Interim Condensed Consolidated Financial Statements

For the three month period ended 31 March 2020

(Unaudited)

The Saudi British Bank

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Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To: The shareholders of The Saudi British Bank
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of The Saudi British Bank ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2020, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended, and other explanatory notes (collectively referred to as "the interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

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

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24 Ramadan 1441H
(17 May 2020)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 March 2020 Unaudited SAR' 000**	31 December 2019 Audited SAR' 000	31 March 2019 Unaudited SAR' 000
ASSETS				(Restated)
Cash and balances with SAMA	5	**15,814,090**	21,266,892	13,289,382
Due from banks and other financial institutions, net	6	**5,096,308**	4,987,766	6,161,484
Positive fair value derivatives	12	**2,061,164**	970,526	502,520
Investments, net	7	**60,549,740**	60,483,826	39,377,492
Loans and advances, net	8	**157,839,077**	154,676,970	110,356,665
Investment in associates and a joint venture	9	**683,540**	660,198	548,687
Property and equipment, net		**3,257,347**	3,308,278	1,937,765
Goodwill and other intangible assets	10	**15,324,339**	15,345,896	88,275
Other assets		**4,600,240**	3,772,092	1,518,944
Total assets		**265,225,845**	265,472,444	173,781,214
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		**6,698,517**	3,652,686	912,797
Customers' deposits	11	**188,275,244**	192,166,524	127,238,413
Debt securities in issue		**1,513,453**	1,499,752	1,516,540
Borrowings		**-**	-	1,696,477
Negative fair value derivatives	12	**2,941,253**	1,317,640	645,415
Other liabilities		**10,002,247**	10,675,591	7,666,147
Total liabilities		**209,430,714**	209,312,193	139,675,789
Equity				
Equity attributable to equity holders of the Bank				
Share capital		**20,547,945**	20,547,945	15,000,000
Share premium		**17,586,986**	17,586,986	-
Statutory reserve		**11,485,841**	11,485,841	10,778,261
Other reserves		**(1,151,437)**	237,429	421,039
Retained earnings		**6,010,562**	4,977,064	6,369,477
Proposed dividends		**1,234,454**	1,234,454	1,430,954
Total equity attributable to equity holders of the Bank		**55,714,351**	56,069,719	33,999,731
Non-controlling interest		**80,780**	90,532	105,694
Total equity		**55,795,131**	56,160,251	34,105,425
Total liabilities and equity		**265,225,845**	265,472,444	173,781,214

Mathew Pearce	David Dew
Mathew Pearce	David Dew
Chief Financial Officer	Managing Director & Authorized Member

The accompanying notes 1 to 25 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME
Unaudited

	Notes	Three months ended 31 March 2020 SAR'000	31 March 2019 SAR'000
			(Restated)
Special commission income		**2,304,060**	1,796,419
Special commission expense		**(334,990)**	(309,476)
Net special commission income		**1,969,070**	1,486,943
Fee and commission income, net		**346,341**	305,234
Exchange income, net		**146,275**	98,302
(Loss) / income from FVTPL financial instruments, net		**(9,399)**	658
Trading income, net		**20,600**	20,174
Dividend income		**25,284**	41,999
Gains on FVOCI debt instruments, net		**26,506**	16,854
Other operating losses, net		**(89,292)**	(152)
Total operating income		**2,435,385**	1,970,012
Provision for expected credit losses, net	20(a)	**(254,162)**	(90,776)
Operating expenses:			
Salaries and employee related expenses		**(502,185)**	(329,828)
Rent and premises related expenses		**(14,640)**	(15,229)
Depreciation and amortisation		**(157,322)**	(56,675)
General and administrative expenses		**(326,553)**	(207,386)
Total operating expenses		**(1,000,700)**	(609,118)
Income from operating activities		**1,180,523**	1,270,118
Share in earnings of associates and a joint venture	9	**23,342**	16,090
Net income for the period before Zakat and income tax		**1,203,865**	1,286,208
Provision for Zakat and income tax – Current		**(178,347)**	(182,742)
(Provision) / reversal for income tax – Deferred		**(3,234)**	2,039
Net income for the period after Zakat and income tax		**1,022,284**	1,105,505
Attributable to:			
Equity holders of the Bank		**1,032,036**	1,108,551
Non-controlling interest		**(9,752)**	(3,046)
Net income for the period after Zakat and income tax		**1,022,284**	1,105,505
Basic and diluted earnings per share (SAR)	17	**0.50**	0.74

Mathew Pearce	David Dew
Mathew Pearce	*David Dew*
Chief Financial Officer	Managing Director & Authorized Member

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INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	Three months ended	
	31 March 2020 SAR' 000	31 March 2019 SAR' 000
		(Restated)
Net income for the period after Zakat and income tax	**1,022,284**	1,105,505
Other comprehensive (loss) / income for the period		
Items that cannot be reclassified to interim consolidated statement of income in subsequent periods		
- Net changes in fair value (FVOCI equity instruments)	**(450,420)**	313,886
Items that can be reclassified to interim consolidated statement of income in subsequent periods		
Debt instruments at FVOCI		
- Net changes in fair value	**(930,321)**	110,221
- Transfer to interim consolidated statement of income, net	**(26,506)**	(16,854)
Cash flow hedges		
- Net changes in fair value	**1,076**	13,865
- Transfer to interim consolidated statement of income, net	**(3,670)**	(751)
Total other comprehensive (loss) / income for the period	**(1,409,841)**	420,367
Total comprehensive (loss) / income for the period	**(387,557)**	1,525,872
Attributable to:		
Equity holders of the Bank	**(377,805)**	1,528,918
Non-controlling interest	**(9,752)**	(3,046)
Total	**(387,557)**	1,525,872

Mathew Pearce
Mathew Pearce
Chief Financial Officer

David Dew
David Dew
Managing Director & Authorized Member

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March
Unaudited

	Attributable to equity holders of the Bank								
2020	Share capital SAR '000	Share premium SAR'000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividends SAR '000	Total SAR '000	Non-controlling Interest SAR '000	Total equity SAR '000
Balance at the beginning of the period	20,547,945	17,586,986	11,485,841	237,429	4,977,064	1,234,454	56,069,719	90,532	56,160,251
Total comprehensive loss for the period									
Net income for the period after Zakat and income tax	-	-	-	-	1,032,036	-	1,032,036	(9,752)	1,022,284
Net changes in fair value of cash flow hedges	-	-	-	1,076	-	-	1,076	-	1,076
Net changes in fair value of FVOCI equity instruments	-	-	-	(450,420)	-	-	(450,420)	-	(450,420)
Net changes in fair value of FVOCI debt instruments	-	-	-	(930,321)	-	-	(930,321)	-	(930,321)
Transfer to interim consolidated statement of income	-	-	-	(30,176)	-	-	(30,176)	-	(30,176)
				(1,409,841)	1,032,036		(377,805)	(9,752)	(387,557)
Transfer of gain on disposal of FVOCI equity instruments to retained earnings	-	-	-	(1,462)	1,462	-	-	-	-
Employee share plan reserve	-	-	-	22,437	-	-	22,437	-	22,437
Balance at the end of the period	20,547,945	17,586,986	11,485,841	(1,151,437)	6,010,562	1,234,454	55,714,351	80,780	55,795,131
2019									
Balance at the beginning of the period as reported	15,000,000	-	10,778,261	(3,123)	5,135,131	1,430,954	32,341,223	121,874	32,463,097
Effect of restatement (note 13)	-	-	-	-	125,795	-	125,795	(13,134)	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	108,740	32,575,758
Total comprehensive income for the period									
Net income for the period after Zakat and income tax	-	-	-	-	1,108,551	-	1,108,551	(3,046)	1,105,505
Net changes in fair value of cash flow hedges	-	-	-	13,865	-	-	13,865	-	13,865
Net changes in fair value of FVOCI equity instruments	-	-	-	313,886	-	-	313,886	-	313,886
Net changes in fair value of FVOCI debt instruments	-	-	-	110,221	-	-	110,221	-	110,221
Transfer to interim consolidated statement of income	-	-	-	(17,605)	-	-	(17,605)	-	(17,605)
		-	-	420,367	1,108,551		1,528,918	(3,046)	1,525,872
Treasury shares	-	-	-	11,351	-	-	11,351	-	11,351
Employee share plan reserve	-	-	-	(7,556)	-	-	(7,556)	-	(7,556)
Restated balance at the end of the period	15,000,000	-	10,778,261	421,039	6,369,477	1,430,954	33,999,731	105,694	34,105,425

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	Notes	2020 SAR'000	2019 SAR'000
OPERATING ACTIVITIES			(Restated)
Net income for the period before Zakat and income tax		1,203,865	1,286,208
Adjustments to reconcile net income before Zakat and income tax to net cash used in operating activities:			
Amortisation of premium / (accretion of discount) on investments not held as FVTPL, net		8,638	(564)
Depreciation and amortization		157,322	56,675
Loss/ (Income) from FVTPL financial instruments, net		9,399	(658)
Gains on FVOCI debt instruments, net		(26,506)	(16,854)
Cash flow hedge gains transfer to interim consolidated statement of income		(3,670)	(751)
Share in earnings of associates and a joint venture	9	(23,342)	(16,090)
Provision for expected credit losses, net	20(a)	254,162	90,776
Employee share plan reserve		22,437	3,795
		1,602,305	1,402,537
Change in operating assets:			
Statutory deposit with SAMA		(178,475)	(100,410)
Due from banks and other financial institutions, net		10,065	1,005,840
Investments held as FVTPL		(7,636)	(371,383)
Loans and advances, net		(3,431,532)	(125,209)
Other assets and derivatives		(1,936,780)	(208,524)
Change in operating liabilities:			
Due to banks and other financial institutions		4,186,840	(100,436)
Customers' deposits		(3,887,245)	(3,268,092)
Other liabilities and derivatives, net		(575,120)	149,679
Net cash used in operating activities		(4,217,578)	(1,615,998)
INVESTING ACTIVITIES			
Proceeds from sale and maturity of investments not held as FVTPL		3,262,220	1,560,155
Purchase of investments not held as FVTPL		(3,339,087)	(5,571,306)
Purchase of property and equipment		(84,837)	(135,003)
Net cash used in investing activities		(161,704)	(4,146,154)
FINANCING ACTIVITIES			
Debt securities in issue		13,701	17,258
Borrowings		-	1,169
Dividends paid		(4,729)	(41,953)
Net cash from/ (used in) financing activities		8,972	(23,526)
Net decrease in cash and cash equivalents		(4,370,310)	(5,785,678)
Cash and cash equivalents at beginning of the period	15	26,673,648	16,801,572
Cash and cash equivalents at end of the period	15	22,303,338	11,015,894
Special commission received during the period		2,264,564	1,776,801
Special commission paid during the period		399,831	281,495
Supplemental non cash information			
Net changes in fair value and transfers to interim consolidated statement of income		(1,409,841)	420,367

Mathew Pearce
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Chief Financial Officer

David Dew
David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 25 form an integral part of these interim condensed consolidated financial statements.

1. General

The Saudi British Bank ("SABB") is a joint stock company incorporated in the Kingdom of Saudi Arabia and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) by taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 130 branches (31 December 2019: 136 Branches) in the Kingdom of Saudi Arabia). The address of SABB's head office is as follows:

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

The objectives of SABB are to provide a range of banking services. SABB also provides Shariah 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 21 for details.

SABB has 100% (31 December 2019: 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% (31 December 2019: 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% (31 December 2019: 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% (31 December 2019: 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% (31 December 2019: 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% (31 December 2019: 100%) 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.

SABB has 100% (31 December 2019: 100%) 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.

SABB has 100% (31 December 2019: 100%) 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.

SABB has 100% (31 December 2019: 100%) 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.

SABB has 49% (31 December 2019: 49%) 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 (31 December 2019: associate 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% (31 December 2019: 50%) share in Saudi Kayan Assets Leasing Company and Rabigh Asset Leasing Company and directly owns a 100% (31 December 2019: 100%) share 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 interim consolidated statement of financial position.

SABB has 20% (31 December 2019: 20%) 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.

2. Basis of preparation

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with SABB's annual consolidated financial statements as at 31 December 2019.

Until the period ended 31 March 2019, the interim condensed consolidated financial statements of the Bank were prepared in accordance with the International Accounting Standard (IAS) 34 – Interim Financial Reporting as modified by SAMA for accounting of Zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to Zakat and income tax). The Bank changed its accounting for Zakat and income tax as mandated by International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 13 to the interim condensed consolidated financial statements.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the 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").

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

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

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

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

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

Measurement of the expected credit loss allowance

In the preparation of the interim condensed consolidated interim financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Explanation of such inputs, assumptions and estimation techniques used in measuring ECL are further detailed in note 22. However, in view of the current uncertainty as explained in note 22, any future changes in the assumptions and key estimates could can result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact of such changes based on prospective developments.

3. Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of SABB and its subsidiaries, as mentioned in note 1 (collectively referred to as "the Bank"). The financial statements of the subsidiaries are prepared for the same reporting period as that of SABB, using consistent accounting policies, except for SABB Takaful and certain immaterial subsidiaries, where latest interim reviewed financial statements or latest annual audited financial statements, respectively have been used for consolidation purposes to meet the group reporting timetable.

Subsidiaries are entities which are directly or indirectly controlled by SABB. SABB controls an entity ("the Investee") over which it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to SABB and cease to be consolidated from the date on which the control is transferred from SABB.

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

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

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019 except for the accounting policy specified below:

Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial carrying fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The government grant is recognised in the consolidated statement of income on a systematic basis over the periods in which the Bank recognises as expenses the related costs for which the grant is intended to compensate.

A number of amendments to IFRS are effective from 1 January 2020, but these do not have a material effect on these interim condensed consolidated interim financial statements.

5. Cash and balances with SAMA

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
Cash in hand	**2,575,893**	2,375,158	1,332,335
Statutory deposit	**11,120,557**	10,942,082	7,709,959
Placements with SAMA	**2,061,974**	7,653,718	4,080,717
Other balances	**55,666**	295,934	166,371
Total	**15,814,090**	21,266,892	13,289,382

6. Due from banks and other financial institutions, net

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
Current accounts	**4,858,805**	4,473,830	4,760,919
Money market placements	**237,503**	513,936	1,400,565
Total	**5,096,308**	4,987,766	6,161,484

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**
31 March 2020 (Unaudited)	**5,096,308**	-	-	-	**5,096,308**
31 December 2019 (Audited)	4,987,766	-	-	-	4,987,766

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 March 2020 (Unaudited)			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2020	**425**	**-**	**-**	**425**
Net charge for the period	**372**	**-**	**-**	**372**
Balance as at 31 March 2020	**797**	**-**	**-**	**797**

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

7. Investments, net

Investment securities are classified as follows:

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
FVOCI – Debt, net	**12,359,788**	12,708,906	12,577,483
FVOCI – Equity	**767,890**	1,228,767	1,660,029
FVTPL	**1,139,368**	1,142,573	790,516
Held at amortised cost, net	**46,282,694**	45,403,580	24,349,464
Total	**60,549,740**	60,483,826	39,377,492

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

	31 March 2020 (Unaudited)				
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Purchased credit impaired**	**Total**
Debt instruments at FVOCI, net	**12,174,129**	**185,659**	**-**	**-**	**12,359,788**
Debt instruments at amortised cost, net	**46,282,694**	**-**	**-**	**-**	**46,282,694**

	31 December 2019 (Audited)				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired	Total
Debt instruments at FVOCI, net	12,517,887	191,019	-	-	12,708,906
Debt instruments at amortised cost, net	45,403,580	-	-	-	45,403,580

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

	31 March 2020 (Unaudited)			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2020	**10,951**	**115**	**-**	**11,066**
Net reversal for the period	**(468)**	**(86)**	**-**	**(554)**
Balance as at 31 March 2020	**10,483**	**29**	**-**	**10,512**

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

8. Loans and advances, net

Loans and advances are comprised of the following:

	31 March 2020 (Unaudited)			
	Credit cards	**Other retail lending**	**Corporate and institutional lending**	**Total**
12 month ECL	2,122,914	33,619,617	102,036,106	137,778,637
Life time ECL not credit impaired	55,960	1,267,842	17,744,462	19,068,264
Lifetime ECL credit impaired	65,952	889,119	3,753,894	4,708,965
Purchased or originated credit impaired	833	212,025	2,317,003	2,529,861
Total loans and advances, gross	2,245,659	35,988,603	125,851,465	164,085,727
Provision for expected credit losses, net	(251,631)	(1,232,343)	(4,762,676)	(6,246,650)
Loans and advances, net	1,994,028	34,756,260	121,088,789	157,839,077

	31 December 2019 (Audited)			
	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

Lifetime ECL credit impaired includes non-performing loans and advances of SAR 4,322 million (31 December 2019: SAR 4,247 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.

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

	31 March 2020 (Unaudited)				
	Non-Credit Impaired		**Credit Impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	665,339	2,224,631	3,142,098	60,502	6,092,570
Transfer to Stage 1	40,704	(37,711)	(2,993)	-	-
Transfer to Stage 2	(5,616)	15,349	(9,733)	-	-
Transfer to Stage 3	(1,683)	(35,029)	36,712	-	-
Net re-measurement of loss allowance	39,573	80,718	37,366	(1,780)	155,877
Write-offs	-	-	(1,797)	-	(1,797)
Balance as at 31 March 2020	738,317	2,247,958	3,201,653	58,722	6,246,650

	31 December 2019 (Audited)				
	Non-Credit Impaired		Credit Impaired		
	Stage 1	Stage 2	Stage 3	POCI	Total
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)
Balance as at 31 December 2019	665,339	2,224,631	3,142,098	60,502	6,092,570

9. Investment in associates and a joint venture

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
HSBC Saudi Arabia			
Balance at beginning of the period / year	**585,987**	532,597	532,597
Share in earnings	**21,623**	138,611	16,090
Dividend received	**-**	(62,640)	-
Disposal	**-**	(22,581)	-
Balance at end of the period / year	**607,610**	585,987	548,687
Wataniya Insurance Company			
Balance at beginning of the period / year	**74,211**	-	-
Acquired through business combination	**-**	80,204	-
Share in earnings / (loss)	**1,719**	(5,993)	-
Balance at end of the period / year	**75,930**	74,211	-
Total	**683,540**	660,198	548,687

SABB owns 49% (31 December 2019: 49%) 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.

In October 2019, SABB disposed of 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, as a result of which SABB no longer shares joint control and governance rights over HSBC Saudi Arabia with HSBC.

SABB owns 20% (31 December 2019: 20%) ownership stake in WIC. The primary activity of WIC is to offer insurance products as an extension to the Bank's existing retail banking offering.

10. Goodwill and other intangible assets

Intangibles are comprised of the following:

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
Provisional amounts arising from business combination (note 21)			
- goodwill	**13,079,698**	13,079,698	-
- intangibles	**1,904,542**	1,943,561	-
Goodwill arising from acquisition of a subsidiary	**13,806**	13,806	13,806
Software	**326,293**	308,831	74,469
Total	**15,324,339**	15,345,896	88,275

11. Customers' deposits

Customers' deposits are comprised of the following:

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
Demand	**127,809,860**	122,517,724	81,876,077
Savings	**1,867,962**	1,691,003	7,724,739
Time	**57,066,766**	51,825,874	36,696,819
Margin and others	**1,530,656**	16,131,923	940,778
Total	**188,275,244**	192,166,524	127,238,413

12. Derivatives

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

	31 March 2020 (Unaudited)			31 December 2019 (Audited)			31 March 2019 (Unaudited)		
	Positive fair value	**Negative fair value**	**Notional**	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value	Notional
Derivatives held for trading:									
Special commission rate swaps	**1,608,869**	**(1,605,890)**	**53,942,545**	732,749	(709,194)	59,941,010	293,909	(290,123)	39,816,881
Special commission rate options	**376,838**	**(396,022)**	**17,931,385**	124,349	(128,907)	13,661,863	100,546	(104,952)	17,149,991
Forward foreign exchange contracts	**32,821**	**(29,803)**	**5,044,815**	33,028	(22,491)	9,290,855	23,135	(19,829)	4,026,522
Currency options	**2,387**	**(2,387)**	**1,186,470**	1,102	(982)	1,673,918	2,506	(2,505)	3,905,568
Currency swaps	**6,690**	**(6,690)**	**487,500**	6,995	(6,995)	487,500	12,354	(11,928)	1,487,500
Others	**512**	**(512)**	**20,415**	11,090	(11,090)	352,773	9,373	(9,373)	360,836
Derivatives held as fair value hedges:									
Special commission rate swaps	**849**	**(887,690)**	**10,788,969**	15,189	(425,325)	11,205,022	12,484	(182,810)	9,466,075
Derivatives held as cash flow hedges:									
Special commission rate swaps	**9,701**	**(408)**	**290,000**	9,195	(454)	440,000	12,896	(6,639)	1,190,000
Currency swaps	**22,497**	**(11,851)**	**1,293,750**	36,829	(12,202)	1,668,750	35,317	(17,256)	1,837,500
Total	**2,061,164**	**(2,941,253)**	**90,985,849**	970,526	(1,317,640)	98,721,691	502,520	(645,415)	79,240,873

13. 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 General Authority of Zakat and Tax (GAZT) for settlement of Zakat claims pertaining to fiscal years 2006 to 2017 resulting in an agreed amount of SAR 2,002.5 million payable by SABB. The payable amounts are recovered from SABB's Saudi shareholders in accordance with SABB's by-laws.

Pursuant to the Settlement Agreement, SABB has paid Zakat liability amounting to SAR 721 million as of December 2019. The remaining total amount of SAR 1,281.5 million will be settled in equal installments of SAR 320.4 million each year until the end of the fiscal year 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 2) including the restatement of non-controlling interest has the following impact on the line items of the interim consolidated statements of income, financial position and changes in equity.

As at and for the three months period ended 31 March 2019:

Financial statements impacted	**Description**	**Before the restatement for the three-months period ended 31 March 2019**	**Effect of Restatement**	**As restated as at and for the three-months period ended 31 March 2019**
Interim consolidated statement of changes in equity	Provision for Zakat and income tax	182,742	(182,742)	-
Interim consolidated statement of income	Provision for Zakat and income tax, net of deferred tax	-	(180,703)	(180,703)
Interim consolidated statement of income	Earnings per share	0.86	(0.12)	0.74
Interim consolidated statement of income	Non-controlling interest	1,196	(4,242)	(3,046)
Interim consolidated statement of financial position	Retained earnings	6,237,401	132,076	6,369,477
Interim consolidated statement of financial position	Non-controlling interest	123,070	(17,376)	105,694
Interim consolidated statement of financial position	Deferred tax asset	-	114,700	114,700

As at 1 January 2019:

Financial statements impacted	Description	Before the restatement as at 1 January 2019	Effect of restatement	As restated as at ended 1 January 2019
Consolidated statement of changes in equity	Provision for Zakat and income tax	2,254,383	(2,254,383)	-
Consolidated statement of financial position	Deferred tax asset	-	112,661	112,661
Consolidated statement of financial position/ Consolidated statement of changes in equity	Non-controlling interest	121,874	(13,134)	108,740
Consolidated statement of financial position/ Consolidated statement of changes in equity	Retained earnings	5,135,131	125,795	5,260,926

14. Commitments and contingencies

a. Legal proceedings

There are no material outstanding legal matters against the Bank.

b. Credit related commitments and contingencies

Credit related commitments and contingencies are as follows:

	31 March 2020 (Unaudited)				
	Stage 1	**Stage 2**	**Stage3**	**POCI**	**Total**
Letters of credit	13,953,532	1,368,013	1,101	90,083	15,412,729
Letters of guarantee	59,832,843	6,495,321	1,613,129	1,414,846	69,356,139
Acceptances	2,624,480	330,391	562	7,957	2,963,390
Irrevocable commitments to extend credit	3,673,816	42,063	-	-	3,715,879
Total	80,084,671	8,235,788	1,614,792	1,512,886	91,448,137

	31 December 2019 (Audited)				
	Stage 1	Stage 2	Stage3	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
Total	99,737,508	10,629,786	1,565,371	1,415,251	113,347,916

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

	31 March 2020 (Unaudited)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2020	**32,282**	**140,868**	**481,614**	**654,764**
Transfer to Stage 1	**10,967**	**(10,967)**	**-**	**-**
Transfer to Stage 2	**(3,046)**	**3,046**	**-**	**-**
Transfer to Stage 3	**-**	**(1,262)**	**1,262**	**-**
Net (reversal)/ charge for the period	**(4,145)**	**(3,940)**	**60,322**	**52,237**
Balance as at 31 March 2020	**36,058**	**127,745**	**543,198**	**707,001**

	31 December 2019 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	31,331	237,530	156,235	425,096
Transfer to Stage 1	13,811	(13,373)	(438)	-
Transfer to Stage 2	(636)	1,192	(556)	-
Transfer to Stage 3	-	(26,405)	26,405	-
Net (reversal)/ charge for the year	(12,224)	(58,076)	299,968	229,668
Balance as at 31 December 2019	32,282	140,868	481,614	654,764

15. Cash and cash equivalents

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

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	**4,693,533**	10,324,810	5,579,423
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	**17,609,805**	16,348,838	5,436,471
Total	**22,303,338**	26,673,648	11,015,894

16. Operating segments

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

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

The Bank's reportable segments are as follows:

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

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

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

Others – includes activities of the Bank's investment in its insurance subsidiary and associate, SABB Takaful and WIC, as well as a subsidiary and associate (31 March 2019: 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 March 2020 and 2019, its total operating income and expenses, and the results for the three months period then ended, by operating segment, are as follows:

31 March 2020 (Unaudited)	**Retail Banking**	**Corporate and Institutional Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
Total assets	47,239,057	129,830,104	84,897,591	3,259,093	265,225,845
- Loans and advances, net	36,750,288	121,088,789	-	-	157,839,077
- Investments	-	-	59,129,412	1,420,328	60,549,740
Total liabilities	91,637,334	98,972,514	18,224,002	596,864	209,430,714
- Customer deposits	88,164,447	92,451,862	7,658,935	-	188,275,244
Operating income from external customers	691,670	1,364,450	352,006	27,259	2,435,385
Inter-segment operating income (expense)	208,196	(208,014)	340	(522)	-
Total operating income	899,866	1,156,436	352,346	26,737	2,435,385
Provision/ (reversal) for expected credit losses, net	69,645	184,779	(262)	-	254,162
Total operating expenses	538,347	273,730	47,038	141,585	1,000,700
Share in earnings of associates and a joint venture, net	-	-	-	23,342	23,342
Net income/ (loss) for the period before Zakat and income tax	291,874	697,927	305,570	(91,506)	1,203,865

31 March 2019 (Unaudited)	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	26,093,705	88,066,697	56,483,118	3,137,694	173,781,214
- Loans and advances, net	23,173,677	87,182,988	-	-	110,356,665
- Investments	-	-	37,244,449	2,133,043	39,377,492
Total liabilities	59,892,189	67,404,846	11,888,931	489,823	139,675,789
- Customer deposits	56,624,129	64,071,838	6,542,446	-	127,238,413
Operating income from external customers	462,456	1,181,626	281,071	44,859	1,970,012
Inter-segment operating income (expense)	202,825	(207,137)	5,996	(1,684)	-
Total operating income	665,281	974,489	287,067	43,175	1,970,012
(Reversal)/ provision for expected credit losses, net	(47,162)	136,702	1,236	-	90,776
Total operating expenses	327,693	181,906	40,730	58,789	609,118
Share in earnings of associates and a joint venture, net	-	-	-	16,090	16,090
Net income for the period before Zakat and income tax	384,750	655,881	245,101	476	1,286,208

17. Basic and diluted earnings per share

Basic and diluted earnings per share for the periods ended 31 March 2020 and 31 March 2019 is calculated by dividing the net income for the period by the weighted average number of shares outstanding during the period.

18. Capital adequacy

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

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

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 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.

As part of the latest SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two years period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years. The impact of these revised transitional arrangements to the Bank's Q1 2020 Tier 1 and Tier 1 + 2 ratio have been an improvement of 38bps.

	31 March 2020 (Unaudited)	31 December 2019 (Audited)	31 March 2019 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	208,611,237	207,720,526	157,934,233
Operational Risk RWA	19,040,238	19,265,850	12,880,824
Market Risk RWA	2,861,482	1,829,683	2,034,375
Total RWA	230,512,957	228,816,059	172,849,432
Tier I Capital	42,365,683	41,642,301	34,681,015
Tier II Capital	2,711,082	2,819,213	2,534,656
Total I & II Capital	45,076,765	44,461,514	37,215,671
Capital Adequacy Ratio %			
Tier I ratio	18.38%	18.20%	20.06%
Tier I + Tier II ratio	19.55%	19.43%	21.53%

19. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Consequently, differences can arise between the carrying values and fair value estimates.

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

Determination of fair value and fair value hierarchy

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

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

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

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

31 March 2020 (Unaudited)	**Carrying value**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Positive fair value derivatives	2,061,164	-	2,061,164	-	2,061,164
Investments held as FVTPL	1,139,368	864,968	274,400	-	1,139,368
Investments held as FVOCI, net	13,127,678	742,518	12,359,787	25,373	13,127,678
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	5,096,308	-	5,096,308	-	5,096,308
Investments held at amortised cost, net	46,282,694	-	47,556,141	146,372	47,702,513
Loans and advances, net	157,839,077	-	-	157,065,046	157,065,046
Financial liabilities measured at fair value					
Negative fair value derivatives	2,941,253	-	2,941,253	-	2,941,253
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	6,698,517	-	6,698,517	-	6,698,517
Customers' deposits	188,275,244	-	188,320,328	-	188,320,328
Debt securities in issue	1,513,453	-	1,513,453	-	1,513,453

31 December 2019 (Audited)	**Carrying value**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Positive fair value derivatives	970,526	-	970,526	-	970,526
Investments held as FVTPL	1,142,573	847,573	295,000	-	1,142,573
Investments held as FVOCI, net	13,937,673	1,202,100	12,708,906	26,667	13,937,673
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	4,987,766	-	4,987,766	-	4,987,766
Investments held at amortised cost, net	45,403,580	-	46,172,171	-	46,172,171
Loans and advances, net	154,676,970	-	-	153,399,578	153,399,578
Financial liabilities measured at fair value					
Negative fair value derivatives	1,317,640	-	1,317,640	-	1,317,640
Financial liabilities not measured at fair value					
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

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate options, forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

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

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

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

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

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

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

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

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

The values obtained from valuation models may be different from the transaction price of financial instruments on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realized through disposal. Subsequent changes in fair value are recognized immediately in the interim consolidated statement of income without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist.

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

The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices 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.

20. Financial risk management

Credit Risk

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

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

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

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

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

a. Provision for expected credit losses, net

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

	Notes	**31 March 2020 (Unaudited)**	31 March 2019 (Unaudited)
Net provision for expected credit losses:			
Due from banks and other financial institutions	6	**372**	409
Investments	7	**(554)**	827
Loans and advances	8	**154,080**	74,369
Off balance sheet exposures	14	**52,237**	(4,963)
Write-offs net of recoveries of debts previously written-off		**48,027**	20,134
Net charge for the period		254,162	90,776

b. Collateral

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

21. 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 shares 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 fourth-largest bank (according to the total assets as of 31 December 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). Following the conversion of treasury shares, an increase of SAR 23,062,285 thousands in Shareholders equity was recorded.

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 period ended 31 March 2020, 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 95 million (31 March 2019 : SAR 58 million). These costs have been included in 'Salaries and employee related expenses' and 'General and administrative expenses' in the interim consolidated statement of income amounting to SAR 28 million (31 March 2019 : SAR 14 million) and SAR 67 million (31 March 2019 : SAR 44 million), respectively.

c. Valuation approach and methodologies – other intangibles:

- **Customer relationship - Purchased Credit Card Receivable**
  The Bank has estimated the value of Purchased 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.

	16 June 2019
Assets	
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
Total assets	73,127,674
Liabilities	
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
Total liabilities	65,166,687
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
Total purchase consideration	23,140,991

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:

	Fair value of the acquired receivables	**Gross contractual amount receivable**	**The contracted cash flows not expected to be collected**
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	-
Total	65,018,600	74,957,288	9,964,688

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 interim condensed 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 purposes.

22. Impact of Coronavirus (“COVID-19”) on Expected Credit Losses (“ECL”) and SAMA Programs

On 11 March 2020, the World Health Organisation (“WHO”) declared the COVID-19 outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region, including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volumes which had predated the pandemic. The Bank has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators. In addition, the Bank has applied other risk management practices to manage the potential business disruption and effects on the Bank’s operational and financial performance due to the COVID-19 outbreak. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, country, counterparty etc., collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

As a result of the pandemic situation, the Bank has reviewed certain inputs and assumptions used for the determination of ECL. This review focussed on macroeconomic factors such as expected oil prices and GDP. As a result of this review, the Bank has applied a macroeconomic overlay, increasing ECL by SAR 159 million compared to the economic forecasts applied in the previous period. This is consistent with the Bank’s interpretation of depressed oil prices in 2020 and beyond, and a substantial drop in wider economic activity causing non-oil GDP to fall. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such an uncertain economic environment is judgmental and the Bank will continue to reassess its position and the related impact on a regular basis.

As acknowledged by the International Accounting Standards Board and other regulators, it is likely to be difficult at this time to know the specific effects the health crisis and government and central bank support measures, such as repayment holidays and other mitigating packages, will have. The Bank therefore concluded that it was not appropriate to take additional credit impairment charges through adjustment of staging criteria, and rather focused on the economic model underpinning PD determinations. The Bank will continue to individually assess significant corporate exposures as more reliable data becomes available, and accordingly determine if any additional ECL amounts need to be recognised in subsequent reporting periods. The Bank believes that its financial soundness indicators are strong and able to withstand the current economic challenges.

SAMA programs and initiatives launched

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

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

As part of the DPP, the Bank has deferred payments for six months on lending facilities to those companies that qualify as MSME. The payment reliefs are considered as short-term liquidity support to address the borrowers' potential cash flow issues. The Bank has effected the payment reliefs by extending the tenor of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and treated as per the requirements of IFRS 9 as a modification in terms of arrangement. The modification to the contracts has resulted in modification losses in the first quarter of 2020 of SAR 94 million, and is presented in Other Operating Income. In the absence of other factors, participation in the PSFSP is not considered a significant increase in credit risk.

In order to offset the modification loss that the Bank is expected to incur in deferring the payments, the Bank has received SAR 1.7 billion of interest free deposit from SAMA. The benefit of the subsidised funding rate has been accounted for in accordance with government grant accounting requirements, which resulted in a total income of SR 108 million, of which SR 94 million has been recognised in the statement of income as at 31 March 2020 immediately, with the remaining amount deferred. The management has exercised certain judgements in the recognition and measurement of this grant income.

During April 2020, SAMA has issued a guidance around *Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures*. The Bank will consider the guidance issued and evaluate the accounting impact in Q2 2020 accordingly.

As at 31 March 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, the POS and e-commerce service fee programs have had an immaterial impact to the Bank's interim condensed consolidated financial statements as at and for the three month period ended 31 March 2020.

Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. The modification of these contracts has resulted in the Bank recognising a modification loss of SAR 76 million as at 31 March 2020, and this has been presented as part of Other Operating Income.

23. Post Balance Sheet events

There have been no events subsequent to the reporting date that would significantly affect the amounts reported in the interim condensed consolidated financial statements as at and for the three month period ended 31 March 2020.

24. Comparative figures

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

25. Board of directors' approval

These interim condensed consolidated financial statements were approved by the Board of Directors on 21 Ramadan 1441AH (14 May 2020G).