		107,172	114,383	310,853	328,372
Income from FVTPL financial instruments, net		3,515	-	3,515	-
Trading income, net		47,210	35,797	131,582	214,299
Dividend income		33,599	31,499	65,099	52,499
Losses on FVOCI debt instruments, net		(10,966)	-	(12,063)	-
Gains on non-trading investments, net		-	21,532	-	30,718
Other operating income / (loss), net		2,913	32	(6,120)	241
<b>Total operating income</b>		<b>1,879,900</b>	<b>1,763,891</b>	<b>5,532,818</b>	<b>5,388,568</b>
Salaries and employee related expenses		323,121	312,887	914,771	904,173
Rent and premises related expenses		35,037	34,356	97,734	102,868
Depreciation		32,865	32,536	99,075	92,122
General and administrative expenses		164,518	152,956	526,280	472,210
Provision for credit losses, net		87,024	168,783	203,455	559,980
Impairment of other financial assets, net		-	(703)	-	49,297
<b>Total operating expenses</b>		<b>642,565</b>	<b>700,815</b>	<b>1,841,315</b>	<b>2,180,650</b>
<b>Income from operating activities</b>		<b>1,237,335</b>	<b>1,063,076</b>	<b>3,691,503</b>	<b>3,207,918</b>
Share in earnings of an associate and a joint venture	7	9,661	20,248	26,828	40,550
<b>Net income for the period</b>		<b>1,246,996</b>	<b>1,083,324</b>	<b>3,718,331</b>	<b>3,248,468</b>
<b>Attributable to:</b>					
Equity holders of the Bank		1,246,860	1,083,324	3,721,164	3,248,468
Non-controlling interest		136	-	(2,833)	-
<b>Net income for the period</b>		<b>1,246,996</b>	<b>1,083,324</b>	<b>3,718,331</b>	<b>3,248,468</b>
<b>Basic and diluted earnings per share (in SAR)</b>	13	<b>0.83</b>	<b>0.72</b>	<b>2.48</b>	<b>2.17</b>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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	Three months ended		Nine months ended	
	30	30	30	30
	September	September	September	September
	2018	2017	2018	2017
	SAR' 000	SAR' 000	SAR' 000	SAR' 000
<b>Net income for the period</b>	<b>1,246,996</b>	<b>1,083,324</b>	<b>3,718,331</b>	<b>3,248,468</b>
<b>Other comprehensive income for the period</b>				
<b>Items that cannot be reclassified subsequently to consolidated statement of income</b>				
- Movement in fair value reserve (FVOCI equity instruments)	(36,036)	-	344,568	-
<b>Items that may be reclassified subsequently to consolidated statement of income</b>				
Debt instrument at fair value through other comprehensive income				
- Net change in fair value	85,340	-	32,254	-
- Transfer to consolidated statement of income, net	10,966	-	12,063	-
Available for sale financial assets				
- Net change in fair value	-	(70,423)	-	(57,367)
- Transfer to consolidated statement of income, net	-	(22,235)	-	18,579
Cash flow hedges				
- Net change in fair value	10,917	33,790	13,596	99,313
- Transfer to consolidated statement of income, net	(877)	(8,409)	(7,096)	(52,543)
Total other comprehensive income / (loss) for the period	70,310	(67,277)	395,385	7,982
<b>Total comprehensive income for the period</b>	<b>1,317,306</b>	<b>1,016,047</b>	<b>4,113,716</b>	<b>3,256,450</b>
<b>Attributable to:</b>				
Equity holders of the Bank	1,317,170	1,016,047	4,116,549	3,256,450
Non-controlling interest	136	-	(2,833)	-
<b>Total</b>	<b>1,317,306</b>	<b>1,016,047</b>	<b>4,113,716</b>	<b>3,256,450</b>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine month period ended 30 September

Unaudited

	Attributable to equity holders of the bank						Non-controlling interest	Total Equity
	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total	interest	
2018	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
Balance at the beginning of the period	15,000,000	9,545,984	488	7,858,470	939,650	33,344,592	125,879	33,470,471
Impact of adopting of new standards at 1 January 2018								
- Re-measurement of financial instruments	-	-	-	(1,642,777)	-	(1,642,777)	-	(1,642,777)
- Reclassification of AFS equity to FVOCI	-	-	(170,000)	170,000	-	-	-	-
- Reclassification of AFS debt to HAC	-	-	(11,133)	-	-	(11,133)	-	(11,133)
Restated balance at 1 January 2018	15,000,000	9,545,984	(180,645)	6,385,693	939,650	31,690,682	125,879	31,816,561
Total comprehensive income for the period								
Net income for the period	-	-	-	3,721,164	-	3,721,164	(2,833)	3,718,331
Net changes in fair value of cash flow hedges	-	-	13,596	-	-	13,596	-	13,596
Net changes in fair value of FVOCI equity investments	-	-	344,568	-	-	344,568	-	344,568
Net changes in fair value of FVOCI debt instruments	-	-	32,254	-	-	32,254	-	32,254
Transfer to interim consolidated statement of income	-	-	4,967	-	-	4,967	-	4,967
			395,385	3,721,164		4,116,549	(2,833)	4,113,716
Treasury shares	-	-	500	-	-	500	-	500
Employee share plan reserve	-	-	(3,286)	-	-	(3,286)	-	(3,286)
Transfer to statutory reserve	-	617,833	-	(617,833)	-	-	-	-
Provision for zakat and income tax	-	-	-	(871,721)	-	(871,721)	-	(871,721)
2017 final dividend paid net of zakat and income tax	-	-	-	-	(939,650)	(939,650)	-	(939,650)
2018 interim dividend paid net of zakat and income tax (note 17)	-	-	-	(1,266,056)	-	(1,266,056)	-	(1,266,056)
Balance at the end of the period	15,000,000	10,163,817	211,954	7,351,247	-	32,727,018	123,046	32,850,064
2017								
Balance at the beginning of the period	15,000,000	8,557,339	24,052	7,127,537	570,000	31,278,928	-	31,278,928
Total comprehensive income for the period								
Net income for the period	-	-	-	3,248,468	-	3,248,468	-	3,248,468
Net changes in fair value of cash flow hedges	-	-	99,313	-	-	99,313	-	99,313
Net changes in fair value of available for sale investments	-	-	(57,367)	-	-	(57,367)	-	(57,367)
Transfer to interim consolidated statement of income	-	-	(33,964)	-	-	(33,964)	-	(33,964)
			7,982	3,248,468		3,256,450	-	3,256,450
Treasury shares	-	-	11,155	-	-	11,155	-	11,155
Employee share plan reserve	-	-	(1,423)	-	-	(1,423)	-	(1,423)
Transfer to statutory reserve	-	541,286	-	(541,286)	-	-	-	-
Provision for zakat and income tax	-	-	-	(313,725)	(158,068)	(471,793)	-	(471,793)
2016 final dividend paid net of zakat and income tax	-	-	-	-	(411,932)	(411,932)	-	(411,932)
2017 interim dividend paid net of zakat and income tax (note 17)	-	-	-	(915,850)	-	(915,850)	-	(915,850)
Balance at the end of the period	15,000,000	9,098,625	41,766	8,605,144	-	32,745,535	-	32,745,535

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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# The Saudi British Bank


## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended 30 September


Unaudited

	2018	2017
Notes	SAR' 000	SAR' 000
<b>OPERATING ACTIVITIES</b>		
Net income for the period	3,718,331	3,248,468
Adjustments to reconcile net income to net cash (used in) / from operating activities:		
Amortisation of premium on investments not held as FVTPL / non-trading investments, net	73	8,578
Depreciation	99,075	92,122
Income from FVTPL financial instruments, net	(3,515)	-
Losses on FVOCI debt instruments, net	12,063	-
Gains on non-trading investments, net	-	(30,718)
Cash flow hedge gain transfer to interim consolidated statement of income	(7,096)	(52,543)
Share in earnings of an associate and a joint venture	(26,828)	(40,550)
Provision for credit losses, net	203,455	559,980
Employee share plan reserve	11,245	9,732
Impairment of other financial assets, net	-	49,297
	<u>4,006,803</u>	<u>3,844,366</u>
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA	478,796	999,766
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition	869,307	(1,138,733)
Investments held at FVTPL	(20,163)	3,719,055
Loans and advances, net	3,435,689	501,049
Other assets and derivatives	(471,000)	-
Net increase / (decrease) in operating liabilities:		
Due to banks and other financial institutions	(2,492,502)	(1,760,421)
Customers' deposits	(10,911,930)	(6,074,764)
Other liabilities and derivatives	(81,152)	799,298
Net cash (used in) / from operating activities	<u>(5,186,152)</u>	<u>889,616</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of non-trading investments	-	18,255,079
Proceeds from sales and maturities of investments not held as FVTPL	4,714,727	-
Purchase of investments not held as FVTPL	(11,309,649)	-
Purchase of non-trading investments	-	(14,299,677)
Dividend received from investment in a joint venture	57,878	56,500
Purchase of property and equipment	(169,634)	(114,969)
Net cash (used in) / from investing activities	<u>(6,706,678)</u>	<u>3,896,933</u>
<b>FINANCING ACTIVITIES</b>		
Treasury shares purchased	(14,031)	-
Debt securities in issue	32,479	(1,494,414)
Borrowings	11,136	(24,807)
Dividends paid	(2,078,119)	(1,286,147)
Net cash used in financing activities	<u>(2,048,535)</u>	<u>(2,805,368)</u>
Net (decrease) / increase in cash and cash equivalents	(13,941,365)	1,981,181
Cash and cash equivalents at beginning of the period	30,095,579	22,958,777
Cash and cash equivalents at end of the period	11 <u>16,154,214</u>	<u>24,939,958</u>
Special commission received during the period	<u>4,650,533</u>	<u>4,462,765</u>
Special commission paid during the period	<u>756,606</u>	<u>797,838</u>
<b>Supplemental non cash information</b>		
Net changes in fair value and transfers to interim consolidated statement of income	<u>395,385</u>	<u>7,982</u>

Mathew Pearce

  
Chief Financial Officer

David Dew

  
Managing Director & Authorized Member

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

### 1. General

The Saudi British Bank (“SABB”) is a Saudi Joint Stock Company 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) with the 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 through a network of 80 branches (30 September 2017 : 82 branches) in the Kingdom of Saudi Arabia. SABB employed 3,177 staff as at 30 September 2018 (30 September 2017 : 3,221). 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.

SABB has 100% (2017 : 100%) ownership interest in a subsidiary, SABB Insurance Agency, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via Arabian Real Estate Company Limited, registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2017 : 100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via SABB Insurance Agency, a limited liability company registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB has 100% (2017 : 100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia). The subsidiary’s main purpose is the registration of real estates and to hold and manage collaterals on behalf of the Bank.

On 17 May 2017, SABB established a Special Purpose Vehicle (“SPV”) SABB Markets Limited, a wholly owned subsidiary incorporated as a limited liability company under the laws of Cayman Islands. The subsidiary will engage in derivatives trading and repo activities. The subsidiary has not yet commenced operations.

SABB has 65% (2017: 32.5%) ownership interest in a subsidiary, SABB Takaful, a joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumad Awal 1428H (6 June 2007). SABB Takaful became a subsidiary of SABB effective 23 November 2017. SABB Takaful’s principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom.

SABB had 100% (2017:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority’s Resolution No. 2007-35-7 dated 10 Jumada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). On 15 June 2017, the subsidiary was liquidated.

SABB has participated in three Structured Entities for the purpose of effecting syndicated loan transactions and to secure collateral rights over specific assets of the borrowers under Islamic financing structures. The entities have no other business operations.

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

SABB owns 50% (2017 : 50%) share in each entity. SABB does not consolidate the entities as it does not have the right to variable returns from its involvement with the entities and ability to affect those returns through its power over the entities. The related underlying funding to the borrower is recorded on SABB’s books.

These interim condensed consolidated financial statements were approved by the Board of Directors on 15 Safar 1440H (Corresponding 24 October 2018G).



## 2. Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting as modified by SAMA for the accounting of zakat and income tax. 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 the Bank's annual consolidated financial statements as at 31 December 2017. The Bank has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and accounting policies for these new standards are disclosed in Note 3.

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 the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the annual consolidated financial statements as at and for the year ended 31 December 2017, except for the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as disclosed above.

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

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

### (i) 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.

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.

## 3. Impact of changes in accounting policies 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 2017, except for the following two new accounting standards that the Bank has adopted effective 1 January 2018. The impact of the adoption of these standards is explained below:

### IFRS 15 Revenue from Contracts with Customers

The Bank adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Bank in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. While IFRS 15 contains more structured guidance than the existing Standard IAS 18, the outcomes for revenue recognition are very similar to current practice of allocating income over the period of the service rendered and therefore IFRS 15 does not have a material impact on the Bank.



## IFRS 9 – Financial Instruments

The Bank has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

### *Classification of financial assets and financial liabilities*

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see respective section of significant accounting policies.

Under IFRS 9, the accounting for financial liabilities largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Bank therefore does not have any material impact on its financial liabilities and the de-recognition accounting policy.

### *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

### *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - i. The determination of the business model within which a financial asset is held.
  - ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
  - iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

## a) Financial assets and financial liabilities

## i) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR in ‘000’	
Financial assets				
Cash and balances with SAMA	Amortised cost	Amortised cost	26,874,499	26,874,499
Due from banks and other financial institutions	Amortised cost	Amortised cost	13,490,700	13,490,700
Positive fair value derivatives	Held for trading	FVTPL (mandatory)	532,364	532,364
Investments- (debt and equities)	Available for Sale	FVOCI	15,872,539	12,735,842
Investments - (debt)	Amortised cost	Amortised cost	10,724,146	13,842,933
Investments- Mutual Funds	Available for Sale	FVTPL	380,066	380,066
Loans and advances	Amortised cost	Amortised cost	117,006,087	115,860,147
Other Assets	Amortised cost	Amortised cost	839,192	839,192
			185,719,593	184,555,743

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR in ‘000’	
Financial liabilities				
Due to banks and other financial institutions	Amortised cost	Amortised cost	3,690,975	3,690,975
Customers’ deposits	Amortised cost	Amortised cost	140,239,513	140,239,513
Debt Securities in issue	Amortised cost	Amortised cost	2,998,748	2,998,748
Borrowings	Amortised cost	Amortised cost	1,682,445	1,682,445
Negative fair value derivatives	Held for trading	FVTPL (mandatory)	481,195	481,195
Other liabilities (including credit provision for off-balance sheet exposures)	Amortised cost	Amortised cost	4,671,931	5,161,991
Other liabilities (reserve for takaful activities)	Held for trading	FVTPL	380,066	380,066
			154,144,873	154,634,933

**ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re- measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
<b>Financial assets</b>				
<b>Amortized cost</b>				
Cash and balances with SAMA	26,874,499	-	-	26,874,499
Due from banks and other financial institutions	13,490,700	-	-	13,490,700
Loans and advances:				
Opening balance	117,006,087	-	-	117,006,087
Remeasurement	-	-	(1,145,940)	(1,145,940)
Closing balance	117,006,087	-	(1,145,940)	115,860,147
Investments (debt):				
Opening balance	10,724,146	-	-	10,724,146
Transferred from FVOCI *	-	3,122,300	-	3,122,300
Remeasurement	-	-	(3,513)	(3,513)
Closing balance	10,724,146	3,122,300	(3,513)	13,842,933
Other assets	839,192	-	-	839,192
Total amortized cost	168,934,624	3,122,300	(1,149,453)	170,907,471
<b>FVOCI (debt and equities)</b>				
Investment:				
Opening balance	15,872,539	-	(3,264)	15,869,275
Transferred to amortized cost *	-	(3,133,433)	-	(3,133,433)
Closing balance	15,872,539	(3,133,433)	(3,264)	12,735,842
<b>FVOCI (mutual funds)</b>				
Investment:				
Opening balance	380,066	-	-	380,066
Transferred to FVTPL	-	(380,066)	-	(380,066)
Closing balance	380,066	(380,066)	-	-

\* There are certain debt securities that have been reclassified from FVOCI to amortised cost, having a net remeasurement impact of SAR 11.13 million (the difference between transfer out and transfer in between the categories).

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re- measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
<b>FVTPL</b>				
Positive fair value of derivatives	532,364	-	-	532,364
Investment transferred from FVOCI	-	380,066	-	380,066
Closing balance	532,364	380,066	-	912,430

#### Financial liabilities

##### Amortized cost

Due to banks and other financial institutions	3,690,975	-	-	3,690,975
Customers' deposits	140,239,513	-	-	140,239,513
Debt Securities in issue	2,998,748	-	-	2,998,748
Borrowings	1,682,445	-	-	1,682,445
Other liabilities (including credit provision for off-balance sheet exposures)	4,671,931	-	490,060	5,161,991
Total amortized cost	153,283,612	-	490,060	153,773,672

##### FVTPL

Negative fair value derivatives	481,195	-	-	481,195
Other liabilities (reserve for takaful activities)	380,066	-	-	380,066
Total FVTPL	861,261	-	-	861,261

#### iii) Reconciliation of reclassifications of financial assets and financial liabilities into amortized cost under IFRS 9

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortized cost category under IFRS 9.

	SAR in '000'
<b>From available for sale financial assets under IAS 39</b>	
Fair value at 30 September 2018	2,982,185
Fair value gain that would have been recognized during 2018 in OCI if the financial assets had not been reclassified	10,859

Financial assets having fair value of SAR 505.3 million as at 31 December 2017 reclassified from AFS/FVOCI to amortised cost have been matured or sold during the period ended 30 September 2018.

#### iv) Impact on retained earnings and other reserves

	Retained earnings	Other reserves
	SAR in '000'	
Closing balance under IAS 39 (31 December 2017)	7,858,470	488
Reclassifications under IFRS 9	170,000	(181,133)
Recognition of expected credit losses under IFRS 9 (including loan commitments and financial guarantee contracts)	(1,642,777)	-
<b>Opening balance under IFRS 9 (1 January 2018)</b>	<b>6,385,693</b>	<b>(180,645)</b>

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39 / IAS 37)	Reclassification	Re- measurement	1 January 2018 (IFRS 9)
	SAR in '000'			
<b>Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)</b>				
Loans and advances, net	3,556,133	-	1,145,940	4,702,073
<b>AFS (IAS 39) / Financial assets at amortised cost (IFRS 9)</b>				
Investment, net	186,571	(170,000)	3,513	20,084
<b>Held at amortised cost (IAS 39) / Financial assets at amortised cost (IFRS 9)</b>				
Investment, net	-	-	3,264	3,264
<b>Loan commitments and financial guarantee Contracts</b>	-	-	490,060	490,060
<b>Total</b>	<b>3,742,704</b>	<b>(170,000)</b>	<b>1,642,777</b>	<b>5,215,481</b>

#### 4. Significant accounting policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017 except for the policies explained below. Based on the adoption of new standards explained in note 3, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in 2017 annual consolidated financial statements.

##### i) Classification of financial assets (policy applicable from 1 January 2018)

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through other comprehensive income (FVOCI);
- Amortised cost, and
- Fair value through profit or loss (FVTPL);

The classification requirements for loans & advances, debt instruments and equity investment are described below:

##### *Loans & Advances and Debt instruments*

Classification and subsequent measurement of loans & advances and debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset which are referred as cash flows are solely payments of principal and interest (SPPI).

Based on these factors, the Bank classifies its loans & advances and debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the fair value are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to Interim Consolidated Statement of Income.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in the interim consolidated Statement of Income in the period in which it arises.

### Business model assessment

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

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

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

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

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

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

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

### ***Equity Instruments***

On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to interim consolidated Statement of Income, including disposal. This election is made on an investment-by-investment basis.

### ***Financial Asset at FVTPL***

All other financial assets are classified as measured at FVTPL (for example: equity held for trading and debt securities not classified neither as AC or FVOCI, mutual fund).

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

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

## **ii) Classification of financial liabilities**

### ***(Policy applicable before 1 January 2018)***

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the interim consolidated statement of income.

### ***(Policy applicable after 1 January 2018)***

The Bank classifies its financial liabilities as measured at amortized cost except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

### **Embedded derivatives**

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. Separated embedded derivatives are presented in the interim condensed consolidated statement of financial position together with the host contract.

## **iii) Derecognition**

### **a. Financial assets**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

On derecognition, any cumulative gain or loss previously recognised in the interim consolidated statement of comprehensive income is included in the interim consolidated statement of income for the period.



**From 1 January 2018**, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

### iv) Modifications of financial assets and financial liabilities

#### a. Financial assets

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

In case the modification of asset does not result in de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash-flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognised in the interim consolidated statement of income for Asset Modification.

#### b. Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the interim consolidated statement of income.

### v) Impairment

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

- financial assets that are measured at amortised cost;
- debt instruments assets measured at FVTOCI;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

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

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

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

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

### *Measurement of ECL*

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

### **Restructured financial assets**

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

- If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

### **Credit-impaired financial assets**

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

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

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

### **Presentation of allowance for ECL in the interim consolidated statement of financial position**

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

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

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### Write-off

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

### Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

### Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy.

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

## vi) Financial guarantees and loan commitments

Financial guarantees are initially recognised in the interim condensed consolidated financial statements at fair value in other liabilities, being the value of the premium received.

Subsequent to the initial recognition,

- From 1 January 2018: the Bank's liability under each guarantee is measured at higher of the unamortized amount and the loss allowance.
- Before 1 January 2018: the Bank's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

The premium received is recognised in the interim consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Bank has issued no loan commitments that are measured at FVTPL. For loan commitments:

- from 1 January 2018: the Bank recognizes loss allowance;
- Before 1 January 2018: the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

## 5. Investments, net

Investment securities are classified as follows:

<b>SAR'000</b>	<b>30 September 2018</b>	31 December 2017	30 September 2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
<b>Investments:</b>			
- FVOCI – Debt	<b>11,567,140</b>	-	-
- FVOCI – Equity	<b>1,358,401</b>	-	-
- FVTPL	<b>400,229</b>	-	-
- Held at amortised cost	<b>20,632,412</b>	10,724,146	8,757,888
- Available for sale	-	16,252,605	16,493,820
<b>Total</b>	<b>33,958,182</b>	26,976,751	25,251,708

## 6. Loans and advances, net

Loans and advances are comprised of the following:

<b>SAR'000</b>	<b>30 September 2018</b>	31 December 2017	30 September 2017
	<b>(Unaudited)</b>	(Audited)	(Unaudited)
Credit cards	<b>2,071,482</b>	2,232,841	2,348,565
Consumer loans	<b>20,381,002</b>	21,552,924	22,419,238
Commercial loans and overdrafts	<b>91,593,487</b>	94,882,921	93,484,582
Performing loans and advances, gross	<b>114,045,971</b>	118,668,686	118,252,385
Non-performing loans and advances, net	<b>2,829,905</b>	1,893,534	1,624,839
<b>Total loans and advances</b>	<b>116,875,876</b>	120,562,220	119,877,224
Provision for credit losses, net	<b>(4,748,310)</b>	(3,556,133)	(3,191,444)
<b>Loans and advances, net</b>	<b>112,127,566</b>	117,006,087	116,685,780

## 7. Investment in an associate and a joint venture

SAR'000	30 September 2018 (Unaudited)	31 December 2017 (Audited)	30 September 2017 (Unaudited)
<b>HSBC Saudi Arabia</b>			
Balance at beginning of the period / year	524,924	513,678	513,678
Share in earnings	26,828	67,746	39,650
Dividend received	(57,878)	(56,500)	(56,500)
	493,874	524,924	496,828
<b>SABB Takaful</b>			
Balance at beginning of the period / year	-	128,619	128,619
Share in earnings	-	1,170	900
Acquired as a subsidiary	-	(129,789)	-
	-	-	129,519
<b>Total</b>	<b>493,874</b>	<b>524,924</b>	<b>626,347</b>

SABB owns 51% (2017: 51%) of the shares of HSBC Saudi Arabia, a joint venture with HSBC. 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.

On 23 November 2017, SABB increased its ownership percentage in its associate, SABB Takaful, from 32.5% to 65%. This has resulted in SABB owning a controlling stake in SABB Takaful. SABB Takaful has become a subsidiary of SABB and therefore, SABB consolidated SABB Takaful financial statements starting November 2017.

## 8. Customers' deposits

SAR'000	30 September 2018 (Unaudited)	31 December 2017 (Audited)	30 September 2017 (Unaudited)
Demand	82,980,428	88,538,701	79,815,754
Savings	7,159,204	6,868,200	6,982,681
Time	38,138,019	43,860,973	46,772,494
Margin deposits	1,049,932	971,639	994,092
<b>Total</b>	<b>129,327,583</b>	<b>140,239,513</b>	<b>134,565,021</b>

## 9. 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.

SAR'000	30 September 2018 (Unaudited)			31 December 2017 (Audited)			30 September 2017 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
<b>Derivatives held for trading:</b>									
Special commission rate swaps	462,890	(445,903)	43,872,771	270,248	(241,185)	41,249,303	263,088	(234,561)	44,717,204
Special commission rate options	193,627	(196,849)	18,790,484	91,904	(93,830)	15,748,090	40,834	(40,834)	18,650,109
Forward foreign exchange contracts	17,132	(14,659)	4,680,174	34,516	(25,406)	14,073,054	57,887	(41,656)	11,889,475
Currency options	3,527	(3,529)	10,284,323	18,355	(18,441)	41,251,205	18,050	(18,442)	56,693,726
Currency swaps	26,763	(25,947)	2,951,250	18,023	(16,521)	3,205,935	15,749	(14,429)	3,018,857
Others	11,642	(11,642)	360,836	14,862	(14,861)	360,836	11,665	(11,665)	360,836
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	191,518	(33,944)	8,101,877	42,027	(40,034)	6,498,750	19,068	(57,597)	5,317,500
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	9,275	(17,031)	1,190,000	30,282	(15,273)	1,390,000	22,932	(11,045)	1,390,000
Currency swaps	37,588	(13,714)	1,350,000	12,147	(15,644)	1,419,078	26,795	(15,176)	1,552,591
<b>Total</b>	<b>953,962</b>	<b>(763,218)</b>	<b>91,581,715</b>	<b>532,364</b>	<b>(481,195)</b>	<b>125,196,251</b>	<b>476,068</b>	<b>(445,405)</b>	<b>143,590,298</b>

## 10. Commitments and contingencies

### a) Legal proceedings

As at 30 September 2018, there are legal proceedings outstanding against the Bank. 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 Bank's credit related commitments and contingencies are as follows:

<b>SAR'000</b>	<b>30 September 2018 (Unaudited)</b>	<b>31 December 2017 (Audited)</b>	<b>30 September 2017 (Unaudited)</b>
Letters of credit	<b>10,513,879</b>	11,000,938	9,403,813
Letters of guarantee	<b>54,336,241</b>	52,605,933	53,320,694
Acceptances	<b>3,592,692</b>	3,281,948	3,937,868
Irrevocable commitments to extend credit	<b>3,539,923</b>	3,518,077	3,176,077
<b>Total</b>	<b>71,982,735</b>	70,406,896	69,838,452

**c) Zakat**

During the period ended 30 September 2018, there has been no change in the status of the Bank's Zakat assessments. The Bank's position with respect to these assessments has remained the same as disclosed in the annual consolidated financial statements for the year ended 31 December 2017. However, given the ongoing uncertainty pertaining to the industry wide issue relating to the disallowance of long-term investments and addition of long term financing to the zakat base, SABB has set aside a sum of SAR500 million in other liabilities. SABB, as a matter of principle, disagrees with the long term investments and long term financing treatment applied by GAZT and will continue to contest it with the authorities.

**11. Cash and cash equivalents**

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

<b>SAR'000</b>	<b>30 September 2018 (Unaudited)</b>	<b>31 December 2017 (Audited)</b>	<b>30 September 2017 (Unaudited)</b>
Cash and balances with SAMA excluding statutory deposit	<b>5,475,246</b>	18,712,736	11,220,900
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	<b>10,678,968</b>	11,382,843	13,719,058
<b>Total</b>	<b>16,154,214</b>	30,095,579	24,939,958

**12. 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.

**a) The Bank's reportable segments are as follows:**

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

**Corporate Banking** – caters mainly to the banking requirements of commercial and corporate 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 insurance subsidiary, SABB Takaful, its investment banking joint venture, HSBC Saudi Arabia, and equity investments. It also includes elimination of inter-group income and expense items.



# The Saudi British Bank

## Notes To The Interim Condensed Consolidated Financial Statements (continued) 30 September 2018

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 September 2018 and 2017, its total operating income and expenses, and the results for the nine month periods then ended, by operating segment, are as follows:

<b>30 September 2018 (Unaudited) SAR' 000</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Others (including intergroup eliminations)</b>	<b>Total</b>
Total assets	26,342,599	88,802,507	57,143,207	2,650,983	174,939,296
Total liabilities	58,088,569	68,650,820	14,817,235	532,608	142,089,232
Total operating income	2,015,162	2,555,145	900,457	62,054	5,532,818
Provision for credit losses and other impairments	190,048	17,399	(3,992)	-	203,455
Other operating expenses	961,149	550,274	120,126	6,311	1,637,860
Share in earnings of a joint venture	-	-	-	26,828	26,828
Net income for the period	863,965	1,987,472	784,323	82,571	3,718,331

<b>30 September 2017 (Unaudited) SAR' 000</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Others (including intergroup eliminations)</b>	<b>Total</b>
Total assets	28,850,037	90,885,386	58,077,153	1,668,244	179,480,820
Total liabilities	59,411,328	69,655,584	17,668,373	-	146,735,285
Total operating income	1,928,693	2,416,744	990,632	52,499	5,388,568
Provision for credit losses and other impairments	307,680	252,300	(703)	50,000	609,277
Other operating expenses	923,700	538,373	109,300	-	1,571,373
Share in earnings of an associate and a joint venture	-	-	-	40,550	40,550
Net income for the period	697,313	1,626,071	882,035	43,049	3,248,468

### b) Total operating income by operating segments

<b>30 September 2018 (Unaudited) SAR'000</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Others (including intergroup eliminations)</b>	<b>Total</b>
External	1,496,487	3,270,242	704,035	62,054	5,532,818
Inter-segment	518,675	(715,097)	196,422	-	-
Total operating income	2,015,162	2,555,145	900,457	62,054	5,532,818

<b>30 September 2017 (Unaudited) SAR'000</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Others (including intergroup eliminations)</b>	<b>Total</b>
External	1,598,028	3,276,712	461,329	52,499	5,388,568
Inter-segment	330,665	(859,968)	529,303	-	-
Total operating income	1,928,693	2,416,744	990,632	52,499	5,388,568

### 13. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 30 September 2018 and 30 September 2017 are calculated by dividing the net income for the periods by 1,500 million shares.

### 14. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

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 amount of derivatives at a weighted amount to reflect their relative risk.

SAMA through its circular number 391000029731 Dated 15/03/1439AH (Corresponding 3/12/2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

	30 September 2018 SAR'000 (Unaudited)	31 December 2017 SAR'000 (Audited)	30 September 2017 SAR'000 (Unaudited)
<b>Risk Weighted Assets (RWA)</b>			
Credit Risk RWA	156,567,093	162,589,324	162,309,634
Operational Risk RWA	12,747,160	13,712,152	13,599,742
Market Risk RWA	2,083,900	2,278,175	2,504,775
<b>Total RWA</b>	<b>171,398,153</b>	<b>178,579,651</b>	<b>178,414,151</b>
<b>Tier I Capital</b>	<b>34,123,379</b>	<b>33,344,592</b>	<b>32,745,535</b>
<b>Tier II Capital</b>	<b>3,666,525</b>	<b>4,132,367</b>	<b>4,327,820</b>
<b>Total I &amp; II Capital</b>	<b>37,789,904</b>	<b>37,476,959</b>	<b>37,073,355</b>
<b>Capital Adequacy Ratio %</b>			
<b>Tier I ratio</b>	<b>19.91%</b>	18.67%	18.35%
<b>Tier I + Tier II ratio</b>	<b>22.05%</b>	20.99%	20.78%

### 15. 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 and customer deposits.

**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 September 2018 (Unaudited) SAR' 000	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Derivative financial instruments	953,962	-	953,962	-	953,962
Held as FVTPL	400,229	375,133	25,096	-	400,229
Held as FVOCI	12,925,541	1,331,381	11,567,140	27,020	12,925,541
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions	11,917,518	-	11,917,518	-	11,917,518
Investments held at amortised cost	20,632,412	-	20,359,345	-	20,359,345
Loans and advances	112,127,566	-	-	111,052,011	111,052,011
<b>Financial liabilities measured at fair value</b>					
Derivative financial instruments	763,218	-	763,218	-	763,218
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	1,198,473	-	1,198,473	-	1,198,473
Customers deposits	129,327,583	-	129,413,143	-	129,413,143
Debt securities in issue	3,031,227	-	3,031,227	-	3,031,227
Borrowings	1,693,581	-	1,693,581	-	1,693,581

31 December 2017 (Audited) SAR' 000	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Derivative financial instruments	532,364	-	532,364	-	532,364
Financial investments available for sale	16,252,605	1,367,052	14,856,030	29,523	16,252,605
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions	13,490,700	-	13,490,700	-	13,490,700
Investments held at amortised cost	10,724,146	-	10,632,181	-	10,632,181
Loans and advances	117,006,087	-	-	115,751,698	115,751,698
<b>Financial liabilities measured at fair value</b>					
Derivative financial instruments	481,195	-	481,195	-	481,195
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	3,690,975	-	3,690,975	-	3,690,975
Customers deposits	140,239,513	-	140,371,074	-	140,371,074
Debt securities in issue	2,998,748	-	2,998,748	-	2,998,748
Borrowings	1,682,445	-	1,682,445	-	1,682,445

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 (2017: available for sale) 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 (2017: available for sale) 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 (NAV) as at the reporting date. The movement in Level 3 financial instruments during the period relates to fair value and capital repayment movement only. Loans and advances are classified as Level 3, the fair value of which is determined by discounting future cash flows using risk adjusted expected SIBOR rates. The fair values of due from and due to banks and other financial institutions which are carried at amortized 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. 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 total amount of the changes in fair value recognised in the interim consolidated statement of income, which was estimated using valuation technique, is positive SAR 39 million (2017 : positive SAR 33 million).

The values obtained from valuation model may be different from the transaction price of financial instrument 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 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 interim consolidated income statement without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, 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 premium used in estimating discounts 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.

### 16. 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 ratings, 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 credit losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in market's products and emerging best practice.

**a. Provision for credit losses**

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

Loans and advances to customers at amortised cost SAR in '000'	30 September 2018				Total
	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Purchased credit impaired	
Balance at 1 January	517,743	1,951,464	2,201,897	30,969	4,702,073
Transfer to 12 month ECL	110,082	(101,618)	(8,464)	-	-
Transfer to lifetime ECL not credit impaired	(34,291)	66,315	(32,024)	-	-
Transfer to lifetime ECL credit impaired	(7,848)	(127,329)	135,177	-	-
Net charge / (reversal) for the period	(206,655)	156,586	191,257	8,053	149,241
Write-offs	-	-	(103,004)	-	(103,004)
Balance as at 30 September	379,031	1,945,418	2,384,839	39,022	4,748,310

Off balance sheet SAR in '000'	30 September 2018			Total
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	
Balance at 1 January	142,642	347,158	260	490,060
Transfer to 12 month ECL	38,580	(38,580)	-	-
Transfer to lifetime ECL not credit impaired	(1,224)	36,484	(35,260)	-
Transfer to lifetime ECL credit impaired	(72)	(14,634)	14,706	-
Net charge / (reversal) for the period	(148,697)	(137,531)	196,782	(89,446)
Balance as at 30 September	31,229	192,897	176,488	400,614

**b. Collateral**

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

**17. Interim dividend**

An interim dividend of SAR 1,500 million (2017 : SAR 1,125 million) was approved on 23 July 2018 for payment to shareholders. After deducting zakat, this interim dividend resulted in a net payment of SAR 0.96 per share (2017 : SAR 0.71 per share) to the Saudi shareholders. The income tax liability of the foreign shareholders was deducted from their share of the dividend.

**18. Post balance sheet event**

Further to the 1/9/1439H (corresponding to May 16, 2018G) announcement of a non-binding agreement between the Saudi British Bank ("SABB") and Alawwal bank with respect to the exchange ratio of their proposed merger, SABB announced to its shareholders that it entered into a binding merger agreement on 3 October 2018 with Alawwal bank under which the two banks agreed to take the necessary steps to implement a merger by way of a statutory merger pursuant to Articles 191-193 of the Companies Law and Article 49(a)(1) of the Merger and Acquisition Regulations (the "Agreement").

**19. Comparative figures**

Certain prior period figures have been reclassified to conform with the current period's presentation. The effect of these reclassifications was not material to these interim condensed consolidated financial statements.