

**The Saudi British Bank  
Consolidated Financial Statements  
For the year ended**

31 December 2019



**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company)**

**Report on the audit of the consolidated financial statements**

**Opinion**

We have audited the consolidated financial statements of The Saudi British Bank ("SABB" or "the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "the IFRSs as endorsed in the KSA").

**Basis for opinion**

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

**Key audit matters**

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

**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (continued)**

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

**Key audit matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Business combination</i></b></p> <p><b><i>a. Merger accounting</i></b></p> <p>On 16 June 2019, SABB completed the merger with Alawwal bank (“AAB”) for a total purchase consideration of SAR 23.14 billion. The provisional fair value of intangibles (including goodwill) recognized in the business combination amounted to SAR 15.1 billion. This transaction has been accounted for in accordance with IFRS 3 Business Combinations (“IFRS 3”) using the acquisition method.</p> <p>A provisional purchase price allocation (“PPA”) carried out as part of the business combination requires significant management judgment in determining the fair values of assets acquired and liabilities assumed, including intangible assets which are inherently judgmental due to the specialised nature of most intangible assets and the subjectivity of the assumptions used to appropriately value them. In accordance with IFRS 3, the final allocation of the purchase price must be finalised within a period of twelve months following the acquisition date.</p> <p>We consider this area as a key audit matter because of:</p> <ul style="list-style-type: none"> <li>- the scale of the merger transaction and the PPA exercise conducted;</li> <li>- the subjectivity and judgment inherent in determining the fair values of the assets acquired (including intangible assets) and the liabilities assumed; and</li> <li>- the accuracy and completeness of the data used to calculate the components of the provisional PPA; and the related consolidated financial statement disclosures.</li> </ul> <p><i>Refer to the summary of significant accounting policies note 2C for business combination and goodwill; and note 20 which contains the disclosure of purchase consideration, valuation approach and methodologies for other intangibles, identifiable assets acquired and liabilities assumed and purchase price allocation.</i></p>	<ul style="list-style-type: none"> <li>■ We reviewed the key terms in the merger agreement and the deal evaluation reports (including estimated synergy calculations) to obtain an understanding of the merger transaction.</li> <li>■ We assessed the design and implementation of the key controls around: <ul style="list-style-type: none"> <li>● the fair value modelling process, including governance over the model and approval of key assumptions;</li> <li>● the integrity of data inputs into the valuation models.</li> </ul> </li> <li>■ We reviewed and compared the Bank’s valuation methodology with the requirements of IFRS 3 and, where relevant, we involved our valuation specialists to assist in the review of the valuation methodology and the key underlying assumptions.</li> <li>■ We reviewed the deal valuation reports and the relevant board minutes and held discussions with management to assess if the identification of intangible assets was in line with the rationale for the acquisition.</li> <li>■ We reviewed and challenged the appropriateness of the useful lives assigned to the identified intangible assets.</li> <li>■ We assessed the adequacy of the disclosures in the consolidated financial statements.</li> </ul>

**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (continued)**

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

**Key audit matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><i>Business combination (continued)</i></p> <p><b>b. Carrying value of provisional goodwill</b></p> <p>As at 31 December 2019, provisional goodwill ("the goodwill") amounting to SAR 13.08 billion has been recognised in the consolidated statement of financial position arising from the provisional PPA exercise conducted by management as a result of the completion of the AAB merger transaction on 16 June 2019.</p> <p>Goodwill is subject to an annual impairment assessment, and may be impaired if the carrying value of goodwill is not supported by the estimates of value-in-use ("VIU") within each cash generating unit ("CGU") to which it is allocated, based on the estimated discounted future cash flows of those CGUs.</p> <p>We considered this as a key audit matter, as the estimation of future cash flows and the assumptions involved in calculating the discounted value of these cash flows by CGU both involve the application of management judgment and estimation.</p> <p><i>Refer to the summary of significant accounting policies note 2C for business combination and goodwill; and note 9 which contains the disclosure of goodwill and the impairment testing of goodwill.</i></p>	<ul style="list-style-type: none"> <li>▪ We analysed the identification of different CGUs and assessed whether these were appropriate in line with our understanding of the business and are consistent with the internal reporting of the business. Furthermore, we assessed the reasonableness of allocation of goodwill to each identified CGU.</li> <li>▪ We reviewed the annual operating plans and ensured they were consistently applied in the goodwill impairment assessment conducted by management.</li> <li>▪ We involved our specialists and assessed the reasonableness of the VIU calculations and the underlying assumptions, including cash flow projections and discount rates used.</li> <li>▪ We tested input data on a sample basis in the impairment assessment and checked the mathematical accuracy of the calculations.</li> <li>▪ We assessed the adequacy of disclosures in the consolidated financial statements.</li> </ul>

**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (continued)**

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

**Key audit matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Impairment of loans and advances</i></b></p> <p>As at 31 December 2019, the gross loans and advances of the Group were SAR 160.77 billion, against which an expected credit loss ("ECL") allowance of SAR 6.09 billion was maintained.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant management judgement, and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include:</p> <ol style="list-style-type: none"> <li>1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of:               <ol style="list-style-type: none"> <li>(a) exposures with a significant increase in credit risk ("SICR") since their origination; and</li> <li>(b) individually impaired / default exposures.</li> </ol> </li> <li>2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to assessment of the financial condition of counterparties, expected future cash flows and forward looking macroeconomic factors.</li> <li>3. The need to apply overlays to reflect current or future external factors that might not be captured by the ECL model.</li> </ol> <p><i>Refer to the summary of significant accounting policies note 2(B) for the impairment of financial assets; note 1.1(f)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 6(b) which contains the disclosure of impairment against loans and advances; and note 32 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.</i></p>	<ul style="list-style-type: none"> <li>■ We obtained an understanding of management's assessment of impairment of loans and advances including the Group's internal rating model, impairment allowance policy and the ECL modelling methodology.</li> <li>■ We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9.</li> <li>■ We assessed the design and implementation, and tested the operating effectiveness of the key controls over:               <ul style="list-style-type: none"> <li>● the modelling process, including governance over the monitoring of the model and approval of key assumptions;</li> <li>● the classification of borrowers into various stages, timely identification of SICR and the determination of default / individually impaired exposures; and</li> <li>● the integrity of data inputs into the ECL model.</li> </ul> </li> <li>■ For a sample of customers, we assessed:               <ul style="list-style-type: none"> <li>● the internal ratings determined by management based on the Group's internal rating model and checked these ratings were in line with the ratings used in the ECL model;</li> <li>● the staging as identified by management; and</li> <li>● management's computations for ECL.</li> </ul> </li> <li>■ We checked the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the Group's staging categorisation.</li> <li>■ We assessed the reasonableness of underlying assumptions, including forward looking assumptions, used by the Group in the ECL model.</li> <li>■ Where management overlays were used, we assessed those overlays and the governance process around such overlays.</li> <li>■ We checked the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2019.</li> <li>■ Where relevant, we involved our specialists to assist us in reviewing model calculations and assessing the reasonableness of assumptions used in the ECL model.</li> <li>■ We assessed the adequacy of disclosures in the consolidated financial statements.</li> </ul>

**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (continued)**

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

**Key audit matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of derivative financial instruments</b></p> <p>The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); currency, special commission rate and equity options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations.</p> <p>The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flow or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, impact the hedge accounting as well.</p> <p>We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modelling techniques and valuation inputs that are not market observable.</p> <p><i>Refer to the basis of preparation note 1.1(f)(ii) to the consolidated financial statements which sets out the critical accounting judgements, estimates and assumptions regarding fair value measurement; the summary of significant accounting policies note 2(E) for the accounting policy relating to derivative financial instruments and hedge accounting; and note 11 which discloses the derivative positions as at the reporting date.</i></p>	<ul style="list-style-type: none"> <li>■ We assessed the design and implementation, and tested the operating effectiveness, of the key controls over management's process for valuation of derivatives and hedge accounting, including the testing of relevant automated controls covering the fair valuation process for derivatives.</li> <li>■ We selected a sample of derivatives and: <ul style="list-style-type: none"> <li>● Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations;</li> <li>● Assessed the key inputs to the valuation models;</li> <li>● Performed independent valuations of the derivatives and compared the result with management's valuation;</li> <li>● Checked the hedge effectiveness performed by the Group and the related hedge accounting; and</li> <li>● Assessed the adequacy of disclosures around the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements.</li> </ul> </li> </ul>

**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (continued)**

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

**Other information included in the Group's 2019 annual report**

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 annual report other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

**Auditors' responsibilities for the audit of the consolidated financial statements**

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



**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (continued)**

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

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

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

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

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

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



**Independent auditors' report  
to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (continued)**

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

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

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

**Report on other legal and regulatory requirements**

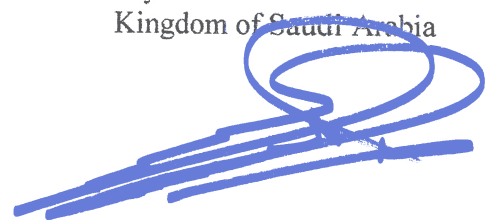
Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2019.

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6 Rajab 1441H  
(1 March 2020)




# The Saudi British Bank

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2019 SAR' 000	2018 SAR' 000
<b>ASSETS</b>			(Restated)
Cash and balances with SAMA	3	21,266,892	14,101,089
Due from banks and other financial institutions, net	4	4,987,766	12,041,294
Positive fair value derivatives, net	11	970,526	562,373
Investments, net	5	60,483,826	34,570,456
Loans and advances, net	6	154,676,970	110,325,959
Investments in associates and a joint venture	7	660,198	532,597
Property and equipment, net	8	3,308,278	1,224,832
Goodwill and other intangibles	9 & 20	15,345,896	69,644
Other assets	10	3,772,092	1,248,528
<b>Total assets</b>		<b>265,472,444</b>	<b>174,676,772</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	12	3,652,686	1,013,233
Customers' deposits	13	192,166,524	130,506,505
Debt securities in issue	14	1,499,752	1,499,282
Borrowings	15	-	1,695,308
Negative fair value derivatives, net	11	1,317,640	547,253
Other liabilities	16	10,675,591	6,839,433
<b>Total liabilities</b>		<b>209,312,193</b>	<b>142,101,014</b>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Bank</b>			
Share capital	17	20,547,945	15,000,000
Share premium	20	17,586,986	-
Statutory reserve	18	11,485,841	10,778,261
Other reserves	19	237,429	(3,123)
Retained earnings		4,977,064	5,260,926
Proposed dividends	27	1,234,454	1,430,954
<b>Total equity attributable to equity holders of the Bank</b>		<b>56,069,719</b>	<b>32,467,018</b>
Non-controlling interest		90,532	108,740
<b>Total equity</b>		<b>56,160,251</b>	<b>32,575,758</b>
<b>Total liabilities and equity</b>		<b>265,472,444</b>	<b>174,676,772</b>

Mathew Pearce

  
Chief Financial Officer

David Dew

  
Managing Director & Authorised Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF INCOME**  
**For the years ended 31 December**

	Notes	2019 SAR'000	2018 SAR'000
			(Restated)
Special commission income	22	8,928,004	6,642,002
Special commission expense	22	(1,564,048)	(1,064,673)
<b>Net special commission income</b>		<b>7,363,956</b>	<b>5,577,329</b>
Fee and commission income, net	23	1,301,619	1,127,730
Exchange income, net		508,837	412,545
Income from FVTPL financial instruments, net		14,692	3,515
Trading income, net	24	95,307	171,209
Dividend income		72,239	65,099
Gains / (losses) on FVOCI debt instruments, net		40,033	(20,947)
Other operating income / (losses), net		964	(13,645)
<b>Total operating income</b>		<b>9,397,647</b>	<b>7,322,835</b>
Provision for expected credit losses, net	6(c)	(2,609,443)	(259,032)
<b>Operating expenses:</b>			
Salaries and employee related expenses	25	(1,789,486)	(1,239,055)
Rent and premises related expenses		(77,165)	(135,938)
Depreciation and amortization	8 & 9	(432,120)	(131,465)
General and administrative expenses		(1,350,636)	(693,793)
<b>Total operating expenses</b>		<b>(3,649,407)</b>	<b>(2,200,251)</b>
<b>Income from operating activities</b>		<b>3,138,797</b>	<b>4,863,552</b>
Share in earnings of associates and a joint venture	7	132,618	65,551
<b>Net income for the year before Zakat and income tax</b>		<b>3,271,415</b>	<b>4,929,103</b>
Provision for Zakat and income tax - Current	27	(446,368)	(2,254,383)
(Provision) / reversal for income tax - Deferred	28	(12,935)	23,584
<b>Net income for the year after Zakat and income tax</b>		<b>2,812,112</b>	<b>2,698,304</b>
<b>Attributable to:</b>			
Equity holders of the Bank		2,830,320	2,715,443
Non-controlling interest		(18,208)	(17,139)
<b>Net income for the year after Zakat and income tax</b>		<b>2,812,112</b>	<b>2,698,304</b>
<b>Basic and diluted earnings per share (in SAR)</b>	26	<b>1.57</b>	<b>1.81</b>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director &amp; Authorised Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

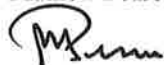
# The Saudi British Bank

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Notes	2019 SAR' 000	2018 SAR' 000 (Restated)
<b>Net income for the year after Zakat and income tax</b>		<b>2,812,112</b>	<b>2,698,304</b>
<b>Other comprehensive income for the year</b>			
<b>Items that cannot be reclassified to consolidated statement of income in subsequent periods</b>			
- Net changes in fair value (FVOCI equity instruments)	19	27,876	333,078
- Re-measurement of defined benefit liability	30	18,651	-
<b>Items that can be reclassified to consolidated statement of income in subsequent periods</b>			
<b>Debt instrument at FVOCI</b>			
- Net changes in fair value	19	279,148	(176,408)
- Transfer to consolidated statement of income, net	19	(40,033)	20,947
<b>Cash flow hedges</b>			
- Net changes in fair value	19	19,611	6,760
- Transfer to consolidated statement of income, net	19	(1,166)	(7,865)
<b>Total other comprehensive income for the year</b>		<b>304,087</b>	<b>176,512</b>
<b>Total comprehensive income for the year</b>		<b>3,116,199</b>	<b>2,874,816</b>
<b>Attributable to:</b>			
Equity holders of the Bank		3,134,407	2,891,955
Non-controlling interest		(18,208)	(17,139)
<b>Total</b>		<b>3,116,199</b>	<b>2,874,816</b>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorised Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

# The Saudi British Bank

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the years ended 31 December

	Notes	Attributable to equity holders of the Bank						Non-controlling interest SAR '000	Total Equity SAR '000
		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	
2019									
Balance at the beginning of the year as reported		15,000,000	-	10,778,261	(3,123)	5,135,131	1,430,954	32,341,223	32,463,097
Effect of restatements	27	-	-	-	-	125,795	-	125,795	112,661
Restated balance as at 1 January 2019		15,000,000	-	10,778,261	(3,123)	5,260,926	1,430,954	32,467,018	32,575,758
Total comprehensive income for the year									
Net income for the year after Zakat and income tax		-	-	-	-	2,830,320	-	2,830,320	2,812,112
Net changes in fair value of cash flow hedges	19	-	-	-	19,611	-	-	19,611	19,611
Re-measurement of defined benefit liability	30	-	-	-	18,651	-	-	18,651	18,651
Net changes in fair value of FVOCI equity instruments	19	-	-	-	27,876	-	-	27,876	27,876
Net changes in fair value of FVOCI debt instruments	19	-	-	-	279,148	-	-	279,148	279,148
Transfer to consolidated statement of income	19	-	-	-	(41,199)	-	-	(41,199)	(41,199)
					304,087	2,830,320		3,134,407	3,116,199
Transfer of gain on disposal of equity instruments at FVOCI to retained earnings	19	-	-	-	(13,172)	13,172	-	-	-
Treasury shares		-	-	-	11,350	-	-	11,350	11,350
Business combination	20	5,547,945	17,586,986	-	(72,646)	-	-	23,062,285	23,062,285
Employee share plan reserve		-	-	-	10,933	-	-	10,933	10,933
Transfer to statutory reserve	18	-	-	707,580	-	(707,580)	-	-	-
2018 final dividend paid net of Zakat and income tax	27	-	-	-	-	-	(1,430,954)	(1,430,954)	(1,430,954)
2019 interim dividend paid net of Zakat and income tax	27	-	-	-	-	(1,185,320)	-	(1,185,320)	(1,185,320)
2019 final dividend proposed, net of Zakat and income tax	27	-	-	-	-	(1,234,454)	1,234,454	-	-
Balance at the end of the year		20,547,945	17,586,986	11,485,841	237,429	4,977,064	1,234,454	56,069,719	56,160,251
2018									
Balance at the beginning of the year as reported		15,000,000	-	9,545,984	(180,645)	6,385,693	939,650	31,690,682	31,816,561
Effect of restatement of deferred tax	27	-	-	-	-	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	31,905,638
Total comprehensive income for the year									
Net income for the year after Zakat and income tax		-	-	-	-	2,715,443	-	2,715,443	2,698,304
Net changes in fair value of cash flow hedges	19	-	-	-	6,760	-	-	6,760	6,760
Net changes in fair value of FVOCI equity investments	19	-	-	-	333,078	-	-	333,078	333,078
Net changes in fair value of FVOCI debt instruments	19	-	-	-	(176,408)	-	-	(176,408)	(176,408)
Transfer to consolidated statement of income	19	-	-	-	13,082	-	-	13,082	13,082
					176,512	2,715,443		2,891,955	2,874,816
Treasury shares		-	-	-	500	-	-	500	500
Employee share plan reserve		-	-	-	510	-	-	510	510
Transfer to statutory reserve	18	-	-	1,232,277	-	(1,232,277)	-	-	-
2017 final dividend net of Zakat and income tax	27	-	-	-	-	-	(939,650)	(939,650)	(939,650)
2018 interim dividend net of Zakat and income tax	27	-	-	-	-	(1,266,056)	-	(1,266,056)	(1,266,056)
2018 final dividend proposed, net of Zakat and income tax	27	-	-	-	-	(1,430,954)	1,430,954	-	-
Balance at the end of the year		15,000,000	-	10,778,261	(3,123)	5,260,926	1,430,954	32,467,018	32,575,758

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorised Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

# The Saudi British Bank

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December


	Notes	2019 SAR'000	2018 SAR'000
<b>OPERATING ACTIVITIES</b>			(Restated)
Net income for the year after Zakat and income tax		2,812,112	2,698,304
Adjustments to reconcile net income after Zakat and income tax to net cash from / (used in) operating activities:			
(Accretion of discount) / amortisation of premium on investments not held as FVTPL investments, net		4,545	(2,873)
Depreciation and amortisation	8 & 9	432,120	131,465
Income from FVTPL financial instruments, net		(14,692)	(3,515)
(Gains) / losses on FVOCI debt instruments, net	19	(40,033)	20,947
Gain on disposal of shareholding in a joint venture	7	(13,419)	-
Cash flow hedge gain transfer to consolidated statement of income	19	(1,166)	(7,865)
Share in earnings of associates and a joint venture	7	(132,618)	(65,551)
Provision for expected credit losses, net	6(c)	2,609,443	259,032
Employee share plan reserve		22,923	15,040
		<b>5,679,215</b>	<b>3,044,984</b>
<b>Change in operating assets:</b>			
Statutory deposit with SAMA		(90,476)	552,214
Due from banks and other financial institutions		1,642,531	376,498
Investments held as FVTPL		(421,424)	(38,988)
Loans and advances, net		1,808,999	5,206,242
Other assets and derivatives		(1,406,812)	(128,174)
<b>Change in operating liabilities:</b>			
Due to banks and other financial institutions		13,251,336	(2,677,742)
Customers' deposits		784,013	(9,733,008)
Other liabilities and derivatives, net		135,869	1,451,433
<b>Net cash from / (used in) operating activities</b>		<b>21,383,251</b>	<b>(1,946,541)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturity of investments not held as FVTPL		3,969,310	6,190,565
Purchase of investments not held as FVTPL		(13,573,045)	(13,596,085)
Dividend received from investments in associates and a joint venture	7	62,640	57,878
Proceeds from disposal of shareholding in an associate	7	36,000	-
Cash and cash equivalents acquired through business combination	20	2,632,553	-
Purchase of property and equipment		(291,780)	(277,208)
<b>Net cash used in investing activities</b>		<b>(7,164,322)</b>	<b>(7,624,850)</b>
<b>FINANCING ACTIVITIES</b>			
Treasury shares purchased		-	(14,031)
Debt securities in issue		470	(1,499,466)
Borrowings		(1,695,308)	12,863
Dividends paid		(2,652,015)	(2,221,982)
<b>Net cash used in financing activities</b>		<b>(4,346,853)</b>	<b>(3,722,616)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>9,872,076</b>	<b>(13,294,007)</b>
<b>Cash and cash equivalents at beginning of the year</b>	29	<b>16,801,572</b>	<b>30,095,579</b>
<b>Cash and cash equivalents at end of the year</b>	29	<b>26,673,648</b>	<b>16,801,572</b>
Special commission received during the year		8,433,603	6,416,182
Special commission paid during the year		1,666,003	1,057,604
<b>Supplemental non cash information</b>			
Net changes in fair value and transfers to consolidated statement of income		304,087	176,512

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorised Member

The accompanying notes 1 to 41 form an integral part of these 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 through a network of 136 branches (2018: 78 branches) in the Kingdom of Saudi Arabia. SABB employed 4,537 staff as at 31 December 2019 (2018: 3,171). 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 compliant 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 20 for details.

SABB has 100% (2018: 100%) ownership interest in a subsidiary, SABB Insurance Agency Limited (“SIAL”), 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 SIAL directly and 2% indirectly through another subsidiary incorporated in the Kingdom of Saudi Arabia. SIAL’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 (“SRECO”), 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 SRECO directly and 0.2% indirectly through another subsidiary incorporated in the Kingdom of Saudi Arabia. SRECO’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 100% (2018: 0%) directly held ownership interest in a subsidiary, Alawwal Invest (“AI”), a closed 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 became a fully owned subsidiary of SABB as a result of SABB’s merger with AAB in June 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 assets under its name which are received by the Bank from its borrowers as collaterals 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 June 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 June 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 June 2019.

SABB has 49% (2018: 51%) directly held ownership interest in HSBC Saudi Arabia, a closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010221555 dated 27 Jumada Al-Akhirah 1427H (23 July 2006). HSBC Saudi Arabia was formed in accordance with the Resolution No. 37-05008 of the CMA dated 05/12/1426H Corresponding to 05/01/2006G. 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 an associate of SABB (2018: joint venture with HSBC Asia Holdings B.V., a related party and shareholder in SABB).

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 Saudi Kayan Assets Leasing Company and Rabigh Asset Leasing Company and directly owns a 100% (2018: 50%) shares in Yanbu Asset Leasing Company as a result of SABB's merger with AAB in June 2019. 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 excluding Yanbu Asset Leasing Company. The related underlying funding to the relevant borrowers are recorded on SABB's consolidated statement of financial position.

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 June 2019.

## 1.1. Basis of preparation

### a) Statement of compliance

The consolidated financial statements of the Bank have been prepared;

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

The consolidated financial statements of the Bank as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the International Financial Reporting Standards ("IFRS"), as modified by SAMA for the 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) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the Zakat and income taxes in the consolidated statement of income. This aligns with the 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”).

Accordingly, the Bank changed its accounting treatment for Zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors as disclosed in note 2A(b) and the effects of this change are disclosed in note 27 to the consolidated financial statements. The Bank has adopted IFRS 16 Leases from 1 January 2019. The change in accounting policies due to this new standard and treatment of Zakat and income tax are disclosed in the Note 2A(b).

**b) Basis of measurement**

These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at fair value through Profit or Loss (“FVTPL”), FVOCI investments and employee benefits which are stated at present value of their obligation. In addition, assets and liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risks that are being hedged.

**c) Functional and presentation currency**

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR), which is the functional currency of SABB, and are rounded off to the nearest thousands, except where otherwise indicated.

**d) Presentation of consolidated financial statements**

The Bank presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 34 (b).

**e) Basis of consolidation**

The 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 year as that of SABB, using consistent accounting policies, except for SABB Takaful and certain immaterial subsidiaries where the latest interim reviewed financial statements or latest annual audited financial statements, respectively have been used for consolidation purpose 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 upon consolidation.

**f) Critical accounting judgements and estimates**

The preparation of consolidated financial statements in conformity with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA requires the use of certain critical accounting judgements, estimates, and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment losses on financial assets

Impairment methodology

The measurement of impairment losses under IFRS 9 on the applicable categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Collateral and other credit enhancements held

The Bank's practice is to lend on the basis of customers' ability to meet their obligations out of cash flow resources rather than rely on the value of security offered. Depending on a customer's standing and the type of product, facilities may be provided without security. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk.

Additionally, risk may be managed by employing other types of collateral and credit risk enhancements such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

ii. Fair value Measurement

The Bank measures financial instruments, such as, derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 36 to these consolidated financial statements.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

- iii. Impairment of debt investments (refer to note 2B(v))
- iv. Classification of investments at amortised cost (refer to note 2B(i))
- v. Determination of control over investees  
The control indicators set out note 1.1 (e) are subject to management's judgements.
- vi. Depreciation and amortisation (refer to note 2K and 2L)
- vii. Define benefit plan (refer to note 2S)
- viii. Provisions for liabilities and charges (refer to note 2M)

The Bank receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

**g) Going concern**

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

**2. Summary of significant accounting policies**

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

**A) Changes in accounting policies**

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

**a. 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 consolidated 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 27 to the consolidated financial statements. The change has resulted in a decrease of reported net income of the Bank for the year ended 31 December 2018 by SAR 2,231 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 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 for the year is the tax payable on the current year’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 bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax 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.

**b. 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 consolidated statement of financial position, unless the term is twelve 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 consolidated statement of financial position 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
<b>Lease liability recognised as at 1 January 2019</b>	<b>653,236</b>

On adoption of IFRS 16, the Bank has recognised lease liabilities under other liabilities and associated right of use assets under property and equipment. The related special commission expense for the year is recognised under special commission expense.

**B) Financial assets and financial liabilities****i) Classification of financial assets**

The Bank on initial recognition classifies all of its financial assets based on the business model. Following are the three classification:

- **Amortised Cost (AC):** 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):**

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss.

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. This election is made on an investment-by-investment basis. Equity instruments at FVOCI are not subject to an impairment assessment.

- **Fair value through profit or loss (FVPL):** 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 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:

- 1) the stated policies and objectives for the portfolio and the operation of those policies in practice;
- 2) how the performance of the portfolio is evaluated and reported to the Bank's management;
- 3) 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;
- 4) 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

- 5) 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.

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**

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.

**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 consolidated statement of comprehensive income is included in the consolidated statement of income for the period.

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.

**b. Financial liabilities**

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.



**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 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 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 FVOCI;
- 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 consolidated statement of financial position**

Loss allowances for ECL are presented in the 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 in other liabilities;
- 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.

#### **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. 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 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 consolidated statement of financial position.

### **vi) Financial guarantees and loan commitments**

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

Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at higher of the unamortized amount and the loss allowance.

The premium received is recognised in the 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, the Bank recognizes loss allowance.

### **vii) Rendering of services**

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

The Bank has concluded that revenue from rendering of various services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognizes revenue over the period of time.

**viii) Customer Loyalty Program**

The Bank offers customer loyalty program (reward points / air miles herein referred to as “reward points”), which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand-alone selling price. The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

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

**C) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in consolidated income statement. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment, they are written down if required.

**D) Trade date accounting**

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date i.e. the date on which the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**E) Derivative financial instruments and hedge accounting**

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, currency and special commission rate options (both written and purchased), are measured at fair value (premium received for written options). All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

**i) Derivatives held for trading**

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting.

**ii) 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 income statement. The embedded derivatives separated from the host are carried at fair value in the trading derivatives portfolio with changes in fair value recognised in the consolidated statement of income.

**iii) Hedge accounting**

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into two categories; (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect the reported net gain or loss.

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

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is recognised in the consolidated statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

In relation to cash flow hedges, which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the consolidated statement of comprehensive income. The ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. On discontinuation of hedge accounting on cash flow hedges any cumulative gain or loss that was recognised in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other reserves is transferred to the consolidated statement of income for the year.

**F) Foreign currencies**

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are transferred to

exchange income in the consolidated statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of FVOCI equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

**G) Offsetting financial instruments**

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

Income and expenses are not offset in the 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.

**H) Revenue/expenses recognition**

**i. Special commission income and expense**

Special commission income and expense for all commission-bearing financial instruments is recognised in the consolidated statement of income on an effective yield basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective commission rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or received related transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Bank enters into special commission rate swap to change special commission from fixed to floating (or vice versa) the amount of special commission income or expense is adjusted by the net special commission on the swap.

Special commission income on Shariah approved products received but not earned is netted off against the related assets.

**ii. Exchange income/ loss**

Exchange income/loss is recognised when earned/incurred.

**iii. Dividend income**

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

**iv. Fees and commission income and expenses**

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio

and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time are recognised over the period when the related service is being performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service is received. Any fee income received but not earned is classified under other liabilities.

#### **v. Net trading income**

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense, dividends from financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

#### **vi. Day one profit**

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of income when the inputs become observable, or when the instrument is derecognised.

### **I) Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Bank retains substantially all the risks and reward of ownership and continued to be measured in accordance with related accounting policies for the underlying financial assets held as FVTPL, FVOCI and amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and amortised over the life of the repo agreement, using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and amortised over the life of the reverse repo agreement, using the effective yield method.

### **J) Investment in equity-accounted investees**

The Bank's interests in equity-accounted investees comprise interests in associates (2018: joint venture).

Associate is an entity in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Interests in an associate (2018: joint venture) is accounted for using the equity method. It is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Bank's share of the profit or loss and Other Comprehensive Income ("OCI") of equity-accounted investees, until the date on which significant influence ceases.

The statement of income reflects the Bank's share of the results of operations of the associate (2018: joint venture).

The reporting dates of the associates (2018: joint venture) is identical to the Bank and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associates (2018: joint venture) are eliminated to the extent of the Bank's interest in the associate-(2018: joint venture).



**K) Property and equipment**

Property and equipment are stated at cost and presented net of accumulated depreciation and impairment loss. Freehold land is not depreciated.

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

Buildings	33 years
Leasehold improvements	over period of the lease contract
Furniture, equipment and vehicles	3 to 10 years

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

The assets' residual values and useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**L) 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. When the excess is negative (negative goodwill), it is recognised immediately in the Bank's consolidated income statement.

**Measurement**

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 of 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. Capitalized 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 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. Intangible assets with an indefinite useful life are subject to impairment test at least annually. The amortisation period and amortisation method for intangibles with finite 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 statement of income in the expense category consistent with the function of the intangibles.

### M) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

### N) Accounting for leases

#### Right of Use Asset / Lease Liabilities

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

The Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

#### Right of Use Assets

Bank applies cost model, and measure right of use asset at cost;

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

#### Lease Liability

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

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

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

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

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**O) Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA and placements with SAMA excluding the statutory deposit, and due from banks and other financial institutions with an original maturity of three months or less from date of acquisition.

**P) Assets held in trust or in fiduciary capacity**

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

**Q) Shariah compliant banking products**

In addition to conventional banking, the Bank also provides Shariah compliant products, which are approved and supervised by an independent Shariah Board established by SABB.

All Shariah approved banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

**R) End of service benefits**

The provision for end of service benefits is made based on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Bank is reviewed by using a projected unit credit method. The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

**S) Share based payments**

Under the terms of the Equity Based Long Term Bonus Plan, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank 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.

**3. Cash and balances with SAMA**

	2019	2018
Cash in hand	2,375,158	1,542,528
Statutory deposit	10,942,082	7,609,549
Placements with SAMA	7,653,718	4,811,666
Other balances	295,934	137,346
<b>Total</b>	<b>21,266,892</b>	<b>14,101,089</b>

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its deposit liabilities calculated at the end of each month. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents (note 29). Placements with SAMA represents securities purchased under an agreement to re-sell (reverse repo) with SAMA.

**4. Due from banks and other financial institutions, net**

	2019	2018
Current accounts	4,473,830	6,896,890
Money market placements	513,936	5,144,404
<b>Total</b>	<b>4,987,766</b>	<b>12,041,294</b>

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
<b>31 December 2019</b>	<b>4,987,766</b>	-	-	-	<b>4,987,766</b>
31 December 2018	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:

	31 December 2019				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	ECL credit impaired	Total
Balance at 1 January 2019	98	-	-	-	98
Net charge for the year	327	-	-	-	327
Balance as at 31 December 2019	425	-	-	-	425

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

**5. Investments, net****a) Investment securities are classified as follows:**

	2019	2018
- FVOCI – Debt	12,708,906	11,642,455
- FVOCI – Equity	1,228,767	1,346,179
- FVTPL	1,142,573	419,133
- Held at amortised cost	45,403,580	21,162,689
<b>Total</b>	<b>60,483,826</b>	<b>34,570,456</b>

**b) Investments by type of securities**

	<b>Domestic</b>		<b>International</b>		<b>Total</b>	
	2019	2018	2019	2018	2019	2018
Fixed rate securities	41,334,882	20,289,399	2,701,360	3,656,236	44,036,242	23,945,635
Floating rate securities	13,844,263	7,619,493	895,832	1,659,149	14,740,095	9,278,642
Equities and others	1,689,989	1,327,537	17,500	18,642	1,707,489	1,346,179
<b>Total</b>	<b>56,869,134</b>	<b>29,236,429</b>	<b>3,614,692</b>	<b>5,334,027</b>	<b>60,483,826</b>	<b>34,570,456</b>

**c) Credit quality analysis**

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

		<b>2019</b>			
		12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired
		<b>Total</b>			
Debt instruments at amortised cost, net		45,403,580	-	-	-
Debt instruments at FVOCI, net		12,517,887	191,019	-	-
		<b>2018</b>			
		12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired
		<b>Total</b>			
Debt instruments at amortised cost, net		21,162,689	-	-	-
Debt instruments at FVOCI, net		11,428,410	214,045	-	-

**d) Movement in provision for expected credit losses**

An analysis of changes in loss allowance for debt instruments not measured at fair value through profit or loss, is as follows:

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
<b>Balance as at 1 January 2019</b>	<b>2,581</b>	<b>148</b>	<b>16,571</b>	<b>19,300</b>
Net charge for the year	8,370	(33)	-	8,337
Write Offs	-	-	(16,571)	(16,571)
<b>Balance as at 31 December 2019</b>	<b>10,951</b>	<b>115</b>	<b>-</b>	<b>11,066</b>

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

**e) The analysis of the composition of investments is as follows:**

	2019			2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	41,278,808	2,757,434	44,036,242	23,830,738	114,897	23,945,635
Floating rate securities	9,336,487	5,403,608	14,740,095	3,935,173	5,343,469	9,278,642
Equities and others	1,680,822	26,667	1,707,489	1,318,781	27,398	1,346,179
<b>Investments, net</b>	<b>52,296,117</b>	<b>8,187,709</b>	<b>60,483,826</b>	<b>29,084,692</b>	<b>5,485,764</b>	<b>34,570,456</b>

**f) Shariah-compliant investments**

	2019	2018
- FVOCI – Debt	5,498,488	3,087,593
- FVTPL	567,016	50,539
- Held at amortised cost	27,523,024	14,111,027
<b>Total</b>	<b>33,588,528</b>	<b>17,249,159</b>

**g) The analysis of investments by counterparty is as follows:**

	2019	2018
Government and quasi government	53,492,409	26,862,791
Corporate	3,881,408	2,267,776
Banks and other financial institutions	3,095,165	5,429,343
Others	14,844	10,546
<b>Total</b>	<b>60,483,826</b>	<b>34,570,456</b>

**6. Loans and advances, net****a) Loans and advances are comprised of the following:**

	2019			
	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,326,426	33,579,624	97,656,039	133,562,089
Life time ECL not credit impaired	74,200	1,150,384	18,056,385	19,280,969
Lifetime ECL credit impaired	67,267	838,399	4,225,866	5,131,532
Purchased or originated credit impaired	1,113	219,472	2,574,365	2,794,950
Total loans and advances, gross	2,469,006	35,787,879	122,512,655	160,769,540
Provision for expected credit losses, net	(275,927)	(1,179,028)	(4,637,615)	(6,092,570)
Loans and advances, net	2,193,079	34,608,851	117,875,040	154,676,970

	2018			
	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,051,745	20,208,910	72,848,690	95,109,345
Life time ECL not credit impaired	63,406	1,313,827	14,795,399	16,172,632
Lifetime ECL credit impaired	71,065	835,198	2,829,748	3,736,011
Purchased or originated credit impaired	-	58,583	-	58,583
Total loans and advances, gross	2,186,216	22,416,518	90,473,837	115,076,571
Provision for expected credit losses, net	(195,050)	(998,546)	(3,557,016)	(4,750,612)
Loans and advances, net	1,991,166	21,417,972	86,916,821	110,325,959

Lifetime ECL credit impaired includes non-performing loans and advances of SAR 4,247 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): 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. POCI includes non-performing loans and advances acquired through the merger with AAB that are recorded at written down value and therefore do not carry a provision for expected credit loss. It also includes recognition of previously written off loans of SABB where the expectation of recovery has improved.



**b) Movement in 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.

	Non-Credit Impaired		Credit Impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2019	366,723	1,624,813	2,716,152	42,924	4,750,612
Transfer to Stage 1	52,816	(42,156)	(10,660)	-	-
Transfer to Stage 2	(5,690)	27,070	(21,380)	-	-
Transfer to Stage 3	(3,630)	(258,312)	261,942	-	-
Net re-measurement of loss allowance	255,120	873,216	1,084,861	17,578	2,230,775
Write-offs	-	-	(888,817)	-	(888,817)
<b>Balance as at 31 December 2019</b>	<b>665,339</b>	<b>2,224,631</b>	<b>3,142,098</b>	<b>60,502</b>	<b>6,092,570</b>

	Non-Credit Impaired		Credit Impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2018	517,743	1,951,464	2,201,897	30,969	4,702,073
Transfer to Stage 1	299,344	(286,794)	(12,550)	-	-
Transfer to Stage 2	(41,087)	155,415	(114,328)	-	-
Transfer to Stage 3	(9,600)	(313,956)	323,556	-	-
Net re-measurement of loss allowance	(399,677)	118,684	420,581	11,955	151,543
Write-offs	-	-	(103,004)	-	(103,004)
<b>Balance as at 31 December 2018</b>	<b>366,723</b>	<b>1,624,813</b>	<b>2,716,152</b>	<b>42,924</b>	<b>4,750,612</b>

**c) Provision for 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	2019	2018
Net provision for expected credit losses:			
Due from banks and other financial institutions, net	4	327	98
Investments	5	8,337	(4,048)
Loans and advances	6	2,230,775	151,543
Off balance sheet exposures	21	229,668	(64,964)
Write-offs net of recoveries of debts previously written-off		140,336	176,403
<b>Net charge for the year</b>		<b>2,609,443</b>	<b>259,032</b>

d) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:

2019	Performing	Non-performing	POCI	Provision for credit losses	Loans and advances, net
Government and quasi Government	11,343,218	189,570	-	(2,998)	11,529,790
Finance	6,006,276	-	-	(163,060)	5,843,216
Agriculture and fishing	557,020	-	227,716	(1,709)	783,027
Manufacturing	23,120,610	568,972	807,702	(1,468,462)	23,028,822
Mining and quarrying	2,783,633	-	-	(3,169)	2,780,464
Electricity, water, gas and health services	6,191,152	166,741	29,532	(177,405)	6,210,020
Building and construction	13,285,346	1,799,436	433,261	(1,419,337)	14,098,706
Commerce	34,456,576	538,750	679,277	(1,032,268)	34,642,335
Transportation and communication	8,739,756	4,933	224,705	(29,405)	8,939,989
Services	7,818,888	20,579	30,016	(156,785)	7,712,698
Credit cards and other retail lending	37,293,107	743,193	220,585	(1,454,955)	36,801,930
Others	2,132,306	214,528	142,156	(183,017)	2,305,973
<b>Total</b>	<b>153,727,888</b>	<b>4,246,702</b>	<b>2,794,950</b>	<b>(6,092,570)</b>	<b>154,676,970</b>

2018	Performing	Non - performing	POCI	Provision for credit losses	Loans and advances, net
Government and quasi Government	8,355,548	-	-	(3,413)	8,352,135
Finance	6,295,172	-	-	(90,780)	6,204,392
Agriculture and fishing	729,063	-	-	(1,487)	727,576
Manufacturing	18,759,388	532,869	-	(1,108,240)	18,184,017
Mining and quarrying	3,516,488	-	-	(3,795)	3,512,693
Electricity, water, gas and health services	3,326,022	166,320	-	(109,269)	3,383,073
Building and construction	9,988,975	1,182,719	-	(1,226,655)	9,945,039
Commerce	24,533,382	383,290	-	(623,380)	24,293,292
Transportation and communication	6,369,045	77,966	-	(88,518)	6,358,493
Services	4,457,210	7,291	-	(59,336)	4,405,165
Credit cards and other retail lending	23,838,893	705,258	58,583	(1,193,596)	23,409,138
Others	1,523,021	270,068	-	(242,143)	1,550,946
<b>Total</b>	<b>111,692,207</b>	<b>3,325,781</b>	<b>58,583</b>	<b>(4,750,612)</b>	<b>110,325,959</b>

- e) The following table sets out information about the credit quality of loans and advances. The amounts in the table represent gross carrying amounts.

2019					
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortized cost					
Strong	16,495,481	-	-	-	16,495,481
Good	64,995,026	2,073,262	438	-	67,068,726
Satisfactory	15,206,345	10,637,808	19,162	-	25,863,315
Unrated	35,906,048	1,224,584	162,475	-	37,293,107
Special mention	959,189	5,345,315	702,755	-	7,007,259
Non-performing	-	-	4,246,702	-	4,246,702
Others	-	-	-	2,794,950	2,794,950
Total	133,562,089	19,280,969	5,131,532	2,794,950	160,769,540

2018					
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortized cost					
Strong	15,166,821	187,963	-	-	15,354,784
Good	44,380,860	1,767,098	8,715	-	46,156,673
Satisfactory	13,301,009	9,423,508	33,752	-	22,758,269
Special mention	-	3,416,830	166,758	-	3,583,588
Unrated	22,260,655	1,377,233	201,005	-	23,838,893
Non-performing	-	-	3,325,781	-	3,325,781
Others	-	-	-	58,583	58,583
Total	95,109,345	16,172,632	3,736,011	58,583	115,076,571

**Strong:** Financial status, capitalisation, earnings, liquidity, cash generation and management will all be of highest quality. A strong capacity to meet longer term and short term financial commitments.

**Good:** Financial condition exhibits no major adverse trends prevalent. Capacity to meet medium and short term financial commitments is considered fair, but more sensitive to external changes or market conditions.

**Satisfactory:** A counterparty whose financial position is average but not strong. The overall position will not be causing any immediate concern but more regular monitoring will be necessary as a result of susceptibilities to external changes or market conditions.

**Special mention:** Financial condition weak and capacity, or inclination, to repay, is in doubt. The financial status of the borrower requires close monitoring and ongoing assessment.

**Non-performing:** A counterparty who is classified as in default.

**Unrated:** Represents performing retail loans and advances that are not rated.

**f) Shariah-compliant loans**

Included in loans and advances are the following sharia compliant products:

	2019	2018
Tawaruq	91,587,899	74,880,873
Murabaha	6,310,662	1,024,704
Others	14,220,762	8,198,364
<b>Total</b>	<b>112,119,323</b>	<b>84,103,941</b>

**g) 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.

As of 31 December 2019, the carrying amount of gross non-performing loans and advances amounted to SAR 4,247 million (2018: SAR 3,326 million) and the value of identifiable collateral held against those loans and advances amount to SAR 2,354 million (2018: SAR 2,029 million).

**7. Investment in associates**

	2019	2018
<b>HSBC Saudi Arabia</b>		
Balance at beginning of the year	532,597	524,924
Share in earnings	138,611	65,551
Dividend received	(62,640)	(57,878)
Disposal	(22,581)	-
Balance at end of the year	585,987	532,597
<b>Wataniya</b>		
Acquired through business combination	80,204	-
Share in loss	(5,993)	-
Balance at end of the year	74,211	-
<b>Total</b>	<b>660,198</b>	<b>532,597</b>

SABB owns 49% (2018: 51%) of the shares of HSBC Saudi Arabia, an associate. 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.

During the year, SABB sold 1,000,000 shares in the share capital of HSBC Saudi Arabia (the "Shares") to HSBC Asia Holdings B.V., representing 2% of the issued share capital of HSBC Saudi Arabia, for a total value of SAR 36,000,000 (the "Transaction").

As a result of completing the Transaction, SABB has become the owner of 49% of the shares of HSBC Saudi Arabia and HSBC Asia Holdings B.V. has become the owner of 51% of the shares of HSBC Saudi Arabia. Upon completion of the Transaction, SABB and HSBC Asia Holdings B.V. also entered into an amended shareholders' agreement in respect of their ownership in HSBC Saudi Arabia (the "Shareholders' Agreement"). The amendments made to the Shareholders Agreement mainly related to the governance and management of HSBC Saudi Arabia (including the board composition) and reflected the change in ownership resulting from the Transaction, as a result of which SABB no longer shares joint control and governance rights over HSBC Saudi Arabia with HSBC.

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.

## 8. Property and equipment, net

	Land and buildings	Leasehold Improvements & ROU	Equipment, furniture and vehicles	2019 Total*	2018 Total
<b>Cost</b>					
As at 1 January	926,728	1,291,395	617,674	2,835,797	2,093,516
Additions / re-measurement	4,881	(34,405)	32,468	2,944	45,380
Acquired through business combination (note 20)	698,565	648,455	130,913	1,477,933	-
Disposals	(10)	(9,756)	(4,521)	(14,287)	(9,921)
<b>As at 31 December</b>	<b>1,630,164</b>	<b>1,895,689</b>	<b>776,534</b>	<b>4,302,387</b>	<b>2,128,975</b>
<b>Accumulated depreciation</b>					
As at 1 January	393,385	478,165	515,263	1,386,813	1,291,131
Charge for the year	12,792	170,294	83,285	266,371	105,603
Disposals	(1)	(9,736)	(294)	(10,031)	(9,921)
<b>As at 31 December</b>	<b>406,176</b>	<b>638,723</b>	<b>598,254</b>	<b>1,643,153</b>	<b>1,386,813</b>
<b>Net book value</b>					
<b>As at 31 December 2019</b>	<b>1,223,988</b>	<b>1,256,966</b>	<b>178,280</b>	<b>2,659,234</b>	
As at 31 December 2018	533,343	106,408	102,411		742,162
<b>Capital work in progress</b>				<b>649,044</b>	482,670
<b>Total</b>				<b>3,308,278</b>	<b>1,224,832</b>

\*Software has been reclassified to other intangibles (note 9).

Leasehold improvements opening balance include Right of Use ('ROU') leased asset that is recognized upon implementation of IFRS 16 – Leases. The movement of ROU is as below:

2019 ROU	Cost	Accumulated depreciation	Net book value
Balance at beginning of the year	706,822	-	706,822
Additions/ re-measurement	(39,472)	-	(39,472)
Acquired through business combination (note 20)	559,685	-	559,685
Disposals	(9,735)	9,735	-
Depreciation	-	(128,228)	(128,228)
Balance at the end of the year	1,217,300	(118,493)	1,098,807

## 9. Goodwill and other intangibles

Intangibles are comprised of the following:

	2019	2018
Provisional amounts arising from business combination (note 20)		
- goodwill	13,079,698	-
- other intangibles	1,943,561	-
Goodwill arising from acquisition of SABB Takaful	13,806	13,806
Software	308,831	55,838
Total	15,345,896	69,644

	Goodwill	Software	Customer Relationship - PCCR	Core Deposit Intangible - CDI	Brand	2019 Total	2018 Total
<b>Cost</b>							
As at 1 January	13,806	179,583	-	-	-	193,389	162,147
Additions	-	127,294	-	-	-	127,294	31,242
Acquired through business combination (note 20)	13,079,698	217,216	71,200	1,875,400	75,000	15,318,514	-
Disposals	-	(4,066)	-	-	-	(4,066)	-
<b>As at 31 December</b>	13,093,504	520,027	71,200	1,875,400	75,000	15,635,131	193,389
<b>Accumulated amortization</b>							
As at 1 January	-	(123,745)	-	-	-	(123,745)	97,883
Charge for the year	-	(87,710)	(3,560)	(66,979)	(7,500)	(165,749)	25,862
Disposals	-	259	-	-	-	259	-
<b>As at 31 December</b>	-	(211,196)	(3,560)	(66,979)	(7,500)	(289,235)	123,745
<b>Net book value</b>							
<b>As at 31 December 2019</b>	13,093,504	308,831	67,640	1,808,421	67,500	15,345,896	
As at 31 December 2018	13,806	55,838	-	-	-		69,644

### Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to the following cash-generating units:

- Retail banking
- Corporate and institutional banking
- Treasury
- Others

### Key assumptions used in impairment testing for goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period and by applying a terminal growth rate thereafter.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product (“GDP”); and
- Local inflation rates.

#### Interest margins

Interest margins are based on prevailing market rates at the start of the budget period. These are changed over the budget period for anticipated market conditions.

#### Discount rates

Discount rates reflect management’s estimate of Return on Capital Employed (“ROCE”) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (“WACC”) (10.31%).

#### Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 31 December 2019, the goodwill is allocated to the following CGUs:

Cash generating units (CGUs)	Goodwill allocated (SAR million)
Retail banking	3,755
Corporate and institutional banking	6,614
Treasury	2,711
Others	14

Based on the current impairment assessment, goodwill is not impaired as at 31 December 2019.

The forecast cash flows have been discounted using the WACC in the jurisdiction where the CGU operates. A one percentage point change in the discount rate or the terminal growth rate (5.04%) keeping other factors constant would reduce the recoverable amount of the CGUs as mentioned in the table below:

Cash generating units (CGUs)	Impact on the recoverable amount of CGUs	
	One percentage change in discount rate (SAR million)	One percentage change in terminal growth rate (SAR million)
Retail banking	(3,597)	(7,228)
Corporate and institutional banking	(4,510)	(4,144)
Treasury	(5,267)	(3,054)

#### Other intangibles

Acquired other intangibles are recognised at their “fair value” upon initial recognition. The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Other intangibles are amortised using the straight-line method over the useful life of the asset, which is estimated to be 10 years for customer relationships – PCCR, 14 years for core deposit intangible – CDI and 5 years for brand. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

The banking license has an indefinite life and is tested for impairment annually. For impairment testing purposes, the banking license is allocated to the relevant cash generating unit.

**10. Other assets**

	<b>2019</b>	<b>2018</b>
Accounts receivable	<b>1,795,006</b>	488,704
Advance tax	<b>275,750</b>	239,133
Others	<b>1,701,336</b>	520,691
<b>Total</b>	<b>3,772,092</b>	1,248,528

**11. Derivatives**

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

**a) Forwards and futures**

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardised amounts on regulated exchanges, and changes in futures contract values are settled daily.

**b) Options**

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

**c) Swaps**

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

**d) Forward rate agreements**

Forward rate agreements are over-the-counter negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

**Risk-related adjustments*****Bid-offer:***

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

***Credit valuation adjustment ('CVA'):***

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that SABB may not receive the full market value of the transactions.

***Debit valuation adjustment ('DVA'):***

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that SABB may default, and that SABB may not pay the full market value of the transactions.

***Credit valuation adjustment/debit valuation adjustment methodology:***

SABB calculates a separate CVA and DVA for each counterparty to which the entity has exposure. SABB calculates the CVA by applying the probability of default ('PD') of the counterparty conditional on the non-default of SABB to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, SABB calculates the DVA by applying the PD of SABB, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to SABB and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.



**Derivatives held for trading purposes**

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

**Derivatives held for hedging purposes**

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 32 – financial risk management, note 33 - market risk and note 34 - liquidity risk). Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

**Hedge effectiveness testing**

To qualify for hedge accounting, SABB requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by an entity to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined as 80% to 125%. Hedge ineffectiveness is recognised in the consolidated statement of income 'Trading income, net'.

**Cash flow hedges**

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission income at a variable rate. The Bank uses commission rate swaps as cash flow hedges of these special commission rate risks. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect statement of income:

<b>2019</b>	<b>Within 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>Over 5 years</b>
Cash inflows (assets)	55,449	123,327	33,173	3,792
Cash out flows (liabilities)	(6,318)	(1,686)	-	-
Net cash inflow	49,131	121,641	33,173	3,792
<b>2018</b>	<b>Within 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>Over 5 years</b>
Cash inflows (assets)	42,886	33,641	6,412	1,066
Cash out flows (liabilities)	(5,231)	(3,486)	-	-
Net cash inflow	37,655	30,155	6,412	1,066

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to market risk nor credit risk, which is generally limited to the positive fair value of the derivatives.

<b>2019</b>	<b>Notional amounts by term to maturity</b>						
	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Notional amount total</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>
<b>Derivatives held for trading:</b>							
Special commission rate swaps	732,749	(709,194)	59,941,010	4,028,427	8,869,076	35,669,796	11,373,711
Special commission rate options	124,349	(128,907)	13,661,863	180,894	1,683,600	11,797,369	-
Forward foreign exchange contracts	33,028	(22,491)	9,290,855	7,204,009	2,086,846	-	-
Currency options	1,102	(982)	1,673,918	549,946	1,123,972	-	-
Currency swaps	6,995	(6,995)	487,500	-	-	487,500	-
Others	11,090	(11,090)	352,773	332,358	20,415	-	-
<b>Derivatives held as fair value hedges:</b>							
Special commission rate swaps	15,189	(425,325)	11,205,022	262,500	656,250	5,470,625	4,815,647
<b>Derivatives held as cash flow hedges:</b>							
Special commission rate swaps	9,195	(454)	440,000	150,000	200,000	90,000	-
Currency swaps	36,829	(12,202)	1,668,750	187,500	262,500	1,031,250	187,500
<b>Total</b>	<b>970,526</b>	<b>(1,317,640)</b>	<b>98,721,691</b>	<b>12,895,634</b>	<b>14,902,659</b>	<b>54,546,540</b>	<b>16,376,858</b>

2018	Notional amounts by term to maturity						
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	283,080	(271,665)	39,675,381	4,389,170	3,584,180	26,207,556	5,494,475
Special commission rate options	128,632	(135,847)	18,386,296	37,000	1,038,500	17,050,833	259,963
Forward foreign exchange contracts	18,852	(14,135)	3,710,093	1,680,176	1,559,779	470,138	-
Currency options	133	(133)	5,513,328	1,576,414	3,936,914	-	-
Currency swaps	11,962	(11,113)	1,487,500	-	1,000,000	487,500	-
Others	5,198	(5,198)	360,835	-	8,063	352,772	-
Derivatives held as fair value hedges:							
Special commission rate swaps	76,710	(84,558)	9,420,627	262,500	881,250	5,621,875	2,655,002
Derivatives held as cash flow hedges:							
Special commission rate swaps	13,169	(10,716)	1,190,000	-	750,000	440,000	-
Currency swaps	24,637	(13,888)	1,462,500	-	168,750	1,106,250	187,500
Total	562,373	(547,253)	81,206,560	7,945,260	12,927,436	51,736,924	8,596,940

The Bank enters into structured currency option products with clients which involve one or more derivatives included in the structure. In such instances, the fair value of the individual structured product represents a net valuation of the underlying derivatives. The sum of all option notionals included in each structure as of the reporting date is disclosed in the table above.

The tables below show a summary of the hedged items, the nature of the risk being hedged, the hedging instruments and their fair values.

2019	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of the hedged items:						
Fixed commission rate investments	11,670,647	11,205,022	Fair value	Special commission rate swap	15,189	(425,325)
Floating commission rate investments	443,721	440,000	Cash flow	Special commission rate swap	9,195	(454)
Fixed commission rate investments	1,431,620	1,481,250	Cash flow	Currency swap	36,829	(11,525)
Fixed commission rate deposits	187,500	187,500	Cash flow	Currency swap	-	(677)
2018						
Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	9,367,452	9,420,627	Fair value	Special commission rate swap	76,710	(84,558)
Floating commission rate investments	1,190,072	1,190,000	Cash flow	Special commission rate swap	13,169	(10,716)
Fixed commission rate investments	1,273,205	1,275,000	Cash flow	Currency swap	24,266	(13,888)
Fixed commission rate deposits	187,500	187,500	Cash flow	Currency swap	371	-

The hedge inception value has been adjusted, where necessary, to reflect book values.

The net losses on the hedging instruments for fair value hedges are SAR 402 million (2018: net losses of SAR 10 million). The net gains on the hedged item attributable to the hedged risk are SAR 519 million (2018: net losses of SAR 40 million).

Approximately 42% (2018: 68%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and out of which 7% (2018: 38%) of the positive fair value contracts are with any individual counterparty at the year end.

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

	2019	2018
Current accounts	3,633,774	956,730
Money market deposits	18,912	56,503
<b>Total</b>	<b>3,652,686</b>	<b>1,013,233</b>

**13. Customers' deposits**

	2019	2018
Demand	122,517,724	82,086,159
Savings	1,691,003	7,823,077
Time	51,825,874	39,560,510
Margin and others	16,131,923	1,036,759
<b>Total</b>	<b>192,166,524</b>	<b>130,506,505</b>

The above deposits include the following deposits in foreign currency:

	2019	2018
Demand	12,802,166	11,076,510
Savings	51,820	237,074
Time	6,426,796	8,410,185
Margin and others	240,836	200,831
<b>Total</b>	<b>19,521,618</b>	<b>19,924,600</b>

Customers' deposits include the following deposits under Shariah approved product contracts.

**Shariah-compliant deposits**

	2019	2018
Demand	66,291,455	48,939,211
Savings	1,320,878	7,816,135
Time	31,232,181	23,198,261
Margin and others	551,518	497,271
<b>Total</b>	<b>99,396,032</b>	<b>80,450,878</b>

**14. Debt securities in issue****(SAR 1,500 million 10 year subordinated Sukuk -2015)**

The Sukuk was issued by SABB on 28 May 2015 and matures in May 2025. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SAIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

**15. Borrowings**

Borrowings represents a syndicated floating rate loan obtained by the Bank on 19 October 2016 amounting to USD 450 million at three months' LIBOR plus 125 bps payable quarterly. The loan matured on 19 October 2019.

**16. Other liabilities**

	2019	2018
Accounts payable	3,728,430	1,222,879
Drawings payable	522,951	590,437
Dividends payable	190,217	225,958
End of service benefits (note 30)	744,767	459,316
Provision against off balance sheet exposure	654,764	425,096
Others	4,834,462	3,915,747
<b>Total</b>	<b>10,675,591</b>	<b>6,839,433</b>

**17. 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 Saudi Stock Exchange (Tadawul).

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.

**18. Statutory reserve**

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 708 million (2018: SAR 1,232 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

**19. Other reserves****Cash flow hedges and FVOCI s investments****2019**

	Cash flow hedges	FVOCI	Total
Balance at beginning of the year	8,902	4,693	13,595
Net change in fair value	19,611	307,024	326,635
Transfer to retained earnings	-	(13,172)	(13,172)
Transfer to consolidated statement of income	(1,166)	(40,033)	(41,199)
Net movement during the year	18,445	253,819	272,264
<b>Sub total</b>	<b>27,347</b>	<b>258,512</b>	<b>285,859</b>
Treasury shares			(104,350)
Employee share plan reserve			37,269
Re-measurement of defined benefit liability			18,651
<b>Sub total</b>			<b>(48,430)</b>
<b>Balance at end of the year</b>			<b>237,429</b>

2018	Cash flow hedges	FVOCI	Total
Balance at beginning of the year	10,007	(172,924)	(162,917)
Net change in fair value	6,760	156,670	163,430
Transfer to consolidated statement of income	(7,865)	20,947	13,082
Net movement during the year	(1,105)	177,617	176,512
Sub total	8,902	4,693	13,595
Treasury shares			(36,993)
Employee share plan reserve			20,275
Sub total			(16,718)
Balance at end of the year			(3,123)

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 1.2 million (2018: SAR 7.9 million) from consolidated statement of changes in equity to the consolidated statement of income included in the above numbers under cash flow hedges.

## 20. 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 has created the Kingdom's third-largest bank (according to the total assets as of 30 June 2019), a top-tier retail and corporate bank, and provides access to a global banking network to facilitate the flow of investment capital into Saudi Arabia and the growth of international trade. SABB is better 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. This is inclusive of SAR 6,060 thousands representing SABB's grant of shares to AAB employees under its legacy Share Based Equity Settled Bonus and SAR 78,706 thousands representing AAB converted Treasury Shares (new shares issuance included 1,887,445 treasury shares). The conversion of treasury shares resulted in increase of SAR 23,062,285 thousands in Shareholders equity.

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 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 year ended 31 December 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 417 million (2018: SAR 22 million). These costs have been included in 'Salaries and employee related expenses' and 'General and administrative expenses' in the consolidated statement of income amounting to SAR 78 million (2018: SAR 4 million) and SAR 339 million (2018: SAR 18 million), respectively.

**c. Valuation approach and methodologies – other intangibles:**

- **Customer relationship - Purchase Credit Card Receivable**

The Bank has estimated the value of Purchase Credit Card Receivable ("PCCR") using an income approach, specifically the Multi-period Excess Earnings Method ("MEEM"), which is a commonly accepted method for valuing customer relationships.

- **Core deposits Intangible - CDI**

The Bank has adopted the discounted cost savings method, a form of the income approach, in valuation of the core deposit intangible on the difference between the cost of the Bank's core deposits (both special commission and servicing costs net of fee and commission income) and the cost of the Bank's alternative source of funds. The value of the core deposit intangible is the difference between the present value of the current source of funds and the alternate funding source.

The analysis has considered demand, savings and time deposits. The assumed attrition and special commission rates and assumptions for fees and commissions are based on a historical analysis of deposit balances from existing customers.

The assumption with regard to alternate source of funds is based on replacing the deposits with time deposits based on the behavioral maturity of the existing deposit base.

- **Brand**

The Bank has followed Relief-from-Royalty approach, a form of income approach, to value Alawwal's brand.

**d. Identifiable assets acquired and liabilities assumed**

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

	<b>16 June 2019</b>
<b>Assets</b>	
Cash and balances with SAMA	4,933,326
Due from banks and other financial institutions, net	966,284
Positive fair value derivatives, net	165,849
Investments, net	15,560,922
Loans and advances, net	48,411,190
Investment in an associate	80,204
Property and equipment, net	1,464,093
Other assets	1,545,806
<b>Total assets</b>	<b>73,127,674</b>
<b>Liabilities</b>	
Due to banks and other financial institutions	863,192
Customers' deposits	60,910,930
Negative fair value derivatives, net	132,810
Other liabilities	3,259,755
<b>Total liabilities</b>	<b>65,166,687</b>
Alawwal Bank net assets as at acquisition date	7,960,987
Provisional amounts arising from the acquisition:	
- Retirement of AAB treasury shares	78,706
- goodwill	13,079,698
- other intangibles	2,021,600
<b>Total purchase consideration</b>	<b>23,140,991</b>

**e. 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:

	<b>Fair value of the acquired receivables</b>	<b>Gross contractual amount receivable</b>	<b>The contracted cash flows not expected to be collected</b>
Due from banks and other financial institutions	966,284	966,343	59
Investments, net	15,560,922	15,597,717	36,795
Loans and advances, net	48,411,190	58,339,024	9,927,834
Other financial assets	80,204	54,204	-
<b>Total</b>	<b>65,018,600</b>	<b>74,957,288</b>	<b>9,964,688</b>

**f. Purchase price allocation**

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 brand, core deposits and purchased credit card 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 consolidated 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 recognised is deductible for income tax purpose.

**g. Impact on 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 year would be SAR 11 billion and SAR 3.8 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 amounts of operating income and net income before Zakat and income tax of AAB since the acquisition date are not disclosed in these consolidated financial statements due to impracticability on account of ongoing integration and migration activities of AAB.

**21. Commitments and contingencies**

**a) Legal proceedings**

There are no material outstanding legal matters against the bank.

**b) Capital commitments**

As at 31 December 2019, the Bank has capital commitments of SAR 752.42 million (2018: SAR 576.2 million) in respect of land, buildings and equipment purchases.

**c) Credit related commitments and contingencies**

Credit related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The cash requirement under these instruments is considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfil their primary obligation.

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

Credit related commitments and contingencies are as follows:

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Letters of credit	15,903,615	1,560,600	6,787	91,816	17,562,818
Letters of guarantee	75,002,966	8,453,729	1,558,202	1,304,977	86,319,874
Acceptances	2,923,820	435,873	382	18,458	3,378,533
Irrevocable commitments to extend credit	5,907,107	179,584	-	-	6,086,691
<b>Total</b>	<b>99,737,508</b>	<b>10,629,786</b>	<b>1,565,371</b>	<b>1,415,251</b>	<b>113,347,916</b>

	2018				
	Stage 1	Stage 2	Stage 3	POCI	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
<b>Total</b>	<b>62,311,456</b>	<b>8,304,422</b>	<b>940,352</b>	<b>-</b>	<b>71,556,230</b>

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

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	<b>31,331</b>	<b>237,530</b>	<b>156,235</b>	-	<b>425,096</b>
Transfer to 12 month ECL	<b>13,811</b>	<b>(13,373)</b>	<b>(438)</b>	-	-
Transfer to lifetime ECL not credit impaired	<b>(636)</b>	<b>1,192</b>	<b>(556)</b>	-	-
Transfer to lifetime ECL credit impaired	-	<b>(26,405)</b>	<b>26,405</b>	-	-
Net charge / (reversals) for the year	<b>(12,224)</b>	<b>(58,076)</b>	<b>299,968</b>	-	<b>229,668</b>
Balance as at 31 December 2019	<b>32,282</b>	<b>140,868</b>	<b>481,614</b>	-	<b>654,764</b>

	2018				
	Stage 1	Stage 2	Stage 3	POCI	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

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

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Letters of credit	9,345,719	4,978,703	936,117	2,210,463	91,816	17,562,818
Guarantees	8,423,873	26,608,406	12,993,037	36,989,581	1,304,977	86,319,874
Acceptances	2,572,187	780,028	7,860	-	18,458	3,378,533
Irrevocable commitments to extend credit	612,728	61,137	2,094,999	3,317,827	-	6,086,691
<b>Total</b>	<b>20,954,507</b>	<b>32,428,274</b>	<b>16,032,013</b>	<b>42,517,871</b>	<b>1,415,251</b>	<b>113,347,916</b>

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Letters of credit	5,944,584	2,038,908	628,047	3,164,066	-	11,775,605
Guarantees	8,124,323	20,111,100	10,817,155	14,208,658	-	53,261,236
Acceptances	1,851,536	1,132,165	1,101	-	-	2,984,802
Irrevocable commitments to extend credit	300,254	403,581	2,038,949	791,803	-	3,534,587
<b>Total</b>	<b>16,220,697</b>	<b>23,685,754</b>	<b>13,485,252</b>	<b>18,164,527</b>	<b>-</b>	<b>71,556,230</b>

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 60,897 million (2018: SAR 51,003 million).

e) **The analysis of credit related commitments and contingencies by counterparty is as follows:**

	2019	2018
Government and quasi government	4,824,478	2,428,562
Corporate	90,542,556	55,313,975
Banks and other financial institutions	17,920,995	13,767,327
Others	59,887	46,366
<b>Total</b>	<b>113,347,916</b>	<b>71,556,230</b>

**22. Net special commission income**

	2019	2018
<b>Special commission income</b>		
Investments		
- FVOCI	414,311	248,060
- held at amortised cost	1,039,387	658,030
	<b>1,453,698</b>	<b>906,090</b>
Due from banks and other financial institutions	267,049	295,406
Loans and advances	7,207,257	5,440,506
<b>Total</b>	<b>8,928,004</b>	<b>6,642,002</b>
<b>Special commission expense</b>		
Due to banks and other financial institutions	31,144	39,576
Customers' deposits	1,385,501	844,184
Debt securities in issue	69,077	119,523
Borrowings	55,203	61,390
Others	23,123	-
<b>Total</b>	<b>1,564,048</b>	<b>1,064,673</b>
<b>Net special commission income</b>	<b>7,363,956</b>	<b>5,577,329</b>

Special commission income includes income from Shariah compliant investments and loans and advances contracts and special commission expense includes expense from Shariah compliant customer deposits as follows:

	2019	2018
<b>Special commission income</b>		
Investments		
- FVOCI	101,122	79,515
- Held at amortised cost	698,082	374,259
	799,204	453,774
Loans and advances		
- Tawaruq	4,108,607	3,605,004
- Murabaha	227,305	31,015
- Others	744,456	532,107
<b>Total</b>	<b>5,879,572</b>	<b>4,621,900</b>
<b>Special commission expense</b>		
Customers' deposits		
- Murabaha	847,901	488,028
- Others	13,270	10,431
<b>Total</b>	<b>861,171</b>	<b>498,459</b>

### 23. Fees and commission income, net

	2019	2018
<b>Fee and commission income:</b>		
- Fund management fees	20,219	11,390
- Trade finance	678,736	609,019
- Corporate finance and advisory	140,931	106,948
- Card products	685,453	490,263
- Other banking services	451,049	424,533
<b>Total fee and commission income</b>	<b>1,976,388</b>	<b>1,642,153</b>
<b>Fee and commission expense:</b>		
- Card products	564,239	418,370
- Custodial services	659	835
- Other banking services	109,871	95,218
<b>Total fee and commission expense</b>	<b>674,769</b>	<b>514,423</b>
<b>Fees and commission income, net</b>	<b>1,301,619</b>	<b>1,127,730</b>

### 24. Trading income, net

	2019	2018
Foreign exchange income, net	70,453	82,424
Derivatives	9,221	86,471
Debt securities	11,670	161
Others	3,963	2,153
<b>Total</b>	<b>95,307</b>	<b>171,209</b>

**25. Salaries and employee related expenses**

	2019	2018
Salaries and allowance	999,831	795,247
Housing allowance	153,922	119,338
End of service benefits	137,283	57,120
Others	498,450	267,350
<b>Total</b>	<b>1,789,486</b>	<b>1,239,055</b>

**a) Quantitative Disclosure**

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended 31 December 2019 and 31 December 2018, and the forms of such payments.

2019 Category	Number of Employees *	Fixed compensation	Variable compensation paid in 2019		
			Cash	Shares	Total
Senior executives requiring SAMA no objection	46	65,316	28,997	17,695	46,692
Employees engaged in risk taking activities	683	269,297	79,677	7,646	87,323
Employees engaged in control functions	530	157,371	29,192	1,338	30,530
Other employees	3,629	605,946	69,382	-	69,382
Outsourced employees	977	54,520	27,678	-	27,678
<b>Total</b>	<b>5,865</b>	<b>1,152,450</b>	<b>234,926</b>	<b>26,679</b>	<b>261,605</b>
Variable compensation accrued in 2019		296,626			
Other employee related benefits **		340,410			
Total salaries and employee related expenses		<b>1,789,486</b>			

2018 Category	Number of Employees *	Fixed compensation	Variable compensation paid in 2018		
			Cash	Shares	Total
Senior executives requiring SAMA no objection	36	42,919	18,106	8,497	26,603
Employees engaged in risk taking activities	549	189,201	53,937	5,971	59,908
Employees engaged in control functions	341	120,933	23,725	871	24,596
Other employees	2,554	508,236	77,129	683	77,812
Outsourced employees	395	49,783	4,115	-	4,115
<b>Total</b>	<b>3,875</b>	<b>911,072</b>	<b>177,012</b>	<b>16,022</b>	<b>193,034</b>
Variable compensation accrued in 2018		185,959			
Other employee related benefits **		142,024			
Total salaries and employee related expenses		<b>1,239,055</b>			

\* Represent all employees who worked for the Bank and were compensated during the year 2019 or 2018, whether they are still active or no longer employed by the Bank.

\*\* Other employee related benefits include insurance premium paid, GOSI contribution, recruitment expenses and certain other non-recurring employee related costs.

**Senior executives (requiring SAMA no objection):**

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank whose appointment requires no objection from SAMA. This covers the Managing Director and other executives directly reporting to him.

**Employees engaged in risk taking activities:**

This comprises of management staff within the business lines (Corporate, Trade Services, Private Banking and Treasury employees), who are responsible for executing and implementing the business strategy on behalf of the Bank. This also includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals and treasury dealing activities.

**Employees engaged in control functions:**

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Internal Audit, Treasury Operation, Amanah Islamic Banking Services, Finance and Accounting). These functions are fully independent from risk taking units.

**Other employees:**

This includes all other employees of the Bank, excluding those already reported under categories mentioned above.

**Outsourced employees:**

This includes staff employed by various agencies who supply services to the Bank on a full-time basis in non-critical roles. None of these roles require risk undertaking or control.

**b) Qualitative Disclosure**

**Compensation disclosure for the Annual Financial Statements**

SAMA being the Banking industry regulator for the Kingdom of Saudi Arabia has issued its Rules on compensation practices. In compliance with the SAMA Rules on compensation practices, a compensation policy endorsed by Nomination and Remuneration Committee and approved by the Board of Directors has been formulated and implemented.

**SABB Compensation Policy**

*i. Policy Objectives*

The policy sets the guidelines as to how both fixed and variable pay will be managed at SABB. The scope of policy covers the following: all categories of employees; its subsidiaries; all compensation elements; key determinants of compensation; approval process; reporting processes; bonus deferral process; share retention and relevant stakeholder's roles and responsibilities.

The objectives of the policy are to: align the reward practices with the Bank's strategy & values so as to support the successful execution of the strategy in a risk compliant manner; offer an attractive employee value proposition to attract, retain and motivate competent and committed people; and ensure the financial sustainability of SABB.

*ii. Compensation Structure*

SABB's compensation operates on a Total Package basis that is benchmarked to market data from peers in the appropriate industry. Total Package comprises of the following blend of fixed and variable compensation elements: salaries, allowances; benefits; annual bonuses; short-term incentives; and long-term incentives.

*iii. Performance Management System*

The performance of all employees is evaluated against agreed targets using a Performance Scorecard methodology, financial, customer, process and people. A calibration process is applied to ensure fair and equitable performance evaluation. The performance management methodology at SABB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance within a risk compliant manner.

*iv. Risk-adjustment for Variable Pay schemes*

The Bank has reviewed all its variable pay schemes, with the assistance of external remuneration consultants, to ensure that any bonus pay pools have taken into account all relevant risks. The determination of bonus pools is based on appropriate performance factors adjusted for risk. The bonus pool for the Control functions have been ring fenced from short term profits in alignment with SAMA regulations.

v. *Bonus Deferral*

Bonus deferral in the form of equity applies to all employees who are either subject to SAMA "No Objection" and /or undertake or control significant risk undertaking by the Bank. Bonuses of all these employees will be subject to deferral over a three year vesting period. The vesting will be subject to malus conditions.

vi. *Nomination and Remuneration Committee*

The Nomination and Remuneration Committee has oversight of the remuneration structures and policies for all employees to ensure that: all performance based bonuses are adjusted for risk, compensation structures are regulatory compliant, and effective in achieving its stated objectives.

c) **Share based bonus payments**

The Bank has Share Based Equity settled Bonus payment plans outstanding at the end of the year. Under the terms of these plans, SABB's eligible employees are offered shares at a predetermined price. 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.

The movement in the number of shares under Share Based Equity settled Bonus payment plans is as follows:

	<b>Number of shares</b>	
	<b>2019</b>	<b>2018</b>
Beginning of the year	<b>1,063,521</b>	1,142,854
Addition through business combination (refer note 20)	<b>1,887,445</b>	-
Forfeited	-	(66,915)
Exercised / Expired	<b>(796,850)</b>	(470,281)
Granted during the year	<b>358,026</b>	457,863
End of the year	<b>2,512,142</b>	1,063,521

The weighted average price of shares granted during the year was SAR 36.1 (2018: SAR 31.1).

**26. Basic and diluted earnings per share**

Basic and diluted earnings per share for the years ended 31 December 2019 and 2018 are calculated by dividing the net income after Zakat and tax for the years by the weighted average number of shares 1,802 million (2018: 1,500 million) outstanding during the year.

**27. Dividends, Zakat and income tax**

The Board of Directors on 31 December 2019 has proposed a net final dividend of SAR 1,234 million (2018: 1,431 million) for the year 2019, resulting in net dividend of SAR 0.60 per share net of Zakat for Saudi shareholders (2018: SAR 1.00 per share). An interim net dividend of SAR 1,185 million (2018: SAR 1,266 million) was approved on 5 August 2019 for payment to shareholders, resulting in net dividends of SAR 0.60 per share net of Zakat for Saudi shareholders (2018: SAR 0.96 per share). Total net dividends for the year 2019 amounted to SAR 2,419 million (2018: SAR 2,697 million), resulting in net dividends to the shareholders of SAR 1.20 per share (2018: SAR 1.96 per share). The income tax of the foreign strategic shareholders was deducted from their share of the dividend.

Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

**Saudi shareholders:**

The Zakat liability for the year ended 31 December 2019 attributable to Saudi shareholders is SAR 265 million (2018: SAR 228 million) which will be deducted from their share of dividend.

**Non Saudi shareholders**

Income tax attributable to the foreign strategic shareholder on its current year's share of income is approximately SAR 269 million (2018: SAR 395 million). The share of dividend of non-Saudi shareholders will be paid after deducting the related taxes due.

**Zakat and Income Tax**

In March 2019, new Zakat Regulations were issued by GAZT under resolution No. 2215 dated 7 Rajab 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. 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 entered into 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 instalments 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 instalments of SAR 60 million through 2023.

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.

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

As at and for the year ended 31 December 2018:

Financial statements impacted	Description	Before the restatement for the year ended 31 December 2018	Effect of restatement	As restated as at and for the year ended 31 December 2018
Consolidated statement of changes in equity	Provision for Zakat and income tax	2,254,383	(2,254,383)	-
Consolidated statement of income	Zakat and income tax expenses (current and deferred)	-	2,230,799	(2,230,799)
Consolidated statement of income	Non-controlling interest	(4,005)	(13,134)	(17,139)
Consolidated statement of income	Earnings per share	3.29	(1.48)	1.81
Consolidated statement of financial position	Deferred tax asset	-	112,661	112,661
Consolidated statement of financial position	Non-controlling interest	121,874	(13,134)	108,740
Consolidated statement of financial position	Retained earnings	5,135,131	125,795	5,260,926



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
Consolidated statement of financial position	Deferred tax asset	-	89,077	89,077
Consolidated statement of financial position	Retained earnings	6,385,693	89,077	6,474,770

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

	2019	2018
Opening Zakat and income tax liability	1,736,447	200,060
Charge for the year	446,368	2,254,383
Acquired through business combination (note 20)	392,633	-
Payment of Zakat and income tax liability	(1,110,628)	(717,996)
Closing Zakat and income tax liability	1,464,820	1,736,447

In 2018, SABB recognised a provision for an amount of SAR 1,628.1 million to reflect the exposure arising from the settlement agreement with the GAZT.

## 28. 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:

	2019	2018
Opening deferred tax asset	112,661	89,077
(Provision) / reversal for deferred tax	(12,935)	23,584
Acquired through business combination (note 20)	31,006	-
Closing deferred tax asset	130,732	112,661

## 29. Cash and cash equivalents

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

	2019	2018
Cash and balances with SAMA excluding the statutory deposit amounting to SAR 10,942 million (2018: SAR 7,610 million) (note 3)	10,324,810	6,491,540
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	16,348,838	10,310,032
<b>Total</b>	<b>26,673,648</b>	<b>16,801,572</b>

**30. Employee benefit obligation****a) General description**

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

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

	<u>2019</u>	<u>2018</u>
Defined benefit obligation at the beginning of the year	459,316	441,981
Charge for the year	137,284	54,289
Benefits paid	(64,616)	(36,954)
Unrecognized actuarial gain	(18,651)	-
Acquired through business combination (note 20)	231,434	-
Defined benefit obligation at the end of the year	<u>744,767</u>	<u>459,316</u>

**c) Charge for the year**

	<u>2019</u>	<u>2018</u>
Current service cost	58,663	37,418
Past service cost	53,314	-
Interest cost	25,307	16,871
Total	<u>137,284</u>	<u>54,289</u>

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

	<u>2019</u>	<u>2018</u>
Discount rate	3.20% p.a.	4.60% p.a.
Expected rate of salary increase	3.00% p.a.	3.85% p.a.
Normal retirement age	60 years	60 years

**e) Sensitivity of actuarial assumptions**

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2019 to the discount rate 3.20% (December 2018: 4.60%), salary escalation rate 3.00% (December 2018: 3.85%) and retirement age.

2019	<u>Impact on defined benefit obligation – Increase / (Decrease)</u>		
Base Scenario	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Discount rate	1%	(47,887)	58,111
Expected rate of salary increase	1%	59,583	(53,112)
Normal retirement age	1 year	(71)	70

2018	<u>Impact on defined benefit obligation – Increase / (Decrease)</u>		
Base Scenario	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Discount rate	1.00%	(44,178)	52,300
Expected rate of salary increase	1.00%	54,548	(46,803)
Normal retirement age	1 year	(980)	947

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

**f) Expected maturity**

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

<b>2019</b>	<b>Less than a year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>744,767</b>	<b>82,211</b>	<b>63,215</b>	<b>170,726</b>	<b>557,630</b>	<b>873,782</b>

<b>2018</b>	<b>Less than a year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
459,316	38,713	21,800	73,148	651,198	784,859

The weighted average duration of the defined benefit obligation is 6.92 years (2018: 10.54 years).

**31. Operating segments**

The Bank's primary business is conducted in 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 31 December 2019 and 2018, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

<b>2019</b>	<b>Retail Banking</b>	<b>Corporate and Institutional Banking</b>	<b>Treasury</b>	<b>Others (including intergroup eliminations)</b>	<b>Total</b>
Total assets	47,503,720	126,523,369	87,679,552	3,765,803	265,472,444
- Loans and advances, net	36,801,930	117,875,040	-	-	154,676,970
- Investments	-	-	58,673,820	1,810,006	60,483,826
Total liabilities	85,457,597	109,916,451	13,383,688	554,457	209,312,193
- Customer deposits	81,590,412	104,440,628	6,135,484	-	192,166,524
Investment in associates	-	-	-	660,198	660,198
Total operating income, of which:	3,387,988	4,696,710	1,149,196	163,753	9,397,647
Special commission income, net	2,869,312	3,564,464	855,310	74,870	7,363,956
Fees and commission income, net	332,334	956,299	(1,245)	14,231	1,301,619
Trading income, net	92	12,848	81,853	514	95,307
Provision for expected credit losses, net	434,530	2,166,250	8,663	-	2,609,443
Total operating expenses	1,787,693	1,022,393	194,975	644,346	3,649,407
Share in earnings of associates and a joint venture, net	-	-	-	132,618	132,618
Net income for the year before Zakat and income tax	1,165,765	1,508,067	945,558	(347,975)	3,271,415

<b>2018</b>	<b>Retail Banking</b>	<b>Corporate and Institutional Banking</b>	<b>Treasury</b>	<b>Others (including intergroup eliminations)</b>	<b>Total</b>
Total assets	25,890,110	87,743,771	58,362,653	2,680,238	174,676,772
- Loans and advances, net	23,432,481	86,893,478	-	-	110,325,959
- Investments	-	-	32,729,603	1,840,853	34,570,456
Total liabilities	59,238,230	67,606,923	14,735,343	520,518	142,101,014
- Customer deposits	56,343,952	64,649,072	9,513,481	-	130,506,505
Investment in a joint venture	-	-	-	532,597	532,597
Total operating income, of which:	2,623,369	3,439,920	1,199,961	59,585	7,322,835
Special commission income, net	2,198,966	2,498,199	869,037	11,127	5,577,329
Fees and commission income, net	297,077	830,515	138	-	1,127,730
Trading income, net	266	11,085	159,858	-	171,209
Provision for expected credit losses, net	190,979	72,003	(3,950)	-	259,032
Total operating expenses	1,250,512	761,490	160,647	27,602	2,200,251
Share in earnings of a joint venture, net	-	-	-	65,551	65,551
Net income for the year before Zakat and income tax	1,181,878	2,606,427	1,043,264	97,534	4,929,103

## a) Total operating income by operating segments

2019	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
External	2,477,039	5,481,661	1,331,312	107,635	9,397,647
Internal	910,949	(784,951)	(182,116)	56,118	-
Total operating income	3,387,988	4,696,710	1,149,196	163,753	9,397,647

2018	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
External	1,891,391	4,417,150	956,726	57,568	7,322,835
Internal	731,978	(977,230)	243,235	2,017	-
Total operating income	2,623,369	3,439,920	1,199,961	59,585	7,322,835

## b) The Bank's credit exposure by operating segment is as follows:

2019	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Assets	36,930,695	117,746,276	93,289,976	431,714	248,398,661
Commitments and contingencies	1,027	55,147,151	-	-	55,148,178
Derivatives	-	-	1,282,171	-	1,282,171
<b>Total</b>	<b>36,931,722</b>	<b>172,893,427</b>	<b>94,572,147</b>	<b>431,714</b>	<b>304,829,010</b>

2018	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Assets	23,432,481	86,893,478	57,163,466	292,072	167,781,497
Commitments and contingencies	26,908	42,404,714	-	-	42,431,622
Derivatives	-	-	828,940	-	828,940
<b>Total</b>	<b>23,459,389</b>	<b>129,298,192</b>	<b>57,992,406</b>	<b>292,072</b>	<b>211,042,059</b>

Credit exposure comprises the carrying value of assets excluding cash, property and equipment, other assets, investment in associates and equity investments, and the credit equivalent value for commitments, contingencies and derivatives based on the credit conversion factor as prescribed by the SAMA.

## 32. Financial risk management

### i) 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) Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure

2019	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
<b>Assets</b>						
Cash and balances with SAMA						
Cash in hand	2,375,158	-	-	-	-	2,375,158
Balances with SAMA	18,595,800	-	-	-	-	18,595,800
Other balances	295,934	-	-	-	-	295,934
Due from banks and other financial institutions, net						
Current accounts	541	104,900	1,492,640	2,813,421	62,328	4,473,830
Money market placements	476,065	-	37,871	-	-	513,936
Positive fair value derivatives, net						
Held for trading	431,335	40,935	436,988	-	55	909,313
Held as fair value hedges	-	550	14,639	-	-	15,189
Held as cash flow hedges	-	24,487	21,537	-	-	46,024
Investments, net						
FVOCI	11,218,813	2,249,964	381,530	11,824	75,542	13,937,673
FVTPL	965,539	-	177,034	-	-	1,142,573
Amortised Cost	44,684,782	437,035	-	-	281,763	45,403,580
Loans and advances, net						
Credit cards	2,193,079	-	-	-	-	2,193,079
Other retail lending	34,608,851	-	-	-	-	34,608,851
Corporate and institutional lending	117,440,497	434,543	-	-	-	117,875,040
Investments in associates and a joint venture	660,198	-	-	-	-	660,198
Property and equipment, net	3,308,278	-	-	-	-	3,308,278
Goodwill and other intangibles	15,345,896	-	-	-	-	15,345,896
Other assets	2,970,704	7,756	788,114	5,474	44	3,772,092
<b>Total</b>	<b>255,571,470</b>	<b>3,300,170</b>	<b>3,350,353</b>	<b>2,830,719</b>	<b>419,732</b>	<b>265,472,444</b>
<b>Liabilities</b>						
Due to banks and other financial institutions						
Current accounts	1,092,793	1,256,568	416,385	815,423	52,605	3,633,774
Money market deposits	5,594	5,000	8,318	-	-	18,912
Customer deposits						
Demand	121,820,596	17,015	605,316	59,584	15,213	122,517,724
Saving	1,682,017	8,353	633	-	-	1,691,003
Time	51,719,310	-	22,212	4,006	80,346	51,825,874
Margin and other deposits	16,131,923	-	-	-	-	16,131,923
Debt securities in issue	1,499,752	-	-	-	-	1,499,752
Negative fair value derivatives, net						
Held for trading	90,323	33,295	756,023	-	18	879,659
Held as fair value hedges	-	27,236	398,089	-	-	425,325
Held as cash flow hedges	-	1,766	10,890	-	-	12,656
Other liabilities	10,588,184	51,779	33,835	1,793	-	10,675,591
<b>Total</b>	<b>204,630,492</b>	<b>1,401,012</b>	<b>2,251,701</b>	<b>880,806</b>	<b>148,182</b>	<b>209,312,193</b>
<b>Commitments and contingencies</b>	<b>96,928,461</b>	<b>1,796,885</b>	<b>5,754,746</b>	<b>1,468,692</b>	<b>7,399,132</b>	<b>113,347,916</b>
<b>Credit exposure (stated at credit equivalent amounts)</b>						
Assets	239,773,843	3,226,442	2,165,341	2,813,421	419,614	248,398,661
Commitments and contingencies	47,265,826	887,066	2,773,852	706,678	3,514,756	55,148,178
Derivatives	789,032	100,390	392,707	-	42	1,282,171
<b>Total credit exposure</b>	<b>287,828,701</b>	<b>4,213,898</b>	<b>5,331,900</b>	<b>3,520,099</b>	<b>3,934,412</b>	<b>304,829,010</b>

2018	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
<b>Assets</b>						
Cash and balances with SAMA						
Cash in hand	1,542,528	-	-	-	-	1,542,528
Balances with SAMA	12,421,215	-	-	-	-	12,421,215
Other balances	137,346	-	-	-	-	137,346
Due from banks and other financial institutions, net						
Current accounts	-	59,380	1,886,211	4,914,373	36,926	6,896,890
Money market placements	4,718,592	388,242	37,570	-	-	5,144,404
Positive fair value derivatives						
Held for trading	182,582	27,706	237,519	-	50	447,857
Held as fair value hedges	-	3,556	73,154	-	-	76,710
Held as cash flow hedges	-	22,420	15,386	-	-	37,806
Investments, net						
FVOCI	8,624,106	2,726,934	1,450,879	92,065	94,650	12,988,634
FVTPL	419,133	-	-	-	-	419,133
Amortised Cost	20,193,190	386,827	-	-	582,672	21,162,689
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Other retail lending	21,417,972	-	-	-	-	21,417,972
Corporate and institutional lending	86,502,130	189,570	225,121	-	-	86,916,821
Investments in associates and a joint venture	532,597	-	-	-	-	532,597
Property and equipment, net	1,224,832	-	-	-	-	1,224,832
Goodwill and other intangibles	69,644	-	-	-	-	69,644
Other assets	1,248,528	-	-	-	-	1,248,528
<b>Total</b>	<b>161,225,561</b>	<b>3,804,635</b>	<b>3,925,840</b>	<b>5,006,438</b>	<b>714,298</b>	<b>174,676,772</b>
<b>Liabilities</b>						
Due to banks and other financial institutions						
Current accounts	2,248	458,019	471,951	9,156	15,356	956,730
Money market deposits	-	56,503	-	-	-	56,503
Customer deposits						
Demand	81,961,755	1,631	83,433	21,471	17,869	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	39,441,098	4,518	24,358	8,933	81,603	39,560,510
Margin and other deposits	1,036,759	-	-	-	-	1,036,759
Debt securities in issue	1,499,282	-	-	-	-	1,499,282
Borrowings	-	282,551	791,145	-	621,612	1,695,308
Negative fair value derivatives						
Held for trading	93,117	12,379	332,570	-	25	438,091
Held as fair value hedges	-	4,321	80,237	-	-	84,558
Held as cash flow hedges	-	12,230	12,374	-	-	24,604
Other liabilities	6,839,433	-	-	-	-	6,839,433
<b>Total</b>	<b>138,696,769</b>	<b>832,152</b>	<b>1,796,068</b>	<b>39,560</b>	<b>736,465</b>	<b>142,101,014</b>
<b>Commitments and contingencies</b>	<b>58,924,589</b>	<b>872,400</b>	<b>4,674,413</b>	<b>913,833</b>	<b>6,170,995</b>	<b>71,556,230</b>
<b>Credit exposure (stated at credit equivalent amounts)</b>						
Assets	154,728,719	3,750,953	3,597,991	4,989,586	714,248	167,781,497
Commitments and contingencies	35,109,342	516,826	2,702,949	528,772	3,573,733	42,431,622
Derivatives	467,822	117,530	243,588	-	-	828,940
<b>Total credit exposure</b>	<b>190,305,883</b>	<b>4,385,309</b>	<b>6,544,528</b>	<b>5,518,358</b>	<b>4,287,981</b>	<b>211,042,059</b>



**b) The distributions by geographical concentration of impaired loans and advances and provision for credit losses are as follows:**

2019	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non-performing loans	4,057,132	189,570	-	-	-	4,246,702
Provision for credit losses	6,092,570	-	-	-	-	6,092,570
2018	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non-performing loans	3,321,969	-	5,282	-	-	3,327,251
Provision for credit losses	4,745,371	-	5,241	-	-	4,750,612

**ii) Credit quality analysis**

**Amounts arising from ECL – Significant increase in credit risk**

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the probability of default at the reporting date; with
- the probability of default estimated at the time of initial recognition of the exposure

In addition to the above, other major quantitative consideration include days past due and rating of customer.

**Credit risk grades**

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

Credit risk grades are defined and calibrated such that the probability of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in probability of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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

Corporate exposures	Retail exposures	All exposures
<ul style="list-style-type: none"> <li>Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes.</li> <li>Data from credit reference agencies, press articles, changes in external credit ratings</li> <li>Quoted bond and credit default swap (CDS) prices for the borrower where available</li> <li>Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities</li> </ul>	<ul style="list-style-type: none"> <li>Internally collected data and customer behaviour – e.g. utilization of credit card facilities</li> <li>Affordability metrics</li> <li>External data from credit reference agencies including industry-standard credit scores</li> </ul>	<ul style="list-style-type: none"> <li>Payment record – this includes overdue status as well as a range of variables about payment ratios</li> <li>Utilization of the granted limit</li> <li>Requests for and granting of forbearance</li> <li>Existing and forecast changes in business, financial and economic conditions</li> </ul>

**a) Generating the term structure of PD**

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Generating the PD term structure includes:

- Computation of central tendency and shift in assigned rating grade PDs, such that the rating grades reflect the current economic scenario implied portfolio PDs
- Macroeconomic adjustments of portfolio Central Tendency (CT)

Historical data of portfolio default rates is used to arrive at 1-year forward looking central tendency (CT) for the portfolio and a link between forward looking macroeconomic parameters and 1-year forward-looking CTs are established. The derived macroeconomic adjusted CT is then used to calibrate PIT PDs for each rating grade.

**b) Determining whether credit risk has increased significantly**

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

The assessment of significant increase in credit risk, is assessed taking on account of:

- Days past due
- Change in probability of default occurring since initial recognition,
- Expected life of the financial instrument and
- Reasonable and supportable information, that is available without undue cost or effort that may affect credit risk.

Lifetime expected credit losses are recognized against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days for Corporate and Retail Exposures and more than 7 days for Treasury investment.

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

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

**c) Modified financial assets**

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

When the terms of the financial assets are modified that does not result into 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 statement of income for Asset Modification.

To measure the significant increase in credit risk (for financial assets not de-recognized during the course of modification), the Bank will compare the probability of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be recorded according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Audit Committee regularly reviews reports on forbearance activities.

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3. No Asset Modification to be considered if the same were not driven by Credit Distress situation of Obligor.

**d) Definition of 'Default'**

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In case for financial institution including Bank and Sovereign past due more 15 working days consider to be in default.

In assessing whether a borrower is in default. The Bank considers indicators that are:

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

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

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

**e) Measurement of ECL**

Following risk parameters, that are part of the Basel framework, have been used by the Bank to measure the ECL:

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

These parameters are derived from internally developed statistical models and other historical data.

PD is the predicted probability that a pool of obligors will default over the predefined future time horizon. For each portfolio of financial instruments, PDs have been estimated at a certain date using robust statistical models. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Default rates provided by authorized external rating agencies have been used to derive the PD for the portfolios where internal defaults are not available. Macroeconomic adjustment of the PD has been carried out as described above to reflect forward-looking information. Also, the Bank has adjusted the PDs to incorporate the effect of downgrades and upgrades of borrowers over time.

LGD is the amount of the credit that is lost when a borrower defaults. For each portfolio, Bank estimates the LGD parameters using the workout approach based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For mortgage loans secured by retail property, LTV ratios and current value of the property are key parameters in determining LGD. LGD are calculated on a discounted cash flow basis using the contractual interest rate as the discounting factor.

EAD is an estimate of Bank's exposure to its counterparty at the time of default. For defaulted accounts, EAD is simply the amount outstanding at the point of default. However, for performing accounts, the following elements are considered for computation of EAD at the instrument/facility level:

- Time horizon over which EAD needs to be estimated
- Projected cash flows till the estimated default point
- Residual maturity

EAD for the amortized loans considers Contractual pay down; Impact of missed payments and subsequent interest accrual between reporting date and default occurrence; Expected drawdown amount on the unutilized balance. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are Treasury Investments, Bank and Non-Banking Financial institutions and money market placements.

### 33. Market risk

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

Market Risk exposures in the trading book result from instruments classified as held for trading as disclosed in these consolidated financial statements. Market Risk exposures in the non-trading or banking book arise on special commission rate risk and equity price risk as disclosed in part b) of this disclosure.

The market risk for both the trading book and the non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

#### a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank applies a VAR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for change in market conditions.

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

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

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

In addition to VAR, the Bank also carries out stress testing of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Risk Management Committee (RMC) committee for their review.

The Bank's VAR related information is as follows:

<b>2019</b>	<b>Foreign exchange</b>	<b>Special commission rate</b>	<b>Overall risk</b>
VAR as at 31 December 2019	<b>102</b>	<b>1,572</b>	<b>1,624</b>
Average VAR for 2019	<b>250</b>	<b>1,457</b>	<b>1,546</b>
Minimum VAR for 2019	<b>38</b>	<b>429</b>	<b>431</b>
Maximum VAR for 2019	<b>2,053</b>	<b>3,312</b>	<b>3,615</b>
<b>2018</b>	<b>Foreign exchange</b>	<b>Special commission rate</b>	<b>Overall risk</b>
VAR as at 31 December 2018	109	564	575
Average VAR for 2018	1,104	1,174	1,778
Minimum VAR for 2018	74	423	424
Maximum VAR for 2018	3,949	2,850	4,069

#### **b) Market risk – non trading or banking book**

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

##### **i) Special commission rate risk**

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities repricing as at 31 December 2019, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI assets including the effect of any associated hedges as at 31 December 2019 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represent only those exposures that directly impact OCI of the Bank.

2019							
Currency	Increase in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+100	576,065	(47,922)	(45,461)	(666,714)	(542,148)	(1,302,245)
USD	+100	(4,757)	(4,286)	(7,556)	(137,728)	(220,275)	(369,845)
EUR	+100	(4,408)	-	-	-	-	-
Others	+100	(4,436)	-	-	-	-	-

2019							
Currency	Decrease in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	-100	(690,905)	47,922	45,461	666,714	542,148	1,302,245
USD	-100	2,533	4,286	7,556	137,728	220,275	369,845
EUR	-100	-	-	-	-	-	-
Others	-100	1,777	-	-	-	-	-

2018							
Currency	Increase in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+100	561,800	(16,096)	(12,181)	(449,313)	(85,715)	(563,305)
USD	+100	117,541	(7,304)	(15,496)	(150,489)	(197,600)	(370,889)
EUR	+100	(8,379)	-	-	-	-	-
Others	+100	(2,671)	-	-	-	-	-

2018							
Currency	Decrease in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	-100	(577,484)	16,096	12,181	449,313	85,715	563,305
USD	-100	(117,273)	7,304	15,496	150,489	197,600	370,889
EUR	-100	-	-	-	-	-	-
Others	-100	9	-	-	-	-	-

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or the maturity dates. The Bank is exposed to special commission rate risks as a result of mismatches or gaps in the amounts of assets and liabilities and derivative financial instruments that reprice or mature in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
<b>Assets</b>						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	2,375,158	2,375,158
Balances with SAMA	7,653,718	-	-	-	10,942,082	18,595,800
Other balances	-	-	-	-	295,934	295,934
Due from banks and other financial institutions, net						
Current accounts	3,734,881	-	-	-	738,949	4,473,830
Money market placements	476,436	-	37,500	-	-	513,936
Positive fair value derivatives, net						
Held for trading	15,808	11,138	159,632	11,235	711,500	909,313
Held as fair value hedges	-	-	-	-	15,189	15,189
Held as cash flow hedges	-	-	-	-	46,024	46,024
Investments, net						
FVOCI	1,370,846	1,508,882	6,422,170	3,407,007	1,228,768	13,937,673
FVTPL	177,034	-	31,953	86,011	847,575	1,142,573
Amortised cost	10,484,937	11,014,090	14,339,126	9,565,427	-	45,403,580
Loans and advances, net						
Credit cards	1,910,362	-	278,535	-	4,182	2,193,079
Other retail lending	6,777,812	3,149,652	13,551,312	10,934,360	195,715	34,608,851
Corporate and institutional lending	98,229,542	14,800,847	1,949,899	312,747	2,582,005	117,875,040
Investments in associates and a joint venture	-	-	-	-	660,198	660,198
Property and equipment, net	-	-	-	-	3,308,278	3,308,278
Goodwill and other intangibles	-	-	-	-	15,345,896	15,345,896
Other assets	-	-	-	-	3,772,092	3,772,092
<b>Total assets</b>	<b>130,831,376</b>	<b>30,484,609</b>	<b>36,770,127</b>	<b>24,316,787</b>	<b>43,069,545</b>	<b>265,472,444</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	3,633,774	3,633,774
Money market deposits	5,244	9,416	4,252	-	-	18,912
Customer deposits						
Demand	331,403	-	-	-	122,186,321	122,517,724
Saving	1,691,003	-	-	-	-	1,691,003
Time	42,022,303	8,614,360	1,189,211	-	-	51,825,874
Margin and other deposits	176	-	-	-	16,131,747	16,131,923
Debt securities in issue	5,033	1,494,719	-	-	-	1,499,752
Negative fair value derivatives, net						
Held for trading	14,919	6,661	135,028	11,445	711,606	879,659
Held as fair value hedges	-	-	-	-	425,325	425,325
Held as cash flow hedges	-	-	-	-	12,656	12,656
Other liabilities	-	-	-	-	10,675,591	10,675,591
Equity	-	-	-	-	56,160,251	56,160,251
<b>Total liabilities and equity</b>	<b>44,070,081</b>	<b>10,125,156</b>	<b>1,328,491</b>	<b>11,445</b>	<b>209,937,271</b>	<b>265,472,444</b>
<b>Commission rate sensitivity on assets and liabilities</b>	<b>86,761,295</b>	<b>20,359,453</b>	<b>35,441,636</b>	<b>24,305,342</b>	<b>(166,867,726)</b>	
<b>Commission rate sensitivity on derivative financial instruments</b>	<b>10,409,094</b>	<b>(534,812)</b>	<b>(5,060,270)</b>	<b>(4,814,012)</b>	<b>-</b>	
<b>Total special commission rate sensitivity gap</b>	<b>97,170,389</b>	<b>19,824,641</b>	<b>30,381,366</b>	<b>19,491,330</b>	<b>(166,867,726)</b>	
<b>Cumulative special commission rate sensitivity gap</b>	<b>97,170,389</b>	<b>116,995,030</b>	<b>147,376,396</b>	<b>166,867,726</b>	<b>-</b>	

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
<b>Assets</b>						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,542,528	1,542,528
Balances with SAMA	4,811,666	-	-	-	7,609,549	12,421,215
Other balances	-	-	-	-	137,346	137,346
Due from banks and other financial institutions, net						
Current accounts	-	-	-	-	6,896,890	6,896,890
Money market placements	4,469,391	637,513	37,500	-	-	5,144,404
Positive fair value derivatives, net						
Held for trading	-	-	-	-	447,857	447,857
Held as fair value hedges	-	-	-	-	76,710	76,710
Held as cash flow hedges	-	-	-	-	37,806	37,806
Investments, net						
FVOCI	1,849,851	2,148,283	4,325,726	3,318,595	1,346,179	12,988,634
FVTPL	368,674	-	20,324	30,135	-	419,133
Amortised cost	4,397,120	1,891,788	12,825,869	2,047,912	-	21,162,689
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Other retail lending	8,734,167	411,738	10,392,939	1,879,128	-	21,417,972
Corporate and institutional lending	51,949,024	31,563,631	2,843,510	560,656	-	86,916,821
Investments in associates and a joint venture	-	-	-	-	532,597	532,597
Property and equipment, net	-	-	-	-	1,224,832	1,224,832
Goodwill and other intangibles	-	-	-	-	69,644	69,644
Other assets	-	-	-	-	1,248,528	1,248,528
<b>Total assets</b>	<b>78,571,059</b>	<b>36,652,953</b>	<b>30,445,868</b>	<b>7,836,426</b>	<b>21,170,466</b>	<b>174,676,772</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	956,730	956,730
Money market deposits	56,503	-	-	-	-	56,503
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,749,725	6,528,182	2,282,603	-	-	39,560,510
Margin and other deposits	-	-	-	-	1,036,759	1,036,759
Debt securities in issue	5,218	1,494,064	-	-	-	1,499,282
Borrowings	-	1,695,308	-	-	-	1,695,308
Negative fair value derivatives, net						
Held for trading	-	-	-	-	438,091	438,091
Held as fair value hedges	-	-	-	-	84,558	84,558
Held as cash flow hedges	-	-	-	-	24,604	24,604
Other liabilities	-	-	-	-	6,839,433	6,839,433
Equity	-	-	-	-	32,575,758	32,575,758
<b>Total liabilities and equity</b>	<b>38,634,523</b>	<b>9,717,554</b>	<b>2,282,603</b>	<b>-</b>	<b>124,042,092</b>	<b>174,676,772</b>
Commission rate sensitivity on assets and liabilities	39,936,536	26,935,399	28,163,265	7,836,426	(102,871,626)	
Commission rate sensitivity on derivative financial instruments	7,947,083	(642,359)	(4,478,219)	(2,826,505)	-	
Total special commission rate sensitivity gap	47,883,619	26,293,040	23,685,046	5,009,921	(102,871,626)	
Cumulative special commission rate sensitivity gap	47,883,619	74,176,659	97,861,705	102,871,626	-	



The net gap between derivative financial instruments represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

#### **ii) Currency risk**

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank does not maintain material non trading open currency positions. Foreign currency exposures that arise in the non-trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 33(a) reflects the Bank's total exposure to currency risk.

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency, and in total for both overnight and intraday positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	<b>2019</b>	2018
	<b>Long (short)</b>	Long (short)
US Dollar	<b>(675,799)</b>	779,093
Euro	<b>2,459</b>	3,173
Sterling Pounds	<b>(4,629)</b>	(386)
Other	<b>(2,341)</b>	(20,679)

#### **iii) Equity price risk**

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as FVOCI. A 10 per cent increase or decrease in the value of the Bank's FVOCI at 31 December 2019 would have correspondingly increase or decrease equity by SAR 122.8 million (2018: SAR 133.6 million).

### **34. Liquidity risk**

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development securities.

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and does not take account of effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. All derivatives used for hedging purposes are shown by maturity based on their contractual, undiscounted repayment obligations. As the major portion of the derivatives trading book comprises of back to back transactions and consequently the open derivatives trading exposures are small, the management believes that the inclusion of trading derivatives in the contractual maturity table is not relevant for an understanding of the timing of cash flows and hence these have been excluded.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The weekly liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. A summary report, covering the bank and operating subsidiaries, including any exceptions and remedial action taken, is submitted monthly to ALCO.

## a) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below sets out Bank's undiscounted financial liabilities by remaining contractual maturities.

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<b>Financial liabilities</b>						
Due to banks and other financial institutions						
Current accounts	2,326,343	-	-	-	1,307,431	3,633,774
Money market deposits	5,400	9,656	4,639	-	-	19,695
Customer deposits						
Demand	-	-	-	-	122,517,724	122,517,724
Saving	1,691,002	-	-	-	-	1,691,002
Time	42,173,415	8,736,097	1,258,251	-	-	52,167,763
Margin and other deposits	14,510,869	200,985	411,214	269,254	739,601	16,131,923
Debt securities in issue	12,703	38,109	203,250	1,519,455	-	1,773,517
Lease liability	103,225	58,942	566,330	533,014	-	1,261,511
<u>Derivatives :</u>						
- Special commission contractual amounts, net	5,432	329	180,457	214,387	-	400,605
<b>Total undiscounted financial liabilities</b>	<b>60,828,389</b>	<b>9,044,118</b>	<b>2,624,141</b>	<b>2,536,110</b>	<b>124,564,756</b>	<b>199,597,514</b>

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<b>Financial liabilities</b>						
Due to banks and other financial institutions						
Current accounts	956,730	-	-	-	-	956,730
Money market deposits	56,513	-	-	-	-	56,513
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,816,061	6,629,480	2,478,641	-	-	39,924,182
Margin and other deposits	88,358	266,315	392,240	289,846	-	1,036,759
Debt securities in issue	12,703	38,109	203,250	1,570,335	-	1,824,397
Borrowings	17,076	1,729,522	-	-	-	1,746,598
<u>Derivatives :</u>						
- Special commission contractual amounts, net	(8,762)	(13,057)	(10,267)	16,966	-	(15,120)
<b>Total undiscounted financial liabilities</b>	<b>39,761,756</b>	<b>8,650,369</b>	<b>3,063,864</b>	<b>1,877,147</b>	<b>82,086,159</b>	<b>135,439,295</b>

**b) Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2019	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
Cash and balances with SAMA						
Cash in hand	2,375,158	-	-	-	-	2,375,158
Balances with SAMA	7,653,718	-	-	-	10,942,082	18,595,800
Other balances	295,934	-	-	-	-	295,934
Due from banks and other financial institutions, net						
Current accounts	3,734,881	-	-	-	738,949	4,473,830
Money market placements	476,436	-	37,500	-	-	513,936
Positive fair value derivatives, net						
Held for trading	42,739	47,520	567,963	251,091	-	909,313
Held as fair value hedges	-	577	3,030	11,582	-	15,189
Held as cash flow hedges	167	4,987	28,883	11,987	-	46,024
Investments, net						
FVOCI	624,055	643,504	7,951,748	3,489,598	1,228,768	13,937,673
FVTPL	-	-	31,953	263,045	847,575	1,142,573
Amortised cost	1,078,141	7,858,963	17,722,030	18,744,446	-	45,403,580
Loans and advances, net						
Credit cards	2,147,874	-	-	-	45,205	2,193,079
Other retail lending	1,561,353	3,250,510	14,484,738	14,827,578	484,672	34,608,851
Corporate and institutional lending	25,680,469	34,070,455	24,639,745	29,820,297	3,664,074	117,875,040
Investments in associates and a joint venture	-	-	-	-	660,198	660,198
Property and equipment, net	-	-	-	-	3,308,278	3,308,278
Goodwill and other intangible	-	-	-	-	15,345,896	15,345,896
Other assets	320,824	1,076,093	-	-	2,375,175	3,772,092
<b>Total assets</b>	<b>45,991,749</b>	<b>46,952,609</b>	<b>65,467,590</b>	<b>67,419,624</b>	<b>39,640,872</b>	<b>265,472,444</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions						
Current accounts	2,326,343	-	-	-	1,307,431	3,633,774
Money market deposits	5,244	9,416	4,252	-	-	18,912
Customer deposits						
Demand	-	-	-	-	122,517,724	122,517,724
Saving	1,691,003	-	-	-	-	1,691,003
Time	42,022,303	8,614,360	1,189,211	-	-	51,825,874
Margin and other deposits	14,510,869	200,985	411,214	269,254	739,601	16,131,923
Debt securities in issue	5,033	-	-	1,494,719	-	1,499,752
Negative fair value derivatives, net						
Held for trading	36,686	35,554	557,186	250,233	-	879,659
Held as fair value hedges	522	224	186,533	238,046	-	425,325
Held as cash flow hedges	1,889	3,444	5,213	2,110	-	12,656
Other liabilities	1,189,320	822,452	1,551,085	471,500	6,641,234	10,675,591
Equity	-	-	-	-	56,160,251	56,160,251
<b>Total liabilities and equity</b>	<b>61,789,212</b>	<b>9,686,435</b>	<b>3,904,694</b>	<b>2,725,862</b>	<b>187,366,241</b>	<b>265,472,444</b>

# The Saudi British Bank

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2018	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
Cash and balances with SAMA						
Cash in hand	1,542,528	-	-	-	-	1,542,528
Balances with SAMA	4,811,666	-	-	-	7,609,549	12,421,215
Other balances	137,346	-	-	-	-	137,346
Due from banks and other financial institutions, net						
Current accounts	6,896,890	-	-	-	-	6,896,890
Money market placements	4,469,391	637,513	37,500	-	-	5,144,404
Positive fair value derivatives, net						
Held for trading	30,775	28,370	300,667	88,045	-	447,857
Held as fair value hedges	836	4,282	36,731	34,861	-	76,710
Held as cash flow hedges	-	13,169	24,637	-	-	37,806
Investments, net						
FVOCI	444,133	1,794,746	5,206,333	4,197,243	1,346,179	12,988,634
FVTPL	368,595	-	20,324	30,214	-	419,133
Amortised cost	154,773	491,867	14,594,053	5,921,996	-	21,162,689
Loans and advances, net						
Credit cards	1,935,861	-	-	-	55,305	1,991,166
Other retail lending	1,549,303	1,890,610	11,109,397	6,440,229	428,433	21,417,972
Corporate and institutional lending	53,196,094	11,160,008	6,852,556	15,296,231	411,932	86,916,821
Investments in associates and a joint venture	-	-	-	-	532,597	532,597
Property and equipment, net	-	-	-	-	1,224,832	1,224,832
Goodwill and other intangibles	-	-	-	-	69,644	69,644
Other assets	202,547	597,884	-	-	448,097	1,248,528
<b>Total assets</b>	<b>75,740,738</b>	<b>16,618,449</b>	<b>38,182,198</b>	<b>32,008,819</b>	<b>12,126,568</b>	<b>174,676,772</b>
<b>Liabilities and equity</b>						
Due to banks and other financial institutions						
Current accounts	956,730	-	-	-	-	956,730
Money market deposits	56,503	-	-	-	-	56,503
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,749,725	6,528,182	2,282,603	-	-	39,560,510
Margin and other deposits	88,358	266,315	392,240	289,846	-	1,036,759
Debt securities in issue	5,218	-	-	1,494,064	-	1,499,282
Borrowings	-	1,695,308	-	-	-	1,695,308
Negative fair value derivatives, net						
Held for trading	22,848	26,845	301,671	86,727	-	438,091
Held as fair value hedges	-	-	40,978	43,580	-	84,558
Held as cash flow hedges	-	5,918	9,119	9,567	-	24,604
Other liabilities	1,197,224	344,376	1,167,793	13,981	4,116,059	6,839,433
Equity	-	-	-	-	32,575,758	32,575,758
<b>Total liabilities and equity</b>	<b>40,899,683</b>	<b>8,866,944</b>	<b>4,194,404</b>	<b>1,937,765</b>	<b>118,777,976</b>	<b>174,676,772</b>

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies are given in note 21(d) of the consolidated financial statements.

**35. Offsetting of financial assets and financial liabilities**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amount of recognised financial assets	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amount not set off in the consolidated statement of financial position		
				Amounts subjects to enforceable master netting arrangement	Cash collateral received	Net amount
<b>2019</b>						
Due from banks and other financial institutions	214,046,761	(209,797,944)	4,248,817	-	-	4,248,817
<b>2018</b>						
Due from banks and other financial institutions	97,030,182	(84,988,888)	12,041,294	-	-	12,041,294

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amount of recognised financial liabilities	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amount not set off in the consolidated statement of financial position		
				Amounts subjects to enforceable master netting arrangement	Cash collateral pledged	Net amount
<b>2019</b>						
Derivatives	1,317,640	-	1,317,640	-	(956,253)	361,387
<b>2018</b>						
Derivatives	547,253	-	547,253	-	(268,047)	279,206

**36. 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.

**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.

31 December 2019	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Derivative financial instruments	970,526	-	970,526	-	970,526
Investments held as FVTPL	1,142,573	847,573	295,000	-	1,142,573
Investments held as FVOCI	13,937,673	1,202,100	12,708,906	26,667	13,937,673
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions	4,987,766	-	4,987,766	-	4,987,766
Investments held at amortised cost	45,403,580	-	46,172,171	-	46,172,171
Loans and advances	154,676,970	-	-	153,399,578	153,399,578
<b>Financial liabilities measured at fair value</b>					
Derivative financial instruments	1,317,640	-	1,317,640	-	1,317,640
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	3,652,686	-	3,652,686	-	3,652,686
Customers deposits	192,166,524	-	192,261,356	-	192,261,356
Debt securities in issue	1,499,752	-	1,499,752	-	1,499,752

31 December 2018	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	562,373	-	562,373	-	562,373
Investments held as FVTPL	419,133	-	419,133	-	419,133
Investments 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 held at amortised cost	21,162,689	-	21,028,501	-	21,028,501
Loans and advances	110,325,959	-	-	109,316,526	109,316,526
Financial liabilities measured at fair value					
Derivative financial instruments	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 plain vanilla 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 (NAV) as at the reporting date. The movement in Level 3 financial instruments during the year 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.

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

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 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.

### 37. Related party transactions

Managerial and specialised expertise is provided under a technical services agreement with HSBC Holdings plc, the parent company of HSBC Holdings BV. This agreement was amended on 3 October 2018 and renewed for a period of 10 years, commencing on 30 September 2017.

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

The year end balances included in the consolidated financial statements resulting from such transactions are as follows:

	2019	2018
<b>The HSBC Group:</b>		
Due from banks and other financial institutions	1,525,639	3,074,745
Investments	111,824	265,334
Negative fair value derivatives, net	41,164	19,996
Due to banks and other financial institutions	265,733	342,457
Borrowings	-	281,250
Commitments and contingencies	3,895,443	2,571,269

	2019	2018
<b>Associates (2018: Joint venture):</b>		
Investments	660,198	532,597
Loans and advances	175,900	275,004
Other assets	155	4,804
Customer deposits	482,496	270,183
Other liabilities	54,486	433
Commitments and contingencies	1,501,000	800,925

### Directors, board committees, other major shareholders, key management personnel and their affiliates:

	2019	2018
Investments	1,367,341	-
Loans and advances	14,339,076	2,853,721
Customers' deposits	5,411,005	3,775,635
Positive fair value derivatives, net	33,139	887
Debt securities issued	375,000	385,000
Other liabilities	7,592	13,028
Commitments and contingencies	2,614,504	13,734

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



	2019	2018
<b>Related mutual funds:</b>		
Investments	357,160	-
Customers' deposits	26,842	90,376
Debt securities issued	32,000	-
Loans and advances	-	126
<b>Subsidiaries:</b>	2019	2018
Other assets	34,000	34,000
<b>Related mutual funds:</b>		
Investments	490,413	368,594

Transactions with related parties included in the consolidated financial statements are as follows:

	2019	2018
Special commission income	727,467	153,623
Special commission expense	298,493	60,990
Fees and commission income	99,239	14,008
General and administrative expenses	33,817	14,020
Services charges paid to HSBC group	30,001	39,332
Service charges recovered from associate	25,420	22,651
Proceeds from sale of HSBC Saudi Arabia shareholding (note 7)	36,000	-
Profit share paid to associate relating to investment banking activities	13,860	9,446
Directors' and board committees' remuneration	5,244	5,589

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

	2019	2018
Short-term employee benefits *	55,529	36,843
Termination benefits	11,131	-
Other long-term benefits	4,600	894
Share-based payments	8,197	5,147

\* Short-Term Employee benefits includes: Salaries, Allowances, benefits, Cash bonus paid during the year

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

### 38. 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.

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 IFRS 9, 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.

	2019	2018
<b>Risk Weighted Assets (RWA)</b>		
Credit Risk RWA	207,720,526	155,438,168
Operational Risk RWA	19,265,850	12,434,259
Market Risk RWA	1,829,683	1,510,175
<b>Total RWA</b>	<b>228,816,059</b>	169,382,602
<b>Tier I Capital</b>	<b>41,642,301</b>	33,359,762
<b>Tier II Capital</b>	<b>2,819,213</b>	2,700,534
<b>Total I &amp; II Capital</b>	<b>44,461,514</b>	36,060,296
<b>Capital Adequacy Ratio %</b>		
Tier I ratio	18.20%	19.69%
Tier I + Tier II ratio	19.43%	21.29%

### 39. Prospective changes in accounting standards

The Bank has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Bank's accounting years beginning on or after 1 January 2020 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to "IFRS"

- IFRS 17 'Insurance Contracts' was issued by the IASB on 18 May 2017 and is effective for periods beginning on or after 1 January 2021.

- On 31 October 2018, the IASB issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

- On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

- Together with the revised 'Conceptual Framework' published in March 2018, the IASB also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. The amendments are effective for annual periods beginning on or after 1 January 2020.

- On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

### 40. Comparative figures

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

### 41. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 30 Jumada Althani 1441AH (Corresponding 24 February 2020).