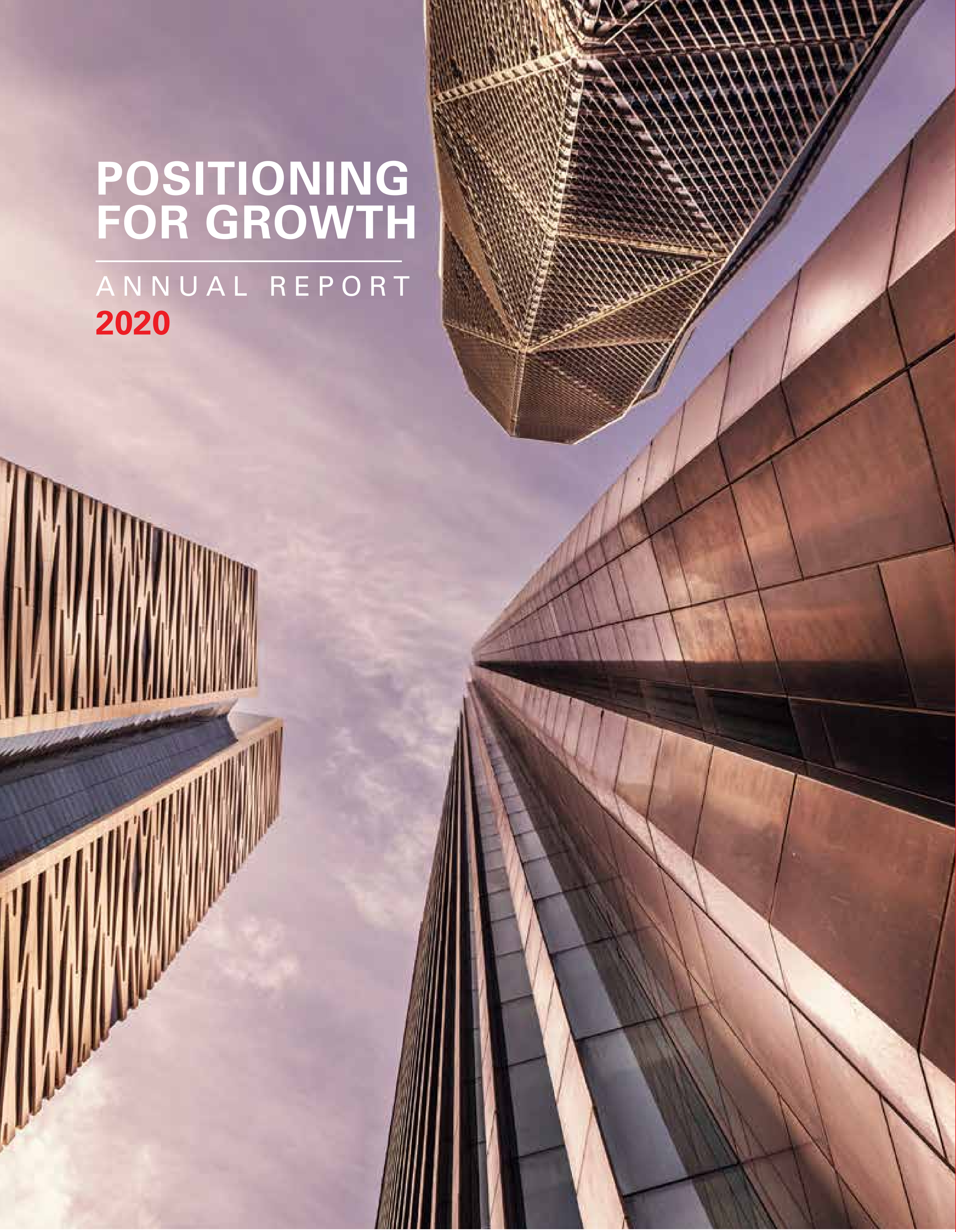


POSITIONING FOR GROWTH

ANNUAL REPORT

2020

SABB ساب

The Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al Saud

His Royal Highness Crown Prince
Mohammad Bin Salman Bin Abdulaziz Al Saud

In a year when the world faced unprecedented challenges, we maintained our progress in the **integration** of SABB and Alawwal Bank. With the merger of our institutions approaching completion, and the conclusion of the Strategy 2025 we have positioned ourselves for **growth.**

Ms. Lubna S. Olayan
Board Chair

A JOINT HISTORY
OF OVER 160 YEARS

البنك الأول
Alawwal bank

1926
Netherlands Trading Society opens in Jeddah

1928
Assists the Kingdom in issuing its first independent currency

1939
Facilitates payment for first oil export

1977
Saudi Hollandi Bank established as a JV bank

2003
Issues first smart credit card in the Kingdom

2004
Issues first subordinated bond in the Kingdom

2016
Rebrands to Alawwal Bank

Bank of the Year in KSA (The Banker)

2017
Launches first digital branch IBDA

Best Digital Bank in Saudi Arabia (Banker Middle East)

2018
Most Innovative Bank in KSA (Banker Middle East)

2019
Merger

البنك الأول
Alawwal bank SABB

2018
Best Trade Finance Provider (Euromoney)

Best Treasury and Cash Management Provider (Global Finance) SABB

2016
Best Bank in Saudi Arabia (Asiamoney)

2005
First Saudi bank to issue international bonds

2002
First Saudi bank to launch a Home Finance Programme

1991
Issuance of SABB's first credit card

1990
SABB's first ATM launched

1978
Royal Decree establishing SABB

1950
SABB's origins begin at a branch of BBME in Alkhobar

SABB

AT A GLANCE

TOTAL ASSETS (SAR mln)

	SABB	Alawwal Bank
2020	276,452	
2019	265,987	
2018	174,677	82,028
2017	187,615	99,870
2016	186,055	104,990

NET INCOME AFTER ZAKAT AND INCOME TAX [1] (SAR mln)

	SABB	Alawwal Bank
2020	2,790	
2019	2,736	420
2018	2,698	878
2017	3,575	950
2016	3,521	945

LOANS AND ADVANCES, NET (SAR mln)

	SABB	Alawwal Bank
2020	153,243	
2019	152,075	
2018	110,326	57,767
2017	117,006	63,639
2016	120,965	72,743

CUSTOMER DEPOSITS (SAR mln)

	SABB	Alawwal Bank
2020	189,110	
2019	192,167	
2018	130,507	64,573
2017	140,240	78,275
2016	140,640	85,359

SHAREHOLDERS' EQUITY (SAR mln)

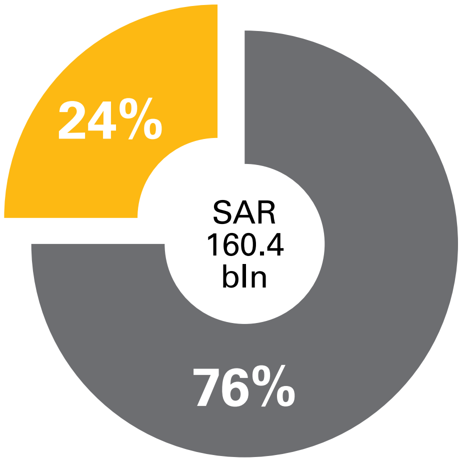
	SABB
2020	50,707
2019	55,994
2018	32,467
2017	33,345
2016	31,279

DIVIDEND PER SHARE (SAR)

	SABB
2020	-
2019	1.20
2018	1.96
2017	1.42
2016	0.70

[1] Excludes goodwill impairment and associated tax impact

CUSTOMER LENDING **BY BUSINESS**



GROSS LOANS

RBWM VS. **CIB**

Retail Banking and Wealth Management

Corporate and Institutional Banking

9.2%
Underlying return on tangible equity

SAR (2.01)
EPS

18.96%
CET1 ratio

21.82%
Total Capital Adequacy ratio

1.7 mln
retail customers

8.8k
corporate customers[2]

6%
Mortgage market share

23%
Trade market share

10%
FX market share

Top 3
corporate bank by revenue

8%
POS market share

[2]Excludes Micro, Small and Medium-sized Enterprises ('MSME')

MORE AWARDS FROM 2020

Global Finance
Best Foreign Exchange Provider
Best Private Bank
Best Trade Finance Provider
Best Treasury and Cash Management Provider
Best Bank in KSA
Best Consumer Digital Bank
Best Mobile Banking App
Safest Bank in KSA

Euromoney
No 1 Bank in KSA for Mega High Net Worth Clients
No 1 Bank in KSA for Philanthropic Advice
No.1 Rank for Market Leader
No. 1 Rank for Best Service
Market Leader Best Service

Saudi Trade Finance
Best Trade Finance Bank
Best Supply Chain Finance Bank

GTR Leader in Trade MENA
Product of the Year MENA – SABB Waafer Account
Best Domestic Bank in KSA
Best Bank for Customer Experience in KSA

TABLE OF CONTENTS

ABOUT SABB

Our vision

To bring a world of financial opportunities to an ambitious Kingdom

We enjoy a unique position as the leading international bank in the Kingdom of Saudi Arabia. We give our customers the highest quality service and an unmatchable breadth and depth of experience and know-how from local and international best practice, delivered through digital and personalised service driven by customer preference. Our strategic partnership with HSBC Group, one of the world's leading financial institutions, positions us as a preferred banking partner. As a leader in key segments of the financial sector, we will be where the growth is in Saudi Arabia. Our staff will see SABB as the best place to work in Saudi Arabia, offering the best training and development, unparalleled access to international best practices and the most progressive working standards in tune with the evolution of the Kingdom.

Our business

Saudi British Bank ('SABB' or the 'Bank') was established in 1978 as a Saudi Joint Stock Company. Today the Bank has in issue SAR 38.1 billion of share capital and share premium, equating to 2,055 million shares with a nominal value of SAR 10. SABB provides a comprehensive range of banking services to retail, corporate and institutional customers throughout the Kingdom.

Since its foundation, SABB has maintained its strategic partnership with HSBC Group, one of the world's largest and most geographically diverse financial services corporations. The partnership has provided SABB with a vital competitive advantage, affording customers access to the best international services available in the Saudi market. HSBC Group currently retains a 31% stake in SABB.

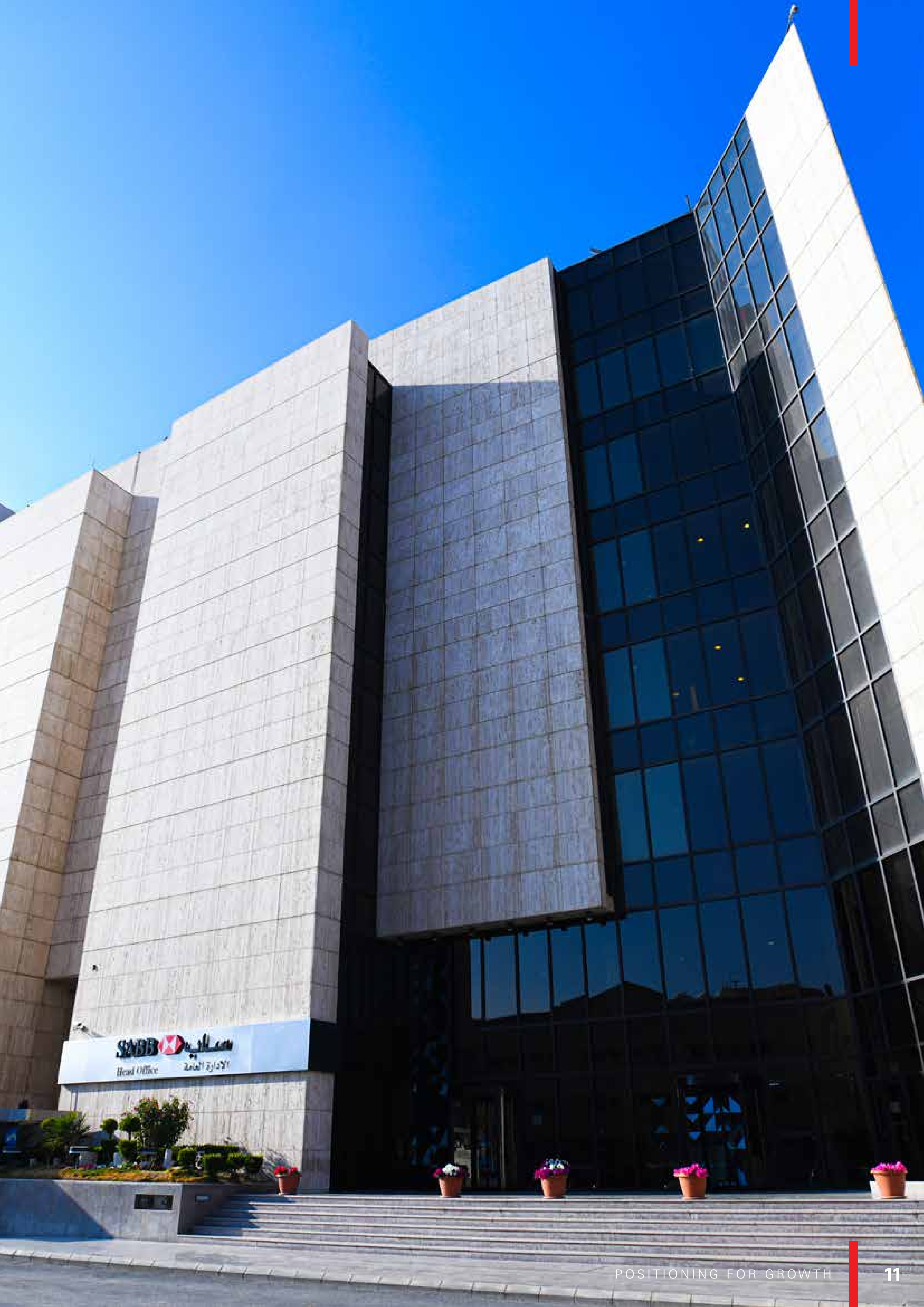
Our merger with Alawwal Bank

The merger between SABB and Alawwal Bank, completed in June 2019, brought together two of Saudi Arabia's best established and most trusted financial institutions, and was a milestone moment for the Saudi capital market.

The merger was a compelling opportunity to create an institution with enhanced scale and balance sheet strength to support and play an instrumental role in the Vision 2030 economic transformation programme, supporting the financing of infrastructure projects, the development of the capital market, the prioritisation of public services and assets, and the creation and build out of new sectors of the economy.

The merged Bank has cemented its position as a top-tier Saudi financial institution, with total revenue in 2020 amounting to SAR 8.9 billion, more than 1.7 million retail customers and over 8.8k corporate and institutional customers. The combination of the two banks has created a substantial retail and wealth management business, with increased resource to innovate and connect with a young and tech-savvy customer base. SABB continues to be one of the leading corporate banks in the Kingdom and the bank of choice for international customers.

SABB has SAR 276.5 billion of total assets, SAR 160.4 billion of gross customer loans and SAR 189.1 billion of customer deposits. As at 31 December 2020, the market capitalisation of the Bank was SAR 50.8 billion.


SABB ساب
Head Office الإدارة العامة

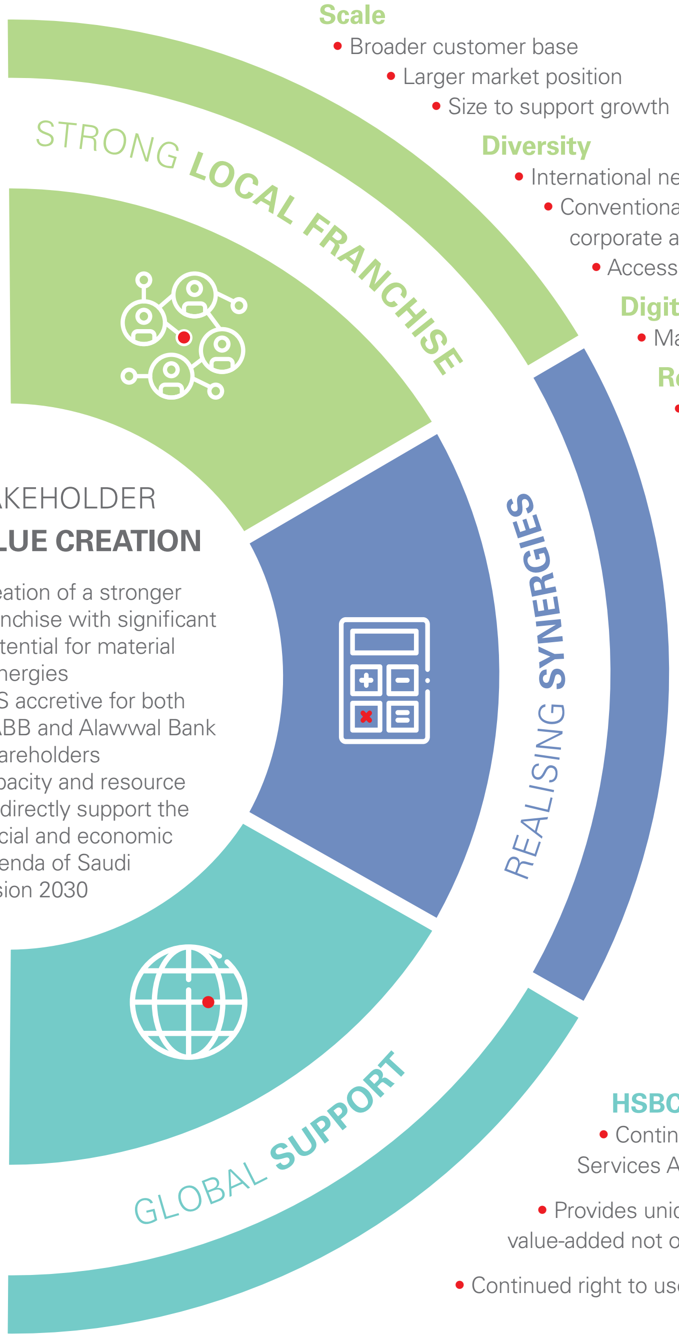
BANK PROFILE


البنك الأول
Alawwal bank

BUSINESS MODEL

Following the SABB-Alawwal merger, the business model of our unified institution has been designed to ensure the Bank delivers value to customers, employees and shareholders, while delivering on our strategic priorities for supporting Saudi Arabia's Vision 2030 development programme. The business model serves to build and deepen sustainable relationships between the Bank and its stakeholders, taking advantage of the opportunities that have been created by the union of the two institutions.

Creating stakeholder value



STAKEHOLDER VALUE CREATION

- Creation of a stronger franchise with significant potential for material synergies
- EPS accretive for both SABB and Alawwal Bank shareholders
- Capacity and resource to directly support the social and economic agenda of Saudi Vision 2030

Scale

- Broader customer base
- Larger market position
- Size to support growth

Diversity

- International network
- Conventional and Islamic product suite across retail[1], corporate and treasury segments
- Access for local and global customers

Digital

- Market leading digital banking capabilities

Resource

- First-class human capital and development
- People drive innovation and customer service

Cost

- Expected annual run-rate cost synergies of 15-20% of combined cost base

Revenue

- Revenue synergies of 2-3% from cross-selling, deeper customer penetration, diversified funding

Integration

- Integration cost in range of 1.5-1.8x annual run-rate cost synergies

Delivery

- Synergies to be fully realised 3 years post-integration completion

HSBC Group

- Continued support of HSBC Group through Technical Services Agreement that runs through 2027
- Provides unique global connectivity and customer access / value-added not offered by any bank in Saudi Arabia
- Continued right to use HSBC's well-known hexagon logo

[1]SABB offers only Shariah-compliant products to its retail customers.

CASE STUDY

Client

Founded in 1977, Almarai Company ('Almarai' or the 'Company') is the world's largest vertically integrated dairy company and the region's largest food and beverage manufacturing and distribution company. Headquartered in the Kingdom of Saudi Arabia, Almarai is ranked as the number one FMCG brand in the MENA region and a market leader in all its categories across the GCC.

In addition to its high quality dairy products, the Company has diversified its product portfolio to include juices, bakery, poultry and others. Almarai also has successful joint ventures with Chipita and PepsiCo.

With more than 40 years of sustainable growth, Almarai continues to provide nutritious and healthy products to consumers of all ages with growth stemming from its bedrock principle, 'Quality you can trust'.

The challenge

Almarai ran a decentralised treasury operation across multiple markets in the MENA region, using multiple banking relationships, currencies and numerous payable and receivable accounts. This resulted in higher operating costs and reduced ability to optimally manage working capital across these markets.

How SABB collaborated

Almarai embarked on a major treasury transformation project where SABB provided a strategic advisory role in collaboration with the HSBC Group. The Company looked to revamp their entire treasury operations from a decentralised to a more centralised environment, leveraging the significant investment Almarai had made over the years in deploying their market-leading resource planning, treasury and supply chain management systems. Working closely with Almarai's treasury team, SABB shared best practices from established multinational clients across the consumer brands and retail sector, taking a holistic view of Almarai's business across the region. In conjunction with Almarai, we devised a range of solutions using our Global Liquidity and Cash Management (GLCM) product suite that best served to further optimise their treasury and cash management efficiency goals in the region.

Almarai settled on a Shared Service Centre approach using a range of digital tools that improved straight-through processing (STP) of payments, enhanced back-office processes to significantly reduce the number of accounts, and improved efficiency and reconciliation. On the payments front, based on the variety of digital payment methods on offer, Almarai rolled out a cheque outsourcing solution in the region, reduced cash as they expanded the handheld point-of-sale devices to wider teams for improved collections efficiency and also scaled out the payroll card programme.

The GLCM suite of digital collections and payments delivered improved payments, collections, liquidity management and reporting, thereby further improving Almarai's overall treasury management and working capital efficiency.

The successes

1. Significant reduction in the number of accounts, simplified reconciliation activity, and bank account / relationship management.
2. Consolidated accounts into a single bank agnostic delivery platform.
3. Improved liquidity management and visibility across the region for better forecasting.
4. Standardisation of processes and functions through the Shared Service Centre, reducing costs and minimising the risk of manual errors.
5. Improved digitisation of receivables and payables reducing float across key regional sites.
6. Reduction in cash transactions on the back of expanded handheld point-of-sale device network across collection team.
7. Received 'Best in class Treasury Solution in MENA, 2020' award from Adam Smith Treasury Management awards.

YEAR IN REVIEW

Business as usual
SABB was recognised by Euromoney as 'Best Service Trade Finance' in Saudi Arabia and as 'Market Leader Trade Finance' for 2020

Ministry of Labor and Social Development honoured SABB for its contributions to support orphans in the Kingdom

Business as usual
KAUST and SABB launched the fourth TAQADAM Accelerator Programme for Young Entrepreneurs

JAN	FEB	MAR	APR

JAN – Integration
Completed HR system integration

Commenced cultural evolution workshops

FEB – Integration
Consolidated cash centres for the Eastern province

APR – Integration
Finalised the end-state organisation structure

Responding to **COVID-19**

MAY

Business as usual
SABB completed first phase with 'Wethaq' to automate bank guarantee services

JUNE

Integration
Celebrated the first anniversary of the legal merger

The Bank completed the co-location of SABB and Alawwal Bank staff in the Eastern province

JUL

Business as usual
SABB issued SAR 5 billion Tier II Sukuk - the first such transaction by the merged bank in the debt capital market, the joint largest Tier II issuance by a Saudi bank in history, and the largest local issuance by a bank since the introduction of the Kingdom's national growth agenda under Vision 2030

SABB joined the Securities Clearing Center Company ('Muqassa') as a General Clearing Member

AUG

Business as usual
SABB's revolutionary 'Waafer' savings account was voted product of the year by consumers

SEP

Business as usual
SABB won 'Best Bank App in the Kingdom' and 'Best Bank in Saudi Arabia for 2020' awards from Global Finance magazine

Integration
The Bank completed the co-location of SABB and Alawwal Bank staff in the Central, and Western provinces

Relaunched virtual cultural evolution workshops

Completed the migration of static Corporate customer data

OCT

Business as usual
SABB continued its efforts in supporting the elderly by providing medical care in the Kingdom

KAUST and SABB doubled grant funding for each start-up to SAR 150,000 and doubled the number of start-ups accepted to the TAQADAM programme

Integration
Completed data centre expansion

SABB commenced the semi-automated migration of Corporate customers

NOV

Business as usual
SABB signed supply chain financing agreement with the Ministry of Finance

SABB participated as a platinum sponsor at the 8th Annual Saudi Trade Finance Summit

Integration
SABB launched its 'Merger hub' to support Alawwal Bank customers with the transition to the merged bank.

Process began to combine SABB and Alawwal Bank ATMs into a larger network for all customers

DEC

Business as usual
King Abdullah Economic City (KAEC) announced the signing of a cooperation agreement with SABB, which aims to provide various Shariah-Compliant financing solutions from SABB for clients who wish to benefit from the housing offers and purchase ready-made housing units in the residential neighbourhoods of the Economic City, by the terms and financing criteria approved by the Bank

Integration
SABB completed the successful migration of 2,300 corporate customers delivered through cross-business, cross-function and cross-product teams

As a result of the COVID-19 pandemic, 2020 was a profoundly challenging year for the Kingdom, its banking sector and economy. We experienced periods of lockdown, global benchmark interest rates fell, and the price of oil turned negative as the global economic outlook worsened.

SABB's response was direct and swift, to maintain critical services and support stakeholders while keeping customers and staff safe. We implemented stringent health and safety policies in line with regulations set by the local authorities, and at the same time significantly upgraded stress testing activity to position the Bank to navigate worst-case-scenario conditions. Operational resilience was crucial, and our business continuity protocols proved their value throughout the crisis – particularly as staff transitioned to remote working.

Together with the Ministry of Health and guidance from SAMA, we flexed our branch network to avoid unnecessary visits and reduce the risk of spreading the virus. We provided staff working in branches with the necessary protective equipment, and non-branch staff were provided with the tools to work from home where processes allowed. SABB regularly reviews its business continuity plans and continues to deliver operational excellence throughout this challenging time.

OUR MARKET

Saudi Arabia: macro narrative

COVID-19 and lower oil production levels and prices have heavily impacted the Saudi economy and the Kingdom's fiscal position, despite its hard-hitting countermeasures. Medium-term recovery is dependent on global economic recovery and on the successful containment of the pandemic. The public debt trajectory is also expected to steepen due to medium-term fiscal deficits. The likelihood of successful diversification is complementary to a steady fiscal framework that is targeted towards the private sector. Non-oil sector growth is expected to decrease due to substantial capital spending cutbacks, the impact of social restriction measures, and household adjustments to the hike in VAT (from 5% to 15%).

The gradual lifting of strict public health measures in the second half of the year allowed for an increase in economic activity. Another spike in new cases would likely lead to further implementation of containment measures, although some optimism is returning to the market in light of the roll-out of approved vaccines.

Oil prices have seen some improvement since April due mainly to the resurgence in global demand, while supply remains constrained through the OPEC+ agreement.

The Saudi banking sector

As highlighted in SAMA's 2020 Financial Stability Report, it was foreseen that the pandemic would result in a negative impact on the Kingdom's economy. This was mitigated by a range of protective measures taken by various Saudi authorities. Overall, Saudi Arabia's macro financial position remained stable, supported by a resilient banking sector that demonstrated its durability and capacity to cope with economic shocks.

Economic uncertainty remains across the Kingdom, and despite the lower for longer expected interest rate environment, the banking sector remains a well-capitalised sector.

Budget 2021: looking ahead

The Kingdom's 2021 budget continues to support the implementation of the 2030 Vision Realisation Programmes, achieving sustainable economic growth with a focus on increasing non-oil GDP and enhancing the role of the private sector, stimulating investment in promising industries such as manufacturing, mining, financial services, IT, tourism, entertainment and sports.

Considering the negative impact of COVID-19 on global economic growth, public finances and oil prices, the Kingdom has helped lead efforts with OPEC+ countries towards restoring the stability of oil markets. It has also encouraged international coordination in the adoption of policies to support global economic growth and reduce negative effects of the crisis on developing countries.

The budget deficit for 2021 is estimated to reach SAR 141 billion, or 4.9% of GDP, with revenues expected at SAR 849 billion before increasing to SAR 864 billion by 2022. Non-oil revenues are expected to improve in the medium-term, due to increased economic activity. Total expenditure in 2021 is expected to reach SAR 990 billion.

Largest MENA economy: GDP[1]
USD 793 billion

World's
largest
oil exporter

Government debt to GDP ratio of[2]
c. 34%

Tadawul market cap[3]
USD 2.4 trillion

FX reserves[4]
USD 445 billion

Unemployment[5]
8.5%

[1] 2019 [2] 2020 estimate from MoF Pre-budget statement [3] 31 Dec 2020 [4] 30 Nov 2020 [5] 30 Sep 2020

SABB
AND VISION 2030

SABB's strategic positioning and competitive strengths ensure that it will both contribute to and benefit from the national economic growth agenda that is embodied in the government's Vision 2030 programme. The Vision is built on three themes:

A VIBRANT SOCIETY
is vital to achieving the Vision and establishing a strong foundation for economic prosperity. The goal is to create a society in which every citizen enjoys a happy, fulfilling lifestyle complemented by a standard of living which provides a safe and secure environment for families, and access to world class healthcare and education

A THRIVING ECONOMY
provides opportunities for all by building an education system aligned with market needs to equip youth with the skills for the jobs of the future, creating economic opportunities for the entrepreneur and the small enterprise, as well as the large corporation

AN AMBITIOUS NATION
applies efficiency and responsibility at all levels in order to deliver the Vision, including building an effective, transparent, accountable, enabling and high performing government

Spotlight on: Financial Sector Development Programme

The Financial Sector Development Programme aims to create a diversified and effective financial sector to support the development of the national economy, diversify its sources of income, and stimulate savings and investment. The Programme intends to achieve this ambition by enabling financial institutions to support private sector growth, ensuring the formation of an advanced capital market, and promoting and enabling financial planning, while maintaining the stability and solidity of the sector.

Ensure the formation of an advanced capital market

Enable financial institutions to support private sector growth

Promote and enable financial planning

Key themes for SABB

- Support development of new sectors (e.g. entertainment, tourism, technology) and development of major government projects.
- Support the privatisation programme to transfer a significant portion of government assets to the private sector, to improve economic efficiency.
- Develop key industries by localising manufacturing, developing adjacent oil and gas sectors, expanding mining, using renewable energy, and improving logistics infrastructure.
- Expanding contribution of SMEs to the economy, with the expectation of growth in bank lending to the sector.
- Increasing inflows of foreign direct investment and improving the flow of capital by advancing capital markets.
- Increasing the rate of savings and savings options for Saudi citizens.
- Improve the financial literacy of the population.
- Significant growth in home ownership and related financing.
- Build a digital economy moving to a cashless society, increasing FinTech presence and alternative banking opportunities.
- A clear focus on labour participation to improve employment opportunities for local citizens, women, those with disabilities, and improve the readiness of youth to enter the workplace.

INVESTMENT CASE

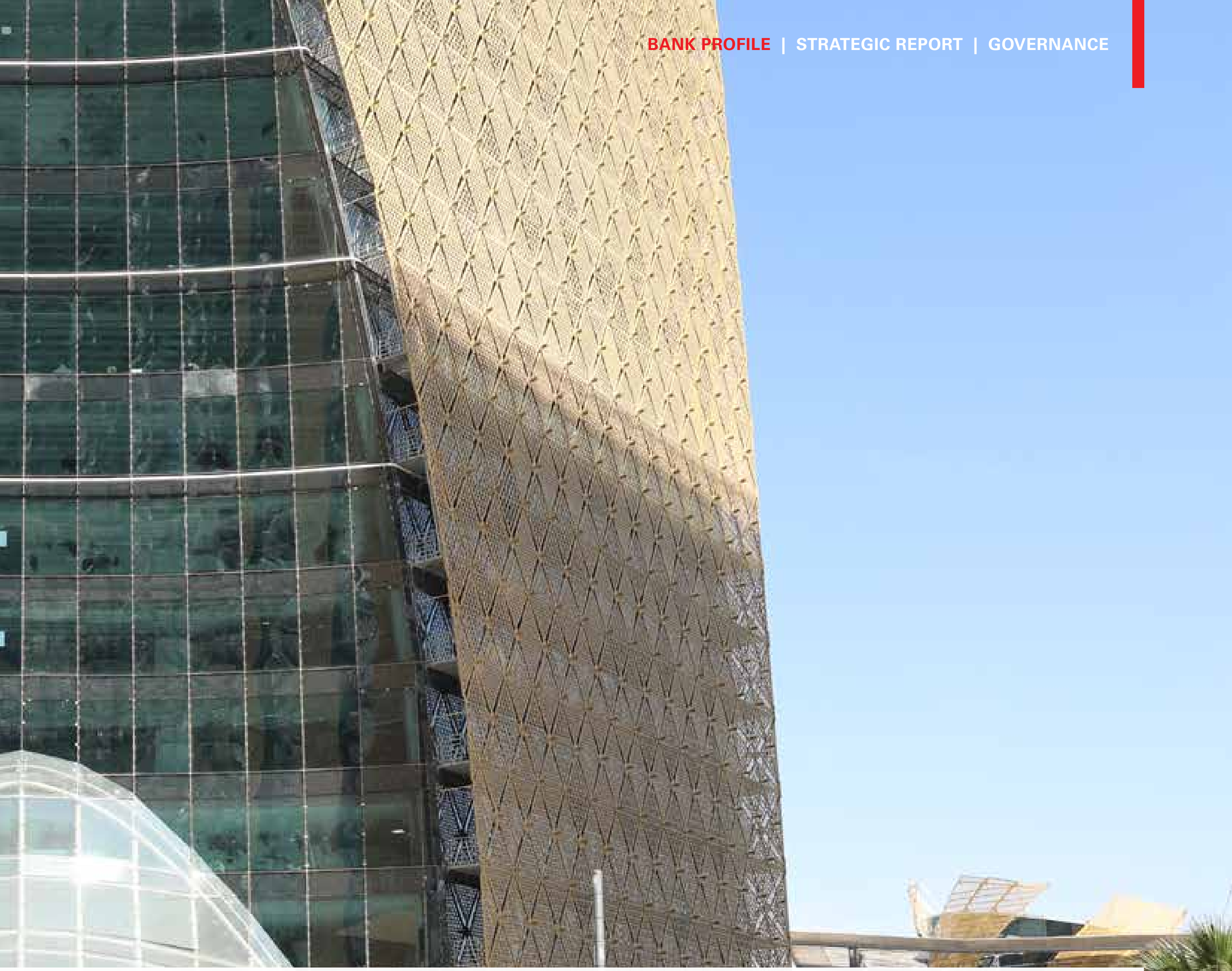
FIVE REASONS TO INVEST IN SABB:

1. Leading international bank in the Kingdom

Our institution has developed into the leading international bank in the Kingdom through a deep understanding of the needs of our customers and a bespoke product suite that delivers intrinsic value. Our unique partnership with HSBC Group enables us to bring international connectivity to our customer base and aligns our approach with global best practice. We are the ‘go-to’ bank for inbound and outbound multinational corporates and institutions operating into or from Saudi Arabia, and the number one bank in the Kingdom for trade.

2. Increased scale to support Vision 2030 growth aspirations

The Kingdom is navigating its path through undoubtedly its biggest economic transformation programme, bringing a wealth of opportunity to every family and enterprise domestically, but also playing to international opportunities. SABB, following its merger with Alawwal Bank, created a top tier banking institution. Through its robust balance sheet and market-leading suite of products, the Bank possesses the scale and capability to support such an ambitious programme.



3. Financial strength

Historically, we have delivered top tier financial performance from a strong balance sheet, robust funding and liquidity dynamics, and a solid capital position. Following the merger with Alawwal Bank, we have taken the necessary steps to protect our balance sheet and conservatively manage the provisioning of our portfolio. We are in a position of strength to meet the demands of our customers.

4. Positioned for growth

Integration has been a key focus for the Bank in 2020, following the landmark merger in 2019 between SABB and Alawwal Bank. Integration continues at pace and extracting the synergies for the combined organisation remains on track. We are suitably positioned for growth and ready to begin the journey of 'Strategy 2025' – our ambitious growth plan – which we will provide further details on during 2021.

5. We are safe, sustainable and dependable

A robust approach to corporate governance is a key strength for any organisation and SABB ensures it adopts best practices in this field to create value for all the Bank's stakeholders. The Board sets the Bank's strategy and risk appetite with the aim of achieving sustainable value and promoting a culture of openness and debate.

Our Board brings a successful balance of international banking best practices, together with local, commercial and institutional insight and experience. Our business decisions are made in the interests of all concerned stakeholders and we will always act responsibly and in a sustainable manner.

STRATEGIC REPORT

BOARD CHAIR'S STATEMENT

> In 2020, we completed the integration of our Corporate & Institutional Banking and Treasury businesses. Our Retail & Wealth Management business will complete its customer integration, referred to as 'Customer Day 1', in the first quarter of 2021. Following Customer Day 1, we will be one bank, with one branch network, one IT system, one website and one shared culture.

It is my pleasure to introduce the SABB Annual Report for the year ended 31 December 2020. It would be an understatement to say that 2020 was an eventful year, both regionally and globally. It was a truly extraordinary year that will certainly remain in our memories for some time to come. The COVID-19 pandemic has created, and continues to create, challenges and uncertainty for the Kingdom, the global economy and the banking sector. We experienced periods of lockdown and curfews, travel to and from the Kingdom was impacted, the price of oil turned negative for the first time ever, and we transitioned to operating remotely, an entirely new way of working.

I am proud of how our Bank dealt with the challenges and navigated the uncertainty, while continuing to pursue our 2020 priorities. Much of our effort focused on advancing our integration efforts in the midst of one of the most globally challenging crises and on supporting our staff, who had to adjust to working remotely while continuing to put our customers first, supporting and serving their needs. Our management and staff stayed focused and often sacrificed, brilliantly exploiting the investments in our technological know-how to shift much of our business to a digital platform seamlessly and efficiently. And the board and management completed the task of finalising our new strategic plan: 'Strategy 2025'.

As a result, SABB entered 2021 well positioned for the many opportunities that lie ahead as we anticipate emerging from the shadow of the pandemic over the course of the year.

Positioning for growth

In 2020, we completed the integration of our Corporate & Institutional Banking and Treasury businesses. Our Retail & Wealth Management business will complete its customer integration, referred to as 'Customer Day 1', in the first quarter of 2021.

Following Customer Day 1, we will be one bank, with one branch network, one IT system, one website and one shared culture.

As we transition to life as truly one bank, our Strategy 2025 provides a roadmap to deliver on our Vision of 'bringing a world of financial opportunities to an ambitious Kingdom.' We are especially eager to continue supporting the ambitious growth plans of the Kingdom's Vision 2030 transformation plan.

Our operating environment

The onset of COVID-19 and the measures taken around the world to contain the virus led to a sharp fall in the global price of oil. As a result, GDP growth in the Kingdom decelerated. While showing remarkable leadership throughout its 2020 Presidency of the G20, culminating in a very successful first ever virtual G20 Summit, the Saudi government also implemented wide-ranging countermeasures to protect the economy and mitigate the negative impact of the COVID pandemic, with significant fiscal support for the private sector and monetary support for the financial sector. These measures have proven very effective by global standards.

Although progress against Vision 2030 came under pressure in light of difficult macroeconomic conditions, its fundamental soundness was further evidenced by its close alignment with the G20's core objectives of macroeconomic stability, sustainable development, empowerment of women, enhanced human capital and increased flow of trade and investment. Our country's commitment to reform and growth clearly remains undimmed, and so does that of SABB.

Financial performance

Against the backdrop of a challenging year, SABB once again has proved resilient. However, headline financial results for the year were disappointing, with a loss before Zakat and income tax of SAR 4.3 bln, which included our non-cash impairment of goodwill of SAR 7.4 bln during the second quarter. Excluding this impairment, net income before Zakat and income tax for 2020 was SAR 3.1 bln.

While disappointing that we were required to take the impairment charge, it is worth noting that this was a one-off accounting event under unprecedented circumstances. It does not affect the Bank's capital, liquidity, or funding; nor does it affect our strategic strengths and competitive advantages, our ability to lend to customers, or our customer service standards.

In light of the reported loss for the period due to the impairment, the Board has not recommended a dividend for 2020.

Sustainability

In December, SABB published its first ever 'Environmental, Social and Governance Focus', which is available on our website, to highlight the importance of sustainability to our Bank and our accomplishments to date in that area. ESG will be an important focus of our Strategy 2025, and we look forward to reporting more on it in the future.

Board governance

Following best governance practices, our Board brings together considerable local and international expertise and included four independent members at the end of 2020.

In a year that necessitated many more meetings and discussions than in previous years, I am especially grateful for the diligence and professionalism of my board colleagues. They each devoted much time and effort to ensuring we met regularly to discuss key matters, such as integration, strategy, risk management, culture, talent, and customer experience, while dealing with the challenges and demands of the unprecedented pandemic crisis we faced in 2020.

I would like to thank Maria Ramos who joined our new Board at its inception in June 2019, and who stepped down as a member of our Board at year end. In addition to her Board position, Maria chaired our Nomination and Remuneration Committee. As we grappled with integration and other issues in the midst of the pandemic's challenges, she provided the Board with wise counsel and insightful advice.

Some additional notes of gratitude

I would like to express my sincere gratitude and appreciation to our customers, shareholders, management, staff, and our longstanding global partner, HSBC Group, for their continued support. We are equally grateful to Saudi regulators and government agencies for the support they have shown during these difficult times, and to the government of Saudi Arabia for implementing measures that prioritise our safety and mitigate the headwinds faced by our economy.

Finally, we announced in February that, after leading SABB for 11 years as Managing Director, David Dew has decided to retire, effective from May 2021. We are pleased, though, that David has agreed to remain as an advisor to the Board until May of 2022. The Board has approved the appointment of Tony Cripps as David's successor; Tony has enjoyed a long and successful career with HSBC, joining us from his most recent position as CEO of HSBC, Singapore. I would like to pay tribute to David's invaluable contributions to SABB's growth and success over his long career and to welcome and congratulate Tony on his appointment.

With SABB on a solid footing and with its strategic direction clear, we approach 2021 with confidence, and with the same heightened level of commitment and determined perseverance that SABB, its management and all its staff have consistently shown in meeting the many challenges of the past year and serving our clients' needs.

Ms. Lubna S. Olayan
Board Chair

STRATEGY AND KPIs

Strategy 2025

During 2020, the Board embarked on a detailed review of the go-forward strategy and the steps that need to be taken. The new strategy will enable SABB to build on our market share, improve financial performance and see a return to top tier performance on key ratios while supporting and benefitting from the Kingdom's Vision 2030 economic transformation programme. The strategy gained Board support at the end of 2020 and we look forward to sharing our detailed vision and targets for the medium-term in 2021.

The strategy looks to build further on our traditional focuses and areas of strength but also looks to expand in those target areas which complement the Vision 2030 plan.

VISION

We bring a world of financial opportunities to an ambitious Kingdom

- Best in class universal banking serving all customer groups in the Kingdom
- Be the leading international bank in the Kingdom, accessing an unrivalled global network through HSBC
- Offer a leading online and mobile digital banking experience
- The best place to work

THE STEPS WE WILL TAKE

Build on our core strengths

- Bank of choice for Large Corporates
- Reinforce leadership in Trade and Payments
- Maintain leadership in Wealth
- Reinforce our position in Cards

Maximise our participation in key growth areas

- Fastest growing Mid-Corporate business
- Digital SME focus
- Mortgage expansion through REDF

Transform the organisation

- Lead in digital innovation and evolve the IT architecture
- Transforming HR and developing the right talent
- Revamp operating model through automation and digitisation

Our people | Digital excellence | Leverage our HSBC partnership | Be where the growth is

RETURNS

- Increase Return on Tangible Equity (RoTE) and Earnings per Share (EPS)
- Improve Cost to Income ratio (CER)
- Maintain strong Capital and Liquidity
- Maintain Dividend payout

KEY PERFORMANCE INDICATORS (KPIs)

To ensure the delivery of the Bank's strategic priorities, SABB uses a set of key performance indicators (KPIs) that enable Management and the Board to track progress.

The KPIs measure:

	KPI	DESCRIPTION	FY20	FY19[1]
FINANCIAL RETURNS, RESILIENCE AND EFFICIENCY These KPIs are used to measure and evaluate how effectively Management are using a company's assets to create profits and make returns to Shareholders	Underlying Return on tangible equity (RoTE)[2]	Measures how effectively management are using the tangible equity in the Bank to generate profits	9.2%	10.4%
	Earnings per share (EPS)	Measures how much profit the Bank makes for each share of its stock	SAR (2.01)	SAR 1.53
	Underlying Cost Efficiency ratio[2]	Measures how well the Bank is managing its cost base in relation to revenue. It is calculated by dividing costs or operating expenses by revenue	39.4%	33.6%
	Common Equity tier 1 (CET1) ratio	Measures the Bank's capital strength. Calculated as CET1 capital divided by risk-weighted assets	18.96%	17.00%
	Liquidity coverage ratio (LCR)	Measures the sufficiency of a bank's unencumbered high-quality liquid assets ('HQLAs') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario	299%	223%
	Dividend per share (DPS)	Dividend paid for each share of the Bank's stock	-	1.20
BUSINESS STRENGTHS AND COMPETITIVENESS The Bank regularly measures its competitive positioning in a dynamic and rapidly evolving market and given the muted credit appetite for the last few years, key market share KPIs remain pivotal to tracking performance. Market shares are tracked across all our different business units	Corporate lending market share	The Bank's corporate lending as a proportion of the market	13%	15%
	Retail lending market share	The Bank's retail lending as a proportion of the market	5%	7%
	FX market share	The Bank's FX income as a proportion of the market	10%	12%
	Trade market share	The Bank's trade activities as a proportion of the market	c. 23%	c.20%

[1]Pro forma basis where relevant
[2]Underlying measure excludes i) goodwill impairment, ii) merger-related expenses and iii) non-recurring expenses

SABB also monitors the value generated by its strategic partnership with HSBC.
Our sustainable competitive strengths are enabled by our digital excellence and our people. We aim to be not only the best place to bank with a leading digital offering, but to provide the best career and training opportunities for our people. We use a number of KPIs to track this performance, including:

Over **692k** mobile app downloads

Top **2** app store ratings (Apple and Android)

91% Saudisation ratio

20% **Female** employment ratio

MANAGING DIRECTOR'S MESSAGE

> A key driver for the merger was the unlocking of both revenue and cost synergies which are on track, having achieved SAR 0.6 bln of annualised synergies as at the end of 2020, through a range of measures from actively optimising our funding base, procurement expenditure, operating model, and real estate footprint. Planned total integration spend is within previously guided target. As a single institution we are now leaner and more agile to embark on the next stage in our journey.

We concluded the legal merger of SABB and Alawwal Bank in 2019. The merger rationale included the creation of a wealth of opportunities for the Bank, its customers and staff. The increased scale, balance sheet and capital improves our competitiveness and our positioning to benefit from and contribute to the economic opportunities of Vision 2030. This year was equally notable, as we made significant progress towards the integration of the two banks into one institution, one suite of IT systems, one website, one branch network and one culture. We will have completed this within two years since legally merging, which included a year of unprecedented uncertainty created by the COVID-19 pandemic, with the final and important milestone in the first quarter of 2021 when our retail bank will integrate its technology infrastructure.

Performance overview

Our underlying financial performance during 2020 was resilient, but headline profits were disappointing as they included a one-off, non-cash impairment of our goodwill in the second quarter. Balance sheet growth at the start of 2020 was encouraging, however the global pandemic put the brakes on much of the anticipated corporate credit growth of 2020 and the pressure of lower benchmark interest rates was reflected in our decreasing margins in the second half of the year.

Total assets as at 31 December 2020 stood at SAR 276.5 bln with SAR 160.4 bln of gross loans and we held SAR 189.1 bln of customer deposits. We recorded a net loss before Zakat and income tax of SAR 4.3 bln for the year including the aforementioned impairment in goodwill of SAR 7.4 bln. Total operating income was SAR 8.9 bln with contributions from our businesses in Corporate and Institutional Banking at 44%, Retail Banking and Wealth Management at 37% and Treasury at 19%.

Positioned for growth

In 2020, a core focus for SABB has been to make significant progress with our merger integration plan, which has been no small feat given the difficulties caused by the COVID-19 pandemic. During 2020, we completed the co-location of all staff, agreed and implemented the IT systems architecture and migrated the vast majority of the Alawwal Bank corporate portfolio onto the SABB system. Having agreed on our target culture in 2019, we rolled out culture workshops in 2020. We continued to support our customers by creating a number of hybrid branches allowing customers of both the SABB and Alawwal Bank portfolios to access services at common locations.

A key driver for the merger was the unlocking of both revenue and cost synergies which are on track, having achieved SAR 0.6 bln of annualised synergies as at the end of 2020, through a range of measures from actively optimising our funding base, procurement expenditure, operating model, and real estate footprint.

Planned total integration spend is within previously guided target. As a single institution we are now leaner and more agile to embark on the next stage in our journey.

The Board has agreed on 'Strategy 2025', which provides the roadmap for ambitious growth and top tier returns. Our strategy will build on the positions of strength that we have built over time while expanding into new areas that are congruent with the opportunities of Vision 2030.

With integration nearing completion, a strong balance sheet, and Strategy 2025 ready, we are in a strong position for the future.

Operational resilience

The challenges faced this year both regionally and globally have been unprecedented. During this time, we supported our customers with a range of measures from the deferral of payments to the waiving of fees. What is particularly notable is the excellent operational resilience we demonstrated despite all the obstacles. We remained open for business, maintaining all services, whilst keeping our customers and staff safe. This focus to 'get the job done' provides good reason for optimism for the future, and I am excited to see what we can achieve.

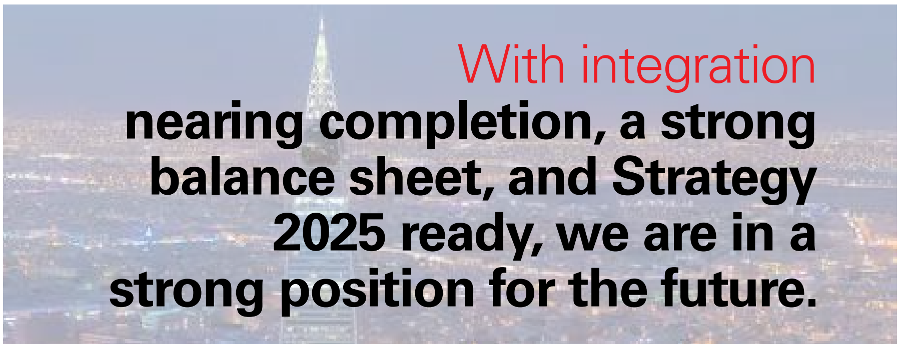
Our digital engagement has increased with both customers and staff, and operational resilience has remained strong throughout the year. The Bank quickly deployed over 2,500 laptops, increased remote connectivity by 300% which involved expansion of our Virtual Private Network ('VPN') capacity by 12x. This allowed the Bank to continue operations throughout. Digital penetration of our customer base has increased to 73% with close to a 2.5x increase in SABB mobile app downloads during 2020. Our ongoing investment has also translated into recognition for excellence, with SABB recently being awarded Best Mobile Banking App and Best Consumer Digital Bank by Global Finance magazine.

With thanks

Our task is now to maximise the benefit of the strategic advantages we have created and to make good on our promise to 'bring a world of financial opportunities to an ambitious Kingdom'. Management and staff deserve enormous praise for their efforts in arguably the most challenging year of recent times. On behalf of all the Bank staff, I would like to thank the Board of Directors for their wise counsel, and our customers and shareholders for the trust that they have placed in us. I would also wish to thank our regulators and government agencies for their strong support throughout. We will continue to earn that trust in 2021, as we transition to a new chapter in our journey.

And on that final note, it is approaching the time for me to bid my farewell as Managing Director of SABB as I will retire later this year. It has been an enormous privilege for me to lead the bank over the past 11 years, the longest-serving MD in the history of the bank, but it has only been possible with the unstinting support of my colleagues and every member of the SABB team for which I am truly grateful. I leave the bank in good hands and I have no doubt that it will continue to prosper under the capable leadership of Tony Cripps.

Mr. David Dew
Managing Director



POSITIONING FOR GROWTH

SABB and Alawwal Bank merged in 2019, and the compelling rationale for the merger created many opportunities for the Bank, its customers and staff. The merger created a broader institution, with greater scale, and an increased balance sheet and levels of capital to position us well for the economic opportunities of Vision 2030.

Since the legal merger and notably during 2020, we have made significant progress with our integration plan. The Corporate and Institutional business enters 2021 operating as a single bank, having substantially completed its integration. The Retail business will soon complete its customer data integration, referred to as Customer Day 1, in the first quarter of 2021. Following this, we will be one harmonised bank, with one branch network, one IT system, one website and a shared culture. We have achieved this by working collaboratively across the Bank and with a range of industry experts. With the onset of the COVID-19 crisis, we adapted to achieve much of this work remotely.

As we approach Customer Day 1 and transition to a fully integrated organisation, the Board approved 'Strategy 2025' in the fourth quarter, which provides our new institution with the roadmap to deliver on the growth aspirations of Vision 2030.

Head office integration **achieved**

800+ staff co-located – co-location complete

97% attendance at culture workshops – culture harmonised

CIB customer migration substantially complete

SAR 0.6 bln annualised synergies achieved up to the end of 2020

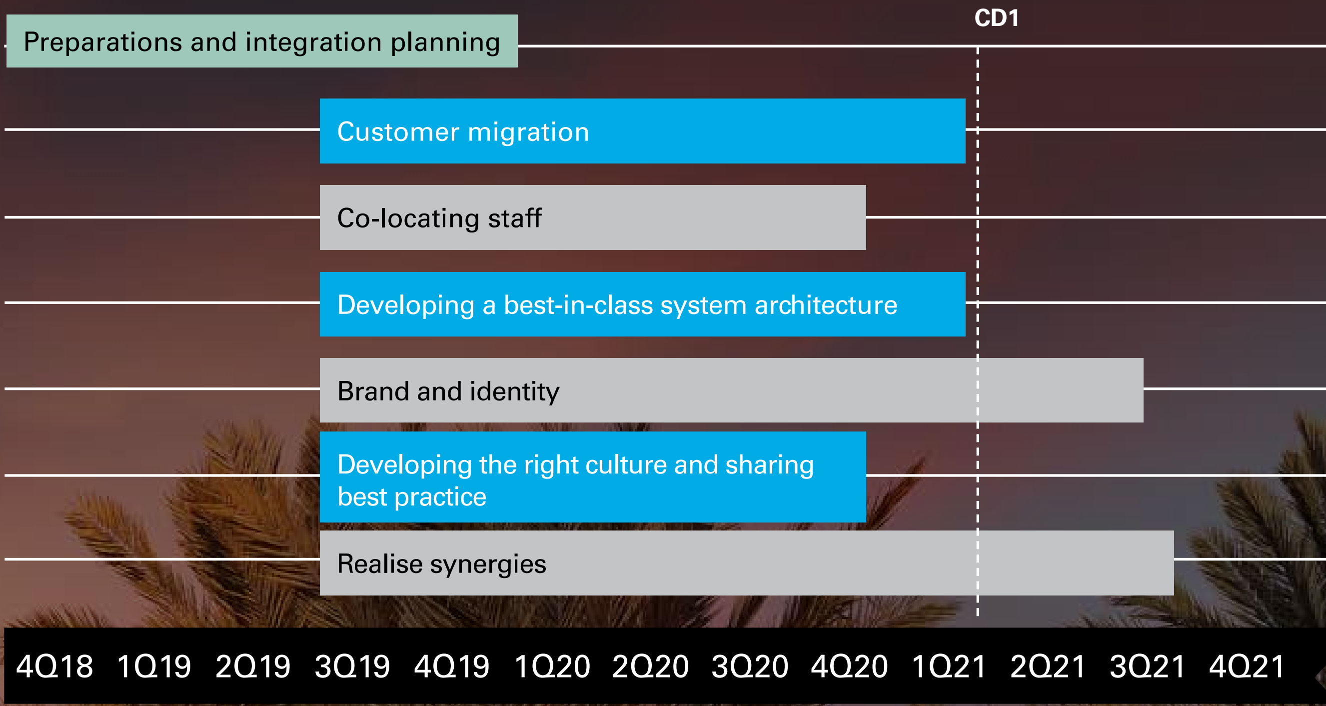
Merger-related expenses – in line with **guidance**

4,000 tasks since Legal Day 1

26 hybrid branches **opened**

Online merger hub **launched**

As at 31 December 2020



OUR INTEGRATION PLAN IS ON TRACK.

1. Customer migration

Having completed final preparations, our retail customers are ready to be migrated in the first quarter of 2021. We launched our online merger hub to support Alawwal Bank customers with the transition to the merged bank. The hub is an online one-stop-shop for customers to learn about the changes ahead and the benefits of their new, improved banking proposition.

Corporate customer migration is substantially complete with over 98% of Alawwal Bank corporate assets migrated.

2. Co-locating staff

Staff co-location is complete, with the exception of contingency sites for COVID-19. The head office has been fully integrated, with all SABB and Alawwal Bank staff members harmonised into their key business areas and functional teams.

3. Developing a best-in-class system architecture

We have amalgamated the SABB and Alawwal systems by selecting the best technology from both organisations and making it available to all our customers. Early in the integration journey, we had selected the SABB architecture due to its compatibility to connect with other systems. In 2021, we will move the Alawwal system data to the SABB system and decommission Alawwal data centres.

4. Brand and identity

The future brand identity will be confirmed post-Customer Day 1.

5. Developing the right culture

We have completed our culture framework, having reached over 97% of employees through our staff culture workshops. Following the onset of COVID-19, we swiftly moved the workshops to a remote delivery. We are one bank with one shared culture.

6. Realising synergies

We have made strides unlocking both funding and cost synergies. We have achieved SAR 0.6 billion of annualised synergies as at the end of 2020, through a range of measures, by actively optimising our funding base, procurement spend, operating model and real estate footprint.

CUSTOMER EXPERIENCE AND DIGITAL BANKING

Customer experience

Customer experience is at the heart of SABB's vision and is critical to delivering our goal of being the best place to bank in the Kingdom. We have a solid record for excellent service and best-in-class customer experience.

As the Bank embarked on its integration journey in 2020, the Customer Experience team continued to align best practice processes, policies and procedures of SABB and Alawwal Bank with the aim of creating a harmonised experience. With the onset of the COVID-19 pandemic, our priorities shifted towards ensuring customer wellbeing and safety, and minimising the disruption of services and operations. This included an accelerated shift towards digital activities whilst flexing branch availability.

94 Customer Recommendation Index ('CRI') Score as at 31 December 2020

Voice of customer

Listening to the market is vital to the success of SABB's customer experience strategy. We continue to develop our VOC programme which covers a broad range of customer surveys and opinions, including specific transactions to specific complaints. With respect to the latter, detailed analysis allows us to identify the relevant stakeholders, the triggers for the relevant issue and suggested solutions. It is a critical part of the feedback loop to ultimately improve our products and services, and provide the action plans for businesses and support functions to deliver on improvements and capture a holistic view of performance.

Staff training

Staff training plays an important role in delivering best-in-class customer experience. We require our staff at all levels to undertake regular training that develops a wide range of abilities, from the soft skills necessary for customer-facing staff, to understanding our risk management framework and anti-money laundering (AML) guidelines.

SABB offers a comprehensive range of training. With the onset of COVID-19, subject matters such as *Treating customers fairly, Improved customer communication and Customer consideration* were valuable for ensuring that we interacted with our customer base with empathy, and with their interests at the centre of our decision-making process.

Performance

In 2020, SABB was ranked as the number one bank in the Kingdom based on 94 customers' recommendation index.

Other key performance indicators reflected the Bank's strengths:

- Branch customer satisfaction, measured using customer surveys, improved to 92% in 2020 (90% in 2019)
- Average branch waiting time improved to under six minutes in 2020
- Average ATM availability was among the highest in the market at over 98%
- Average number of complaints decreased by 16% in 2020 and our registered complaints are lower than the industry average (2.9 vs. 3.2)
- Branch tracker on overall experience returned scores of 90 for Mass, 93 for Advance, 93 for Premier and an overall score of 91 out of 100. This maintained a trend of strong performance from 2019 and compared favourably with the market.

As SABB and Alawwal Bank have progressed their integration journey, it has been extremely important to unify and harmonise customer experience for all retail and corporate customers. Over 90% of corporate customers were migrated in 2020, with the retail customer base to be migrated in early 2021. We launched an online merger hub in late 2020 to assist Alawwal Bank customers with the switch to the merged bank. The merger hub acts as a one-stop shop for customers to learn about potential changes to their services and the benefits of their new, improved banking proposition. While the switch to SABB will be mostly automated for our customers, the hub provides each customer with a unique journey and guidance on when they will need to activate services such as digital banking and re-carding.

Using data for insight

A significant amount of thought and analysis goes into providing leading levels of customer experience. At SABB, we have developed a range of analyses, insight tools and reporting methods that allow us to drill down into the detail of customer interactions to learn and improve our capabilities. Via a Survey Live Dashboard, staff members are able to monitor survey scores, ratings and overall experience, with the ability to delve into specific events, branches, customer journeys, products and even related staff members. Access to this rich information creates insight that provides options to improve service quality.

The financial services industry is transforming rapidly with the adoption of new technology, and our priority is to accelerate our digital transformation plan to offer a growing number of banking services through online and mobile channels.

Digitalisation of banking services is one of SABB's four strategic enablers and is vital to its competitive advantage. With the aim of being a digital leader in the Kingdom's banking sector, our approach is driven by customer-centricity and innovation. At the front-end, the Bank is investing to deliver best-in-class customer journeys across channels, and at the back-end to build a highly efficient, streamlined and secure core banking infrastructure. The strategy is designed to enable SABB to reach a level of digital maturity that will place it among the best of its peers.

The digital shift continues

SABB's retail mobile banking application continued to gather momentum and won 'Best Mobile Banking App' from Global Finance Magazine. The app was downloaded over 692k times during 2020, an increase of 245%, and was the top rated app on both the Android and Apple app stores. Downloads increased significantly following the onset of COVID-19, as customers swiftly moved to more digital channels, in part due to a targeted campaign to reduce branch visits. We launched 'Live chat' functionality, initially for our Premier segment, to encourage further online interaction and reduce branch visits. During 2020, we also enhanced our interactive voice response (IVR) services, and online 'Digital account opening' and 'Know Your Customer' (KYC) processes driving an increase in online transactions and interactions. Global Finance Magazine also awarded SABB the much coveted 'Best Consumer Digital Bank' award in recognition of our leading digital offering.

Our Global Liquidity and Cash Management (GLCM) and Global Trade and Receivables Finance (GTRF) propositions are digitally led, making the transition to digital for our corporate customers easy. During 2020, CIB launched an online banking platform focused on MSME customers, given the importance of the segment to the Bank and the wider aspirations of Vision 2030. We also delivered the first Saudi-hosted, cloud-based supply chain solution that helps our clients improve working capital efficiency.

Committed to customers' security

Cyber security remains a focus for SABB and is a key component of our risk management process. The Bank ensures that it has the right level of governance and scrutiny at senior management and Board levels. SABB and other banks operate in an environment with a continuously evolving cyber threat, and we constantly review and invest in capabilities to mitigate risk.

Cyber security is not just a technical issue, but a business priority at the heart of the risk management architecture. All new systems, changes and upgrades are designed and implemented with a focus on cyber security, and we continuously monitor for live threats and cyber-attacks. We have in place response and recovery plans that have been developed according to international best practice and use independent parties to periodically test technology for weaknesses. We maintain dialogue with national authorities to share best practice and use domestic and international incidents to improve cyber security in Saudi Arabia.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FOCUS

In December 2020, we released our first-ever Environmental, Social and Governance Focus. We understand that the global environment is changing at a fast pace, and all organisations will need to adapt in order to succeed. We all have a duty of care to act responsibly and in a sustainable manner. Doing the right thing is a core value of our Bank and something that has supported our success during a proud history.

Going forward, we intend to build on these foundations by ensuring that Environmental, Social and Governance (ESG) factors are fundamental to our business. We want to be balanced, open and honest about our progress and transparent when it comes to the areas we need to develop. In 2021, we will be making further efforts to improve our ESG reporting framework.

Sustainable approach to the environment

Operationally, the Bank has implemented a range of programmes and initiatives that make a tangible and positive impact. Eco-friendly features and smart recycling techniques are designed and built into our facilities. Recycling aims to reduce our wastage and includes the use of recycled building materials and recycling stations in all our offices and branches. The Bank has an ongoing programme for reducing paper, plastic, water and power usage, and actively supports international initiatives including the WWF's 'Earth Hour' and World Environment Day.

Business travel is kept to a minimum, with video conferencing used for meetings wherever feasible. Our use of video conferencing technology accelerated as a direct impact of COVID-19 and a positive to be taken from this is our ability to deliver business-as-usual seamlessly, especially in relation to our integration work.

Notwithstanding our achievements, we will always look to continuously improve and better understand our impact on the environment, and develop a better understanding of our customers' supply chains. We will look at alternative ways of supporting our customers with new products which, at their heart, encourage a positive impact on the environment.

A socially responsible bank

Our social responsibility encompasses our obligations to all stakeholders, both external and internal. Our focus historically has been towards our customers and employees and to wider society. More recently, we have started to improve our communications with the investment community. As our stakeholders evolve, so will our approach.

Ensuring we have the right culture will drive appropriate decision making and ultimately ensure the right outcomes for stakeholders. One of the first steps the Bank took following the 2019 legal merger was identifying the target culture of the organisation, emphasising the importance of culture to the Bank and its staff.

We foster an environment that allows our people to feel valued and empowered to share their views, enables us to fulfil our collective potential and guarantee the right outcomes for customers.

We have developed a set of values to enable us to fulfil our strategic priorities:

- Think customer
- Work together
- Do the right thing
- Be innovative

These values are at the heart of everything we do. From helping a customer make their first home purchase to making senior leadership appointments; from choosing the right vendor for a future IT system to appraising the performance of an employee – we will employ these values in all our decision making. Ultimately all these decisions, and the active demonstration of our values, is what ensures the delivery of our promises to stakeholders.

94
customer recommendation index

91%
Saudisation

20%
female employment ratio

90%
staff retention rate

Customers

Our aim is to grow in a sustainable, yet responsible fashion where the customer is at the heart of what we do. By creating value for our customers, we build sustainability into the relationship. We continue to listen to our customer base through our improved Voice of the Customer programme and we use the output from these sessions to hone and improve our product offer. SABB was awarded a Customer Recommendation Index (CRI) score of 94 at the end of 2020, ranking the Bank as no.1 in its peer group in the Kingdom.

Our people

An important part of SABB's vision is to be the best place to work in Saudi Arabia, and we are proud to offer a leading standard of development and career opportunity with a focus on nurturing the talent of Saudi nationals and women. We have two female members in the Executive Management Committee and a female Board Chair, which places us at the top end of diversity regionally.

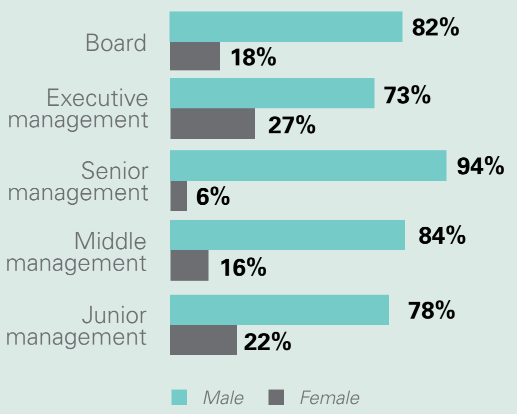
A core facet of the integration following the legal merger with Alawwal Bank was to align the culture of the go-forward organisation and a successful communication campaign for employees through a series of 'culture change' workshops led by Management in 2020. Fostering an environment with regular dialogue provides a culture of empowerment and ultimately enables us to fulfil our collective potential and guarantee the right outcomes for our customers.

We have introduced a series of development programmes designed to support every business segment and function. SABB has used its partnership with HSBC Banking Group to provide employees with access to a suite of development courses. International training opportunities and secondments available to SABB employees cover areas including leadership, communication skills, anti-money laundering, IT skills, digital excellence and management essentials, among others.

Rewards and recognition

SABB's reward strategy recognises sustainable performance. Total compensation is a key component of recruitment and retention activities. Our reward proposition is continually enhanced to reflect qualitative parameters with a focus on enhancing customer experience and management of risk. Incentive and bonus structures have been improved to better align individual rewards with a focus on best outcomes for our customers, and are in line with SAMA's rules on compensation and Financial Stability Board guidelines.

GENDER DIVERSITY STATISTICS



SABB in the community

SABB has developed long-standing partnerships with government agencies and charities and participates in an extensive range of social programmes to improve quality of life for Saudi citizens and communities.

During 2020, together with the King Abdullah University of Science and Technology (KAUST), we launched the fourth phase of the incubator programme 'TAQADAM', which supports, trains and challenges young entrepreneurs. In the past four years, approximately 150 teams have benefited from this programme, and a number have been successfully short-listed at international tech and entrepreneurship competitions. TAQADAM is an example of SABB's support for this burgeoning area of development, which looks to build the SMEs of the future, and is a vital ingredient in the Kingdom's Vision 2030 aspirations to support the SME sector in Saudi Arabia.

As part of its commitment to the community, SABB is keen to raise the level of financial literacy among Saudi nationals. The Riyali programme is one of the Bank's initiatives in this area, to educate the community and motivate them to take educational courses that qualify them with skills and knowledge of the basics of financial planning and savings. Our focus on 'Youth Ambition' through our sponsorship of the Riyali programme has benefitted more than 90,000 people during 2020. This took place despite school closures following lockdown measures introduced by the government to curb the spread of COVID-19. The SABB Academy provides a combination of technical knowledge and 'soft skills' training to graduate trainees. The Bank also teamed up with Alnahda Society for the second year to support women as part of a Kingdom-wide strategy to improve financial literacy.

Support during COVID-19

This year, in response to the pandemic, we implemented SAMA's various initiatives to support the private sector and in particular the MSME segment. Following the launch of SAMA's Private Sector Financing Support Programme (PSFSP), which provides support to Micro, Small and Medium Enterprises (MSME), SABB has provided eligible customers with a 12-month payment deferral. In addition, the Bank has waived fees associated with digital payments and transfers for corporate customers for six months. For retail customers working in the healthcare sector, we provided a 3-month payment deferral that has benefited over 27,000 customers.

Across the Bank we have waived fees and charges, notably for digital payments, again demonstrating our aims to create the best outcomes for our customers. SABB contributed SAR 27 million across the Ministry of Health's COVID-19 fund and the Ministry of Human Resources Development Fund. We also provided food baskets to over 9,000 families through 14 charitable organisations. We also partnered with transport apps including Careem and Uber to deliver groceries free of charge, with an additional discount when using SABB payment cards.

High standards of governance

A rigorous approach to corporate governance is a key strength for any organisation. SABB ensures it adopts best practice in applying a transparent approach that creates value for stakeholders. Led by the Chair, the Board sets the Bank's strategy and risk appetite with the aim of achieving sustainable value for shareholders and promoting a culture of openness and debate. The Board also approves the capital and operating plans for achieving the Bank's strategic direction, on the recommendation of Executive Management (MANCOM).

Our Board at the end of 2020, was comprised of 11 members. Led by the Chair, the Board enjoys a broad mix of local and international expertise from a wide spectrum of industry experience. The Board has established four sub-committees, the construction of which is in line with all regulatory requirements issued by the relevant authorities. The diversity in experience of the Board is further complemented by gender diversity including the first female Board Chair of a listed company in Saudi Arabia. Gender diversity is prevalent across the organisation.

Vice Chair
Mr. Saad Abdulmohsen Al Fadly

Eng. Khalid Abdullah Al Molhelm

Mr. Stuart Gulliver

Mr. Martin Powell

Chair
Ms. Lubna S Olayan

Board of Directors

Managing Director
Mr. David Dew

Mr. Stephen Moss

Mr. Ahmed Farid Al Aulaqi

Ms. Maria Ramos[1]

Mr. Samir Assaf

Mr. Mohammed Bin Omran Al Omran

Independent

Executive committee ('EXCOM')	Audit committee ('AUCOM')	Board Risk committee ('BRC')	Nomination and remuneration committee ('NRC')

Other key committees and risk management tools

Asset and Liability Committee ('ALCO')	Reviews risks associated with the balance sheet, asset and liability management, and liquidity and funding
Risk Management Committee ('RMC')	Reviews risk appetite, emerging risks and risk policy
Risk map	We maintain a risk map that covers current and anticipated financial and non-financial risks
Stress testing	Regular stress testing occurs to gauge the Bank's vulnerability to exceptional but plausible events
Internal controls	A range of internal controls to manage the risk of failure to achieve SABB's strategic objectives

[1] Maria Ramos resigned from the Board during 2020, effective from 31 December 2020

Risk management

SABB has a strong risk culture, which is embedded throughout business units, enablement and control functions. Clear communication and a structured risk training programme is provided to all employees. The Bank operates to the principle that all staff are responsible for identifying and managing risk within the scope of their role, whilst providing effective oversight by control functions and internal audit, as defined by the 'three lines of defence' model. Adherence to risk management is a key performance indicator applied in the performance management of all Executive Management and staff. A strict policy of consequence management is applied where failures occur.

Risks	Management of risk
1st line of defence	The first line consists of risk and control owners. Risk owners are responsible for the end to end management of risks that they own. They are supported by control owners who are responsible for carrying out control activities with the object of ensuring risks are managed within policy and appetite. Typically, this applies to all units of the Bank with the exception of Internal Audit.
2nd line of defence	The second line of defence is comprised of the Bank's operational risk management function and risk stewards within the Bank's Risk Management, Finance, Compliance, Legal and other functions that own policy and provide guidance and oversight to ensure proper management of the risks that they steward.
3rd line of defence	The third line of defence consists of an independent internal audit function which provides assurance with regard to the design and implementation of the Bank's controls and risk management practices. The Internal Audit function reports directly to the Board's Audit Committee.

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. The Board approves the Bank's risk framework, plans and performance targets, which include the establishment of management-level risk governance committees, bank-wide and business risk appetite statements, the delegation of authorities for acceptance of credit and other risks and the establishment of effective control procedures.

The Risk Management Committee (RMC) and the Asset and Liability Committee (ALCO) are two critical risk governance committees that support the BRC and EXCOM respectively in setting the Bank's overall risk appetite. The RMC review risk appetite, emerging risks and risk policy and is chaired by the Chief Risk Officer. ALCO reviews the risks associated with the Bank's balance sheet including asset and liability management, and liquidity and funding, and is chaired by the Chief Financial Officer.

Enterprise-wide risk management

SABB's risk appetite is documented and defines our desired risk profile and tolerances within which risk should be managed. The risk appetite covers risks which we actively accept and engage in, such as credit, market, operational, liquidity and funding, and regulatory risks. SABB maintains a risk map, covering an assessment of current and anticipated levels of risk across all major financial and non-financial risk types.

SABB's stress testing programme is performed at an enterprise-wide level and focuses on the key risk types to which the Bank is exposed. Stress testing refers to various quantitative and qualitative techniques used to gauge the Bank's vulnerability to exceptional but plausible events. The Bank's stress testing programme incorporates the guidelines set out by SAMA, the principles set out by the Basel Committee and is a key component of the Bank's risk management approach.

Cyber security

Cyber security remains a focus for SABB and is a key component of our risk management framework. We continue to invest in this rapidly evolving area, and our approach is in line with global best practice.

Financial crime compliance

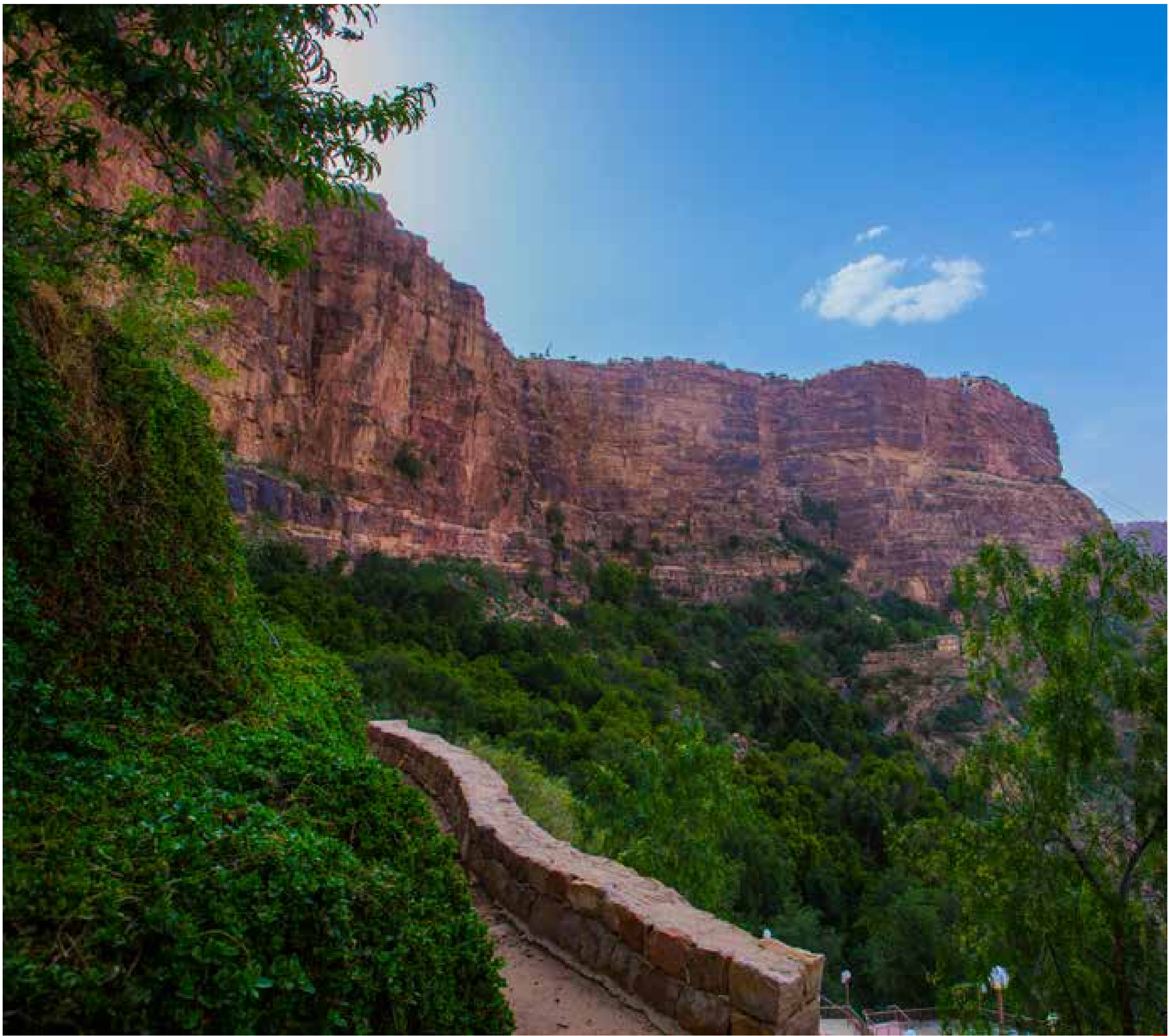
In order to protect the integrity of the Saudi and global financial system, we continue to invest in our ability to detect, deter and prevent financial crime in what is an increasingly digital landscape.

Anti-bribery and corruption

SABB is committed to high standards of ethical behaviour and operates a zero-tolerance approach to bribery and corruption, in line with Saudi Anti-Bribery and Corruption Law. We continue to invest in technology to detect and deter such activities, and provide mandatory e-learning courses to all employees.

Whistleblowing

We believe it is essential to have a culture where people feel able to raise concerns about potential wrongdoing or unethical practices. Regular reporting channels exist, but if an employee feels unable to use these then their issues can be raised in a more discreet manner. SABB has a whistleblowing policy ensuring that concerns are captured, assessed and investigated thoroughly and that employees can raise concerns without fear of reprisal.



CHIEF FINANCIAL OFFICER'S REVIEW

"We ended the year with a strong capital position reporting a common equity tier 1 ratio of 18.96% and a total capital ratio of 21.82%, with the latter bolstered by the issuance of a SAR 5.0 billion Tier II Sukuk. This was the first such transaction by the merged Bank in the debt capital market, the joint-largest Tier II issuance by a Saudi bank in history, and the largest local issuance by a bank since the introduction of the Kingdom's national growth agenda under Vision 2030.

It has been a challenging year for the banking sector. Despite minimal disruption to operations during the pandemic, and strong progress made towards integration and planned synergies,our bottom-line performance in 2020 was less positive. It was impacted by a significant accounting charge as we impaired the goodwill created following the legal merger in 2019.

2020 marks the first full year of combined results since the legal merger in June 2019, although this is far from representative of a typical year. For the year ended 31 December 2020, SABB recorded a net loss before Zakat and income taxes of SAR 4.3 billion, which included a SAR 7.4 billion goodwill impairment in the second quarter, relating to the goodwill created following the merger with Alawwal Bank. The need to impair was driven by a temporary inflation in the Bank's share price, which was used as the basis for the valuation at the time of the legal merger. The unexpected emergence of the COVID-19 pandemic and its impact on the economy also contributed to the impairment assessment. The accounting charge was a one-off, non-cash impairment, that has no effect on our capital, liquidity or funding. A full description of this charge can be found on page 46. Excluding the goodwill impairment, SABB recorded a net income before Zakat and income tax of SAR 3.1 billion.

Underlying net income of SAR 3.8 billion which strips out non-recurring items that may potentially distort period-on-period comparisons, was SAR 0.6 billion lower than 2019 mainly from lower revenue partly offset by lower expected credit losses and reduced operating expenses.

Revenue was largely affected by the cuts in benchmark rates in response to the global pandemic, and the weak economic conditions caused by the latter led to reduced customer flows. Given the uncertainty caused by COVID-19, the Bank adjusted its risk management accordingly, resulting in modest loan growth. Expected credit losses of SAR 1.6 billion were 44% lower than 2019 pro forma, but still reflective of a weak macroeconomic environment. Underlying costs, which remove integration-related costs and other costs that are one-off in nature were 4% lower, continuing the strong trajectory on cost management. Integration costs have peaked in 2020 and will come to an end fully in early 2021.

We ended the year with a strong capital position reporting a common equity tier 1 ratio of 18.96% and a total capital ratio of 21.82%, with the latter bolstered by the issuance of a SAR 5.0 billion Tier II Sukuk. This was the first such transaction by the merged Bank in the debt capital market, the joint-largest Tier II issuance by a Saudi bank in history, and the largest local issuance by a bank since the introduction of the Kingdom's national growth agenda under Vision 2030.

SAR 5.0 BILLION
TIER II SUKUK

Our balance sheet remains healthy, with gross lending balances of SAR 160.4 billion and deposit balances of SAR 189.1 billion at the end of the year. Loan growth was modest in 2020 with early optimism at the start of the year curtailed by the Bank's risk management approach during the emergence of COVID-19. The Bank has a stable and low cost funding base, with 71% of our deposit base in the form of demand deposits.

With this strong funding base, a conservatively provisioned portfolio, and one that is well-positioned across key sectors that will benefit from the Vision 2030 economic transformation programme, we are well positioned for growth. We remain optimistic as we embark on our new strategic path in 2021.

Mathew Pearce
Chief Financial Officer

OPERATING
REVIEW

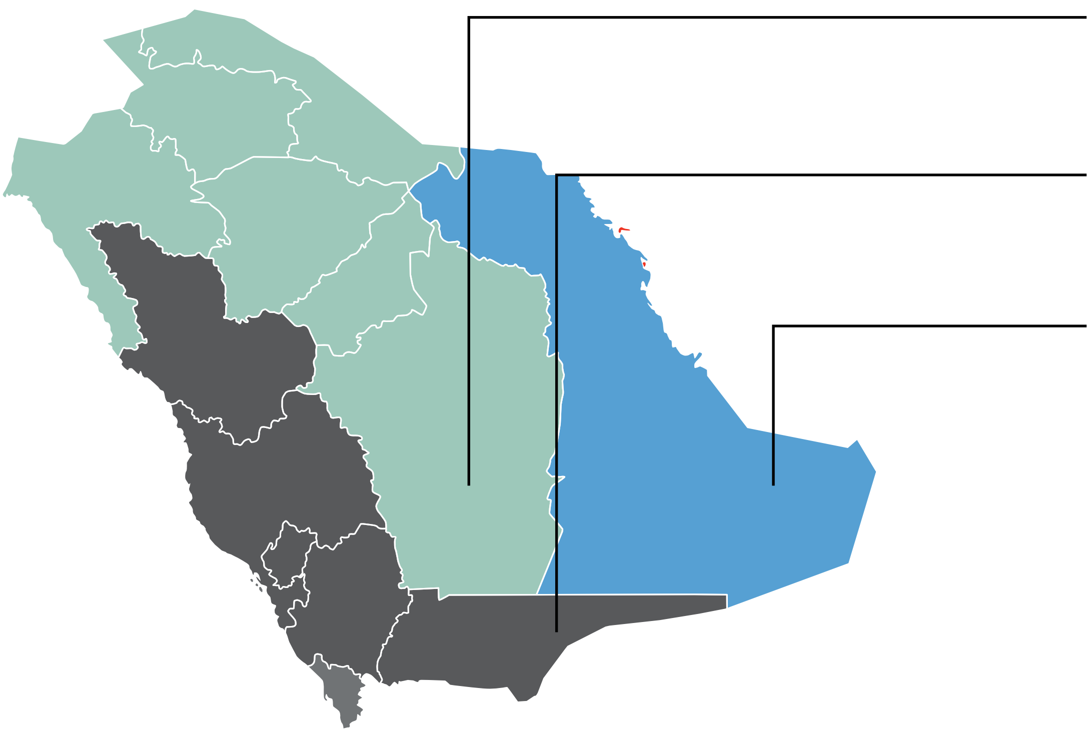
Reported historical financial results

(SAR mln)	2020	2019[1]	2018	2017	2016
Investments, net	60,831	60,484	34,570	26,977	29,273
Loans and advances, net	153,243	152,075	110,326	117,006	120,965
Customer deposits	189,110	192,167	130,507	140,240	140,640
Total assets	276,452	265,987	174,677	187,615	186,056
Total liabilities	225,690	209,903	142,101	154,145	154,777
Shareholders' equity	50,707	55,994	32,467	33,345	31,279
Net (loss) / income before Zakat and income tax	**(4,302)**	**3,195**	**4,929**	**3,955**	**3,895**

[1] On 16 June 2019, SABB merged with Alawwal Bank. Financial results reported before this date are based on the pre-merger SABB entity and as such are not directly comparable to the results reported after that date.

Total operating income ('revenue') by geography

The Bank generates its operating income from activities in the Kingdom of Saudi Arabia and has no branches, material subsidiaries or associates established or operating outside of the Kingdom. The following table shows the distribution of operating income in accordance with the geographical classification of the Kingdom's regions.



Central province	
2020	5,255
2019	5,239

Western province	
2020	2,012
2019	2,364

Eastern province	
2020	1,611
2019	1,611

Total	
2020	**8,878**
2019	**9,213**

SABB legally merged with Alawwal Bank on 16 June 2019. Results for the 12 months ended 31 December 2020 reflect the results of the combined entity, whereas the results for the 12 months ended 31 December 2019 reflect the results of SABB up to the merger date and the results of the combined entity for the remaining period. A clearer understanding of the underlying trends compared to history is best achieved through a review of our pro forma results as set out in the section titled 'Pro forma results' on page 47.

Reported performance

SABB recorded a loss before Zakat and income tax of SAR 4,302 million for 2020 and this included a goodwill impairment of SAR 7,418 million, recorded in the second quarter, relating to the goodwill created following the merger with Alawwal Bank. The goodwill impairment charge is a non-cash item and a one-time accounting charge. Further information on this is provided on page 46. Excluding this charge, net income before Zakat and income tax was SAR 3,116 million which was 2% lower than 2019 from higher operating expenses and reduced revenue partly offset by lower expected credit losses.

- Revenue of SAR 8,878 million was SAR 335 million or 4% lower than 2019 largely from reduced Net special commission income reflecting lower lending balances and repricing as a result of the cuts in benchmark interest rates.
- Operating expenses of SAR 4,213 million were SAR 563 million or 15% higher than 2019 and included SAR 500 million in merger-related expenses (2019: SAR 417 million). The merger-related expenses are temporary and will cease once the integration has completed.
- Expected credit losses of SAR 1,631 million were SAR 870 million or 35% lower than 2019 mainly from lower charges in our corporate business, and because 2019 included a number of one-off expected credit losses in respect of the acquired loan portfolio through the merger with Alawwal Bank.

Income statement highlights (SAR mln)	2020	2019
Total operating income ('revenue')	8,878	9,213
Provision for expected credit losses, net	(1,631)	(2,501)
Goodwill impairment	(7,418)	-
Total operating expenses	(4,213)	(3,649)
Share in earnings of associates and a joint venture	82	133
Net (loss) / income before Zakat and income tax	**(4,302)**	**3,195**
Net income before Zakat and income tax excl. goodwill impairment	**3,116**	**3,195**

Reported results by business segment

(SAR mln)	Retail banking and wealth management	Corporate and institutional banking	Treasury	Other	Total
2020					
Total operating income ('revenue')	3,318	3,878	1,674	9	8,878
Provision for expected credit losses, net	(239)	(1,376)	(16)	-	(1,631)
Goodwill impairment	-	(7,418)	-	-	(7,418)
Total operating expenses	(2,127)	(1,221)	(179)	(686)	(4,213)
Share in earnings of associates and a joint venture	-	-	-	82	82
Net income before Zakat and income tax	**952**	**(6,137)**	**1,478**	**(595)**	**(4,302)**
2019					
Total operating income ('revenue')	3,469	4,446	1,155	143	9,213
Provision for expected credit losses, net	(444)	(2,049)	(9)	-	(2,501)
Goodwill impairment	-	-	-	-	-
Total operating expenses	(1,731)	(1,080)	(195)	(644)	(3,649)
Share in earnings of associates and a joint venture	-	-	-	133	133
Net income before Zakat and income tax	**1,295**	**1,318**	**951**	**(369)**	**3,195**

Completion of Purchase Price Allocation (PPA) exercise

The Bank completed the accounting for the merger in the second quarter of 2020. As per IFRS 3 Business Combinations, SABB had up to 12 months from the date of the merger to complete the exercise and assign a fair value to the assets and liabilities acquired through the merger. The purchase consideration transferred to Alawwal Bank shareholders was based on the closing market SABB share price on the Tadawul All Share Index on the last trading day before 16 June 2019. SABB shares were valued at SAR 41.70 per share at this date which resulted in a consideration of SAR 23.1 billion. The PPA exercise resulted in a fair value of net assets of SAR 4.8 billion with goodwill of SAR 16.2 billion (before goodwill impairment), and other intangibles of SAR 2.0 billion.

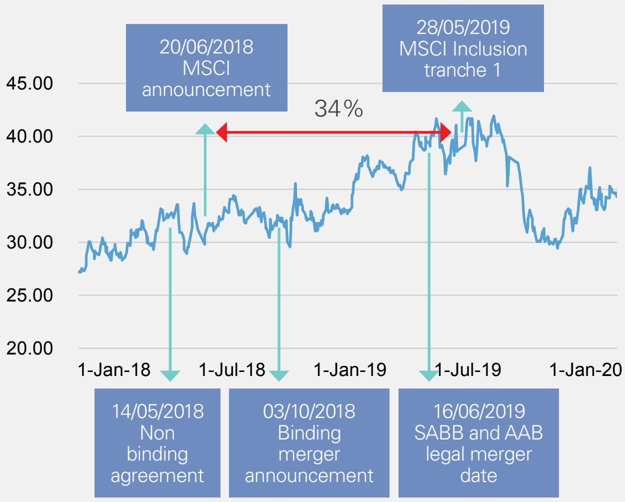
Goodwill impairment

SABB recorded a goodwill impairment of SAR 7,418 million in the second quarter relating to the goodwill created following the merger with Alawwal Bank. The need to impair was driven by two factors:

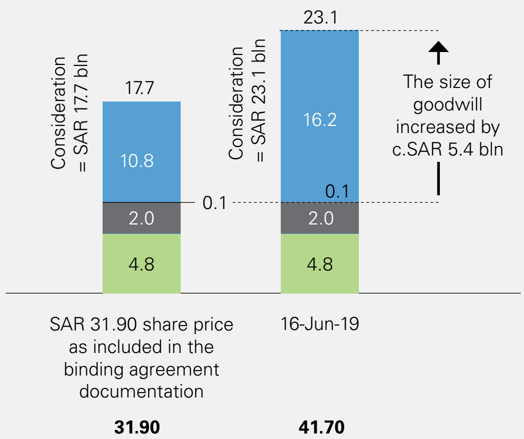
- The temporary inflation of the Bank's share price at the time of the merger caused by Saudi Arabia's inclusion in the MSCI Emerging Market Index
- The unprecedented and unexpected emergence of the COVID-19 pandemic and its impact on the economy has contributed to the outcome of the impairment assessment's expectation of future returns

The impairment charge was a non-cash item and is expected to be a one-time accounting charge. It did not affect the Bank's capital, liquidity or funding; or strategic strengths and competitive advantages. Our ability to lend to and support our customers, our products and services and our focus on our people all remain unaffected by this accounting charge. Further information can be found in our 1H20 Interim Report.

SABB SHARE PRICE DURING 2019 AND 2020



SHARE PRICE IS THE MAIN DRIVER OF THE SIZE OF THE RECORDED WILL

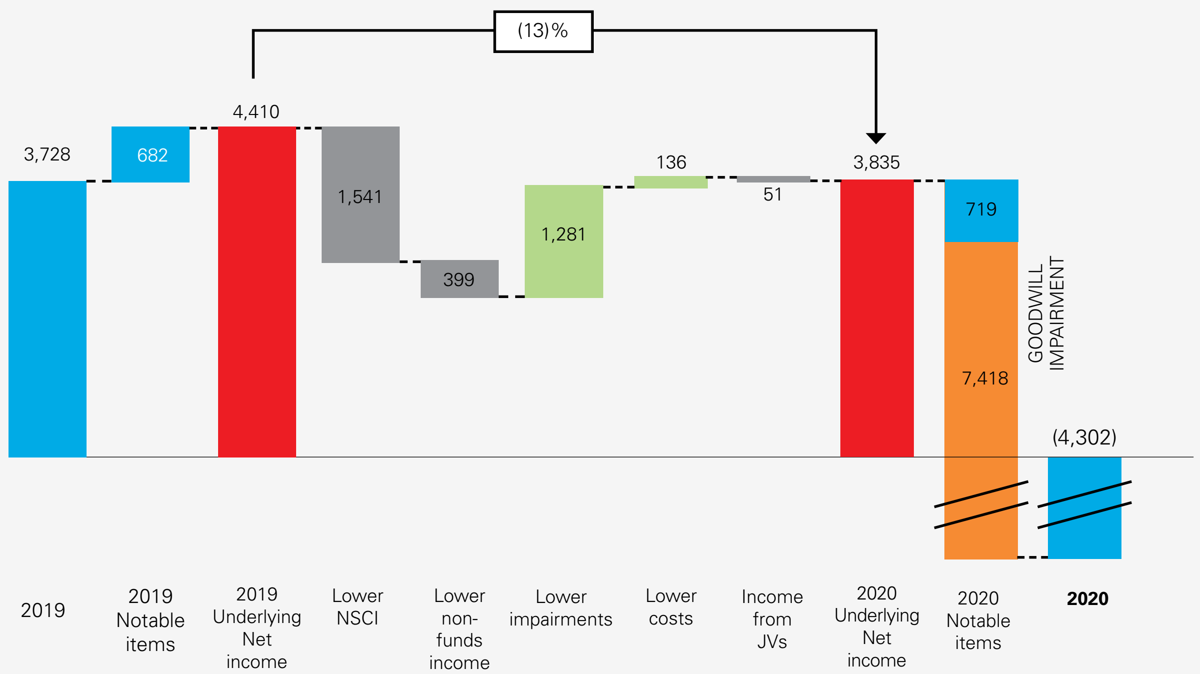


Pro forma performance

Pro forma financial results have been calculated for illustrative purposes only for 2019, to enable an understanding of the period-on-period performance of the combined entity. It assumes SABB and Alawwal Bank merged on 1 January 2018. Because of its nature, the pro forma financial information addresses a hypothetical situation and therefore does not represent SABB's actual financial results.

Pro forma income statement highlights (SAR mln)	2020	2019
Total operating income ('revenue')	8,878	10,819
Special commission income, net	6,873	8,414
Fee and commission income, net	1,283	1,530
Exchange income, net	519	566
Other income	203	309
Provision for expected credit losses, net	(1,631)	(2,912)
Goodwill impairment	(7,418)	-
Operating expenses	(4,213)	(4,312)
Share in earnings of associates and a joint venture	82	133
Net (loss) / income before Zakat and income tax	**(4,302)**	**3,728**

Net income before Zakat and income tax: 2020 vs. 2019



SABB recorded a net loss before Zakat and income tax of SAR 4,302 million for 2020 and this included the SAR 7,418 million goodwill impairment mentioned earlier. Excluding this impairment, SABB had net income before Zakat and income tax of SAR 3,116 million. Underlying net income before Zakat and income tax of SAR 3,835 million, which strips out non-recurring items that may potentially distort period-on-period comparisons, was SAR 575 million lower than 2019. A list of notable items is below:

Notable items[1] (SAR mln)	2020	2019 (Pro forma)
Goodwill impairment	(7,418)	-
Merger-related expense	(500)	(450)
One-off expenses	(219)	(232)
Total	**(8,137)**	**(682)**

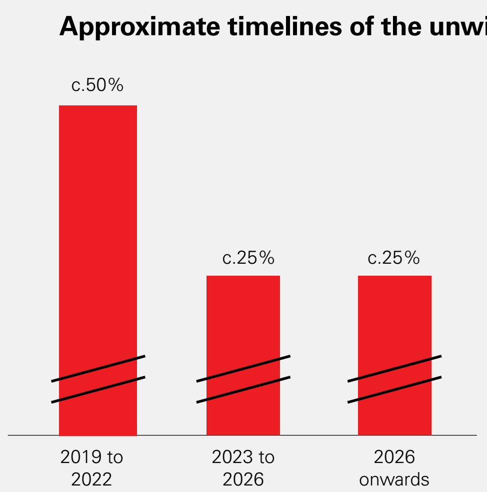
[1]During previous reporting periods in 2020, SABB included the unwind of the fair value adjustment and intangible amortisation. Given these will be ongoing in the medium-term, we will include these items in our underlying performance. However, details are provided in the following commentary.

Revenue of SAR 8,878 million was SAR 1,941 million or 18% lower than 2019 largely from reduced net special commission income reflecting lower average lending balances and repricing as a result of the cuts in benchmark interest rates. Net fee income also fell from a reduction in trade fees together with lower loan origination fees and lower net fees from credit cards and merchant acquiring, as a result of increased competition and challenging economic activity. Exchange income fell 8% from reduced customer flows.

Unwind of the fair value adjustment

Revenue included the impact of the unwind of the fair value adjustment (2020: SAR 403 million; 2019: SAR 347 million). The need for this accounting approach is explained below:

- Alawwal Bank loan portfolio recognised at fair value on merger date
- The fair value is a discounted amount to the contractual amounts due of the underlying loans
- The discount applied will be unwound over time to the contractual maturity date of the loans
- The unwind will be recognised mainly in NSCI using the effective interest rate (EIR) method
- The amount recognised in the future will be on a declining basis, in line with the EIR method
- Expect this to total c. SAR 2.3 billion across the life of the loans



Operating expenses of SAR 4,213 million were SAR 99 million or 2% lower than 2019 and included SAR 500 million in merger-related expenses (2019: SAR 450 million) and SAR 219 million in expenses that are one-off in nature (2019: SAR 232 million). Underlying costs fell 4% as SABB started to see the synergy benefits to the cost base from the initial actions taken to integrate the banks. This benefit was partly offset by higher intangible amortisation (2020: SAR 156 million; 2019: SAR 78 million), the increase in the rate of value-added tax and inflationary pressures. Despite a promising trajectory on underlying costs, underlying cost efficiency ratio for the year was 39.4% which was more reflective of the challenging revenue environment.

Charges for provisions for expected credit losses of SAR 1,631 million were SAR 1,281 million lower than 2019 mainly from lower charges in our corporate business, and because 2019 included a number of one-off expected credit losses in respect of the acquired loan portfolio through the merger with Alawwal Bank

Balance sheet

Total assets of SAR 276.5 billion increased by SAR 10.5 bln mainly from an increase in cash and balances held with SAMA. Gross customer advances of SAR 160.4 billion increased SAR 2.3 billion or 1% compared with 2019. Customer lending increased in our corporate portfolio by SAR 3.4 billion but fell SAR 1.1 billion in our retail portfolio. Customer deposits of SAR 189.1 billion fell SAR 3.1 billion or 2%. Overall funding remains strong and we continued to optimise our funding base as expensive surplus deposits matured. SABB's demand deposit ratio improved to 71% (2019: 64%).

Balance sheet highlights (SAR bln)	2020	2019
Total assets	276.5	266.0
Gross customer advances	160.4	158.1
Customer deposits	189.1	192.2
Demand deposits	134.2	122.5

The integration journey

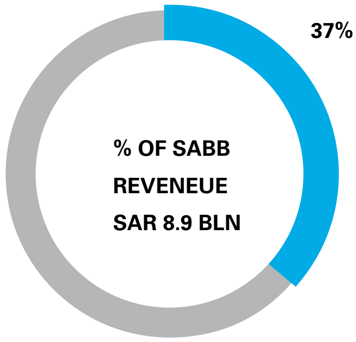
The integration of the two banks is progressing well, with Board and senior management focused on delivering a successful integration while continuing to create value by helping customers achieve their financial goals. The Integration Management Office (IMO) continues to drive forward the integration, in collaboration with partnerships built with top-tier consultants for project management, IT, HR and other critical areas.

During 2020, SABB substantially completed the integration of the Corporate & Institutional Banking and Treasury businesses, which enter 2021 operating as a single bank. The Retail & Wealth Management business will also soon complete its customer data integration of the SABB and Alawwal Bank infrastructure, referred to as 'Customer Day 1' in the first quarter of 2021.

The progress made during 2020 has been no small feat given the onset of the COVID-19 pandemic, which resulted in a swift move to remote delivery by the execution team. Notwithstanding these challenges, during 2020, we completed the co-location of all staff, agreed and implemented the IT systems architecture and migrated the vast majority of the Alawwal Bank corporate portfolio onto the SABB system. Having agreed on our target culture in 2019, we rolled out culture workshops in early 2020. We continued to support our customers by creating a number of hybrid branches allowing customers of both SABB and Alawwal Bank to access services at common locations. We launched an online merger hub in late 2020 to assist Alawwal Bank customers with the switch to the merged bank. The merger hub acts as a one-stop shop for customers to learn about potential changes to their services and the benefits of their new, improved banking proposition. While the switch to SABB will be mostly automated for our customers, the hub provides each customer with a unique journey and guidance on when they will need to activate services such as digital banking and new cards.

Reported merger-related integration and transaction costs were SAR 500 million during 2020. Achieving cost and revenue synergies is currently on track and as at the end of 2020, we had achieved SAR 0.6 billion of annualised synergies from optimising our funding base, procurement expenditure, operating model, and real estate footprint.

Retail Banking and Wealth Management (RBWM)



Performance highlights (SAR mln)	2020	2019 (pro forma)
Total operating income ('revenue')	3,318	4,133
Provision for expected credit losses, net	(239)	(521)
Operating expenses	(2,127)	(2,098)
Net income before Zakat and income tax	952	1,514

Operating highlights

SABB's retail bank has 5% market share of customer lending, 8% share in deposits, and our branch network makes up 5% of total branches in the Kingdom. The retail business is due to complete its customer migration integration in the first quarter of 2021. From this point in time, we will be one retail bank, with one branch network, one IT system, one website and one culture. As part of these plans during 2020, we created a number of hybrid branches allowing SABB and Alawwal Bank customers access to services at common locations. In the second half of the year, we launched an online merger hub to help Alawwal Bank customers with the switch to the merged bank. The merger hub acts as a one-stop shop for customers to learn about potential changes to their services and the benefits of their new, improved banking proposition.

With the onset of COVID-19 early in the year, the Bank swiftly flexed the size of its branch network, and incorporated social distancing measures and the use of protective equipment for those branches that remained open. Our goal was simple: to maintain critical services whilst keeping staff and customers safe. The Bank supported its customers with a variety of measures including the waiving of certain fees and a 3-month deferral of payments for over 27,000 customers who work in the Healthcare sector. Through a targeted campaign to encourage customers to avoid unnecessary branch visits, we increased online and mobile interactions with our overall digital penetration of active retail customers reaching 73% during the year.

Over 692k mobile app downloads

The retail bank's mobile app gathered momentum in 2020 having been downloaded over 692k times, achieving top rankings in both the Apple and Android app stores, and won 'Best Mobile Banking App' in Saudi Arabia and MENA from Global Finance Magazine. During 2020, we enhanced our interactive voice response (IVR) services, and continued to the see the benefits of our fully online 'Digital account opening' and 'Know Your Customer' (KYC) processes. SABB was the first bank in the Kingdom to launch an online KYC service, which helped migrate 39% of eligible transactions from branch to digital. Our digital capability has helped customers open accounts remotely via digital channels, with 80% of new accounts opened through a digital channel by the end of 2020.

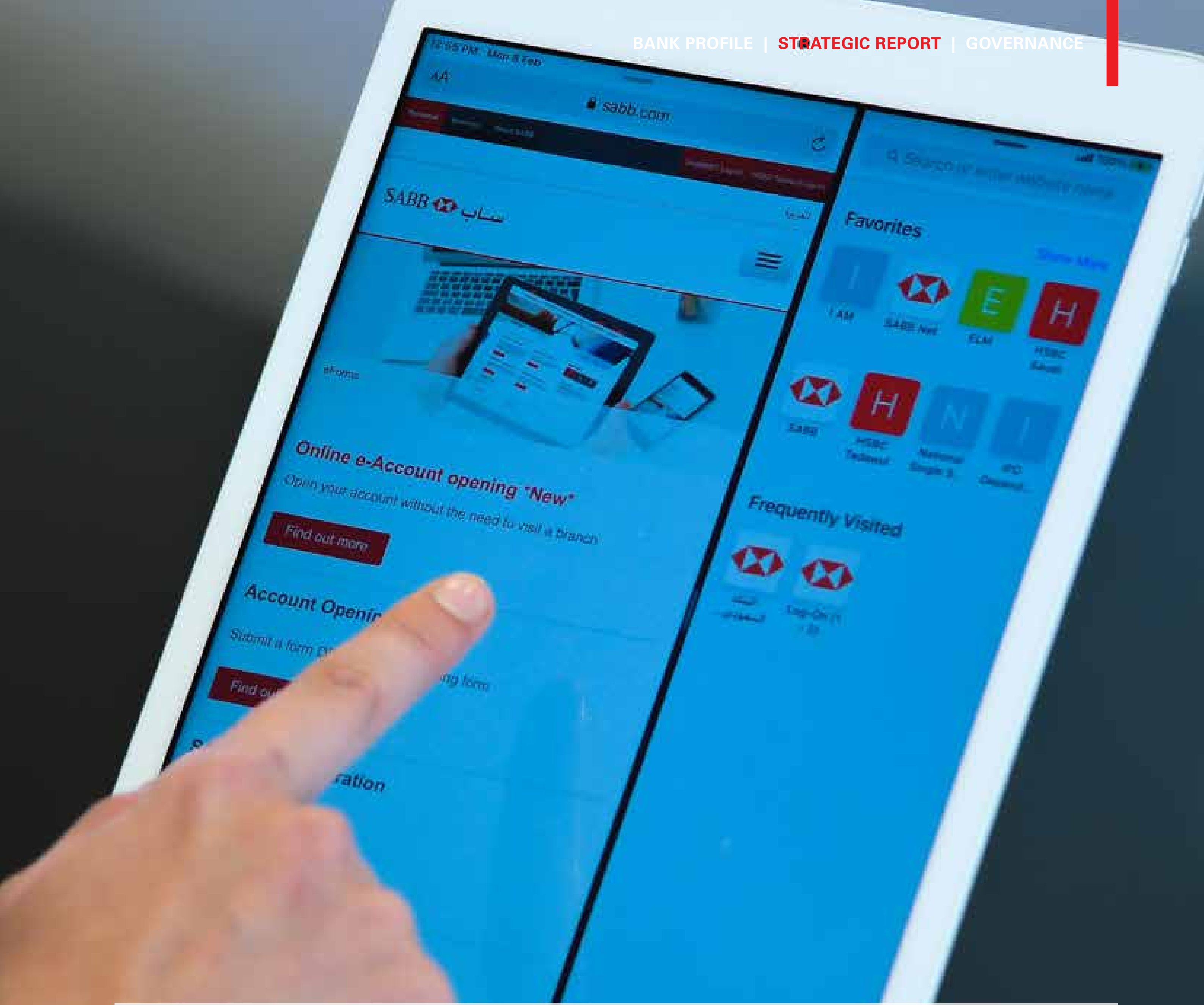
Growth in credit appetite continues to be dominated by mortgage demand with the market growing rapidly year-on- year. SABB's mortgage market share fell, given the well-seasoned nature of the portfolio, the Bank's customer segmentation and risk appetite, despite a healthy level of new sales volume particularly in the second half of the year. During the year, SABB launched a two-in-one mortgage-focused product called 'Flexi', which provides customers with both a personal finance and mortgage finance advance in order to purchase a home. SABB also offers a complete range of Real Estate Development Finance (REDF) products and features, to support our customers' ambitions of home ownership – a key strand in the Vision 2030 economic transformation plan. From a savings perspective, our Shariah-compliant Waafer product has increased in popularity and was recognised as 'Product of the Year – 2020' by POTY.

Financial performance

Net income of SAR 952 million before Zakat and income tax was SAR 561 million or 37% lower than the previous year, mainly driven by lower revenue partly offset by an improvement in expected credit losses.

Revenue of SAR 3,318 million was 20% lower from the cuts in benchmark interest rates at the start of 2020 together with increased competition and lower average lending balances. In addition, revenue also fell from reduced fee income mainly relating to credit cards, loan origination and other service charges.

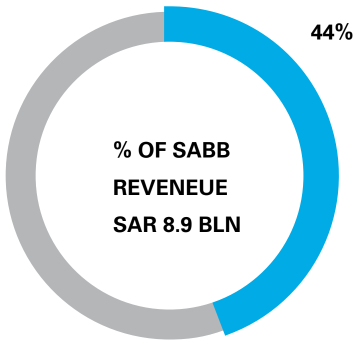
Gross customer lending of SAR 37.8 billion fell by SAR 1.1 billion or 3%, mainly due to a reduction in personal lending balances; mortgage balances also fell marginally compared with December 2019, despite growth in originations in the second half of 2020. Customer deposits of SAR 87.9 billion increased 3%, with the proportion of demand deposits at 83%, a notable strength of the retail franchise.



Snapshot: best-in-class e-remittances

SABB continues to enhance its cross-border e-remittance technology with new functionality including instant notification and digital tracking. New payment corridors were launched in the year including to South Africa and Bangladesh, alongside the Philippines and Pakistan which were launched the previous year. In order to do this, we have partnered with some of the largest and leading wallet providers in each country.

Corporate and Institutional Banking (CIB)



Performance highlights (SAR mln)	2020	2019 (pro forma)
Total operating income ('revenue')	3,878	5,208
Provision for expected credit losses, net	(1,376)	(2,364)
Goodwill impairment	(7,418)	-
Operating expenses	(1,221)	(1,329)
Net (loss) / income before Zakat and income tax	(6,137)	1,516
Net income before Zakat and income tax excl. goodwill impairment	1,281	1,516

Operating highlights

The SABB-Alawwal Bank merger has created one of the largest corporate banks in the Kingdom with c.13% of corporate lending market share. Its unique position as the leading international bank in Saudi Arabia, bolstered by a strong partnership with HSBC Group, enables SABB's customers to access services and opportunities globally, and allows global corporates to access the Kingdom.

During 2020, integration was a top priority and SABB substantially completed the integration of the Corporate & Institutional Banking business having migrated the vast majority of the Alawwal Bank corporate portfolio onto the SABB system, and the business enters 2021 operating as a single bank.

Top 3 Corporate Bank by revenue

2020 started with signs of promising growth in corporate credit, however this was constrained by the onset of the COVID-19 pandemic, which then largely remained muted for the remainder of the year. To support our customers in these challenging times, the business worked diligently to implement SAMA's various initiatives to support the financial sector and in particular the Micro, Small and Medium Enterprises (MSME) segment. Following the launch of SAMA's Private Sector Financing Support Program (PSFSP) which provides support to MSMEs, SABB provided eligible customers with a payment deferral that has continued into 2021. In addition, the Bank waived fees associated with digital payments and transfers for corporate customers.

Our Global Liquidity and Cash Management (GLCM) business offers a range of cash management, payments and liquidity solutions to our customers. 'HSBCnet', the online tool used by our corporate customers, developed in collaboration with HSBC, has benefitted from a number of improvements during 2020. These include an improved interface, helping customers fulfill payments with ease and improved analytics for liquidity tracking, together with enhanced authentication processes including biometric access for mobile users. In 2020, SABB also launched an online banking platform focused for MSME customers, given the importance of the segment to the Bank and the wider aspirations of Vision 2030. In recognition of our leadership position in payments and cash management, SABB was recognised as 'Market Leader' and 'Best Service Provider' in the 2020 Euromoney Cash Management Survey.

Our Global Trade and Receivables Finance (GTRF) business remains the primary trade finance provider of choice for the market, in both conventional and Shariah-compliant financing. During 2020, we continued developing our digital capabilities. Building on our track-record of delivering 'firsts', we delivered the first Saudi-hosted cloud-based supply chain solution that helps our clients improve working capital efficiency. Despite a challenging global macro-environment, we remain the leading provider of 'letters of credit' and have also become the largest provider of guarantees in Saudi Arabia. SABB was awarded 'Best Service Trade Finance' in Saudi Arabia and 'Market Leader Trade Finance' for 2020 in the Euromoney awards, and 'Best Trade Finance Provider' for 2020 at the MEA Awards.

Both businesses, which form the cornerstone of our corporate offering have digital capability at their core, which was and continues to be of increasing importance during the pandemic.

Towards the end of the year, the Bank signed an agreement with the Ministry of Finance to support the Ministry's supply chain in collaboration with the National Debt Management Centre. Together with two other leading banks, this agreement will speed up transactions between buyers and suppliers to boost economic growth.

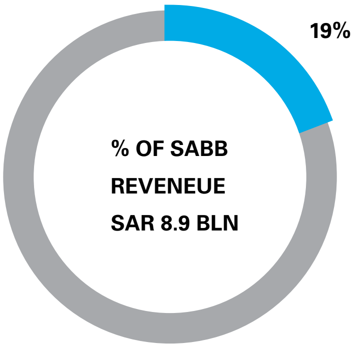
Financial performance

The CIB business recorded a net loss before Zakat and income tax of SAR 6,137 million which included the impairment of goodwill of SAR 7,418 million in the second quarter. Further information on the goodwill impairment can be found on page 46. Excluding this, the CIB business recorded net income of SAR 1,280 million which was 16% lower than 2019 from lower revenue partly offset by lower expected credit losses and reduced costs.

Revenue of SAR 3,878 million was 26% lower than 2019, mainly due to cuts to benchmark interest rates in the first quarter of 2020 and the second half of 2019, and from lower average lending balances. Non-funds income also reduced, mainly from lower fee income from reduced trade activity and lower loan origination fees. Margins were affected by increased competition. Revenue from the GLCM business was more resilient and showed a marginal increase in 2020 compared with the previous year.

Gross customer lending balances as at 31 December 2020 of SAR 122.6 billion were SAR 3.4 billion higher than the previous year. Much of this growth occurred in the first quarter before being curtailed by COVID-19, and our market share has been adversely affected by increased competition, although the fourth quarter has seen a return to growth for the CIB business. Customer deposits of SAR 92.9 billion fell 8% as we continued the optimisation of the funding base.

Treasury



Performance highlights (SAR mln)	2020	2019 (pro forma)
Total operating income ('revenue')	1,674	1,281
Provision for expected credit losses, net	(16)	(27)
Operating expenses	(179)	(231)
Net income before Zakat and income tax	1,478	1,023

Operating highlights

The integration process is being delivered successfully, and by the end of 2020, we had substantially integrated the Treasury businesses from SABB and Alawwal Bank into a harmonised unit. Treasury enjoys a breadth of products and services, from simple foreign exchange trading to derivatives across asset classes – including Islamic; as well as an innovative digital platform for customers to execute their own trades.

At the heart of Treasury's strategy is its support for SABB's role in the development of the Saudi capital market, as per the Vision 2030 agenda. This is achieved by SABB's role as a Primary Dealer, and the development of a repo market, while at the same time partnering with the Bank's business segments to develop a focused and attractive proposition for customers. In July, SABB was granted approval by Muqassa to act as a General Clearing Member. Muqassa was established as the central counterparty clearer in the Saudi financial markets, in line with international standards, which illustrates our leadership position in the local capital market.

SAR 5 billion Tier II Sukuk

One of the three general clearing members of Muqassa

In volatile markets caused by the COVID-19 pandemic, our business has continued to support customers with their foreign exchange and interest rate hedging needs. Despite unprecedented uncertainty, we delivered on our landmark SAR 5 billion Tier II Sukuk. This was the first such transaction by the merged bank in the debt capital markets, the joint largest Tier II issuance by a Saudi bank in history, and the largest local issuance by a local bank since the introduction of Vision 2030. Both achievements demonstrate our role in the Financial Sector Development Programme to develop a more diversified and effective financial sector in the Kingdom.

The Bank has maintained its leadership position with foreign exchange and trading income, ranking in the top 3 of all local banks, and was awarded 'Best Foreign Exchange Provider' by Global Finance.

Financial performance

Net income before Zakat and income tax of SAR 1,478 million was 45% higher than the previous year, mainly from increased revenue and, to a lesser extent, lower costs. Revenue of SAR 1,674 million was 31% higher than 2019 primarily from increased NSCI in part from the optimising of our funding base following the merger.

Other

Performance highlights (SAR mln)	2020	2019 (pro forma)
Total operating income ('revenue')	9	197
Provision for expected credit losses, net	-	-
Operating expenses	(686)	(654)
Share in earnings of associates and a joint venture	82	133
Net income before Zakat and income tax	(595)	(324)

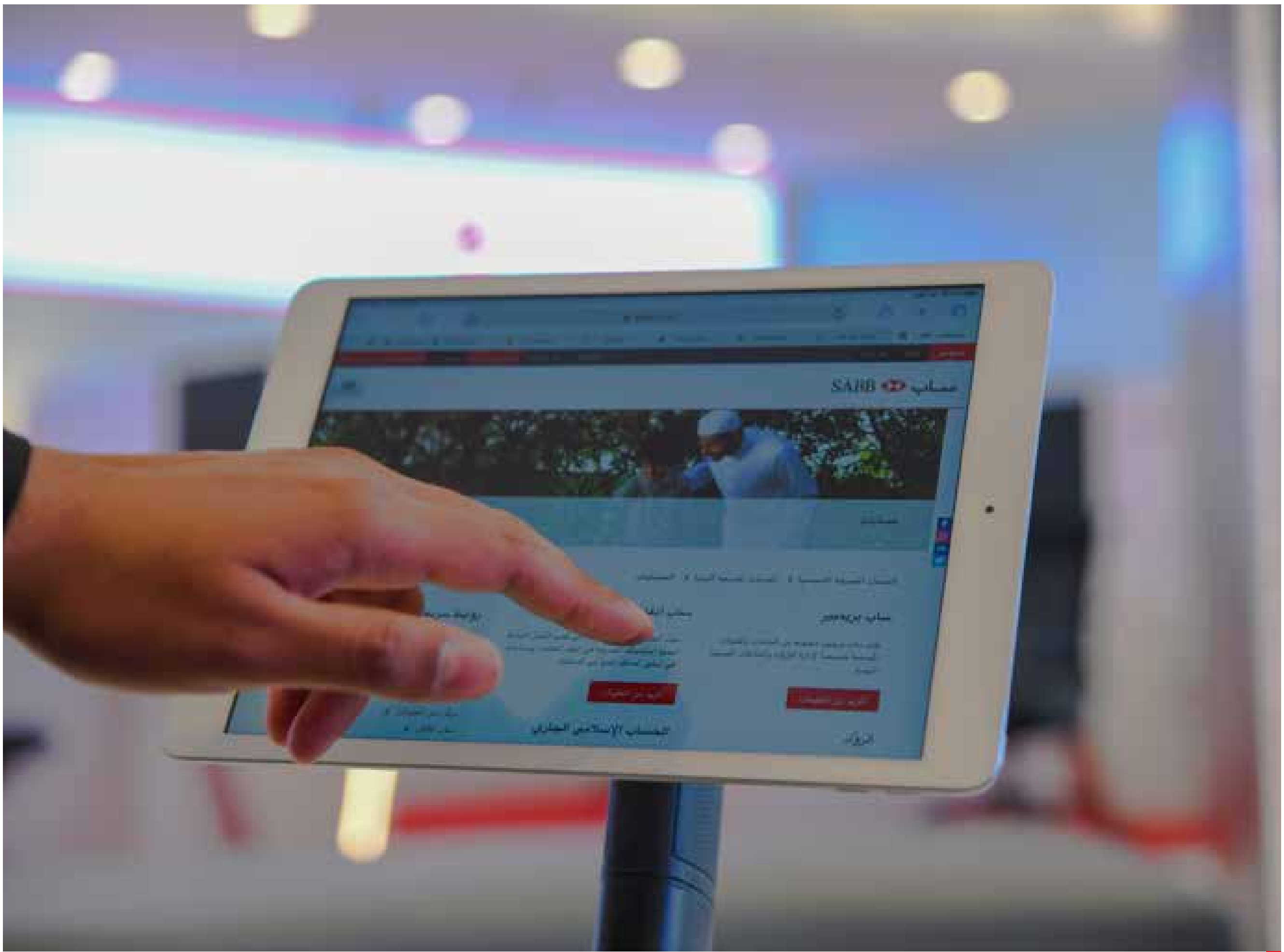
The 'Other' segment includes the activities of the Bank's insurance subsidiary and associate, SABB Takaful and Wataniya, a subsidiary and joint venture for investment banking and brokerage, Alawwal Invest and HSBC Saudi Arabia, and equity investments. In addition, merger-related expenses are reported in 'Other'. It also includes elimination of inter-group income and expense items.

HSBC Saudi Arabia (HSBC SA)

HSBC SA provides a full range of securities business services including investment banking advisory, debt capital market and syndicated finance advisory, project and export finance advisory, and custody and funds securities services. It also manages mutual funds and discretionary portfolios and provides brokerage services. The Company serves a wide range of clients including but not limited to corporates, financial institutions, non-bank financial institutions and individuals.

SABB Takaful

Takaful means 'guaranteeing each other' in Arabic. It is an Islamic system of mutual insurance built on the concept of 'tabarru' or donation or gift. SABB Takaful offers a wide range of Shariah-compliant family and general insurance products to meet the needs of customers, both individuals and corporates.



Our response to COVID-19

Clear priorities during challenging times

- Maintain critical services
- Keep our staff and customers safe

Operational resilience has been strong

1. Our staff

- Flexed the size of the branch network
- Deployed over 2,500 laptops, increased remote connectivity by 300% and expanded our Virtual Private Network ('VPN') capacity by 12x, allowing the Bank to continue operations seamlessly
- Over 2 million Zoom meeting minutes and 45,000 virtual meetings
- Held over 50 webinars on mental health, productivity and mindfulness
- Preventative social distancing initiatives, protective equipment rollout and deep cleaning across branches and offices

2. Retail customers

- Drive to mobile and online with a targeted campaign to encourage customers to avoid unnecessary branch visits, resulting in increased app downloads and improved digital penetration; also waived digital fees
- Waived certain fees and charges
- 3-month payment deferral for workers in the health sector, benefiting over 27k customers
- Deferrals for Saudi workers covered by SANED programme
- Reimbursed all FX fees charged on credit, Mada or prepaid cards for customers wishing to cancel travel reservations

3. Corporate and Institutional customers

- Following the launch of SAMA's Private Sector Financing Support Programme ('PSFSP') which provides support to Micro, Small and Medium Enterprises ('MSME'), we have provided eligible customers with a 12-month payment deferral
- Waived certain fees and other charges
- Exempted certain MSME customers from the cost of the 'Funding Guarantee' programme - Kzafalah
- Encouraging customers to move certain transactions online with our Global Liquidity and Cash Management ('GLCM') and Global Trade and Receivables Finance ('GTRF') propositions

4. Treasury

- In notably volatile markets, Treasury continued to support our customers with their foreign exchange and interest rate hedging needs
- Completed the issuance of a SAR 5 bln Tier II Sukuk, enhancing our Capital position. This is the first such transaction by the merged bank in the debt capital market, the largest joint Tier II issuance by a Saudi bank in history, and the largest local issuance by a bank since the introduction of the Kingdom's national growth agenda under Vision 2030.
- Primary Dealers are playing a proactive role in the issuance of government debt by actively participating in the primary debt market and also supporting the secondary market

5. Society

- SABB has contributed SAR 17 mln to the Ministry of Health's COVID-19 fund and donated over SAR10 mln for the social welfare fund to support pandemic relief
- Provided food baskets to over 9,000 families through various charities
- Partnered with transport apps including Careem and Uber to deliver groceries free of charge with an additional discount when using SABB payment cards

CAPITAL
OVERVIEW

Capital management is critical for the longevity of the Bank. SABB ensures that it possesses an appropriate level of regulatory capital to meet minimum levels required by its regulator and to support business growth and dividend distribution, even under stressed scenarios. The Bank's policy on capital management is underpinned by a capital management framework and our internal capital adequacy assessment process (ICAAP). Capital adequacy and utilisation of regulatory capital are monitored regularly by the Bank's senior management.

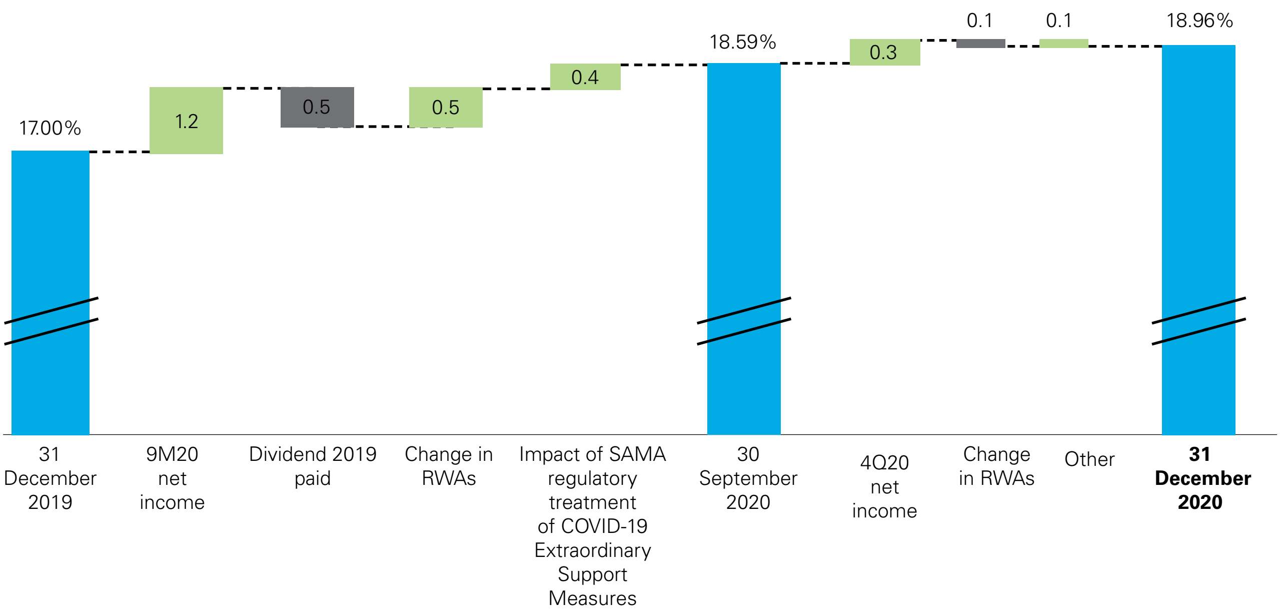
SABB's assessment of capital adequacy is aligned to its assessment of risks, including credit, liquidity, Shariah and other operational risks as detailed on page 82 within the Risk overview.

Capital ratio	31 Dec 2020 %	31 Dec 2019 %
Common equity tier 1 ratio	18.96%	17.00%
Tier 1 ratio	18.96%	17.00%
Total capital ratio	**21.82%**	**18.24%**

Capital (SAR mln)	31 Dec 2020	31 Dec 2019
Common equity tier 1 capital	41,775	38,450
Additional tier 1 capital	-	-
Tier 2 capital	6,303	2,819
Total regulatory capital	**48,078**	**41,269**

RWA (SAR mln)	31 Dec 2020	31 Dec 2019
Credit risk	199,268	205,119
Market risk	19,065	19,266
Operational risk	1,988	1,830
Total RWAs	**220,321**	**226,214**

Core Tier 1 ratio: 31 December 2020 vs. 30 September 2020 vs. 31 December 2019




من
ستكون غداً؟
طموحاتك مع ساب أدفانس

SUPPORTING MICRO SMALL AND MEDIUM ENTERPRISES

The Kingdom's Vision 2030 strategy sets out a target to increase the contribution of Micro, Small and Medium Enterprises (MSME) to the economy. In support of the Kingdom's strategy, SABB is proud to support over 20,000 active MSME customers throughout the Kingdom.

MSME segment definitions

SABB defines its MSME segments as follows:

Corporate Segments	Annual Sales Turnover
Business Banking Mass-Micro	Below SAR 3 mln
Business Banking Mass-Small	Between SAR 3 mln to 40 mln
Business Banking Upper (Medium)	Between SAR 40 mln to 200 mln

SABB has eight Business Banking Centres to serve MSME clients, including presence in Riyadh, Jeddah, Alkhobar and Dammam, and to provide a wide range of solutions, including shariah-compliant products. A dedicated relationship manager ('RM') is assigned to each customer to assess their banking needs and provide solutions to meet their requirements. SABB possesses a bespoke team of 55 focussed relationship managers focussed on assisting its MSME customers, as well as the larger SABB infrastructure. During 2020, SABB has continued to develop its MSME provision through regular training, with each RM undertaking over 4 days bespoke MSME training alongside the standardised training provided to all SABB employees.

Monsha'at

Established in 2016, Monsha'at, the General Authority for Small and Medium Enterprises, works on supporting, developing and nurturing the SME sector. SABB continued to support a number of Monsha'at initiatives and signed an agreement during the Biban event in 2020, to help develop a new financing gateway that enables MSME customers to gain access to financing opportunities. We also signed a memorandum of understanding to further improve our collaboration.

The Kafalah programme, which is now included under the Monsha'at series of initiatives, aims to provide financing to MSMEs that is secured with a guarantee from Monsha'at. All Kafalah programme financing applications are handled by dedicated RMs within specialised teams, and detailed reporting provides weekly progress updates to RMs and the business on our progress. An agreement signed with Monsha'at during 2020 will further accelerate our involvement.

2020 initiatives

SABB offers a comprehensive Shariah-compliant receivables finance product, and supply chain finance solutions to larger companies to help MSMEs manage their cash flows efficiently, and reduce funding costs.

Our market leading corporate service enables SABB to bring best-in-class digital solutions to its MSME customer base. During 2020, SABB has improved customer experience by migrating over-the-counter transactions towards digital channels, including online banking, interactive teller machines, cash deposit machines, and point-of-sale (POS) terminals. Sadad and other national payment gateway solutions are also used. In addition, we are working in collaboration with the Tamwelk platform which provides new customer referrals to our RMs, an innovative solution to access the growing number of Fin-Tech organisations.

On customer experience for the MSME sector, SABB is developing a new platform for SMEs that will be faster and easier to use, as well as developing a digital on-boarding tool for account opening, targeting a completely end-to-end online customer journey.

SABB recently signed an agreement with S&P to use their MSME scorecard model which is an off-the-shelf product that leverages their expertise in credit assessment, ratings, sector specific knowledge and ongoing research and development. The Microsoft Excel-based tool, which is used globally, was also selected due to its ease of implementation.

SAMA programmes to support customers affected by COVID-19:

Following the onset of the COVID-19 pandemic, the Bank worked diligently to implement SAMA's various initiatives to support the financial sector and the MSME segment.

1- Deferred payment programme

Following the launch of SAMA's Private Sector Financing Support Programme (PSFSP), SABB provided eligible customers, (Stage 1 and Stage 2 as per IFRS9: Financial Instruments standard), with a payment deferral for all outstanding installments and accrued special commission income. The deferrals occurred in the following three phases:

- Phase one: Loans due from 14 March 2020 to 14 September 2020 will be deferred for 6 months.
- Phase two: Loans due from 15 September 2020 to14 December 2020 will be deferred for 3 months.
- Phase three: Loans due from 15 December 2020 to 31 March 2021 will be deferred for 3.5 months.

2- Secured lending programme

The programme aims at granting subsidised loans to SMEs for a maximum period of 36 months. This programme, which was effective from 14 March 2020, is valid initially for a single year, but can be extended.

3- Loan guarantee programme

This programme supports our Kafalah customers and was available between 14 March 2020 and the end of the year. Beneficiaries of the programme may forgo payment of fees associated with issuance, renewal, extending and rescheduling of facilities. Beneficiaries' applications are submitted to the Kafalah programme and an official relief notice must be provided to the beneficiary. The financing entity must provide SAMA with a statement with the total fees paid for the Kafalah programme on a monthly basis.

4- Supporting fees of POS & e-commerce

With SAMA's support, SABB waived a number of digital fees relating to POS terminals and e-commerce for a period of three months, to reduce unnecessary travel during the national lockdown and to encourage more online transactions.

Loans and off-balance positions to MSME customers

December 2020 (SAR'000s)	Micro	Small	Medium	Total
Loans to MSMEs	992,135	1,930,640	5,265,884	8,188,658
Off Balance Sheet positions to MSMEs	779,003	1,301,718	6,366,148	8,446,868
Loans to MSMEs as a % of total SABB Loans	0.6%	1.2%	3.3%	5.1%
Off Balance Sheet positions to MSMEs as a % of total SABB off balance sheet positions	0.9%	1.4%	7.1%	9.4%
Number of credit facilities	1,127	2,377	7,735	11,239
Number of customers with credit facilities	303	519	761	1,583
Number of credit facilities guaranteed by Kafalah programme	3	599	1,122	1,724
Amount of credit facilities guaranteed by Kafalah programme	1,832	445,718	851,776	1,299,326

December 2019 (SAR'000s)	Micro	Small	Medium	Total
Loans to MSMEs	38,451	884,472	4,697,471	5,620,393
Off Balance Sheet positions to MSMEs	59,042	671,698	3,981,371	4,712,112
Loans to MSMEs as a % of total SABB Loans	0.0%	0.6%	3.0%	3.6%
Off Balance Sheet positions to MSMEs as a % of total SABB off balance sheet positions	0.1%	0.6%	3.5%	4.2%
Number of credit facilities	260	2,112	7,083	9,455
Number of customers with credit facilities	141	515	615	1,271
Number of credit facilities guaranteed by Kafalah programme	60	404	340	804
Amount of credit facilities guaranteed by Kafalah programme	18,771	133,483	212,033	364,286

GOVERNANCE


SABB ساب
SABB ساب
البنك الأول
Alawwal bank

THE BOARD OF DIRECTORS (THE 'BOARD')

Led by the Chair, the Board sets the Bank's strategy and risk appetite with the aim of achieving sustainable value to shareholders and promote a culture of openness and debate. The Board also approves the capital and operating plans for achieving the strategic direction on the recommendation of the Executive Management ('MANCOM').

The Board, as at 31 December 2020, consisted of 11 members who bring together a wealth of local and international experience across a spectrum of industries.

On 18 December 2019, The General Assembly of the Bank convened and elected the Directors of the Board, eight (8) of whom were elected by the shareholders and three (3) of whom were appointed by HSBC Holding B.V through the Ordinary General Meeting (OGM) for a term of 3 years which commenced from 01 January 2020 to 31 December 2022. The General Assembly approved the election and appointment of directors by way of accumulative voting. All Directors may be reappointed for new terms.

Chair

As of 01 January 2020, Ms. Lubna S. Olayan was appointed the Chair of SABB as a non-executive Chair.

Vice Chair

As of 01 January 2020, Mr. Saad A. Al Fadly was appointed the Vice Chair of SABB as non-executive Vice Chair.

Executive Directors

SABB's Managing Director (MGD), Mr. David Dew is a representative of HSBC Holdings B.V.

Non-Executive Directors and Independent Non-Executive Directors

Excluding the Chair and the MGD, the Board as at 31 December 2020 consisted of 4 Non-Executive Directors who are not deemed to be independent. The remaining 4 Directors are all Independent Non-Executive Directors. The Board is responsible for the Bank's strategy and risk appetite. The Board reviews the performance of management in meeting the Bank's strategic targets and monitors the Bank's risk appetite and profile.

All the Independent Directors are considered to be independent of SABB and there are no relationships or circumstances that are likely to affect their decisions. The Bank possesses a written policy, which is regularly updated, on potential conflicts of interest that could arise for the Board together with a policy that handles the disclosure mechanism.

Board responsibilities

The roles of the Chair and the MGD are separate, with a clear division of responsibilities between the Chair managing the Board and developing the strategy, and the MGD responsible for running SABB. The Board is responsible for supervising the senior management.

The following items are reserved for the Board: the review and approval of strategy, annual operating plans, risk appetite and limits, performance targets, M&A activity, significant capital expenditure, specified senior appointments and any substantial changes in asset and liability management.

Ms. Lubna Suliman Olayan[1]	Non-Executive Chair
Mr. Saad Abdulmohsen Al Fadly[2]	Non-Executive Vice-Chair
Eng. Khalid Abdullah Al Molhelm	Non-Executive
Eng. Mohammed Omran Al Omran	Non-Executive
Mr. Samir Assaf	Non-Executive
Mr. David Dew	Executive
Mr. Stephen Moss	Non-Executive
Mr. Ahmed Farid Al Aulaqi	Independent
Ms. Maria Ramos[3]	Independent
Mr. Martin Edward Powell	Independent
Mr. Stuart Gulliver	Independent

1. Ms. Lubna S. Olayan was appointed as Chair of the Board of Directors commencing 1 January 2020 for a 3-year term.
2. Mr. Saad Al Fadly was appointed as Vice Chair of the Board of Directors commencing 1 January 2020 for a 3-year term.
3. Ms. Maria Ramos resigned from the position as an independent Board Member as of 31 December 2020

Corporate governance best practice

A robust approach to corporate governance is a key strength for any organisation and the Bank ensures it adopts best practices in this field in order to ultimately create value for all the Bank's stakeholders.

The Bank regularly conducts internal reviews to assess compliance with all regulatory requirements issued by the Capital Market Authority (CMA) and the Saudi Central Bank (SAMA), as well as local and international best practice. SABB's corporate governance policies include statements on the following areas:

- Disclosure
- Conflicts of interest
- Criteria for the selection of Directors
- Relationship with stakeholders
- Related parties' transaction
- Remuneration and compensation for Directors and Board sub-committees and Executive Management
- Corporate Governance Document.
- Code of Conduct principles for Board of Directors and Committee Members

Diversity

Diversity is another key strand to both local and international governance best practice. SABB is particularly proud of the diversity within its Board. The Board includes 2 females, one of which is the Chair, which is a strong signal of the Bank's vision. In addition, the Board is a mixture of local and international expertise from a wide spectrum of industry experience, both within the financial services sector and broader non-financial services experience.

Training and development

Training and development is provided for each Board Director, with the support of the Group Company Secretary. Non-Executive Directors develop and refresh their skills through periodic interaction with senior management across the Bank. SABB maintains a bespoke training programme that covers all aspects of the banking industry and corporate governance best practice. In addition, the Board also undertakes mandatory training on a wide range of subjects, including: anti-money laundering; anti-bribery and corruption; conduct; cyber security and sanctions.

BIOGRAPHIES OF BOARD MEMBERS AS AT 31 DECEMBER 2020

Ms. Lubna Suliman Olayan
Non-Executive Chair

Current position

Board member of:
- Olayan Financing Company (Saudi Arabia)
- Schlumberger Company (Saudi Arabia)
- Olayan Holding Company (Saudi Arabia)
- Health Water Bottling Company (Saudi Arabia)
- The Coca-Cola Company (Saudi Arabia)

Former position

Senior position:
- Chief Executive Officer of Olayan Financing Company (Saudi Arabia)

Board member of:
- Saudi Arabian Mining Company (Listed / Saudi Arabia)
- Alawwal Bank (Saudi Arabia)

Qualifications
- Honorary PhD in Law from Trinity College, Dublin, Ireland
- Master of Business Administration (MBA) from Indiana University, USA
- Bachelor of Science from Cornell University, USA

Experience
- Over 35 years of experience in investment, banking and business management

Mr. Saad Abdulmohsen Al Fadly
Non-Executive Vice-Chair

Current position

Senior position:
- Chief Executive Officer of Hassanah Investment Company (Saudi Arabia)

Board member of:
- National Medical Care Company (Listed / Saudi Arabia)
- Almarai Company (Listed / Saudi Arabia)
- GEMS Company (Saudi Arabia)
- Ma'arif Education and Training Company (Saudi Arabia)

Former position

Senior position:
- Chief of Staff and Senior Officer Central & Eastern Regions of the NCB Capital Company (Saudi Arabia)
- Vice President in Morgan Stanley (Saudi Arabia)

Qualifications
- Bachelor of Science in Accounting, King Saud University, KSA
- Master's Degree in Financial Economics, Boston University, USA

Experience
- Experience in investment management and banking services at a number of financial and regulatory institutions, for more than 20 years

Eng. Khalid Abdullah Al Molhem
Non-Executive Director

Current position

Board member of:
- Saudi White Cement Company (Listed / Saudi Arabia)
- Ittefaq Steel Company (Saudi Arabia)

Former position

Senior position:
- General Director of Saudi Airlines (Saudi Arabia)
- Chief Executive Officer of the Saudi Telecom Company (STC) (Listed / Saudi Arabia)
- Chief Executive Officer of Almarai Company (Listed / Saudi Arabia)

Board member of:
- United Electronics Company (Extra) (Listed / Saudi Arabia)
- Knowledge Economic City Company (Listed / Saudi Arabia)
- King Abdullah Port Rabigh (Saudi Arabia)
- HSBC Middle East Ltd (United Arab Emirates)
- King Abdullah Economic City Company (Emaar) (Listed / Saudi Arabia)
- Aseer Trading, Tourism and Manufacturing Company (Listed / Saudi Arabia)

Qualifications
- Bachelor of Science in Electrical Engineering from the University of Evansville, USA
- Bachelor of Engineering Management from the University of Evansville, USA

Experience
- Experience in the business of banks and companies and has taken the lead in the privatisation of a number of major Saudi companies

Eng. Mohammed Omran Al Omran
Non-Executive Director

Current position

Senior position:
- General Manager of Omran Muhammad Al Omran and Partners Company (Saudi Arabia)

Board member of:
- Saudi Orix Leasing Company (Saudi Arabia)
- Tarabot Investment and Development Company (Saudi Arabia)
- Tourism Development Fund (Saudi Arabia)

Former position

Board member of:
- Al-Rajhi Company for Cooperative Insurance (Alrajhi Takaful) (Listed / Saudi Arabia)
- Saudi Arabia Credit Suisse (Saudi Arabia)
- Saudi Telecom Company (STC) (Listed / Saudi Arabia)

Qualifications
- Bachelor of Science in Civil Engineering from King Saud University, KSA
- Master's Degree in Construction Management from the University of South California, USA

Experience
- Experience in the business and investment sectors

Mr. Samir Assaf
Non-Executive Director
(Representing HSBC Holdings B.V.)

Current position

Senior position:
- Chairman Corporate and Institutional Banking (Listed / United Kingdom)

Board member of:
- HSBC France (Listed / France)
- Montaigne London (United Kingdom)
- Alfanar Charity Arm (United Kingdom)

Former position

Senior position:
- Group Managing Director, member of the Group Management Board, and Chief Executive of Global Banking and Markets, HSBC (Listed / United Kingdom)

Board member of:
- HSBC Egypt (Egypt)
- HSBC Asset Management Limited (United Kingdom)
- Global Financial Markets Association (United States of America)
- HSBC Trinkhaus and Burkhardt AG (Listed / Germany)

Qualifications
- Master's Degree in Economics from USJ, Lebanon
- Master's Degree in Economics and International Finance from La Sorbonne University, France
- An Honorary Master's Degree in Finance from Sc. PO(IEP), France
- Bachelor's Degree in Finance from L' Institut d'Etudes Politiques, France

Experience
- Experience in the banking and global financial markets field acquired from working at HSBC Group, where he held several leading roles

Mr. David Dew
Executive Director
(Representing HSBC Holdings B.V.)

Current position

Senior position:
- Managing Director of SABB (Listed / Saudi Arabia)

Board member of:
- HSBC Bank Middle East Limited (United Arab Emirates)
- HSBC Saudi Arabia Limited (Saudi Arabia)

Former position

Senior position:
- Deputy Managing Director and Chief Operating Officer of SABB (Listed / Saudi Arabia)
- Deputy Chief Executive of HSBC Amanah and Chief of Administration, Global Banking and Markets, Middle East HSBC (MENA)

Qualifications
- Master's Degree in Economics from Cambridge University, UK
- Associate of the Institute of Bankers

Experience
- Management and financial experience gained during his over 40-year career with HSBC in a number of regions and roles

BIOGRAPHIES OF BOARD MEMBERS AS AT 31 DECEMBER 2020 (continued)

Mr. Stephen Moss
Non-Executive Director
(Representing HSBC Holdings B.V.)

Current position

Senior position:
- Group Managing Director, Regional Chief Executive for Europe, MENAT, LATAM and HSBC (Listed / United Kingdom)

Board member of:
- HSBC Middle East Holdings (Netherlands) B.V
- HSBC Latin America Holdings Limited (United Kigdom)
- HSBC Bank plc
- HSBC Bank Middle East Limited
- HSBC Bank Canada (Canada)

Former position

Senior position:
- Group Managing Director, Group Chief of Staff, HSBC (Listed / United Kingdom)

Board member of:
- HSBC Asia Holdings B.V (United Kingdom)
- Serai Limited (United Kingdom)
- HSBC Asset Management Limited (United Kingdom)

Qualifications
- Qualified Chartered Accountant and Member of the Institute of Chartered Accountants in England and Wales

Experience
- Management and financial experience gained during his over 27 years career with HSBC Chief of Staff to the Group Chief Executive. Leads Group Strategy and Planning, Group Mergers and Acquisitions, Global Communications, Global Events, Group Public Affairs and Group Corporate Sustainability

Mr. Ahmed Farid Al Aulaqi
Independent Director

Current position

- Co-founder and President of Aspect Investment Partners Limited (United Arab Emirates)

Former position

Senior position:
- President of Safanad International Company (United Arab Emirates)
- Held various positions in the National Commercial Bank in Saudi Arabia and the United Kingdom, the latest of which was the Chief Executive Officer of NCB Capital Company (Listed / Saudi Arabia)

Board member of:
- Alawwal Bank (Saudi Arabia)
- Safanad Investment Company (United Arab Emirates)
- The Company for Cooperative Insurance (Tawuniya) (Listed / Saudi Arabia)
- Tunisian Saudi Bank (Tunisia)

Qualifications
- Master of Business Administration (MBA) from the University of Stirling, UK
- Bachelor's Degree in Business Administration from King Abdulaziz University (KAU)

Experience
- Over 30 years of experience in business management, banking, treasury, capital markets, investment services and brokerage

Ms. Maria Ramos
Independent Director

Current position

Board member of:
- Compagnie Financier Richemont SA (Listed / Switzerland)
- AngloGold Ashanti Limited (Listed / South Africa)
- Public Investment Corporation (South Africa)

Former position

Senior position:
- Chief Executive Officer of ABSA Group Limited (Listed / South Africa)
- Chief Executive Officer of Transnet Limited (South Africa)
- Director General of National Treasury (South Africa)

Board member of:
- Transnet Limited (South Africa)
- Sanlam Limited (Listed / South Africa)
- Remgro Limited (Listed / South Africa)
- SABMiller (Listed / United Kingdom)

Qualifications
- Master's Degree in Economics, University of London (SAOS)
- Bachelor of Commerce (Honours) in Economics, University of Witwatersrand
- Diploma, Institute of Bankers (CAIB)

Experience
- Experience in executive positions in public finance and Government Treasury, infrastructure and logistics, and banking with listed companies and has taken the lead in the privatisation of a number of major international companies

Mr. Martin Edward Powell
Independent Director

Former position

Senior position:
- Senior executive role in Royal Bank of Scotland PLC (RBS) since 1973, the latest of which was the Chief Risk Officer Capital Resolution Group (Listed / United Kingdom)

Board member of:
- Alawwal Bank (Saudi Arabia)

Qualifications
- ACIB - The Chartered Institute of Bankers

Experience
- Over 40 years of senior management expertise in banking, financial services and risk management

Mr. Stuart Gulliver
Non-Executive Director

Current position

Board member of:
- Hong Kong Airport Authority (Hong Kong)
- Jardine Matheson Holdings Limited (Hong Kong)

Former position

Senior position:
- Executive Director and Group Chief Executive of HSBC Holdings plc (Listed / United Kingdom)

- Chairman of The Hong Kong and Shanghai Banking Corporation Limited

Qualifications
- Master's Degree in Law from Oxford University, UK

Experience
- More than 37 Years experience in international banking in a variety of executive roles including Group Chief Officer of HSBC Holdings plc

BIOGRAPHIES OF EXECUTIVE MANAGEMENT AS AT 31 DECEMBER 2020

Mr. David Dew
Executive Director

Current position

- Executive Director and Managing Director of SABB

Board member of:
- HSBC Bank Middle East Limited (United Arab Emirates)
- HSBC Saudi Arabia Limited (Saudi Arabia)

Former position

Senior position:
- Deputy Managing Director and Chief Operating Officer of SABB (Listed / Saudi Arabia)
- Deputy Chief Executive of HSBC Amanah and Chief of Administration, Global Banking and Markets, Middle East HSBC (MENA)

Qualifications
- Master's Degree in Economics from Cambridge University, UK
- Associate of the Institute of Bankers

Experience
- Management and financial experience gained during his over 40 year career with HSBC in a number of regions and roles

Mr. Majed Najm

Current position

- Deputy Managing Director Corporate and Institutional Banking

Former position

- Chief Executive Officer and Board member of HSBC Saudi Arabia

Qualifications
- Bachelor of Science in Management

Experience
- Joined SABB and HSBC Group in 1992. He has held leadership positions as General Manager of Retail Banking and Wealth Management at SABB, Head of International at HSBC Middle East (Dubai) and the Chief Executive Officer of HSBC Bahrain

Mr. Bashaar Al Qunaibet

Current position

- Deputy Managing Director Retail Banking & Wealth Management

Former position

- Chief Human Resources Officer, SABB
- General Manager Branches and Sales, SABB

Qualifications
- Bachelor's Degree in Business Administration

Experience
- Over 21 years' management and financial experience gained working in the Saudi banking sector, including roles at SABB, Alawwal Bank and NCB, and also as Business Development Director at SAMA's SADAD Payment System

Mr. Mohammed Abdullatif Al Shaikh

Current position

- Deputy Managing Director for Treasury

Former position

- General Manager Treasury, Alawwal Bank

Qualifications
- Bachelor of Science in Finance

Experience
- Joined Alawwal Bank in 2012 as the General Manager of Treasury. Prior to joining Alawwal, he held various treasury roles at Samba from 1994, with extensive experience across functions and was a member of the Group's Executive Management Committee

Ms. Maha Al Sudairi

Current position

- Chief Compliance Officer

Former position

- Chief Compliance and Governance Officer, Alawwal Bank

Qualifications
- Master of Science in International Finance (Honours) from Kingston University, United Kingdom
- BA in English Translation from King Saud University, Saudi Arabia

Experience
- Over 10 years of experience in the Saudi banking system, compliance and corporate governance, acquired through formal training locally and abroad

Dr. Nawaf Alhusseini

Current position

- Chief Human Resources Officer

Former position

- General Manager Human Resources, The Saudi Investment Bank
- Head of Human Resources, Arab National Bank
- General Manager Human Resources, Alawwal Bank

Qualifications
- PhD Business Administration – Human Resources Management from Temple University – Fox School of Business and Management
- Master of Business Administration (MBA) from San Francisco State University
- Bachelor of Business Administration from King Saud University

Experience
- Seasoned Human Resources professional with rich leadership experience spanning several Saudi banks and the International Monetary Fund (IMF), with consulting and academic experience

BIOGRAPHIES OF EXECUTIVE MANAGEMENT AS AT 31 DECEMBER 2020 (continued)

Mr. Richard Hinchley

Current position

- Chief Risk Officer

Former position

- Chief Risk Officer, HSBC Saudi Arabia

Qualifications
- Bachelor of Science in Business from University of Bradford Management Centre, UK

Experience
- A seasoned and experienced Risk professional with 27 years of executive experience in HSBC, including 15 years at Senior Management levels, across the UK, USA, South America, Asia and Middle East

Mr. Mathew Pearce

Current position

- Chief Financial Officer

Former position

- Chief Financial Officer, HSBC Japan

Qualifications
- Chartered Accountant with Institute of Chartered Accountants in England and Wales
- Bachelor of Science (Honours) in Business Studies and Japanese, Cardiff University, UK

Experience
- 20 years of experience in Banking and Finance, with PricewaterhouseCoopers and HSBC in a number of senior roles in Europe, Asia and the Middle East

Ms. Ghada Al Jarbou

Current position

- Chief Operating Officer

Former position

- General Manager of Global Liquidity and Cash Management, SABB Bank

Qualifications
- Master of Business Administration (MBA) from University of Bath
- Bachelor’s Degree in Computer Science from Kind Saud University

Experience
- Over 22 years of experience in banking. Joined SABB in 1998 and worked in different departments; IT, HR, Retail Banking, and Corporate Banking

Ms. Faten Abalkhail

Current position

- Company Secretary

Former position

- Integration Management Office / Head of Planning & Control, Strategy Department & Finance Department, Alawwal Bank

Qualifications
- Bachelor's Degree in Home Economics and Nutrition
- Diploma in Computer Sciences / Programming & Information Systems

Experience
- Over 21 years of banking experience with in-depth knowledge in planning, governance of strategic initiatives, execution and process. Held various posts in Business, Operations and Control functions including; Treasury, Retail, Strategy and Finance groups

Mr. Musaifer Alosaimi

Current position

- Chief Information Officer

Former position

- Head of information Technology Development, SABB Bank

Qualifications
- Diploma In Computer Engineering

Experience
- Over 26 years of experience in the fields of Banking and Technology. Started his career with Saudi Arabian Monitoring Authority and was there for more than 10 years. In 2005, he joined SABB and progressed through different roles in the Information Technoilogy department

CHANGES TO THE BOARD DURING 2020

Appointment, retirement and re-election of Directors

Appointments to the Board are made on merit and a rigorous selection process is followed in order to appoint a Director. The process also ensures that SABB maintains diversity across its Board.

Non-Executive Directors are appointed for an initial 3-year term and may be reappointed for new terms.

The Ordinary General Assembly meeting on 18 December 2019 approved election of the Board of Directors for a term of 3 years, started from 1 January 2020 until 31 December 2022.

Board meetings

During 2020, the Board held 10 meetings. The following table shows details of those meetings and the respected attendance.

	Meeting dates									
	02 Apr 2020	22 Apr 2020	11 Jun 2020	14 Jul 2020	16 Jul 2020	16 Jul 2020	13 Aug 2020	21 Sep 2020	10 Dec 2020	16 Dec 2020
Ms. Lubna S. Olayan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Saad A. Al Fadly	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eng. Mohammed Omran Al Omran	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms. Maria Ramos[1]	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Martin E. Powell	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Stuart Gulliver	✓	✓	✓	-	✓	✓	✓	✓	✓	✓
Eng. Khalid A. Al Molhem	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Ahmed F. Al Aulaqi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Stephen Moss	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Samir Assaf	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. David Dew	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

1. Ms. Maria Ramos resigned from her position and the effective date was 31 December 2020

BOARD SUB-COMMITTEES

The Board has established 4 sub-committees:

- Executive Committee ('EXCOM')
- Audit Committee ('AUCOM')
- Nomination and Remuneration Committee ('NRC')
- Board Risk Committee ('BRC')

The Bank's approach with the construct of its Board sub-committees is in line with all regulatory requirements issued by the various supervisory authorities, the Bank's by-laws and governance documents.

The Chair of each sub-committee will report matters of significance to the Board and minutes of all meetings are shared with all Board members.

Detailed roles and responsibilities for each committee are produced.

Terms of reference

During the past few years, the Bank has prepared the terms of reference of all Board sub-committees in line with the principles of governance, membership criteria, Banking Control law, corporate governance rules and the Companies - Law. SABB's Board has endorsed the terms of reference of all Board sub-committees, while the meeting of the General Assembly has approved terms of reference of the Audit Committee ('AUCOM') and the Nomination and Remuneration Committee ('NRC') as per regulatory directives.

As per their terms of reference, all the Board sub-committees must review their performance, status and terms of reference on an annual basis to ensure that the Committee is operating effectively including compliance with regulatory requirements, and to recommend any changes deemed appropriate for the Board's approval, and subsequently, the General Assembly Meeting's approval, where applicable.

Assessment of the effectiveness of the Board, Directors and Board Sub-Committees

In line with the regulatory requirements of the Governance Principles and Corporate Governance Rules and SABB Corporate Governance Document, SABB Board of Directors annually conducts a self-assessment of its performance as well as of the performance of its members and sub-committees.

BOARD SUB-COMMITTEES (continued)

Board and sub-committee attendance during 2020

	Independent	Board	EXCOM	AUCOM	NRC	BRC
Number of meetings held		**10**	**10**	**8**	**4**	**6**
Chair						
Ms. Lubna S. Olayan	-	10/10	10/10	-	-	-
Vice-Chair						
Mr. Saad A. Al Fadly	-	10/10	-	-	4/4	-
Executive Director						
Mr. David Dew	-	10/10	10/10	-	-	-
Non-Executive Directors						
Eng. Khalid A. Al Molhelm	-	10/10	10/10	-	-	-
Mr. Ahmed F. Al Aulaqi	✓	10/10	10/10	-	4/4	-
Ms. Maria Ramos[1]	✓	10/10	-	-	4/4	-
Mr. Martin E. Powell[2]	✓	10/10	-	8/8	-	5/6
Eng. Mohammed Omran Al Omran	-	10/10	9/10	-	-	-
Mr. Stephen Moss	-	10/10	-	-	-	5/6
Mr. Samir Assaf	-	10/10	-	-	4/4	-
Mr. Stuart Gulliver[3]	✓	10/10	-	6/8	-	6/6
Other Board sub-committee members						
Mr. Andrew Jackson[3]	-	-	-	6/8	-	-
Mr. Khalid S. Al Subayel[2]	-	-	-	8/8	-	-
Mr. Saad Saleh Al Sabti[2]	-	-	-	8/8	-	-
Mr. Abdulhameed Almuhaidib	-	-	-	-	-	6/6
Ms. Christine Lynch	-	-	-	-	-	6/6

1. Ms. Maria Ramos resigned from her position during 2020 with an effective date of 31 December 2020
2. Mr. Khalid S. Al Subayel, Mr. Saad Saleh Al Sabti and Mr. Martin E. Powell were appointed to AUCOM on 28 January 2020
3. Mr. Stuart Gulliver and Mr. Andrew Jackson were appointed to AUCOM on 22 April 2020

Executive Committee ('EXCOM')

Members
- Mr. David Dew (Chair– Executive Director)
- Ms. Lubna S. Olayan (Non-Executive Chair)
- Eng. Khalid A. Al Molhelm (Non-Executive Director)
- Mr. Mohammed O. Al Omran (Non-Executive Director)
- Mr. Ahmed F. Al Aulaqi (Independent Director)

Roles and responsibilities
The principal objective of the committee is to assist the MGD, within the scope determined by the Board to deal with matters referred by the MGD or by the Board. In addition, EXCOM reviews and considers all monthly reports submitted by different functional heads and business segments of the Bank, and meets at least 6 times during the year.

In line with the corporate governance requirements and best practice, the terms of reference of the Committee were revised and approved by the Board on 15 December 2016.

The committee consists of 3 to 5 members with MGD as the Chair and at least 2 of the other members selected from the Board.

In 2020, the Committee held 10 meetings. The table below shows details of those meetings and the record of attendance of members during the year.

EXCOM meetings during 2020

	Mr. David Dew	Ms. Lubna Olayan	Eng. Khalid Al Molhelm	Mr. Mohammed Al Omran	Mr. Ahmed Al Aulaqi
28-Jan	✓	✓	✓	✓	✓
25-Feb	✓	✓	✓	✓	✓
24-Mar	✓	✓	✓	-	✓
21-Apr	✓	✓	✓	✓	✓
23-Jun	✓	✓	✓	✓	✓
14-Jul	✓	✓	✓	✓	✓
20-Sep	✓	✓	✓	✓	✓
29-Oct	✓	✓	✓	✓	✓
25-Nov	✓	✓	✓	✓	✓
13-Dec	✓	✓	✓	✓	✓

Audit Committee ('AUCOM')

Members

- Mr. Martin E. Powell (Chair - Independent Director)
- Mr. Stuart Gulliver (Independent Director)
- Mr. Andrew Jackson (Non-Board member)
- Mr. Saad Saleh Al Sabti (Non-Board member)
- Mr. Khalid S. Al Sebayel (Non-Board member)

Roles and responsibilities

The AUCOM monitors the Bank's internal audit function, supervises external auditors, reviews control weaknesses and system deficiencies, supervises the Compliance Function and monitors its effectiveness. It is also responsible for the review of interim and annual financial statements including compliance with accounting policies, and provides the Board with its comments and feedback. The Committee reviews all audit reports and provides its recommendations and actions. AUCOM also makes recommendations to the Board on the appointment of the Bank's auditors and their respective fees, the review of the audit plan, follow-up on the auditors' work and the review of the auditors' comments, whilst also approving any work beyond normal audit business. The Chief Internal Auditor reports to AUCOM.

On 28 January 2020 the Ordinary General Assembly of the Bank convened and approved the formation of the Audit Committee (AUCOM) for a term of 3 years which commenced on 28 January 2020 to 31 December 2022, and the shareholders approved the appointment of Mr. Martin Powell as Chair, Mr. Saad Al Sabti and Mr. Khalid Al Sebayel as Audit Committee members starting from 28 January 2020. The General Assembly of the Bank convened on 22 April 2020 and appointed Mr. Stuart Gulliver and Mr. Andrew Jackson as additional members of the Audit Committee starting from 22 April 2020 until the end of the current committee term, being 31 December 2022.

In line with the Bank's plan to comply with corporate governance requirements, the terms of reference of the Committee were revised and approved by the AGM on 28 March 2018.

BOARD
SUB-COMMITTEES (continued)

AUCOM meets at least 4 times a year and in 2020, held 8 meetings. The following table shows details of those meetings and the record of attendance of members during the year.

AUCOM meetings during 2020

	Mr. Martin Powell[1]	Mr. Stuart Gulliver[2]	Mr. Andrew Jackson[2]	Mr. Saad Al Sabti[1]	Mr. Khalid Al Sebayel[1]
23-Feb	✓	-	-	✓	✓
19-Apr	✓	-	-	✓	✓
15-Jul	✓	✓	✓	✓	✓
17-Aug	✓	✓	✓	✓	✓
19-Aug	✓	✓	✓	✓	✓
22-Sep	✓	✓	✓	✓	✓
27-Oct	✓	✓	✓	✓	✓
15-Dec	✓	✓	✓	✓	✓

1. The noted members were appointed to the Audit Committee from 28 January 2020
2. The noted members were appointed to the Audit Committee from 22 April 2020

Nomination and Remuneration Committee ('NRC')

Members
- Ms. Maria Ramos (Chair - Independent Director) resigned during 2020 with an effective date of 31 December 2020
- Mr. Saad Al Fadly (Non-Executive Vice Chair)
- Mr. Samir Assaf (Non-Executive Director)
- Mr. Ahmed Al Aulaqi (Independent Director)

Roles and responsibilities
The NRC recommends the nominations for Board membership in line with SABB Board membership policies and criteria and, annually reviews the skills and capabilities required of those suitable for Board membership, including the time needed by a Board member for Board business. The sub-committee also evaluates the effectiveness of the members, sub-committees and the Board holistically and reviews the structure of the Board. An equally critical element of responsibility is to ensure the independence of those members that are considered independent and evaluate potential conflicts of interest that might arise. It also reviews the scope and limits of SABB's governance in addition to drawing-up and approving the compensation and remuneration policies and schemes.

In line with the corporate governance requirements and best practice, the terms of reference of the Committee were revised and approved by the AGM on 22 April 2020.

NRC meets at least twice a year and in 2020, the committee held 4 meetings. The following table shows details of those meetings and the record of attendance of members during the year.

NRC meetings during 2020

	Ms. Maria Ramos[1]	Mr. Saad Al Fadly	Mr. Samir Assaf	Mr. Ahmed Al Aulaqi
27-Mar	✓	✓	✓	✓
21-Apr	✓	✓	✓	✓
16-Sep	✓	✓	✓	✓
16-Dec	✓	✓	✓	✓

1. Ms. Maria Ramos resigned from her position during 2020 with an effective date of 31 December 2020

Board Risk Committee ('BRC')

Members

- Mr. Stuart Gulliver (Chair)
- Mr. Martin Powell (Independent Director)
- Mr. Stephen Moss (Non-Executive Director)
- Ms. Christine Lynch (Non-Board member)
- Mr. Abdulhameed Almuhaidib (Non-Board member)

Roles and responsibilities

The BRC has the responsibility for the oversight of enterprise risk management, risk governance and internal control systems. It provides advice to the Board on all key and emerging risks to the Bank and sets the risk appetite and risk strategy.

In line with the corporate governance requirements and best practice, the terms of reference of the Committee were revised and approved by the Board on 01 April 2019.

The Committee consists of 3 to 5 Non-Executive Directors or non-Director members and reports directly to the Board. It meets at least 4 times a year.

In 2020, the Committee held 6 meetings. The following table shows details of those meetings and the record of attendance of members during the year.

BRC meetings during 2020

	Mr. Stuart Gulliver	Mr. Martin Powell	Ms. Christine Lynch	Mr. Stephen Moss	Mr. Abdulhameed Almuhaidib
23-Feb	✓	✓	✓	✓	✓
2-Jun	✓	✓	✓	✓	✓
15-Jul	✓	✓	✓	✓	✓
22-Sep	✓	✓	✓	✓	✓
9-Dec	✓	✓	-	-	✓
15-Dec	✓	-	✓	✓	✓

BOARD SUB-COMMITTEES (continued)

Profile of Board sub-committee members (non-Director members)

Mr. Khalid Saleh Al Subayel
AUCOM member

Current position

- NAS Holding - Audit Committee Member
- National Housing Company – Audit and Risk Committee member

Former position

- Saudi Central Bank Director of the Banking Inspection Department
- The Mediterranean & Gulf Insurance & Reinsurance - Audit Committee Member

Qualifications
- Bachelor's Degree in Literature from King Saud University in KSA
- Master's Degree in Accounting from University of Illinois at US, Chicago
- Banking Diploma from IPA, KSA
- Professional certificates CPA

Experience
- 26 years of experience in a number of leadership positions in the Saudi Central Bank (SAMA)

Mr. Saad Saleh Al Sabti
AUCOM member

Current position

- Protiviti – Executive Partner
- Member of Shura Council
- Partner in Alsabti ecovis company
- Board and Audit Committee member in Riyadh School
- Board and Audit Committee member in Riyadh Chamber of Commerce and Industry

Former position

- Al Sabti & Bannaga – RSM Managing Partner
- Al Faisaliah Group – Chief Internal Auditor
- Saudi Venture Capital - Audit Committee Member

Qualifications
- Bachelor's Degree in Accounting from King Saud University in KSA
- Master's Degree in Accounting from Welch University, USA
- Professional certificates including CPA, IIA, and SOCPA

Experience
- Experience in the financial and accounting sector, especially in the internal audit field at SAMA's SADAD Payment System

Mr. Andrew Jackson
AUCOM member

Current position

- Chief Executive Officer of Jackson Consultants Ltd

Former position

- KPMG Gulf Holdings (Saudi Arabia, Kuwait, Jordan) - CEO
- KPMG ELLP (Europe) - member of the Executive Committee and Remuneration Committee
- KPMG East Africa – Executive Committee (the highest body of the firm) and Chairman of the Governance Committee

Qualifications
- Bachelor's Degree in Computer Science and Accountancy from Manchester University, UK

Experience
- Specialised in emerging markets, and has worked in over 40 different countries

Ms. Christine Lynch
BRC Member

Current position

Board member of:
- HSBC Bank Oman SAOG

Former position

- HSBC Trust Company AG
- Fondation de prevoyance des entites suisses du Groupe HSBC

Qualifications
- BA in Modern Languages & European Studies from University of Bath, UK
- Bachelor of Science in Financial Services from University of Manchester Institute of Science & Technology, UK

Experience
- Experience of over 20 years in leading positions in the Risk Management sector

Mr. Abdulhameed Almuhaidib
BRC Member

Current position

- Executive Managing Director Noor Energy (UAE)
- Foremost developer of privately owned power and water project (Saudi Arabia and United Arab of Emiratis)
- Board member in HSBC Saudi Arabia (Saudi Arabia)

Former position

- Shuaa Energy 1 PSC – Board Member
- First National Operation & Maintenance Co. (NOMAC)
- ShuqaiqArabian Water & Electricity Company – Internal Audit Committee Chairman
- International Bowarege Co. for Water Desalination Ltd – Board Member

Qualifications
- BBA Major in Finance from the University of Miami, USA
- Master of Business Administration (MBA), Pepperdine University Graziadio School of Business and Management from Malibu, California, USA

Experience
- Business leader with over a decade of progressive experience in projects and corporate management across different business sectors

RISK GOVERNANCE

SABB has a consistently strong risk culture across the organisation, which is embedded throughout business units, enablement and control functions. Ultimate accountability belongs to the Board which exercises active governance through its Board sub-committees. Clear communication, guidance and online risk training is provided to all employees. The Bank operates to the principle that all staff are responsible for identifying and managing risk within the scope of their role, whilst providing effective oversight by control functions and internal audit, as defined by the three lines of defense model. Adherence to risk management is a key performance indicator applied in the performance management of all Executive Management and staff across the organisations. A strict policy of consequence management is applied where failures occur.

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. The Board approves the Bank's risk framework, plans and performance targets, which include the establishment of management-level risk governance committees, bank-wide and business risk appetite statements, the delegation of authorities for acceptance of credit and other risks and the establishment of effective control procedures.

Three lines of defence

1st line of defence	The first line consists of risk and control owners. Risk owners are responsible for the end to end management of risks that they own. They are supported by control owners who are responsible for carrying out control activities with the object of ensuring risks are managed within policy and appetite. Typically, this applies to all units of the Bank with the exception of Internal Audit.
2nd line of defence	The second line of defence is comprised of the Bank's operational risk management function and risk stewards within the Bank's Risk Management, Finance, Compliance, Legal and other functions that own policy and provide guidance and oversight to ensure proper management of the risks that they steward.
3rd line of defence	The third line of defence consists of an independent internal audit function which provides assurance with regard to the design and implementation of the Bank's controls and risk management practices. The Internal Audit function reports directly to the Board's Audit Committee.

The Risk Management Committee ('RMC') and the Asset and Liability Committee ('ALCO') are two critical risk governance committees that support the BRC in setting the Bank's overall risk appetite and managing the Bank's activities within it. The RMC review risk appetite, emerging risks and risk policy and is chaired by the Chief Risk Officer. ALCO reviews the risks associated with the Bank's balance sheet including asset and liability management, and liquidity and funding. Both RMC and ALCO meet at least 10 times a year and the BRC and EXCOM respectively provides oversight of these committees, reviewing key performance metrics against risk appetite statements, discussing emerging risk matters, and incorporating learnings from international best practice.

Enterprise-wide risk management tools

Risk appetite

SABB's risk appetite is documented and defines our desired risk profile and tolerances within which risk should be managed. The risk appetite covers both risks which we actively accept and engage in as well as risks that are an inevitable function of doing business. Risks covered include, credit, market, operational, interest rate, liquidity and funding, and regulatory risks.

Risk appetite statements ('RAS') are deployed at the Bank level for all key risk categories and at the business level to document appropriate risk appetite and limits for major lines of business.

SABB's risk appetite is reviewed and approved by the Board at least annually. The risk appetite is central to an integrated approach to risk, capital and business management and supports the Bank in achieving its strategy, as well as being a key element in meeting the Bank's obligations under Pillar 2 of the Basel Accord.

Risk Map

SABB maintains a risk map, covering an assessment of current and anticipated levels of risk across all major financial and non-financial risk types. The risk map is reviewed by the Bank's Risk Management Committee and any risk identified as being at an "amber" or "red" level is investigated further and actions to mitigate the elevated level of risk are determined.

Stress testing

SABB's stress testing programme is performed at an enterprise-wide level and focuses on the key risk types to which the Bank is exposed. Stress testing refers to various quantitative and qualitative techniques used to gauge the Bank's vulnerability to exceptional but plausible events.

The Bank's stress testing programme incorporates the guidelines set out by SAMA, the principles set out by the Basel Committee and is a key component of the Bank's risk management approach.

A major objective of stress testing is to provide assurance that the Bank is adequately capitalised and sufficiently liquid to withstand a stress event and, in particular, would be able to restore its financial standing and operations to normal levels without undue reliance on external parties. Sensitivities that are identified during the stress testing process are followed up with management actions with the intention of mitigating their potential impact in the event of an actual stress event.

During the year the Bank has conducted multiple regulatory and internally initiated stress tests to evaluate potential outcomes of the COVID-19 pandemic on key economic indicators and consequently to the Bank's risk profile. This stress testing informed management actions through the year. The Bank's stress testing shows the Bank is adequately capitalised and sufficiently liquid to weather severe but plausible stress events.

Principal Risk types

Risk type	Definition and management
Credit risk	Credit Risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit Risk arises from the Bank's direct lending operations, its issuance of guarantees, bonds and like instruments, trade finance activities and its investment and trading activities. The granting of credit to customers is a core business of the Bank and accounts for a major portion of the Bank's balance sheet and profitability. The quality of the credit portfolio has a direct and important impact on the Bank's performance and strength. The Bank maintains credit policies, manuals and procedures specify lending guidelines to manage credit risk across the Bank's portfolios, within approved risk appetite. The Bank operates an independent credit risk function which provides high-level oversight and management of credit risk for SABB, aligned with SAMA Rules on Credit Risk Management in Banks. Its primary responsibilities include: independent risk assessment to ensure applications conform with SABB's credit policy and local applicable regulations; guiding business segments on the Bank's appetite for credit exposure to specified industry sectors, activities and banking products; and controlling exposures to sovereign entities, banks and other financial institutions. Credit risk is monitored using a variety of credit risk management techniques such as assigning credit ratings, setting limits, monitoring credit exposures, limiting transactions with specific counterparties, continually assessing the creditworthiness of counterparties and through the appropriate structuring of transactions including the use of collateral Specific reviews engaging all these techniques were initiated, as the potential economic effects of the COVID-19 pandemic became apparent, to identify and mitigate unfolding risks. The Bank manages credit exposure relating to its treasury trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. The Bank's credit risk exposure through derivatives represents the potential cost of replacing the derivative contracts if counterparties fail to fulfill their obligations. To control the level of credit risk taken, management assesses counterparties using the same techniques as for lending activities. Concentrations of credit risk arise when a number of obligors are engaged in similar business activities or have similar attributes that would cause their ability to meet contractual obligations to be similarly affected by a particular change in economic, political or other conditions. Concentration Risk can also arise from large exposures to a single borrower or group of related borrowers. Management seeks to manage concentration of Credit Risk through the diversification of lending activities and through the use of internal and regulatory limits and capital models.

RISK GOVERNANCE (continued)

Risk type	Definition and management
Market risk	Market Risk is the risk that movements in market factors, including foreign exchange rates, special commission rates, credit spreads and equity prices, will reduce our income or the value of our portfolios. Exposure to market risk is separated into two portfolios: • Trading portfolios - comprise positions arising from market making and warehousing of customer-derived positions. • Non-trading portfolios - comprise positions that primarily arise from the special commission rate management of our retail and commercial banking assets and liabilities and financial investments designated as 'Held to collect and sell' and 'Held to collect'. Market risk is monitored and measured using limits and metrics approved by the BRC. The exposure and limits are monitored by an independent risk function. SABB uses a range of control measures to manage market risk ranging from specific stop loss control limits, sensitivity analysis, stress testing and Value at risk (VaR).
Liquidity risk	Liquidity risk is the risk that SABB does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required. To support adherence to the RAS on an ongoing basis, SABB has established a range of key monitoring metrics, including but not limited to the Liquidity Coverage Ratio and the Net Stable Funds Ratio. All metrics are closely monitored against RAS limits in the ALCO and RMC and reported to the BRC. SABB conducts cash flow stress testing for liquidity and funding risk. The stress test takes into consideration a number of market wide and idiosyncratic scenarios and time periods, to assess the Bank's ability to continue to operate effectively in support of its customers throughout the stress period and beyond. The stress tests are conducted semi-annually. The Bank has established a mechanism for charging the cost of liquidity within the organisation to support the management of the balance sheet structure for liquidity and funding risk purposes. SABB maintains a Liquidity Contingency Funding Plan (CFP) to provide guidance for the senior management who constitute its Liquidity Crisis Management Team (LCMT) during a period of liquidity stress. The CFP establishes early warning monitoring metrics to forewarn management of an impending stress, sets out responsibilities, and describes the approach management may take during various stages of severity of a crisis. The CFP is updated and subject to scenario testing at least annually.

Risk type	Definition and management
Shariah risk	Shariah risk is the risk of financial loss, regulatory sanction and/or reputational damage to SABB as a result of either a failure to comply with the pronouncements, guidelines and resolutions issued by SABB's Shariah Committees in respect of the development, execution, delivery and marketing of Islamic Products, or of an opinion of the Shariah Committee being disputed by another body. Shariah rules are open to different interpretations; hence, there are potential risks that a SABB product can be interpreted as non-compliant by another Shariah body. To mitigate this, SABB has ensured that its Shariah Committee members are of high standing. Further, SABB has a dedicated Shariah Affairs team specialising in advisory, risk management and review training and awareness seminars are undertaken on Islamic banking principles, product and specific processing requirements. Finally, SABB has a Technology platform that facilitates compliance with Shariah requirements to further reduce the risk of operational error or oversight. Shariah risk is identified as a distinct risk in the Bank's risk heat map, both at business and the dedicated Islamic Financial level. Status is monitored through the appropriate governance committees. The Head of Islamic Financial Services reports directly to the Chief Risk Officer to oversee the development and independent control of Shariah products and services. IFS maintains a strong interaction with the Shariah Committee with respect to all Shariah related affairs which impact business and risk management. The Shariah Committee reports directly to the Bank's Board.
Operational risk	Operational risk is the risk to achieving the Bank's strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. The Risk Appetite for Operational Risk is established annually and approved by the Board. This is reviewed at the Operational Risk Committee and the RMC with quarterly updates to the BRC. In order to ensure continuous assessment of adequacy of control over operational risks, risk and control assessments are made and the controls identified are tested periodically by Control Owners and Business Risk Control Managers. Issues identified are entered in the Risk Repository System and the resolution of issues is monitored and followed up by management and the status communicated to and monitored by governance committees. In addition, issues identified in other reviews including those conducted by internal audit, external audit and regulatory authorities are also communicated and followed up by the governance committees. Amongst a number of types of operational risk, the protection of the Bank's technology infrastructure and our customers' data is a key focus as more and more banking is digitalised. As part of its core business processes, SABB handles various types of customer information and data relating to its customers. Handling of information and data includes its storage, processing and transmission. The Bank has established an Information Security Risk unit reporting to the Chief Risk Officer. This unit provides assurance that the Bank's network is secure and is in compliance with Information Security Policies by undertaking monitoring of information flows, data risk management and access management over SABB's core systems. Cybersecurity risk is the probability of exposure or loss resulting from a cyber-attack or data breach on SABB. We continue to strengthen our cyber-control framework and improve our resilience and cybersecurity capabilities, including threat detection and analysis, access control, payment systems controls, data protection, network controls and back-up and recovery. Cyber risk is a priority area for the Bank and is routinely reported at both the RMC and BRC to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme. As a result of measures taken to contain the COVID-19 pandemic, the Bank moved to remote working arrangements at an unprecedented scale and with unprecedented speed in the first half. The bank took measures to mitigate the inevitable operational risks arising from this change in working practices and operational risks have been managed to an acceptable level during the year.

RISK GOVERNANCE (continued)

Risk type	Definition and management
Reputational risk	Reputational risk relates to stakeholders' perceptions, whether based on fact or otherwise. As stakeholders' expectations are constantly changing, reputational risk is dynamic. Therefore, SABB's approach to reputational risk management must be upheld at all times and across all businesses and functions. SABB has built a strong image and reputation within the Saudi market, and maintains an unwavering commitment to operate, and be seen to be operating, to the highest standards set for itself. The reputation of SABB is critical to its success. Any financial services organisation stands or falls by its reputation and the customers' confidence in it, and the reputation can be severely damaged by non-compliance with relevant regulations or by inappropriate actions or comments to the media or in the public domain. The maintenance of customer confidence is a prime objective of management and can be achieved through a strong and healthy financial position and by exhibiting successful risk management. SABB has zero tolerance for knowingly engaging in any business or activity where foreseeable reputational risk and/or damage has not been considered and/or mitigated. SABB tolerates a limited degree of reputational risk arising from activities where the risk has been carefully considered and/or mitigated and determined to fall below the risk threshold.
Regulatory Compliance and Financial Crime Compliance ('FCC') Risks	Compliance Risk is the risk leading to statutory, legal sanctions, material financial loss, or damage to the reputation of SABB that may be suffered as a result of failure to comply with all applicable laws, rules and regulations. The aim of compliance is to protect the reputation and credibility of SABB and protect the interest of shareholders and depositors, and safeguard the institution against legal and regulatory consequences. Compliance is a specialised activity with a great degree of complexity managing the risks of financial crime and regulatory compliance capturing sanctions, money laundering, terrorist financing, fraud, and anti-bribery and corruption. SABB has continued to make significant investments in people and compliance infrastructure including monitoring systems, internal reporting tools and training in order to better control the compliance risks across the organisation. All identified risks and breaches to local regulations are reported to the management and Board committees along with corrective actions.

INTERNAL CONTROLS

The ultimate responsibility for the system of internal controls resides with the Board. SABB's Internal Control System is designed to manage the risk of failure to achieve the Bank's strategic objectives. SABB's management have established and maintain an adequate and effective framework of internal control in support of the policies approved by the Board. The Internal Control System ensures quality of external and internal reporting, maintenance of proper records, design and operational effectiveness of processes, compliance with applicable laws and regulations, and internal policies with respect to the conduct of business.

Regulatory compliance

The Internal Control System is compliant with the Guidelines on Internal Controls issued by SAMA. This includes ensuring there is an ongoing process for the identification, evaluation and management of significant risks faced by the Bank. Observations made by external and internal auditors, and SAMA's inspection team are promptly reviewed and addressed by management and subject to oversight by the Board and its Audit Committee. SABB's assessment is that the Internal Control System in place provides reasonable assurance as to the integrity and reliability of the controls established and the management information produced.

AUCOM assessment of the adequacy of the Bank's internal control system

During 2020, AUCOM reviewed various reports on the adequacy of internal controls and systems including the financial statements and risk reports. AUCOM reviews the minutes of the various management committees, for example, Risk Management Committee, and Compliance Committee. The AUCOM discussions and decisions are documented in the meetings' minutes and matters requiring attention are escalated to the Board.

During this year, the AUCOM members met with the Chief Internal Auditor, Chief Operations Officer, Chief Risk Officer, Chief Compliance Officer, Chief Finance Officer, and External Auditors; and have obtained updates on matters that require AUCOM's attention. AUCOM also received internal audit reports, regulatory reports and external auditors' management letters issued during the year and reviewed the management action plans for the issues raised.

AUCOM also reviewed the effectiveness of the system of internal control and procedures for compliance with SABB's internal policies, relevant regulatory and legal requirements in the Kingdom of Saudi Arabia and whether management has fulfilled its duty in having an effective internal control system, seeking independent assurance from internal audit to assess the adequacy and effectiveness of such internal controls.

AUCOM assures the Board and shareholders that to the best of its knowledge and in all material aspects that SABB's internal control system is adequately designed and operating effectively; and its recommendation pertaining to the appointment, dismissal, assessment or determining the remuneration of the external auditors or appointing Chief Internal Auditor were adopted by the Board.

Annual review of the effectiveness of internal control procedures

The Board is responsible for maintaining and reviewing the effectiveness of risk management. The framework of standards, policies and key procedures that the Directors have established is designed to provide effective internal control within SABB for managing risks within the accepted risk appetite of the Bank; for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage and mitigate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by SABB have been in place throughout the year.

SABB's management is responsible for implementing and reviewing the effectiveness of the Bank's internal control framework as approved by the Board. All employees are responsible for identifying and managing risk within the scope of their role as part of the Three Lines of Defense model, which is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.

INTERNAL CONTROLS (continued)

The Risk function, under the Chief Risk Officer, is responsible for maintaining oversight of the management of various risks across the Bank. The Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements. The risk management process is fully integrated with strategic planning, the annual operating plan and the capital planning cycle. Results are communicated for the information of the directors by means of periodic reports provided to the AUCOM and BRC members.

Summary of key internal controls

Control	Description
SABB standards	SABB has established clear standards that should be met by employees, departments and the Bank as a whole. Functional, operating and financial reporting standards are established for application across the whole of SABB.
Policies & Procedure framework	SABB has a strong policies and procedures framework governed by the "Procedures of SABB Manuals". SABB Standards Manuals set out the core principles within which SABB must operate. Functional Instructions Manuals (FIMs) articulate the key policies related to all major activities of the Bank besides standalone policies on the key regulations. All policies are approved by the Board and are subject to periodic review to ensure they adequately cover the Bank and its operating environment including alignment with regulation and the international best practices.
Delegation of authority within limits set by the Board	Authority to carry out various activities and responsibilities for financial performance against plan are delegated to SABB management within limits set by the Board. Delegation of authority from the Board to individuals requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of a system of controls appropriate to the business. Authorities to enter into credit and market risk exposures are delegated with limits to line management. Outside of these limits, including for credit proposals with specified higher risk characteristics, the concurrence of the Executive Committee is required. Credit and market risks are measured and aggregated for review and management of risk concentrations. The appointment of executives to the most senior positions within SABB requires the approval of the Board and concurrence from SAMA.
Risk identification and monitoring	Systems and procedures are in place in SABB to identify, monitor, control and report on the major risks including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability, compliance, other operational risks and any emerging risks. Exposure to these risks is monitored by various management Governance Committees. These include: the Asset and Liability Committee, the Risk Management Committee, the Compliance Committee, the Fraud High Committee, the IT Steering Committee, the Customer Experience Steering Committee, the Audit Tracker Committee and their various sub-committees.
Governance Committees	The effectiveness, membership and terms of reference are reviewed annually and minutes of meetings are submitted to the Board sub-committees, and through these sub-committees to the Board.
Risk & Control Assessment ('RCA')	All significant operational risks, together with the associated controls are identified through a RCA process conducted by risk owners with input from subject matter experts in the second line of defence. The design and operating effectiveness of controls is tested at several levels including by dedicated Business Risk & Control Managers (within the first line of defence), the relevant risk stewards (second line of defence) and by Internal Audit (the third line of defence) to provide reasonable assurance to the management about the adequacy of the controls.
Financial reporting	SABB's financial reporting process for preparing the consolidated Annual Report and Accounts 2020 is controlled using documented accounting policies and reporting formats. The submission of financial information is subject to certification by the Chief Financial Officer.

Control	Description
Changes in operations, market conditions and practices	Processes are in place to identify new risks arising from changes in market conditions and practices and customer behaviour. During 2020, attention was naturally focused on the merger with Alawwal Bank and the integration process. In addition, due to the COVID-19 pandemic the Bank operated under contingency plans, with staff working from home and the office – this was effective and enabled the Bank to continue to operate and serve customers effectively.
Merger with Alawwal Bank, governance of integration process	Preparation for the integration of SABB and Alawwal Bank entities commenced in October 2018 with the creation of a dedicated Integration Management Office (IMO) and 18 distinct business/functional work streams spanning the two organisations. Such work streams were jointly resourced and initially tasked with creating integration plans for actions prior to and at the legal completion date which occurred on 16 June 2019. Subsequently, plans for integration from the legal completion date were prepared to ensure that full integration takes place. An important milestone still to be achieved is the integration of all technology systems when all customers will have a common experience engaging with the merged bank. This is due to take place within 2 years of the legal completion date. Integration risks exist in many forms, e.g., the disruption to normal operations as a consequence of conflicting priorities, execution risk in terms of changes to policy and process, technology risk in terms of system migration, information security risk in the form of data migration, etc. SABB manages these risks through a formal governance process which extends from the Board, through the Executive Management to dedicated working groups. For all critical work-streams, SABB has engaged experienced consultant firms to ensure delivery is of high quality, with best practices learnt from similar integrations. The Board and Management also get comfort from a quality assurance process at each key step. Constant monitoring, communication, and action-oriented responses to help ensure risks are well managed and in a timely manner. Recognising the importance of this objective and the need to ensure it is delivered to a high standard, the Board has allocated a dedicated budget for integration which is subject to ongoing monitoring. The realisation of economic synergies from the merger is a key component of the strategic rationale behind the merger decision. The Board has set synergy targets to Executive Management and the delivery to target is supported by an independent and experienced consultant firm.
Annual operating plans	Annual operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that SABB is prepared to take in executing its strategy, are prepared at business and functional levels and set out the key business initiatives and the likely financial effects of those initiatives.
Governance arrangements	Governance arrangements are in place to provide oversight of, and advice to the Board on, material risk related matters. These are effected through the Board sub-committees as well as management sub-committees which oversee the effectiveness of risk management and report to the Board sub-committees.
Internal Audit	Internal Audit (INA) represents the Third Line of Defence and monitors the effectiveness of the internal control framework across the whole of SABB focusing on the areas of greatest risk to the Bank as determined by a risk-based audit approach. INA accomplishes this by independently reviewing the design and operating effectiveness of internal control systems and policies established by first and second line functions to ensure that the Bank is operating within its stated risk appetite and in compliance with the regulatory framework. The Chief Internal Auditor (CIA) reports to AUCOM on all audit related matters. The SABB Internal Audit Activity Charter sets out the accountability, independence, responsibility and authority of the INA function, while the SABB Audit Instruction Manual (AIM) prescribes the standards and procedures adhered to by the INA function. Both documents are reviewed and approved by AUCOM, acting on behalf of the Board on an annual basis. Executive management is responsible for ensuring that Management Action Plans agreed by the INA function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to INA. During 2020, INA reviewed a number of activities and processes of SABB following a risk-based approach. Reports of these audits have been submitted to the AUCOM highlighting areas where the effectiveness of controls or management's effectiveness in addressing control deficiencies was found to be less than satisfactory. On an overall basis, audits of the effectiveness of the internal control environment conducted during 2020 confirmed that systems and procedures for the ongoing identification, evaluation and management of significant risks faced by SABB were in place throughout the year. These procedures enabled SABB to discharge its obligations under the rules and regulations issued by SAMA and the standards established by the Board.

BOARD ASSURANCE

The Board assures shareholders and other interested parties that to the best of its knowledge and in all material aspects:

- Proper books of account have been maintained.
- The system of internal controls is sound in design and has been effectively implemented.
- It has no evidence that suggested the Bank is unable to continue as a going concern.

The Board has reached this view and is able to make this assurance based on its ongoing oversight of and involvement in the Bank's control framework directly and through its sub-committees. The Board further mandates management to conduct an annual review of effectiveness of internal control procedure.

Related parties

Transactions with related parties and the information relating to any business or contract to which the Bank is a party and in which there were substantial interests for one of the Board Members, Managing Director, Chief Financial Officer or any person who has a relationship with them, are disclosed below and in note 36 of the 2020 audited consolidated financial statements.

No.	Related party	Name of the party with direct or indirect interest or major shareholding	(SAR)	Duration of the business	Nature of the business
1.	Al-Bustan Company Limited	Ms. Lubna S. Olayan (Chair)	1,594,393	Annual	Staff housing
2.	Schindler Olayan Elevator Company	Ms. Lubna S. Olayan (Chair)	126,776	Annual	Elevator maintenance
3.	Arabian Business Machines Company	Ms. Lubna S. Olayan (Chair)	1,253,446	Annual	X-Ray machine maintenance
4.	Saudi Xerox Agencies Company	Ms. Lubna S. Olayan (Chair)	4,884,498	Annual	Printer services and maintenance
5.	Olayan Real Estate Company	Ms. Lubna S. Olayan (Chair)	792,000	Annual	Branches site rental
6.	HSBC Saudi Arabia (HBSA SA)	Mr. David Dew Mr. Stephen Moss Mr. Samir Assaf	17,250,000	One Time	SAR 5B Local Sukuk programme
7.	Alawwal Invest	Eng. Khalid A. Al Molhem Mr. Bashar Al Qunaibit Ms. Maha M. Al Sudairi	271,827	Annual	Professional service
8.	SABB Takaful	Mr. Mohammad Al Shayea Mr. Bashar Al Quinabit Ms. Maha M. Al Sudairi Mr. Faris F. Al Shareef Mr. Yasir Al Barrak	9,719,135	Annual	Professional service
9.	SIMAH	Mr. Naif Alabdulkareem	6,048,320	Annual	Professional service

Note: The above contracts were entered into as business-as-usual activity, without any preferential conditions or benefits.

Arrangements for shareholders' waiver of rights to dividends

The Bank is not aware of any information on any arrangements or agreements for the waiver by any shareholder of the Bank of any of their rights to dividends.

Notification relating to substantial shareholdings

During the year, the Bank did not receive any notification from shareholders or relevant persons with regard to the change in their ownership of the Bank's shares in accordance with the disclosure requirements of the Listing Rules issued by the Capital Market Authority. Below are schedules of share ownership of major shareholders, Directors of the Board and Senior Executives or their spouses and minor children in shares or equity.

Description of any interest, option rights and subscription rights of major shareholders

	No. of shares		Change	
Name of Stakeholder	**1 Jan 2020**	**31 Dec 2020**	**Shares**	**%**
HSBC Holdings B.V	600,000,000	636,986,300	36,986,300	6.2
Olayan Saudi Investment Company Ltd.	374,936,698	418,026,857	43,090,159	11.5
General Organisation for Social Insurance (GOSI)	109,012,330	109,012,330	-	-

Rights of the shareholders

In line with the relevant regulations, and as a general rule, the Bank ensures that the shareholders have the ability to exercise their rights completely, including their right to give feedback about the Bank and its performance through General meetings and the Share Registry unit.

Bank requests for shareholders' register

The Bank regularly requests information on the constituents of the shareholder base from the Tadawul Stock Exchange. The requests are detailed below:

	Date	Reason
1	01-Jan-20	Update of Shareholder Records
2	30-Jan-20	Update of Shareholder Records
3	27-Febr-20	Update of Shareholder Records
4	31-Mar-20	Update of Shareholder Records
5	22-Apr-20	AGM
6	26-Apr-20	Dividend Entitlement
7	30-Apr-20	Update of Shareholder Records
8	30-Jun-20	Update of Shareholder Records
9	30-Jul-20	Update of Shareholder Records
10	24-Aug-20	Update of Shareholder Records
11	31-Aug-20	Update of Shareholder Records
12	30-Sep-20	Update of Shareholder Records
13	29-Oct-20	Update of Shareholder Records
14	30-Nov-20	Update of Shareholder Records
15	03-Dec-20	Update of Shareholder Records
16	31-Dec-20	End Year Shareholder Records

BOARD ASSURANCE (continued)

SABB complies in form and content with all corporate governance guidelines included in the Corporate Governance Regulations issued by the CMA with the exception of Article 95 (more details can be found below). This commitment has resulted in the inclusion of the compulsory requirements in the Bank's bylaws and the Terms of Reference of Board Committees as well as in internal policies and guidelines. These include establishment of the rights of shareholders to purchase and own shares and to participate in General Meetings; the provision of all information that ensures shareholders can exercise their rights; the disclosure of financial and non-financial information and the complete observance of transparency requirements in line with the regulatory requirements; and the definition of the liabilities of the Board of Directors and formation of its various committees under Terms of Reference that are in line with the regulatory guidelines.

Article	Requirement	Reason for non-compliance by the Bank
95	Formation of a Corporate Governance Committee (Guiding Article)	The Nomination and Remuneration Committee, in line with its terms of reference, is entrusted with the periodical revisions to ensure consistency of the applications and structures of governance adopted by the Bank and to present their recommendations to the Board on such matters.

SABB GENERAL MEETINGS

During 2020, SABB held two General meetings as follows:

Ordinary General meeting 28 January 2020 (Formation of Audit Committee)

In line with the regulatory guidelines, SABB held an Ordinary General Meeting on 28 January 2020 at SABB Head Office with the required quorum and attendance of 66.78 % of shareholders were present.

Ordinary General Meeting 22 April 2020 (Annual General Meeting)

In line with the regulatory guidelines, SABB held an Ordinary General Meeting on 22 April 2020 at SABB Head Office with the required quorum and attendance of 72.45% of shareholders.

The resolutions of all the meetings are publicly available on the Tadawul stock exchange website (www.tadawul.com.sa).

General meeting Board attendance

The following table shows the details of meetings and the attendance of directors during the year:

	28 Jan 2020	22 Apr 2020
Ms. Lubna S. Olayan	-	✓
Mr. Saad A. Al Fadly	✓	✓
Eng. Khalid A. Al Molhem	✓	✓
Mr. Mohammed O. Al Omran	-	✓
Mr. Ahmed F. Al Aulaqi	✓	✓
Ms. Maria Ramos	-	-
Mr. Martin E. Powell	-	-
Mr. David Dew	✓	✓
Mr. Samir Assaf	-	✓
Mr. Stephen Moss	-	-
Mr. Stuart Gulliver	-	-

DIRECTORS' AND SENIOR EXECUTIVES' INTERESTS

Directors' interests (including relatives)

	No. of shares		Change	
Name of Stakeholder	**1 Jan 2020**	**31 Dec 2020**	**Shares**	**%**
Ms. Lubna S. Olayan	29,563	43,087	13,524	0.46
Eng. Khaled A. Al Molhem	53,119	53,119	-	-
Mr. Mohammed O. Al Omran	14,060,540	14,060,540	-	-
Mr. Saad A. Al Fadly	-	-	-	-
Mr. David Dew	-	-	-	-
Mr. Samir Assaf	-	-	-	-
Ms. Maria Ramos[1]	-	-	-	-
Mr. Ahmed F. Al Aulaqi	1,677	1,677	-	-
Mr. Martin E. Powell	-	-	-	-
Mr. Stephen Moss	-	-	-	-
Mr. Stuart Gulliver	-	-	-	-

1. Ms. Maria Ramos resigned from her position during 2020 with an effective date of 31 December 2020.

Senior executives' interests (including relatives)

	No. of shares		Change	
Name of Stakeholder	**1 Jan 2020**	**31 Dec 2020**	**Shares**	**%**
Mr. David Dew	-	-	-	-
Mr. Mathew Pearce	-	-	-	-
Mr. Faten A. Abalkhail	4,440	-	(4,440)	-100.0
Mr. Majed Najm	124,236	124,236	-	-
Mr. Mohammed Al Shaikh	161,657	208,705	47,048	29.1
Mr. Naif Alabdulkareem[1]	90,349	157,354	67,005	74.2
Mr. Bashaar Y. Al Qunaibit[2]	11,797	48,927	37,130	314.7

1. Mr. Naif Alabdulkareem resigned on 31 October 2020.
2. Mr. Bashaar Y. Al Qunaibit was appointed on 01 November 2020.

REMUNERATION

SABB policy to determine the compensation paid to members of the Board of Directors of the Bank or members from outside the Board is determined in accordance with the frameworks issued by the supervisory authorities and governed by prime principles of governance of banks operating in the Kingdom and the compensation regulations issued by SAMA including SAMA Circular that sets the maximum amount of remuneration and compensation and in-kind benefits paid to the Directors and the Board sub-committee members annually including attendance fees. Also, the Corporate Governance Regulation issued by the Capital Market Authority of Saudi Arabia (CMA) the provisions of the Companies Law, SABB's bylaws; the SABB Corporate Governance Document and SABB's Compensation Policy.

Directors' fees for their membership of the Board and participation in the Banks' operations, during 2020 amounted to SAR 4,131,011 including SAR 960,000 in attendance fees at Board meetings and Board sub-committees and special committees, namely: Executive Committee, Audit Committee, Nomination and Remuneration Committee, Board Risk Committee, Strategy Committee and Integration Committee respectively. The compensation is paid towards the end of the year.

During 2020, none of the Board or sub-committee members have assumed any work of technical or advisory role, and therefore they did not obtain any consideration or special benefits in this respect.

The table below shows details of remuneration paid to Board and sub-committee members and senior executives of the Bank during the year.

Remuneration

	Non-Executive Board members	Independent Board members	Senior executive appointments where SAMA 'no objection' is required
Salaries and remuneration	2,955	2,136	25,501
Allowances	-	-	11,587
Annual and periodic bonuses[1]	-	-	34,485
Incentive schemes	-	-	4,097
Other remuneration or benefits in kind paid monthly or annually[2]	-	-	5,325

1. Includes both cash and deferred bonus
2. Includes end of service benefit for resigned senior executives, education benefit and accommodation

REMUNERATION (continued)

Top Five Senior Executive Remunerations (Including CEO[4] and CFO)

	Senior Executives	Fixed remunerations			
		Salaries	Allowances	In-kind benefits[2]	Total
1	Total (SAR'000s)	8,169	3,656	1,466	13,291

1. Includes both cash and deferred bonus
2. Includes end of service benefit for resigned Senior Executives, education benefit and accommodation rent
3. Long Term incentive Plans include the Talent Retention Schemes
4. The CEO is also an Executive Director

Committee remuneration

The following amounts are received by all Board sub-committee members

	Fixed remuneration	Allowance for attending Board meetings	Total
EXCOM members	200	195	395
AUCOM members	463	180	643
NRC members	200	80	280
BRC members	450	140	590
Special committee for Strategic plan	-	75	75
Special committee for Integration	-	95	95

	Variable remunerations						End-of-service award	Total remunerations for Board executives, if any[4]	Aggregate
	Periodic remunerations[1]	Profits	Short-term incentive plans	Long-term incentive plans[3]	Granted shares (insert the value)	Total			Amount
	12,705	-	-	1,600	7,445	21,750	864	-	35,905

REMUNERATION (continued)

Arrangements for directors' or senior executives' waiver of salaries or remuneration

The Bank is not aware of information on any arrangements or agreements for the waiver by any director of the Board or any senior executive of any salaries, awards or remuneration.

Staff benefits and schemes

An annual independent review of SABB's compensation structure is conducted by an external consultant and submitted to the Nomination and Remuneration Committee and subsequently to SAMA along with management reports. This is in line with the guidance issued by SAMA and the Financial Stability Board.

According to the Labour Law of the Kingdom of Saudi Arabia and SABB's internal policies, employee end of service benefits become due for payment at the end of an employee's period of service. The end of service benefits outstanding at the end of 2020 amount to SAR 399 million.

SABB also operates three share based schemes for certain employees. These schemes reflect the number of committed shares for performance years 2017, 2018 and 2019 as of 31 December 2020 with a total market value of SAR 26.8 million.

Under the terms of these schemes, 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 plan is recognised 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 recognised 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.

Movement in the number of shares under the Share based equity settled bonus payment plans

	2020	2019
1 January	1,462,631	1,063,521
Addition through business combination	-	837,934
Forfeited	(294,099)	-
Exercised or expired	(819,241)	(796,850)
Granted during the year	736,532	358,026
31 December	**1,085,913**	**1,462,631**

The weighted average price of shares granted during the year was SAR 25.3 (2019: SAR 36.1)

Disclosure of details of the treasury stocks held by the Bank and details of uses of these stocks

No. of treasury stocks	Market value (SAR)	Date of holding	Detail of uses
1,850,154	45,735,807	31 Dec 2020	The Bank acquires its own shares in connection with the actual grant of shares to the key management in future. Until such time as the beneficial ownership of such shares in the Bank passes to the employees, the unallocated / non-vested shares are treated as treasury shares to be used to fund future employee long-term incentive plans.

LEGAL ENTITY STRUCTURE

Company name	Relationship	Ownership interest	Business activity	Share capital	Country of incorporation
SABB Insurance Agency	Subsidiary	100%	Insurance agency	SAR 500,000	Saudi Arabia
Arabian Real Estate Company Limited	Subsidiary	100%	Engaged in the purchase, sale and lease of land and real estate for investment purposes	SAR 1,000,000	Saudi Arabia
SABB Real Estate Company Limited[1]	Subsidiary	100%	Registration of real estate	SAR 500,000	Saudi Arabia
SABB Markets Limited	Subsidiary	100%	Engaged in derivatives trading and repo activities	USD 50,000	Cayman Island
SABB Takaful	Subsidiary	65%	Engaged in Shariah compliant insurance activities and to offer family and general Takaful products	SAR 340,000,000	Saudi Arabia
Alawwal Invest	Subsidiary	100%	Engaged in investment services and asset management activities	SAR 400,000,000	Saudi Arabia
Alawwal Real Estate Company	Subsidiary	100%	Registration of real estate assets under its name on behalf of SABB	SAR 500,000	Saudi Arabia
Alawwal Insurance Agency Company[1]	Subsidiary	100%	Insurance agency	SAR 500,000	Saudi Arabia
Alawwal Financial Markets Limited[1]	Subsidiary	100%	Engaged in derivatives trading and repo activities	USD 50,000	Cayman Island
Wataniya Insurance Company	Associate	20%	Engaged in Shariah compliant insurance activities and to offer family and general Takaful products	SAR 200,000,000	Saudi Arabia
HSBC Saudi Arabia	Associate	49%	Engaged in investment banking, advisory services and asset management activities	SAR 500,000,000	Saudi Arabia
Saudi Kayan Assets Leasing Company	Special purpose vehicle	50%	SABB has participated in the 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	SAR 500,000	Saudi Arabia
Rabigh Asset Leasing Company	Special purpose vehicle	50%		SAR 500,000	Saudi Arabia
Yanbu Asset Leasing Company	Special purpose vehicle	100%		SAR 500,000	Saudi Arabia
SIMAH	Associate	22%	Credit information industry	SAR 200,000,000	Saudi Arabia
Saudi Finance Lease Contract Registration Company (Sijil)	Associate	5%	Provide services and solutions for financial lease registrations.	SAR 38,392,850	Saudi Arabia
Saudi Financial Support Services Co. (SANID)	Associate	20%	Transfer of cash, precious metals and valuable documents, management and operation of cash centres, provision of payment services for PoS and smart and secure e-outlets, ATMs, CDMs, wholesale of banking and cash machinery and equipment, installation and maintenance of bank and cash equipment, provide financial and travelers cheque services, payment systems, financial settlements and related services	SAR 25,000,000	Saudi Arabia

Note: The Bank assures there is no debt securities in issue for any of these subsidiaries.
1. The Companies under process for closure.

APPOINTMENT OF EXTERNAL AUDITORS

The Extraordinary General Meeting of the Bank held on 22 April 2020, endorsed the selection of both KPMG Al Fozan & Partners and Ernst & Young as external auditors to audit the Bank's annual financial statements and review quarterly interim condensed financial statements for the year ended 31 December 2020, in line with recommendations of AUCOM.

Accounting standards

The consolidated financial statements have been prepared in accordance with the applicable accounting standards and other requirements as disclosed in the basis of preparation in note 1.1 of the 2020 audited consolidated financial statements.

DEBT SECURITIES IN ISSUE AND OTHER BORROWINGS

In line with the Bank's continued efforts to enhance its capital adequacy position, diversification of sources of funds and reducing its asset-liability maturity mismatch, the Bank has issued the following debt securities:

SAR 000	31 Dec 2020	31 Dec 2019	Change
5,000 million 10 year subordinated Sukuk - 2020	5,000,000	1,500,000	3,500,000

The Sukuk was issued by SABB on 22 July 2020 and matures in July 2030. 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 rate at 6M SAIBOR plus 195 bps payable semi-annually. The Sukuk is unsecured and is registered on the Tadawul Stock Exchange.

Syndicated loan

There are no outstanding Syndicated Loans and no new Syndicated Loans were issued during the year.

STATUTORY PAYMENTS

Statutory payments payable by the Bank during 2020 consist of Zakat payable by Saudi shareholders, tax payable by foreign partners, and the amounts payable to the General Organisation for Social Insurance (GOSI).

	SAR 000
Zakat attributable to the Saudi shareholders for the year 2020	126,952
Zakat paid to GAZT to settle Zakat claims pertaining to previous fiscal years and up to the fiscal year 2020	320,407
Income tax attributable to the shares of the non-Saudi shareholders for the year 2020	95,374
GOSI payments	150,082
Withholding tax	32,890
Other payments	20,914

PENALTIES

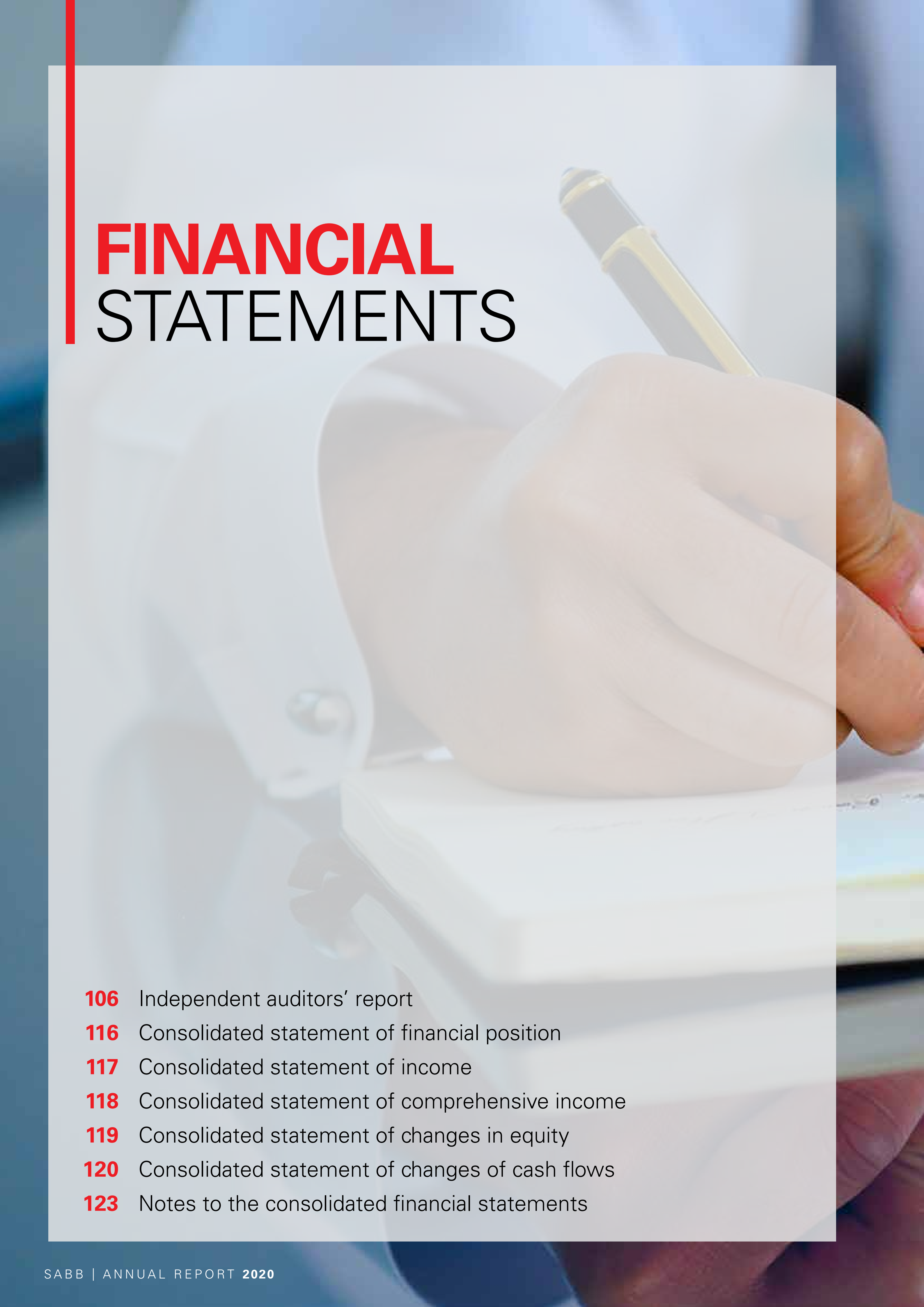
The table below includes penalties imposed by SAMA on SABB during 2020 and 2019:

	2020		2019	
Subject of violation	**Number of penalties**	**Fine (SAR)**	**Number of penalties**	**Fine (SAR)**
Violation of SAMA's supervisory instructions	19	1,858,000	16	520,500
Violation of SAMA's instructions for customer protection	3	10,890,400	2	15,000
Violation of SAMA's instructions regarding the level of performance of ATMs and POS	-	-	-	-
Violation of SAMA's instructions for due diligence in AML & CTF	-	-	1	135,000
Total	**22**	**12,748,400**	**19**	**670,500**

Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the SAMA regulations.

Penalties Imposed by Other Regulatory Authorities

Reason for penalty	Authority	Amount (SAR)	Measures undertaken to remedy and avoid the penalties imposed
Delay in GOSI payments	GOSI	441,251.96	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with GOSI requirements.
Delay in providing information to GAZT	GAZT	10,000.00	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Non-compliance with municipality instructions	Different Municipalities	714,000.00	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Total		**1,165,251.96**	



FINANCIAL STATEMENTS

Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

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 2020, 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 2020, 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 KSA").

Basis for opinion

We conducted our audit in accordance with the 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.

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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
Business combination On 16 June 2019, The Saudi British Bank ("SABB") completed the merger with Alawwal bank ("AAB") for a total purchase consideration of SAR 23.14 billion. This transaction has been accounted for in accordance with IFRS 3 *Business Combinations* ("IFRS 3") using the acquisition method. During 2020, management finalised the purchase price allocation ("PPA") exercise carried out as part of the business combination, which in accordance with IFRS 3 must be finalised within a period of twelve months following the acquisition date. As a result, the Group recognised SAR 2.02 billion of intangible assets and SAR 8.78 billion of goodwill (net of impairment charge of SAR 7.42 billion) as at 31 December 2020. The PPA required significant management judgements in determining the fair value of assets acquired and liabilities assumed, including intangible assets which are inherently judgemental due to the specialised nature of most intangible assets and the subjectivity of the assumptions used to value them appropriately. We considered this area as a key audit matter because of: - the scale of the merger transaction and the PPA exercise conducted; - the subjectivity and judgement in determining the fair value and its allocation to the assets acquired and the liabilities assumed; and the accuracy and completeness of the data used to calculate the PPA and its related disclosures in the consolidated financial statements; and - the scale of the auditor effort and judgement required in evaluating the audit evidence underpinning the management calculations of recoverable amount for each CGU. *Refer to the summary of significant accounting policies note 2c for business combinations and goodwill and note 19 which contains the disclosure of purchase consideration, valuation approach and methodologies for other intangibles, identifiable assets acquired and liabilities assumed and purchase price allocation.*	▪ We have reviewed the key terms in the merger agreement and the deal evaluation reports (including estimated synergy calculations and its progress) and accordingly updated our understanding of the transaction. ▪ We assessed the design and implementation of the key controls around: • the modelling process, including governance over the model and approval of key assumptions; and • the integrity of data inputs into the valuation models. ▪ 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. ▪ We reviewed the deal valuation reports and the relevant board minutes, and held discussions with management to assess if the identification of intangible assets are in line with the rationale of the acquisition. ▪ We reviewed and challenged the appropriateness of the useful lives assigned to the identified intangible assets. ▪ We assessed the adequacy of the disclosures in the consolidated financial statements.

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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
Carrying value of goodwill Goodwill amounting to SAR 16.19 billion was recognised in the consolidated statement of financial position relating to the Alawwal bank ("AAB") merger transaction completed on 16 June 2019. Management conducts a goodwill impairment test each year, or more frequently if events or circumstances indicate that the carrying value of goodwill may be impaired, by comparing the carrying value of each cash generating unit ("CGU"), including the goodwill, to its recoverable amount. The recoverable amount of each CGU is represented by its value in use ("VIU") using a discounted cash flow model that estimates future cash flows based on management forecasts. During 2020, the Group recorded an impairment charge of SAR 7.42 billion against the goodwill of the Corporate & Institutional Banking ("CIB") CGU after considering, amongst other factors, the impact of COVID-19, on the related recoverable amount. The Group's VIU model for the CGUs includes significant judgements and assumptions realting to cash flow projections, long term growth rates and the discount rates, and is highly sensitive to changes in these assumptions. The rapidly evolving COVID-19 environment has also precipitated significant estimation uncertainty and increased the level of judgement in the assumptions used by management. The above mentioned factors have increased the risk of goodwill impairment. 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 both involve the application of management judgement and estimation, as well as a greater level of auditor effort and judgement to evaluate the reasonableness of management judgements and assumptions underpinning the goodwill impairment model. *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 impirment testing of goodwill.*	▪ We analysed the identification of different CGUs and assessed whether these were appropriate in line with our understanding of the business and consistent with the internal reporting of the business. Furthermore, we assessed the reasonableness of allocation of goodwill to each identified CGU. ▪ We reviewed the strategic/operating plan as approved by the Board of Directors, which reflected the Group's COVID-19 impacts, and ensured they were consistently applied in the goodwill impairment assessment conducted by management. ▪ We reviewed and challenged the Group's assessment of the impact of COVID-19 on cash flows and assumptions, including assessment of the likely recovery and growth, both in terms of time and rate at which they will be achieved. ▪ We involved our specialists and assessed the reasonableness of the VIU calculations and the underlying assumptions, including cash flow projections and discount rates used. ▪ We reviewed the sensitivity of the results of the VIU model to the various key assumptions, such as long term growth rate and discount rate, within a reasonably possible range reflective of the current COVID-19 environment. ▪ We tested input data on a sample basis in the VIU model, and also reviewed the mathematical accuracy of the calculations. ▪ We assessed the adequacy of disclosures in the consolidated financial statements.

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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)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Expected credit loss allowance against loans and advances
As at 31 December 2020, the gross loans and advances of the Group were SAR 160.41 billion against which an expected credit loss ("ECL") allowance of SAR 7.17 billion was recorded.
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. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular, and hence has increased the levels of judgement needed to determine the ECL. The key areas of judgement include:

Categorisation of loans into Stages 1, 2 and 3 based on the identification of:
(a) exposures with a significant increase in credit risk ("SICR") since their origination; and
(b) individually impaired / defaulted exposures.

The Group has applied additional judgements to identify and estimate the likelihood of borrowers that may have experienced SICR notwithstanding the various government support programs that resulted in deferrals to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves in isolation of other factors.
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 financial condition of counterparties, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages.
The need to apply overlays using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model.

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We obtained and updated our understanding of management's assessment of ECL allowance against loans and advances, including the Group's internal rating model, accounting policy and model methodology, including any key changes made in light of the COVID-19 pandemic.
We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9.
We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over:

the ECL model, including governance over the model such as approval of key assumptions and post model adjustments;
the classification of borrowers into various stages and timely identification of SICR, and the determination of default / individually impaired exposures;
the IT systems and applications underpinning the ECL model; and
data inputs into the ECL model.

For a sample of customers, we assessed:

the internal ratings determined by management based on the Group's internal rating model, and considered these assigned ratings in light of the external market conditions and available industry information in particular, with reference to the impacts of the COVID-19 pandemic; and also assessed that these were consistent with the ratings used as inputs in the ECL model;
the staging as identified by management; and
mangement's computations for ECL.

We assessed 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 staging classification of the Group's loan portfolio, including for customers who were eligible for deferral of instalments under government support programs with specific focus on customers operating in sectors most affected by the COVID-19 pandemic.

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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
Expected credit loss allowance against loans and advances (continued) Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020. *Refer to the summary of significant accounting policies note 2b(v) for the impairment of financial assets; note 1.1f(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to ECL on financial assets and the ECL methodology used by the Group; note 6 which contains the disclosure of ECL against loans and advances; and note 31 for details of credit quality analysis and key assumptions and factors considered in the determination of ECL.*	▪ We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the output from the ECL model, due to data or model limitations or otherwise. ▪ We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic. ▪ We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020. ▪ Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model, particularly around the macroeconomic variables, forecasted macroeconomic scenarios and probability weights; and of assumptions underpinning the overlays. ▪ We assessed the adequacy of disclosures in the consolidated financial statements.

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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
Valuation of derivative financial instruments 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. 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 flows 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. 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. *Refer to the basis of preparation note 1.1f(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 2e 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.*	▪ 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. ▪ We selected a sample of derivatives and: • Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Assessed the key inputs to the valuation models; • Performed independent valuations of the derivatives and compared the result with management's valuation; and • Checked the hedge effectiveness performed by the Group and the related hedge accounting. ▪ Assessed the adequacy of disclosures around the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements.

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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
SAMA support program and related government grant In response to the COVID-19 pandemic, the Saudi Central Bank ("SAMA") launched a number of initiatives, including the liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro, Small and Medium Enterprises ("MSME"). The PSFSP included the deferred payments program, whereby the Group deferred the instalments payable by MSMEs during a period from 14 March 2020 to 31 March 2021. In order to compensate the Group with respect to the losses incurred in connection with the above PSFSP and for the liquidity support programme, the Group received various profit-free deposits of varying maturities amounting in aggregate to SAR 12.46 billion as at 31 December 2020. The difference between the market value of deposits, calculated using market rates of deposits of similar size and tenors, and the profit-free deposits has been considered as a government grant, and accounted for in accordance with the International Accounting Standard 20: *Government Grants* ("IAS 20"). We considered the accounting treatment of the SAMA support programme and the government grant as a key audit matter because: ▪ These represent significant events and material transactions that occurred during the period, and thereby required significant auditors' attention; and ▪ The recognition and measurement of government grant involved significant management judgement, including but not limited to: • determining the appropriate discount rate to be used to calculate the grant income on the deposits; and • identifying the objective of each individual deposit to determine the timing of recognition of the grant. *Refer to the significant accounting policies note 2s to the consolidated financial statements, which details the government grant accounting policy; and note 38 which contains the disclosure of SAMA support programs and details of the government grant received over the year from SAMA.*	▪ We obtained an understanding of the various programs and initiatives taken by SAMA, and assessed the objectives of the various deposits received by the Group in order to assess whether the IAS 20 criteria were met for government grant recognition. ▪ We inspected the details of the deposit amounts received during the year by the Group. ▪ We assessed the reasonableness of the relevant discount rates used for the computation of the government grant. ▪ We tested the accuracy of the government grant computation and assessed the basis for the timing of recognition of the goverment grant, being at a point in time or over a period, thereby matching the expense / related costs for which the government grant was intended to compensate. ▪ We assessed the disclosures included by management in the consolidated financial statements in relation to the government grant as required by IAS 20.

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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 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 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 has 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.

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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.

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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 2020.

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17 Rajab 1442H
(1 March 2021)

The Saudi British Bank

Consolidated statement of financial position

As on 31 December 2020

	Notes	2020 SAR' 000	2019 SAR' 000 (Restated)
ASSETS			
Cash and balances with SAMA	3	36,449,415	21,266,892
Due from banks and other financial institutions, net	4	5,105,498	4,987,766
Positive fair value derivatives, net	11	1,961,306	970,526
Investments held at fair value through other comprehensive income	5	13,703,233	13,937,673
Investments held at fair value through statement of income	5	1,237,760	1,142,573
Investments held at amortised cost	5	45,890,014	45,403,580
Loans and advances, net	6	153,243,078	152,075,086
Investments in associates	7	619,232	660,198
Property and equipment and right of use assets, net	8	3,169,427	3,308,278
Goodwill and other intangibles	9 & 19	10,982,536	18,462,065
Other assets	10	4,090,172	3,772,092
Total assets		**276,451,671**	**265,986,729**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	17,620,956	3,652,686
Customers' deposits	13	189,110,140	192,166,524
Debt securities in issue	14	5,066,610	1,499,752
Negative fair value derivatives, net	11	2,819,086	1,317,640
Other liabilities	15	11,073,139	11,265,936
Total liabilities		**225,689,931**	**209,902,538**
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	20,547,945	20,547,945
Share premium	19	17,586,986	17,586,986
Statutory reserve	17	11,485,841	11,485,841
Other reserves	18	324,937	237,429
Retained earnings		760,954	4,901,004
Proposed dividends		-	1,234,454
Total equity attributable to equity holders of the Bank		**50,706,663**	**55,993,659**
Non-controlling interest		55,077	90,532
Total equity		**50,761,740**	**56,084,191**
Total liabilities and equity		**276,451,671**	**265,986,729**

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of income

For the year ended 31 December

	Notes	2020 SAR'000	2019 SAR'000 (Restated)
Special commission income	21	7,811,575	8,743,676
Special commission expense	21	(938,869)	(1,564,048)
Net special commission income		**6,872,706**	**7,179,628**
Fee and commission income, net	22	1,283,151	1,301,619
Exchange income, net		519,442	508,837
Trading income, net	23	158,205	109,999
Dividend income		25,284	72,239
Gains on FVOCI debt instruments, net		31,200	40,033
Other operating (losses) / income, net		(12,022)	964
Total operating income		**8,877,966**	**9,213,319**
Provision for expected credit losses, net	6(d)	(1,630,931)	(2,501,175)
Goodwill impairment	9 & 19	(7,417,776)	-
Operating expenses:			
Salaries and employee related expenses	24	(1,846,897)	(1,789,486)
Rent and premises related expenses		(58,221)	(77,165)
Depreciation and amortisation	8 & 9	(677,658)	(432,120)
General and administrative expenses		(1,630,006)	(1,350,636)
Total operating expenses		**(4,212,782)**	**(3,649,407)**
(Loss) / Income from operating activities		**(4,383,523)**	**3,062,737**
Share in earnings of associates	7	81,936	132,618
Net (loss) / income for the year before Zakat and income tax		**(4,301,587)**	**3,195,355**
Provision for Zakat and income tax - Current	26	(222,325)	(446,368)
Reversal / (provision) for income tax - Deferred	27	356,316	(12,935)
Net (loss) / income for the year after Zakat and income tax		**(4,167,596)**	**2,736,052**
Attributable to:			
Equity holders of the Bank		(4,132,141)	2,754,260
Non-controlling interest		(35,455)	(18,208)
Net (loss) / income for the year after Zakat and income tax		**(4,167,596)**	**2,736,052**
Basic and diluted earnings per share (in SAR)	25	**(2.01)**	**1.53**

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	2020 SAR' 000	2019 SAR' 000 (Restated)
Net (loss) / income for the year after Zakat and income tax		**(4,167,596)**	**2,736,052**
Other comprehensive income for the year			
Items that cannot be reclassified to consolidated statement of income in subsequent periods			
Net changes in fair value (FVOCI equity instruments)	18	(69,349)	27,876
Re-measurement of defined benefit liability	29	(16,160)	18,651
Items that can be reclassified to consolidated statement of income in subsequent periods			
Debt instrument at FVOCI			
Net changes in fair value	18	157,710	279,148
Transfer to consolidated statement of income, net	18	(31,200)	(40,033)
Cash flow hedges			
Net changes in fair value	18	(4,964)	19,611
Transfer to consolidated statement of income, net	18	(1,867)	(1,166)
Total other comprehensive income for the year		34,170	304,087
Total comprehensive (loss) / income for the year		**(4,133,426)**	**3,040,139**
Attributable to:			
Equity holders of the Bank		(4,097,971)	3,058,347
Non-controlling interest		(35,455)	(18,208)
Total		**(4,133,426)**	**3,040,139**

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of changes in equity

For the year 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		
2020										
Balance at the beginning of the year as reported		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
Effect of restatements	19	-	-	-	-	(76,060)	-	(76,060)	-	(76,060)
Restated balance as at 1 January 2020		**20,547,945**	**17,586,986**	**11,485,841**	**237,429**	**4,901,004**	**1,234,454**	**55,993,659**	**90,532**	**56,084,191**
Total comprehensive income for the year										
Net loss for the year after Zakat and income tax		-	-	-	-	(4,132,141)	-	(4,132,141)	(35,455)	(4,167,596)
Net changes in fair value of cash flow hedges	18	-	-	-	(4,964)	-	-	(4,964)	-	(4,964)
Re-measurement of defined benefit liability	29	-	-	-	(16,160)	-	-	(16,160)	-	(16,160)
Net changes in fair value of FVOCI equity instruments	18	-	-	-	(69,349)	-	-	(69,349)	-	(69,349)
Net changes in fair value of FVOCI debt instruments	18	-	-	-	157,710	-	-	157,710	-	157,710
Transfer to consolidated statement of income	18	-	-	-	(33,067)	-	-	(33,067)	-	(33,067)
					34,170	**(4,132,141)**	-	**(4,097,971)**	**(35,455)**	**(4,133,426)**
Transfer of gain on disposal of equity instruments at FVOCI to retained earnings	18	-	-	-	(3,625)	3,625	-	-	-	-
Employee share plan reserve		-	-	-	56,963	-	-	56,963	-	56,963
2019 final dividend paid, net of Zakat and income tax		-	-	-	-	(11,534)	(1,234,454)	(1,245,988)	-	(1,245,988)
Balance at the end of the year		**20,547,945**	**17,586,986**	**11,485,841**	**324,937**	**760,954**	**-**	**50,706,663**	**55,077**	**50,761,740**
2019 (Restated)										
Balance at the beginning of the year		**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 year										
Net income for the year after Zakat and income tax (restated)		-	-	-	-	2,754,260	-	2,754,260	(18,208)	2,736,052
Net changes in fair value of cash flow hedges	18	-	-	-	19,611	-	-	19,611	-	19,611
Re-measurement of defined benefit liability	29	-	-	-	18,651	-	-	18,651	-	18,651
Net changes in fair value of FVOCI equity instruments	18	-	-	-	27,876	-	-	27,876	-	27,876
Net changes in fair value of FVOCI debt instruments	18	-	-	-	279,148	-	-	279,148	-	279,148
Transfer to consolidated statement of income	18	-	-	-	(41,199)	-	-	(41,199)	-	(41,199)
					304,087	**2,754,260**	**-**	**3,058,347**	**(18,208)**	**3,040,139**
Transfer of gain on disposal of equity instruments at FVOCI to retained earnings	18	-	-	-	(13,172)	13,172	-	-	-	-
Business combination	19	5,547,945	17,586,986	-	(72,646)	-	-	23,062,285	-	23,062,285
Employee share plan reserve		-	-	-	22,283	-	-	22,283	-	22,283
Transfer to statutory reserve	17	-	-	707,580	-	(707,580)	-	-	-	-
2018 final dividend paid net of Zakat and income tax		-	-	-	-	-	(1,430,954)	(1,430,954)	-	(1,430,954)
2019 interim dividend paid net of Zakat and income tax		-	-	-	-	(1,185,320)	-	(1,185,320)	-	(1,185,320)
2019 final dividend proposed, net of Zakat and income tax		-	-	-	-	(1,234,454)	1,234,454	-	-	-
Balance at the end of the year		**20,547,945**	**17,586,986**	**11,485,841**	**237,429**	**4,901,004**	**1,234,454**	**55,993,659**	**90,532**	**56,084,191**

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of cash flows

For the year ended 31 December

	Notes	2020 SAR'000	2019 SAR'000 (Restated)
OPERATING ACTIVITIES			
Net (loss) / income for the year before Zakat and income tax		**(4,301,587)**	**3,195,355**
Adjustments to reconcile net income after Zakat and income tax to net cash from / (used in) operating activities:			
Amortisation of premium on investments not held as FVTPL investments, net		44,328	4,545
Depreciation and amortisation	8 & 9	677,658	432,120
Income from FVTPL financial instruments, net		(7,102)	(14,692)
Gains on FVOCI debt instruments, net	18	(31,200)	(40,033)
Gain on disposal of shareholding in a joint venture	7	-	(13,419)
Cash flow hedge gain transfer to consolidated statement of income	18	(1,867)	(1,166)
Share in earnings of associates	7	(81,936)	(132,618)
Provision for expected credit losses, net	6(d)	1,630,931	2,501,175
Goodwill impairment	9 & 19	7,417,776	-
Employee share plan reserve		56,963	22,283
		5,403,964	**5,953,550**
Change in operating assets:			
Statutory deposit with SAMA		(741,618)	(90,476)
Due from banks and other financial institutions		(50,128)	1,642,531
Investments held as FVTPL		(263,641)	(421,424)
Loans and advances, net		(2,669,499)	1,993,327
Other assets and derivatives		(1,592,432)	(852,154)
Change in operating liabilities:			
Due to banks and other financial institutions		13,968,269	1,776,261
Customers' deposits		(3,053,307)	784,013
Payment of lease liabilities		(634,629)	(403,233)
Other liabilities and derivatives, net		2,707,818	636,607
		13,074,797	**11,019,002**
Zakat and income tax paid		(739,708)	(1,110,628)
Net cash generated from operating activities		**12,335,089**	**9,908,374**
INVESTING ACTIVITIES			
Proceeds from sale and maturity of investments not held as FVTPL		10,742,404	3,969,310
Purchase of investments not held as FVTPL		(10,582,837)	(13,573,045)
Dividend received from investments in associates	7	122,902	62,640
Proceeds from disposal of shareholding in an associate	7	-	36,000
Cash and cash equivalents acquired through business combination	19	-	2,632,553
Purchase of property and equipment and right of use assets, net		(472,659)	(291,780)
Net cash used in investing activities		**(190,190)**	**(7,164,322)**
FINANCING ACTIVITIES			
Debt securities in issue		3,566,858	470
Borrowings		-	(1,695,308)
Dividends paid		(1,201,834)	(2,652,015)
Net cash generated from/ (used in) financing activities		**2,365,024**	**(4,346,853)**
Net increase/ (decrease) in cash and cash equivalents		**14,509,923**	**(1,602,801)**
Cash and cash equivalents at beginning of the year	28	**15,198,771**	**16,801,572**
Cash and cash equivalents at end of the year	28	**29,708,694**	**15,198,771**
Special commission received during the year		7,815,140	8,249,275
Special commission paid during the year		1,183,908	1,666,003
Supplemental non cash information			
ROU assets	8	897,633	1,098,807
Lease liabilities	15	911,723	1,101,764
Net changes in fair value and transfers to consolidated statement of income		34,170	304,087

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

The Saudi British Bank

Notes to the consolidated financial statements

For the year ended 31 December 2020

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 113 branches (2019: 136 branches) in the Kingdom of Saudi Arabia. SABB employed 4,156 staff as at 31 December 2020 (2019: 4,537). 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 issued under Royal Decree No. M3 dated 28/1/1437H (corresponding to 10/11/2015G) (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 19 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% indirect ownership interest through another subsidiary ("Arabian Real Estate Company Limited") 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% indirect ownership interest through another subsidiary ("SABB Insurance Agency") 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), (the company is currently under liquidation). SABB holds 99.8% of its interest in SRECO directly and 0.2% indirect ownership interest through another subsidiary ("Arabian Real Estate Company Limited") 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 (the company is currently under liquidation).

SABB had a 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 was engaged in derivatives trading and repo activities and was liquidated on 31 December 2020.

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 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 (the company is currently under liquidation). SABB does not consolidate these entities as it does not have the right to variable returns from its involvement with the entities or the 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.

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 Organisation 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.

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 thousand, 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 33(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 Bank 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.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of the Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, a number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. The Bank continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Bank has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Bank believes are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Expected credit losses ("ECL") on financial assets

ECL 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; and
- 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.

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 35 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 is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised 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 categorisation (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 goodwill

For impairment testing, goodwill acquired through business combination is allocated to the cash generating units (CGUs) - Retail Banking & Wealth Management (RBWM), Corporate & Institutional Banking (CIB), and Treasury, which are also operating and reportable segments.

The impairment test is performed by comparing the estimated recoverable amount of the Bank's CGUs that carry goodwill, as determined through a Value-In-Use (VIU) model, with the carrying amount of net assets of each CGU. Refer to note 9 for key assumption used for VIU calculation.

iv. Impairment of debt investments (refer to note 2B(v))

v. Classification of investments at amortised cost (refer to note 2B(i))

vi. Determination of control over investees

The control indicators set out in note 1.1 (e) are subject to management's judgements.

vii. Depreciation and amortisation (refer to note 2K and 2L)

viii. Defined benefit plan (refer to note 2S)

ix. 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 judgements 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 2019. In consideration of the current economic environment, the following accounting policies are applicable effective 1 January 2020 replacing, amending or adding to the corresponding accounting policies set out in the 2019 annual consolidated financial statements.

The below are amended reporting standards that became applicable for annual reporting periods commencing on 1 January 2020:

- **Definition of a Business (Amendments to IFRS 3)**

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

- **Definition of Material (Amendments to IAS 1 and IAS 8)**

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Bank, nor is it expected to impact the Bank in future.

- **Amendments to References to the Conceptual Framework in IFRS Standards**

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Bank.

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

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

Phase 1 – The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Phase 2 – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

Management is running a project on the Bank's overall transition activities and continues to engage with various stakeholders to support an orderly transition and believes that the project is not significant in terms of scale and complexity and will have no major impact on its products, internal systems and processes.

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 classifications:

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:

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

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 amortised 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.

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

b. Financial liabilities

The Bank derecognises 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 derecognised with the difference recognised as a derecognition gain or loss and a new financial asset is recognised 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 derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated statement of income.

v) Impairment

The Bank recognises 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 measured at FVOCI;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised 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 (e.g 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 derecognised 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 amortised 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 reorganisation; 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; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 amortised 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 recognised 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 recognised 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 unamortised 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 recognises loss allowance.

vii) Rendering of services

The Bank provides various services to its customers. 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 recognised at the point when services are rendered e.g when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognises revenue over the period of time.

viii) Customer Loyalty Programme

The Bank offers customer loyalty programme (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 e.g 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 2 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 e.g 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.

l) 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.

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 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.

The reporting dates of the associates 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 are eliminated to the extent of the Bank's interest in the associate.

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 Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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. Capitalised software

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

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

Amortisation is recognised in the Bank's 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 an 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;

- less any accumulated depreciation and any accumulated impairment losses; and
- 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, the 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 3 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) 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.

R) 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 recognised 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 recognised 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.

S) Government grant

The Bank recognises 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 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. The grant income is only recognised when the ultimate beneficiary is the Bank. Where the customer is the ultimate beneficiary, the bank only records the respective receivable and payable amounts.

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

T) 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.

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 realisation 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 recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised.

U) Islamic 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.

Major non-special commission based Islamic products are as follow:

(i) Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

(iii) Ijarah is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

(iv) Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(v) Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

These non-commission based banking products are included in "loans and advances" and are in conformity with the related accounting policies described in these consolidated financial statements.

3. Cash and balances with SAMA

	2020	2019
Cash in hand	2,252,471	2,375,158
Statutory deposit	11,683,700	10,942,082
Placements with SAMA	21,841,129	7,653,718
Other balances	672,115	295,934
Total	**36,449,415**	**21,266,892**

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 28). 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

a) Due from banks and other financial institutions are classified as follows:

	2020	2019
Current accounts	4,887,672	4,473,830
Money market placements	217,826	513,936
Total	**5,105,498**	**4,987,766**

b) Movement in gross carrying amount

The following table further explains changes in gross carrying amount of the due from banks and other financial institutions to help explain their significance to the changes in the loss allowance for the same portfolio.

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	4,988,191	-	-	-	4,988,191
Transfer to Stage 1	(821)	821	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	119,269	-	-	-	119,269
Balance as at 31 December 2020	**5,106,639**	**821**	**-**	**-**	**5,107,460**

	Non-credit impaired		Credit impaired		
2019 (Restated)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	12,041,294	-	-	-	12,041,294
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(7,053,103)	-	-	-	(7,053,103)
Balance as at 31 December 2019	**4,988,191**	**-**	**-**	**-**	**4,988,191**

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

c) Credit quality analysis

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

	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit Impaired	Total
31 December 2020	5,105,010	488	-	-	**5,105,498**
31 December 2019	4,987,766	-	-	-	**4,987,766**

d) Movement in provision for expected credit losses

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 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2019	425	-	-	425
Net charge for the year	1,204	333	-	1,537
Balance as at 31 December 2019	**1,629**	**333**	**-**	**1,962**

	31 December 2019			
	12 month ECL	Lifetime 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**

5. Investments, net

a) Investment securities are classified as follows:

	2020	2019
FVOCI – Debt	12,574,317	12,708,906
FVOCI – Equity	1,128,916	1,228,767
FVTPL	1,237,760	1,142,573
Held at amortised cost	45,890,014	45,403,580
Total	**60,831,007**	**60,483,826**

b) Movement in gross carrying amount

The following table further explains changes in gross carrying amount of the investments to help explain their significance to the changes in the loss allowance for the same portfolio:

- FVOCI - Debt

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	12,521,450	191,134	-	-	12,712,584
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	60,562	(191,134)	-	-	(130,572)
Balance as at 31 December 2020	**12,582,012**	**-**	**-**	**-**	**12,582,012**

	Non-credit impaired		Credit impaired		
2019	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	11,428,410	214,045	-	-	11,642,455
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	1,093,040	(22,911)	-	-	1,070,129
Balance as at 31 December 2019	**12,521,450**	**191,134**	**-**	**-**	**12,712,584**

- Held at amortised cost

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	45,410,968	-	-	-	45,410,968
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	497,051	-	-	-	497,051
Balance as at 31 December 2020	**45,908,019**	**-**	**-**	**-**	**45,908,019**

	Non-credit impaired		Credit impaired		
2019	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	21,162,689	-	-	-	21,162,689
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	24,248,279	-	-	-	24,248,279
Balance as at 31 December 2019	**45,410,968**	**-**	**-**	**-**	**45,410,968**

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

c) Investments by type of securities

	Domestic		International		Total	
	2020	2019	2020	2019	2020	2019
Fixed rate securities	43,911,832	41,334,882	1,515,165	2,701,360	45,426,997	44,036,242
Floating rate securities	13,478,653	13,844,263	427,602	895,832	13,906,255	14,740,095
Equities and others	1,484,126	1,689,989	13,629	17,500	1,497,755	1,707,489
Total	**58,874,611**	**56,869,134**	**1,956,396**	**3,614,692**	**60,831,007**	**60,483,826**

d) Credit quality analysis

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

	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired	Total
2020					
Debt instruments at amortised cost, net	45,890,014	-	-	-	45,890,014
Debt instruments at FVOCI, net	12,574,317	-	-	-	12,574,317

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

e) 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	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2020	10,951	115	-	11,066
Net charge for the year	14,749	(115)	-	14,634
Balance as at 31 December 2020	**25,700**	**-**	**-**	**25,700**

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

f) The analysis of the composition of investments is as follows:

	2020			2019		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	43,199,266	2,227,731	45,426,997	41,278,808	2,757,434	44,036,242
Floating rate securities	8,994,642	4,911,613	13,906,255	9,336,487	5,403,608	14,740,095
Equities and mutual funds	1,472,289	25,466	1,497,755	1,680,822	26,667	1,707,489
Investments, net	**53,666,197**	**7,164,810**	**60,831,007**	**52,296,117**	**8,187,709**	**60,483,826**

g) Shariah-compliant investments

	2020	2019
FVOCI – Debt	5,900,060	5,498,488
FVTPL	630,765	567,016
Held at amortised cost	36,721,198	27,523,024
Total	**43,252,023**	**33,588,528**

h) The analysis of investments by counterparty is as follows:

	2020	2019
Government and quasi government	56,391,516	53,492,409
Corporate	1,480,119	3,881,408
Banks and other financial institutions	2,945,616	3,095,165
Others	13,756	14,844
Total	**60,831,007**	**60,483,826**

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

6. Loans and advances, net

a) Loans and advances are comprised of the following:

2020	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	1,941,419	33,240,125	89,775,444	124,956,988
Lifetime ECL not credit impaired	63,171	886,598	24,630,710	25,580,479
Lifetime ECL credit impaired	66,244	1,469,304	4,467,919	6,003,467
Purchased or originated credit impaired	135	172,724	3,704,746	3,877,605
Total loans and advances, gross	**2,070,969**	**35,768,751**	**122,578,819**	**160,418,539**
Provision for expected credit losses, net	(234,704)	(1,364,496)	(5,576,261)	(7,175,461)
Loans and advances, net	**1,836,265**	**34,404,255**	**117,002,558**	**153,243,078**

2019 (Restated)	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,326,426	33,755,819	95,746,566	131,828,811
Lifetime ECL not credit impaired	74,200	1,461,519	15,354,378	16,890,097
Lifetime ECL credit impaired	67,267	862,131	4,199,973	5,129,371
Purchased or originated credit impaired	1,113	370,131	3,858,563	4,229,807
Total loans and advances, gross	**2,469,006**	**36,449,600**	**119,159,480**	**158,078,086**
Provision for expected credit losses, net	(275,927)	(1,190,942)	(4,536,131)	(6,003,000)
Loans and advances, net	**2,193,079**	**35,258,658**	**114,623,349**	**152,075,086**

Lifetime ECL credit impaired includes non-performing loans and advances of SAR 5,377 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;
- Lifetime 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 gross carrying amount

The following table further explains changes in gross carrying amount of the loans to help explain their significance to the changes in the loss allowance for the same portfolio:

• Credit cards

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	2,326,426	74,200	67,267	1,113	2,469,006
Transfer to Stage 1	8,927	(8,927)	-	-	-
Transfer to Stage 2	(40,050)	40,050	-	-	-
Transfer to Stage 3	(36,823)	(6,506)	43,329	-	-
Net change for the year	(317,061)	(35,646)	78,921	(978)	(274,764)
Write-offs	-	-	(123,273)	-	(123,273)
Balance as at 31 December 2020	**1,941,419**	**63,171**	**66,244**	**135**	**2,070,969**

	Non-credit impaired		Credit impaired		
2019 (Restated)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	2,051,745	63,406	71,065	-	2,186,216
Transfer to Stage 1	10,740	(7,166)	(3,574)	-	-
Transfer to Stage 2	(40,386)	43,442	(3,056)	-	-
Transfer to Stage 3	(33,404)	(5,355)	38,759	-	-
Net change for the year	337,731	(20,127)	90,879	1,113	409,596
Write-offs	-	-	(126,806)	-	(126,806)
Balance as at 31 December 2019	**2,326,426**	**74,200**	**67,267**	**1,113**	**2,469,006**

• Other retail lending

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	33,755,819	1,461,519	862,131	370,131	36,449,600
Transfer to Stage 1	95,390	(88,320)	(7,070)	-	-
Transfer to Stage 2	(182,525)	217,576	(35,051)	-	-
Transfer to Stage 3	(142,950)	(57,473)	200,423	-	-
Net change for the year	(285,609)	(646,704)	740,224	(197,407)	(389,496)
Write-offs	-	-	(291,353)	-	(291,353)
Balance as at 31 December 2020	**33,240,125**	**886,598**	**1,469,304**	**172,724**	**35,768,751**

	Non-credit impaired		Credit impaired		
2019 (Restated)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	20,427,583	1,316,404	776,614	58,583	22,579,184
Transfer to Stage 1	92,664	(83,783)	(8,881)	-	-
Transfer to Stage 2	(158,558)	213,004	(54,446)	-	-
Transfer to Stage 3	(96,255)	(60,849)	157,104	-	-
Net change for the year	13,490,385	76,743	297,645	311,548	14,176,321
Write-offs	-	-	(305,905)	-	(305,905)
Balance as at 31 December 2019	**33,755,819**	**1,461,519**	**862,131**	**370,131**	**36,449,600**

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

- Corporate and institutional lending

2020	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit impaired Stage 3	Credit impaired POCI	Total
Balance at 1 January 2020	95,746,566	15,354,378	4,199,973	3,858,563	119,159,480
Transfer to Stage 1	84,075	(84,065)	(10)	-	-
Transfer to Stage 2	(892,970)	892,970	-	-	-
Transfer to Stage 3	(255)	(351,690)	351,945	-	-
Net change for the year	(5,161,972)	8,819,117	367,541	(153,817)	3,870,869
Write-offs	-	-	(451,531)	-	(451,531)
Balance as at 31 December 2020	**89,775,444**	**24,630,710**	**4,467,918**	**3,704,746**	**122,578,818**

2019 (Restated)	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit impaired Stage 3	Credit impaired POCI	Total
Balance at 1 January 2019	74,751,086	15,181,771	2,923,703	-	92,856,560
Transfer to Stage 1	726,300	(718,663)	(7,637)	-	-
Transfer to Stage 2	(204,613)	204,613	-	-	-
Transfer to Stage 3	(32,300)	(816,724)	849,024	-	-
Net change for the year	20,506,093	1,503,381	1,323,700	3,858,563	27,191,737
Write-offs	-	-	(888,817)	-	(888,817)
Balance as at 31 December 2019	**95,746,566**	**15,354,378**	**4,199,973**	**3,858,563**	**119,159,480**

c) 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:

2020	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit impaired Stage 3	Credit impaired POCI	Total
Balance at 1 January 2020	644,297	2,156,103	3,142,098	60,502	6,003,000
Transfer to Stage 1	38,332	(31,938)	(6,394)	-	-
Transfer to Stage 2	(7,856)	28,552	(20,696)	-	-
Transfer to Stage 3	(5,400)	(35,293)	40,693	-	-
Net re-measurement of loss allowance	173,926	333,554	1,124,194	(7,684)	1,623,990
Write-offs	-	-	(451,529)	-	(451,529)
Balance as at 31 December 2020	**843,299**	**2,450,978**	**3,828,366**	**52,818**	**7,175,461**

2019 (Restated)	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit impaired Stage 3	Credit impaired 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	234,078	804,688	1,084,861	17,578	2,141,205
Write-offs	-	-	(888,817)	-	(888,817)
Balance as at 31 December 2019	**644,297**	**2,156,103**	**3,142,098**	**60,502**	**6,003,000**

d) 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	2020	2019 (Restated)
Net provision for expected credit losses:			
Due from banks and other financial institutions, net	4	1,537	327
Investments	5	14,634	8,337
Loans and advances	6	1,623,990	2,141,205
Off balance sheet exposures	20	26,500	210,969
Write-offs net of recoveries of debts previously written-off		(35,730)	140,337
Net charge for the year		**1,630,931**	**2,501,175**

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

2020	Performing	Non-performing	POCI	Provision for credit losses	Loans and advances, net
Government and quasi government	16,389,258	189,570	-	(6,651)	16,572,177
Finance	5,964,688	-	-	(118,702)	5,845,986
Agriculture and fishing	641,207	-	133,946	(4,353)	770,800
Manufacturing	18,937,478	621,009	956,035	(1,569,304)	18,945,218
Mining and quarrying	3,483,790	-	-	(7,315)	3,476,475
Electricity, water, gas and health services	6,278,850	194,879	614,759	(256,727)	6,831,761
Building and construction	10,240,692	1,659,209	776,212	(1,391,515)	11,284,598
Commerce	35,959,403	706,422	917,204	(1,467,283)	36,115,746
Transportation and communication	8,134,357	28,421	195,854	(67,797)	8,290,835
Services	7,403,147	4,313	25,238	(172,836)	7,259,862
Credit cards and other retail lending	36,547,021	1,119,840	172,859	(1,599,200)	36,240,520
Others	1,183,670	853,690	85,498	(513,778)	1,609,080
Total	**151,163,561**	**5,377,353**	**3,877,605**	**(7,175,461)**	**153,243,058**

2019 (Restated)	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	556,832	-	226,351	(1,709)	781,474
Manufacturing	22,714,036	568,972	949,600	(1,454,684)	22,777,924
Mining and quarrying	2,783,633	-	-	(3,169)	2,780,464
Electricity, water, gas and health services	5,526,593	166,741	484,642	(177,109)	6,000,867
Building and construction	12,233,992	1,799,436	758,088	(1,374,563)	13,416,953
Commerce	33,036,220	538,750	986,676	(1,007,236)	33,554,410
Transportation and communication	8,739,517	4,933	224,297	(29,398)	8,939,349
Services	7,807,241	20,579	29,154	(156,671)	7,700,303
Credit cards and other retail lending	37,804,169	743,193	371,244	(1,466,869)	37,451,737
Others	1,049,850	214,528	199,755	(165,534)	1,298,599
Total	**149,601,577**	**4,246,702**	**4,229,807**	**(6,003,000)**	**152,075,086**

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortised cost					
Strong	23,415,171	-	-	-	23,415,171
Good	52,094,570	1,550,408	15,012	-	53,659,990
Satisfactory	14,233,022	17,323,149	193	-	31,556,364
Unrated	35,181,543	949,769	415,707	-	36,547,019
Special mention	32,682	5,757,153	195,202	-	5,985,037
Non-performing	-	-	5,377,353	-	5,377,353
Others	-	-	-	3,877,605	3,877,605
Total	**124,956,988**	**25,580,479**	**6,003,467**	**3,877,605**	**160,418,539**

2019 (Restated)	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortised cost					
Strong	16,495,481	-	-	-	16,495,481
Good	64,238,986	1,372,016	238	-	65,611,240
Satisfactory	14,635,541	9,472,211	16,558	-	24,124,310
Unrated	36,089,691	1,546,857	167,621	-	37,804,169
Special mention	369,112	4,499,013	698,252	-	5,566,377
Non-performing	-	-	4,246,702	-	4,246,702
Others	-	-	-	4,229,807	4,229,807
Total	**131,828,811**	**16,890,097**	**5,129,371**	**4,229,807**	**158,078,086**

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.

g) Shariah-compliant loans

Included in loans and advances are the following Shariah-compliant products:

	2020	2019 (Restated)
Tawaruq	91,174,726	93,655,189
Murabaha	5,565,020	6,262,813
Others	19,915,008	14,220,762
Total	**116,654,754**	**114,138,764**

h) 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 realisable 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 2020, the carrying amount of gross non-performing loans and advances amounted to SAR 5,377 million (2019: SAR 4,247 million) and the value of identifiable collateral held against those loans and advances amount to SAR 3,485 million (2019: SAR 2,354 million).

7. Investment in associates

	2020	2019
HSBC Saudi Arabia		
Balance at beginning of the year	585,987	532,597
Share in earnings	79,870	138,611
Dividend received	(122,902)	(62,640)
Disposal	-	(22,581)
Balance at end of the year	**542,955**	**585,987**
Wataniya		
Balance at beginning of the year	74,211	-
Acquired through business combination	-	80,204
Share in earnings/ (loss)	2,066	(5,993)
Balance at end of the year	**76,277**	**74,211**
Total	**619,232**	**660,198**

SABB owns 49% (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.

SABB owns 20% (2019: 20%) of the shares of Wataniya, an associate. The primary activity of Wataniya is to offer products to as an extension to the Bank's existing retail banking offering.

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For the year ended 31 December 2020

8. Property and equipment and right of use assets, net

	Land and buildings	Leasehold improvements and ROU	Equipment, furniture and vehicles	2020 Total	2019 Total
Cost					
As at 1 January	**1,630,164**	**1,895,689**	**776,534**	**4,302,387**	**2,835,797**
Additions / re-measurement	34,618	(18,705)	177,068	192,981	2,944
Acquired through business combination (note 19)	-	-	-	-	1,477,933
Disposals	(467)	(34,744)	(97,322)	(132,533)	(14,287)
As at 31 December	**1,664,315**	**1,842,240**	**856,280**	**4,362,835**	**4,302,387**
Accumulated depreciation					
As at 1 January	**406,176**	**638,723**	**598,254**	**1,643,153**	**1,386,813**
Charge for the year	16,614	208,897	118,423	343,934	266,371
Disposals	(230)	(18,353)	(26,854)	(45,437)	(10,031)
As at 31 December	**422,560**	**829,267**	**689,823**	**1,941,650**	**1,643,153**
Net book value					
As at 31 December 2020	**1,241,755**	**1,012,973**	**166,457**	**2,421,185**	
As at 31 December 2019	1,223,988	1,256,966	178,280		2,659,234
Capital work in progress				**748,242**	**649,044**
Total				**3,169,427**	**3,308,278**

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

2020	Cost	Accumulated depreciation	Net book value
ROU			
Balance at beginning of the year	**1,217,300**	**(118,493)**	**1,098,807**
Additions/ re-measurement	(27,767)	-	(27,767)
Disposals	(34,431)	18,042	(16,389)
Depreciation	-	(157,018)	(157,018)
Balance as at 31 December 2020	**1,155,102**	**(257,469)**	**897,633**

2019	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 19)	559,685	-	559,685
Disposals	(9,735)	9,735	-
Depreciation	-	(128,228)	(128,228)
Balance as at 31 December 2019	**1,217,300**	**(118,493)**	**1,098,807**

9. Goodwill and other intangibles

Intangibles are comprised of the following:

	2020	2019
Amounts arising from business combination (note 19)		
Goodwill	8,778,091	16,195,867
Other intangibles	1,787,484	1,943,561
Goodwill arising from acquisition of SABB Takaful	13,806	13,806
Software	403,155	308,831
Total	**10,982,536**	**18,462,065**

	Goodwill	Software	Customer relationship - PCCR	Core deposit intangible - CDI	Brand	2020 Total	2019 Total (Restated)
Cost							
As at 1 January	**16,209,673**	**520,027**	**71,200**	**1,875,400**	**75,000**	**18,751,300**	**193,389**
Additions	-	315,365	-	-	-	315,365	127,294
Acquired through business combination (note 19)	-	-	-	-	-	-	18,434,683
Disposals	-	(44,269)	-	-	-	(44,269)	(4,066)
As at 31 December	**16,209,673**	**791,123**	**71,200**	**1,875,400**	**75,000**	**19,022,396**	**18,751,300**
Accumulated amortisation							
As at 1 January	**-**	**211,196**	**3,560**	**66,979**	**7,500**	**289,235**	**123,745**
Charge for the year	-	177,647	7,120	133,957	15,000	333,724	165,749
Impairment loss	7,417,776	-	-	-	-	7,417,776	-
Disposals	-	(875)	-	-	-	(875)	(259)
As at 31 December	**7,417,776**	**387,968**	**10,680**	**200,936**	**22,500**	**8,039,860**	**289,235**
Net book value							
As at 31 December 2020	**8,791,897**	**403,155**	**60,520**	**1,674,464**	**52,500**	**10,982,536**	
As at 31 December 2019	16,209,673	308,831	67,640	1,808,421	67,500		18,462,065

Impairment testing of goodwill

The goodwill acquired through business combination is reviewed annually for impairment. At each reporting period, an assessment is made for indicators of impairment. If indicators exist, an impairment test is required. The impairment test compares the estimated recoverable amount of the Bank's CGUs that carry goodwill, as determined through a Value-In-Use (VIU) model, with the carrying amount of net assets of each CGU.

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

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

Key assumptions in value-in-use calculation

The recoverable amount of the cash-generating units has been determined based on a value in use calculation. The VIU model used projected cash flows in perpetuity through a five-year forward period of projections, and thereafter applying a (long-term) terminal growth rate.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

The calculation of VIU in the CGUs is mainly driven by the following assumptions:

- Economic outlook, notably the projected nominal Gross Domestic Product ("GDP");
- Discount rates;
- Long-term growth rates;
- Benchmark interest rates and net special commission income margins;
- Future cost of risk from expected credit losses
- Local inflation rates; and
- Target Capital ratio and profit retention

The following key assumptions were used in the calculation of the VIU:

- Discount rate of 10.08%, which is derived using a capital asset pricing model and comparing it with cost of capital rates produced by external sources.
- Long-term asset growth rate of 4.0%, derived from economists' forecasts of nominal GDP for KSA, applied to projected periods beyond 2024.
- Long-term profit growth rate of 4.8%, derived from economists' forecasts of nominal GDP for KSA adjusted for expected changes in benchmark interest rates and sector growth rates over time, applied to projected periods beyond 2024.

A sensitivity analysis of the VIU to changes in key assumptions of long-term growth rates and discount rates is set out below.

Key assumptions used in impairment testing for goodwill

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; and
- current local Gross Domestic Product ('GDP')

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 a capital asset pricing model.

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 30 June 2020, it was determined that indicators of impairment existed and it was determined that the Goodwill allocated to CIB was impaired by SAR 7.4 billion versus a carrying amount of SAR 8.19 billion. The impairment charge was recorded in the Interim Consolidated Statement of Income for the period ended 30 June 2020. The decrease in VIU as at that date was based on a prediction of the short to medium-term impact of COVID-19 on the economy and the Bank, and thereafter based on long-term economic projections. The model assumed an economic recovery benefit from 2023 onwards. In the current environment, the ability to predict the future is more challenging than ever, which makes the determination of VIU sensitive to changes in input assumptions.

At 31 December 2020, the Goodwill impairment test determined there was no impairment required to any of the CGUs and goodwill is allocated to the following CGUs:

	Goodwill allocated (SAR million)
Cash generating units (CGUs)	**2020**
Retail banking	4,650
Corporate and institutional banking	772
Treasury	3,356
Others	14

The forecast cash flows have been discounted using the discount rate mentioned above. A 1% point increase in the discount rate or decrease in the terminal growth rate keeping other factors constant would reduce the recoverable amount of the CGUs as mentioned in the table below:

	31 December 2020 Impact on the recoverable amount of CGUs	
Cash generating units (CGUs)	**One percentage increase in discount rate (SAR million)**	**One percentage increase in terminal growth rate (SAR million)**
Retail banking	(3,655)	(3,089)
Corporate and institutional banking	(6,625)	(5,572)
Treasury	(3,138)	(2,625)

	31 December 2019 Impact on the recoverable amount of CGUs	
Cash generating units (CGUs)	**One percentage increase in discount rate (SAR million)**	**One percentage increase 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.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

10. Other assets

	2020	2019
Accounts receivable	1,432,492	1,795,006
Advance tax	139,918	275,750
Others	2,517,762	1,701,336
Total	**4,090,172**	**3,772,092**

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 31 – financial risk management, note 32 - market risk and note 33 - 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'.

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For the year ended 31 December 2020

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:

	Within 1 year	1-3 years	3-5 years	Over 5 years
2020				
Cash inflows (assets)	31,286	47,208	1,635	-
Cash out flows (liabilities)	(1,687)	-	-	-
Net cash inflow	**29,599**	**47,208**	**1,635**	**-**
2019				
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**

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.

	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
2020							
Derivatives held for trading:							
Special commission rate swaps	1,172,441	(1,175,729)	38,492,765	1,106,388	5,199,257	20,929,295	11,257,825
Special commission rate options	677,038	(724,737)	16,791,558	476,120	3,097,608	7,967,830	5,250,000
Forward foreign exchange contracts	68,766	(68,162)	1,534,616	1,245,515	289,101	-	-
Currency options	1,852	(1,852)	645,893	153,968	403,480	88,445	-
Currency swaps	15,418	(7,806)	3,825,000	375,000	300,000	3,150,000	-
Derivatives held as fair value hedges:							
Special commission rate swaps	-	(834,505)	10,110,416	93,750	487,500	6,057,125	3,472,041
Derivatives held as cash flow hedges:							
Special commission rate swaps	18,581	(6,295)	90,000	-	-	90,000	-
Currency swaps	7,210	-	1,031,250	-	712,500	318,750	-
Total	**1,961,306**	**(2,819,086)**	**72,521,498**	**3,450,741**	**10,489,446**	**38,601,445**	**19,979,866**
Fair values of netting arrangements	**27,278**	**(1,665,900)**					
Cash collateral received	**(29,775)**	**1,979,400**					
Fair values after netting	**(2,497)**	**313,500**					

	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years
				Notional amounts by term to maturity			
2019							
Derivatives held for trading:							
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	-	-
Derivatives held as fair value hedges:							
Special commission rate swaps	15,189	(425,325)	11,205,022	262,500	656,250	5,470,625	4,815,647
Derivatives held as cash flow hedges:							
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
Total	**970,526**	**(1,317,640)**	**98,721,691**	**12,895,634**	**14,902,659**	**54,546,540**	**16,376,858**
Fair values of netting arrangements	**43,599**	**(701,565)**					
Cash collateral received	**(41,438)**	**816,578**					
Fair values after netting	**2,161**	**115,013**					

The Bank enters into structured currency option products with clients which involve 1 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.

	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2020						
Description of the hedged items:						
Fixed commission rate investments	10,322,413	10,110,416	Fair value	Special commission rate swap	-	(834,505)
Floating commission rate investments	89,999	90,000	Cash flow	Special commission rate swap	18,581	(6,295)
Fixed commission rate investments	1,028,107	1,031,250	Cash flow	Currency swap	7,209	-
Fixed commission rate deposits	-	-	Cash flow	Currency swap	-	-

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For the year ended 31 December 2020

	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2019						
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)

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 424.3 million (2019: net losses of SAR 402 million). The net gains on the hedged item attributable to the hedged risk are SAR 237.6 million (2019: net losses of SAR 519 million).

Approximately 20% (2019: 42%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and out of which 15.7% (2019: 7%) of the positive fair value contracts are with any individual counterparty at the year end.

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the SABB Group are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favour of the Bank or the counter party.

For commission rate swaps entered into with European counterparties, the SABB Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardised OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle on a net basis, or to realise the assets and settle the liability simultaneously.

12. Due to banks and other financial institutions

	2020	2019
Current accounts	2,559,207	3,633,774
Money market deposits	5,596	18,912
Repo with banks	567,906	-
Others	14,488,247	-
Total	**17,620,956**	**3,652,686**

Others represents government grant from SAMA.

13. Customers' deposits

	2020	2019
Demand	134,240,503	122,517,724
Savings	1,829,933	1,691,003
Time	51,636,767	51,825,874
Margin and others	1,402,937	16,131,923
Total	**189,110,140**	**192,166,524**

The above deposits include the following deposits in foreign currency:

	2020	2019
Demand	12,442,367	12,802,166
Savings	27,620	51,820
Time	4,597,935	6,426,796
Margin and others	170,582	240,836
Total	**17,238,504**	**19,521,618**

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

Shariah-compliant deposits

	2020	2019
Demand	79,646,852	66,291,455
Savings	1,410,786	1,320,878
Time	32,361,141	31,232,181
Margin and others	455,794	551,518
Total	**113,874,573**	**99,396,032**

14. Debt securities in issue

SAR 5 Billion 10 year Sukuk – 2020

SABB completed issuance of its SAR 5 billion Tier II Sukuk on 22 July 2020. The Sukuk issuance is under the Bank's local Sukuk Programme (the "Local Programme") and is due in 2030, with SABB having an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the Local Programme. The structure of the Sukuk was approved by SABB's Shari'ah committee. The Sukuk is unsecured and was offered by way of private placement in the Kingdom of Saudi Arabia carrying effective special commission income at six months' SAIBOR plus margin of 195 bps payable semi-annually.

SAR 1,500 million 10 year Sukuk – 2015

The Sukuk was issued by SABB on 28 May 2015 having maturity in May 2025. This was a Basel III compliant issuance and SABB had an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and the terms and conditions of the agreement. The Sukuk was repaid on 31 May 2020.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

15. Other liabilities

	2020	2019 (Restated)
Accounts payable	2,976,103	3,728,430
Drawings payable	1,102,668	522,951
Dividends payable	183,986	190,217
End of service benefits (note 29)	803,426	744,767
Provision against off balance sheet exposure (note 20)	662,565	636,065
Lease liability	911,723	1,101,764
Others	4,432,668	4,341,742
Total	**11,073,139**	**11,265,936**

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 2,054,794,522 shares of SAR 10 each (2019: 2,054,794,522 shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2020	2019
Saudi shareholders	60.50%	57.78%
Foreign shareholders	39.50%	42.22%

17. 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. During the year ended 31 December 2020 no amount was transferred to statutory reserve (2019: SAR 708 million). The statutory reserve is not currently available for distribution.

18. Other reserves

Cash Flow hedges and FVOCIS investments

2020	Cash flow hedges	FVOCI	Total
Balance at beginning of the year	**27,347**	**258,512**	**285,859**
Net change in fair value	(4,964)	88,361	83,397
Transfer to retained earnings	-	(3,625)	(3,625)
Transfer to consolidated statement of income	(1,867)	(31,200)	(33,067)
Net movement during the year	(6,831)	53,536	46,705
Sub total	**20,516**	**312,048**	**332,564**
Treasury shares			(96,293)
Employee share plan reserve			86,175
Re-measurement of defined benefit liability			2,491
Sub total			**(7,627)**
Balance as at 31 December 2020			**324,937**

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
Sub total	**27,347**	**258,512**	**285,859**
Treasury shares			(104,350)
Employee share plan reserve			37,269
Re-measurement of defined benefit liability			18,651
Sub total			**(48,430)**
Balance as at 31 December 2019			**237,429**

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 1.9 million (2019: SAR 1.2 million) from consolidated statement of changes in equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. 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 has allocated the purchase consideration to the identifiable assets, liabilities and contingent liabilities acquired.

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 the Kingdom of 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 realised 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 thousand 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 year ended 31 December 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 500 million (2019: SAR 417 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 101 million (2019: SAR 78 million) and SAR 399 million (2019: SAR 339 million), respectively.

c) Valuation approach and methodologies – other intangibles:

• Customer relationship - Purchase Credit Card Receivable

The Bank has estimated the value of Purchased Credit Card Receivables ("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	45,904,064
Investment in an associate	80,204
Property and equipment, net	1,464,093
Other assets	1,545,806
Total assets	**70,620,548**
Liabilities	
Due to banks and other financial institutions	863,192
Customers' deposits	60,910,930
Negative fair value derivatives, net	132,810
Other liabilities	3,868,798
Total liabilities	**65,775,730**
Alawwal Bank net assets as at acquisition date	4,844,818
Amounts arising from the acquisition:	
Retirement of AAB treasury shares	78,706
Goodwill	16,195,867
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 receivable	**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	45,904,064	58,339,024	12,434,960
Other financial assets	80,204	54,204	-
Total	**62,511,474**	**74,957,288**	**12,471,814**

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

f) Purchase price allocation

The Bank has completed a comprehensive purchase price allocation focusing on, but not limited to, valuation adjustments to the following:

- recognition of intangible assets including brand, core deposits and purchased credit card relationships;
- loans and advances;
- properties and equipment; and
- other recognised financial and non-financial assets and liabilities.

The purchase price allocation has been included in the consolidated financial statements.

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.

The completion of the purchase price allocation exercise within twelve months from the acquisition date, including restatement of provisional fair values at which the net assets were acquired from AAB, has had the following impact on the line items of the consolidated statements of financial position, income, and changes in equity for the year ended 31 December 2019:

Financial statements impacted	Description	As previously reported as at 31 December 2019	Effect of restatement	Restated – 31 December 2019
Consolidated Statement of Financial Position	Loans and advances, net	154,676,970	(2,601,884)	152,075,086
Consolidated Statement of Financial Position	Goodwill and other intangibles	15,345,896	3,116,169	18,462,065
Consolidated Statement of Financial Position	Total assets	265,472,444	514,285	265,986,729
Consolidated Statement of Financial Position	Other liabilities	10,675,591	590,345	11,265,936
Consolidated Statement of Financial Position	Total liabilities	209,312,193	590,345	209,902,538
Consolidated Statement of Financial Position	Retained earnings	4,977,064	(76,060)	4,901,004
Consolidated Statement of Financial Position	Total equity	56,160,251	(76,060)	56,084,191
Consolidated Statement of Income	Special commission income	8,928,004	(184,328)	8,743,676
Consolidated Statement of Income	Provision for expected credit losses, net	(2,609,443)	108,268	(2,501,175)
Consolidated Statement of Income	Net income for the year after Zakat and tax	2,812,112	(76,060)	2,736,052
Consolidated Statement of Income	EPS	1.57	(0.04)	1.53

20. Commitments and contingencies

a) Legal proceedings

There are no material outstanding legal matters against the Bank.

b) Capital commitments

As at 31 December 2020, the Bank has capital commitments of SAR 878.53 million (2019: SAR 752.42 million) in respect of land, buildings and equipment purchases.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise guarantee 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 collateralized 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:

2020	Stage 1	Stage 2	Stage 3	POCI	Total
Letters of credit	13,908,396	1,247,896	-	92,043	15,248,335
Letters of guarantee	55,770,431	8,546,379	1,219,019	2,176,805	67,712,634
Acceptances	2,316,644	744,637	-	51,765	3,113,046
Irrevocable commitments to extend credit	3,969,165	219,348	-	-	4,188,513
Total	**75,964,636**	**10,758,260**	**1,219,019**	**2,320,613**	**90,262,528**

2019 (Restated)	Stage 1	Stage 2	Stage 3	POCI	Total
Letters of credit	15,901,096	1,492,562	6,787	162,373	17,562,818
Letters of guarantee	74,774,803	7,752,440	1,558,202	2,234,429	86,319,874
Acceptances	2,923,447	420,773	382	33,931	3,378,533
Irrevocable commitments to extend credit	5,907,107	179,584	-	-	6,086,691
Total	**99,506,453**	**9,845,359**	**1,565,371**	**2,430,733**	**113,347,916**

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

The following table further explains changes in gross carrying amount of the credit related commitments and contingencies to help explain their significance to the changes in the loss allowance for the same portfolio:

- Letters of credit

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	15,901,096	1,492,562	6,787	162,373	17,562,818
Transfer to Stage 1	465,000	(465,000)	-	-	-
Transfer to Stage 2	(237,127)	237,127	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(2,220,573)	(16,793)	(6,787)	(70,330)	(2,314,483)
Balance as at 31 December 2020	**13,908,396**	**1,247,896**	**-**	**92,043**	**15,248,335**

	Non-credit impaired		Credit impaired		
2019 (Restated)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	10,710,328	1,064,271	1,006	-	11,775,605
Transfer to Stage 1	9,248	(9,248)	-	-	-
Transfer to Stage 2	(470,999)	470,999	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	5,652,519	(33,460)	5,781	162,373	5,787,213
Balance as at 31 December 2019	**15,901,096**	**1,492,562**	**6,787**	**162,373**	**17,562,818**

- Letters of guarantee

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	74,774,803	7,752,440	1,558,202	2,234,429	86,319,874
Transfer to Stage 1	117,031	(117,031)	-	-	-
Transfer to Stage 2	(3,687,672)	3,687,672	-	-	-
Transfer to Stage 3	(23,566)	(294,843)	318,409	-	-
Net change for the year	(15,410,165)	(2,481,859)	(657,592)	(57,624)	(18,607,240)
Balance as at 31 December 2020	**55,770,431**	**8,546,379**	**1,219,019**	**2,176,805**	**67,712,634**

	Non-credit impaired		Credit impaired		
2019 (Restated)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	46,405,235	6,502,071	353,931	-	53,261,237
Transfer to Stage 1	1,128,662	(1,127,879)	(783)	-	-
Transfer to Stage 2	(1,116,502)	1,117,497	(995)	-	-
Transfer to Stage 3	-	(609,070)	609,070	-	-
Net change for the year	28,357,408	1,869,821	596,979	2,234,429	33,058,637
Balance as at 31 December 2019	**74,774,803**	**7,752,440**	**1,558,202**	**2,234,429**	**86,319,874**

Notes to the consolidated financial statements (continued)

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• Acceptances

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	2,923,447	420,773	382	33,931	3,378,533
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(606,803)	323,864	(382)	17,834	(265,487)
Balance as at 31 December 2020	**2,316,644**	**744,637**	**-**	**51,765**	**3,113,046**

	Non-credit impaired		Credit impaired		
2019 (Restated)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	2,359,214	625,588	-	-	2,984,802
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	564,233	(204,815)	382	33,931	393,731
Balance as at 31 December 2019	**2,923,447**	**420,773**	**382**	**33,931**	**3,378,533**

• Irrevocable commitments to extend credit

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	5,907,107	179,584	-	-	6,086,691
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(1,937,942)	39,764	-	-	(1,898,178)
Balance as at 31 December 2020	**3,969,165**	**219,348**	**-**	**-**	**4,188,513**

	Non-credit impaired		Credit impaired		
2019 (Restated)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	2,836,679	112,493	585,415	-	3,534,587
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	3,070,428	67,091	(585,415)	-	2,552,104
Balance as at 31 December 2019	**5,907,107**	**179,584**	**-**	**-**	**6,086,691**

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

2020	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	28,129	126,322	481,614	636,065
Transfer to 12 month ECL	1,546	(1,426)	(120)	-
Transfer to lifetime ECL not credit impaired	(2,051)	2,051	-	-
Transfer to lifetime ECL credit impaired	(350)	(2,002)	2,352	-
Net charge for the year	11,581	11,709	3,210	26,500
Balance as at 31 December 2020	**38,855**	**136,654**	**487,056**	**662,565**

2019 (Restated)	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	31,331	237,530	156,235	425,096
Transfer to 12 month ECL	13,811	(13,373)	(438)	-
Transfer to lifetime ECL not credit impaired	(636)	1,192	(556)	-
Transfer to lifetime ECL credit impaired	-	(26,405)	26,405	-
Net charge / (reversals) for the year	(16,377)	(72,622)	299,968	210,969
Balance as at 31 December 2019	**28,129**	**126,322**	**481,614**	**636,065**

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

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Letters of credit	6,222,093	6,607,604	406,958	2,006,685	4,995	15,248,335
Letters of guarantee	11,255,854	22,945,673	9,216,920	22,532,729	1,761,458	67,712,634
Acceptances	2,390,711	718,239	4,096	-	-	3,113,046
Irrevocable commitments to extend credit	-	1,024,102	1,303,643	1,860,768	-	4,188,513
Total	**19,868,658**	**31,295,618**	**10,931,617**	**26,400,182**	**1,766,453**	**90,262,528**

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
Letters of guarantee	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
Total	**20,954,507**	**32,428,274**	**16,032,013**	**42,517,871**	**1,415,251**	**113,347,916**

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 77,009 million (2019: SAR 60,897 million).

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

	2020	2019
Government and quasi government	3,564,876	4,824,478
Corporate	70,926,256	90,542,556
Banks and other financial institutions	15,740,274	17,920,995
Others	31,122	59,887
Total	**90,262,528**	**113,347,916**

21. Net special commission income

	2020	2019 (Restated)
Special commission income		
Investments		
FVOCI	239,219	414,311
Held at amortised cost	1,192,701	1,039,387
	1,431,920	**1,453,698**
Due from banks and other financial institutions	78,073	267,049
Loans and advances	6,301,582	7,022,929
Total	**7,811,575**	**8,743,676**
Special commission expense		
Due to banks and other financial institutions	151,697	31,144
Customers' deposits	656,711	1,385,501
Debt securities in issue	96,091	69,077
Borrowings	-	55,203
Others	34,370	23,123
Total	**938,869**	**1,564,048**
Net special commission income	**6,872,706**	**7,179,628**

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For the year ended 31 December 2020

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

	2020	2019 (Restated)
Special commission income		
Investments		
FVOCI	166,079	101,122
Held at amortised cost	718,974	698,082
Total	**885,053**	**799,204**
Loans and advances		
Tawaruq	3,299,425	4,213,156
Murabaha	295,498	219,273
Others	1,041,842	744,456
Total	**4,636,765**	**5,176,885**
Special commission expense		
Customers' deposits		
Murabaha	438,513	847,901
Others	9,919	13,270
Total	**448,432**	**861,171**

22. Fees and commission income, net

	2020	2019
Fee and commission income		
Fund management fees	31,965	20,219
Trade finance	674,994	678,736
Corporate finance and advisory	141,039	140,931
Card products	859,130	685,453
Other banking services	406,780	451,049
Total fee and commission income	**2,113,908**	**1,976,388**
Fee and commission expense		
Card products	780,959	564,239
Custodial services	5,782	659
Other banking services	44,016	109,871
Total fee and commission expense	**830,757**	**674,769**
Fees and commission income, net	**1,283,151**	**1,301,619**

23. Trading income, net

	2020	2019
Foreign exchange income, net	87,184	70,453
Derivatives	49,480	23,913
Debt securities	20,370	11,670
Others	1,171	3,963
Total	**158,205**	**109,999**

24. Salaries and employee related expenses

	2020	2019
Salaries and allowances	1,094,386	999,831
Housing allowances	170,030	153,922
End of service benefits	95,619	137,284
Others	486,862	498,449
Total	**1,846,897**	**1,789,486**

a) Quantitative disclosure

The following table summarises 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 2020 and 31 December 2019, and the forms of such payments.

2020	**Number of employees***	**Fixed compensation**	**Variable compensation paid in 2020**		
Category			**Cash**	**Shares**	**Total**
Senior executives requiring SAMA no objection	44	51,538	24,701	7,427	32,128
Employees engaged in risk taking activities	699	348,780	87,198	11,057	98,255
Employees engaged in control functions	407	109,301	18,949	134	19,083
Other employees	3,391	652,057	59,834	496	60,330
Outsourced employees	747	81,196	16,194	-	16,194
Total	**5,288**	**1,242,872**	**206,876**	**19,114**	**225,990**
Variable compensation accrued in 2020		308,815			
Other employee related benefits **		295,210			
Total salaries and employee related expenses		**1,846,897**			

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For the year ended 31 December 2020

2019	Number of employees*	Fixed compensation	Variable compensation paid in 2019		
Category			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
Total	**5,865**	**1,152,450**	**234,926**	**26,679**	**261,605**
Variable compensation accrued in 2019		296,626			
Other employee related benefits **		340,410			
Total salaries and employee related expenses		**1,789,486**			

* Represent all employees who worked for the Bank and were compensated during the year 2020 or 2019, 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 the 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 and 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 3 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 recognised 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 recognised 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.

The Bank has currently one Share Based Equity Plan, under which the grant was made at various dates during 2018, 2019 and 2020 with a maturity period of three years from the respective grant dates and shares vesting is 33%, 33% and 34% for the first, second and third year respectively. As per the settlement method, the ownership of these shares will pass to the employees at the respective vesting dates, subject to satisfactory completion of the vesting conditions.

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.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

	Number of shares	
	2020	2019 (Restated)
Beginning of the year	**1,462,631**	**1,063,521**
Addition through business combination (refer note 19)	-	837,934
Forfeited	(294,009)	-
Exercised / Expired	(819,241)	(796,850)
Granted during the year	736,532	358,026
End of the year	**1,085,913**	**1,462,631**

The weighted average price of shares granted during the year was SAR 25.3 (2019: SAR 36.1).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended 31 December 2020 and 2019 are calculated by dividing the net income after Zakat and tax for the years by the weighted average number of shares 2,055 million (2019: 1,802 million) outstanding during the year.

26. 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.

The remaining balance of the 2018 Zakat settlement agreement with GAZT is SAR 961.2 million and is in other liabilities.

Tax assessments for the years 2010 to 2013 for SABB has been finalised. 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 the appeals before the Appellate Committee for Resolution of Tax Disputes and expects a favourable outcome. The amounts are not material.

During the current year, SABB has received assessments for the years from 2014 to 2018 raising additional demands for corporate tax and an assessment relating to AAB for years 2015 to 2018 raising additional withholding tax on dividend payments to foreign shareholders, however, tax assessments for the years from 2014 onwards for AAB and 2019 for SABB are still under GAZT review. SABB has filed appeals against these assessments and expects a favourable outcome. The amounts are not material.

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

	2020	2019
Opening Zakat and income tax liability	**1,464,820**	**1,736,447**
Charge for the year	222,325	446,368
Acquired through business combination (note 19)	-	392,633
Payment of Zakat and income tax liability	(739,708)	(1,110,628)
Closing Zakat and income tax liability	**947,437**	**1,464,820**

27. Deferred tax

Deferred tax arises on end of service benefits, ECL allowance, unrecognised 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:

	2020	2019
Opening deferred tax asset	**130,732**	**112,661**
Reversal / (provision) for deferred tax	356,316	(12,935)
Acquired through business combination (note 19)	-	31,006
Closing deferred tax asset	**487,048**	**130,732**

28. Cash and cash equivalents

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

	2020	2019 (Restated)
Cash and balances with SAMA excluding the statutory deposit amounting to SAR 11,684 million (2019: SAR 10,942 million) (note 3)	24,765,715	10,324,810
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	4,942,979	4,873,961
Total	29,708,694	15,198,771

29. 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 recognised in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2020	2019
Defined benefit obligation at the beginning of the year	**744,767**	**459,316**
Charge for the year	95,619	137,284
Benefits paid	(53,120)	(64,616)
Re-measurement of defined benefit liability	16,160	(18,651)
Acquired through business combination (note 19)	-	231,434
Defined benefit obligation at the end of the year	**803,426**	**744,767**

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For the year ended 31 December 2020

c) Charge for the year

	2020	2019
Current service cost	70,535	58,663
Past service cost	2,001	53,314
Interest cost	23,083	25,307
Total	**95,619**	**137,284**

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

	2020	2019
Discount rate	2.05%	3.20% pa
Expected rate of salary increase	2.05%	3.00% pa
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 2020 to the discount rate 2.05% (December 2019: 3.20%), salary escalation rate 2.05% (December 2019: 3.00%) and retirement age.

	Impact on defined benefit obligation – increase/ (decrease)		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
2020			
Discount rate	1%	(59,027)	65,554
Expected rate of salary increase	1%	66,858	(61,286)
Normal retirement age	1 year	788	(889)
2019			
Discount rate	1%	(47,887)	58,111
Expected rate of salary increase	1%	59,583	(53,112)
Normal retirement age	1 year	(71)	70

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:

2020	Less than a year	1-2 years	2-5 years	Over 5 years	Total
803,426	103,368	59,439	182,159	605,826	950,792

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

The weighted average duration of the defined benefit obligation is 7.78 years (2019: 6.92 years).

30. 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 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.

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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 2020 and 2019, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

2020	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	**46,084,136**	**121,710,736**	**105,782,069**	**2,874,730**	**276,451,671**
Loans and advances, net	36,240,520	117,002,558	-	-	153,243,078
Investments	-	-	59,042,187	1,788,820	60,831,007
Total liabilities	**91,716,290**	**98,374,832**	**35,346,775**	**252,034**	**225,689,931**
Customer deposits	87,872,012	92,874,865	8,363,263	-	189,110,140
Investments in associates	-	-	-	619,232	619,232
Total operating income, of which:	**3,317,872**	**3,877,552**	**1,673,664**	**8,878**	**8,877,966**
Special commission income, net	2,849,789	2,719,669	1,296,157	7,091	6,872,706
Fees and commission income, net	297,737	964,992	(5,756)	26,178	1,283,151
Trading income, net	75	6,899	148,670	2,561	158,205
Provision for expected credit losses, net	**(238,515)**	**(1,376,326)**	**(16,090)**	**-**	**(1,630,931)**
Goodwill impairment	-	(7,417,776)	-	-	(7,417,776)
Total operating expenses	(2,126,963)	(1,220,874)	(179,168)	(685,777)	(4,212,782)
Share in earnings of associates	-	-	-	81,936	81,936
Net income for the year before Zakat and income tax	**952,394**	**(6,137,424)**	**1,478,406**	**(594,963)**	**(4,301,587)**

2019 (Restated)	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	**48,153,527**	**126,387,847**	**87,679,552**	**3,765,803**	**265,986,729**
Loans and advances, net	37,451,737	114,623,349	-	-	152,075,086
Investments	-	-	58,673,820	1,810,006	60,483,826
Total liabilities	**89,260,791**	**106,703,602**	**13,383,688**	**554,457**	**209,902,538**
Customer deposits	85,393,606	100,637,434	6,135,484	-	192,166,524
Investments in associates	-	-	-	660,198	660,198
Total operating income, of which:	**3,469,346**	**4,446,016**	**1,154,987**	**142,970**	**9,213,319**
Special commission income, net	2,869,312	3,380,136	855,310	74,870	7,179,628
Fees and commission income, net	332,334	956,299	(1,245)	14,231	1,301,619
Trading income, net	92	12,848	95,105	1,954	109,999
Provision for expected credit losses, net	**(443,533)**	**(2,048,979)**	**(8,663)**	**-**	**(2,501,175)**
Total operating expenses	(1,730,553)	(1,079,533)	(194,975)	(644,346)	(3,649,407)
Share in earnings of associates	-	-	-	132,618	132,618
Net income for the year before Zakat and income tax	**1,295,260**	**1,317,504**	**951,349**	**(368,758)**	**3,195,355**

a) Total operating income by operating segments

2020	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
External	2,646,406	4,777,627	1,441,831	12,102	8,877,966
Internal	671,466	(900,075)	231,833	(3,224)	-
Total operating income	**3,317,872**	**3,877,552**	**1,673,664**	**8,878**	**8,877,966**

2019	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
External	2,558,397	5,230,967	1,337,103	86,852	9,213,319
Internal	910,949	(784,951)	(182,116)	56,118	-
Total operating income	**3,469,346**	**4,446,016**	**1,154,987**	**142,970**	**9,213,319**

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

2020	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Assets	36,237,205	111,387,361	94,966,938	9,928,084	252,519,588
Commitments and contingencies	63,217	43,943,590	-	-	44,006,807
Derivatives	-	-	1,803,823	-	1,803,823
Total	**36,300,422**	**155,330,951**	**96,770,761**	**9,928,084**	**298,330,218**

2019 (Restated)	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
Total	**36,931,722**	**172,893,427**	**94,572,147**	**431,714**	**304,829,010**

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.

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For the year ended 31 December 2020

31. 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 the market's products and emerging best practice.

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

2020	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	2,252,471	-	-	-	-	2,252,471
Balances with SAMA	33,524,829	-	-	-	-	33,524,829
Other balances	672,115	-	-	-	-	672,115
Due from banks and other financial institutions, net						
Current accounts	1,002	150,925	2,616,599	2,044,059	75,087	4,887,672
Money market placements	180,330	-	37,496	-	-	217,826
Positive fair value derivatives, net						
Held for trading	1,176,300	22,078	737,137	-	-	1,935,515
Held as fair value hedges	-	-	-	-	-	-
Held as cash flow hedges	-	8,821	16,970	-	-	25,791
Investments, net						
FVOCI	12,174,439	1,515,165	1,920	11,709	-	13,703,233
FVTPL	1,054,510	-	183,250	-	-	1,237,760
Amortised cost	45,645,662	244,352	-	-	-	45,890,014
Loans and advances, net						
Credit cards	1,836,265	-	-	-	-	1,836,265
Other retail lending	34,404,255	-	-	-	-	34,404,255
Corporate and institutional lending	116,693,901	308,657	-	-	-	117,002,558
Investments in associates	619,232	-	-	-	-	619,232
Property and equipment and right of use,net	3,169,427	-	-	-	-	3,169,427
Goodwill and other intangibles	10,982,536	-	-	-	-	10,982,536
Other assets	4,090,044	73	8	-	47	4,090,172
Total	**268,477,318**	**2,250,071**	**3,593,380**	**2,055,768**	**75,134**	**276,451,671**
Liabilities						
Due to banks and other financial institutions						
Current accounts	334,988	1,760,174	226,307	192,397	45,341	2,559,207
Money market deposits	-	-	5,596	-	-	5,596
Repo with banks	-	-	567,906	-	-	567,906
Others	14,488,247	-	-	-	-	14,488,247
Customer deposits						
Demand	133,996,234	18,618	209,432	16,037	182	134,240,503
Saving	1,829,933	-	-	-	-	1,829,933
Time	51,633,400	3,364	3	-	-	51,636,767
Margin and other deposits	1,402,937	-	-	-	-	1,402,937
Debt securities in issue	5,066,610	-	-	-	-	5,066,610
Negative fair value derivatives, net						
Held for trading	301,748	4,226	1,672,312	-	-	1,978,286
Held as fair value hedges	-	6,736	827,769	-	-	834,505
Held as cash flow hedges	-	-	6,295	-	-	6,295
Other liabilities	11,069,418	-	3,721	-	-	11,073,139
Total	**220,123,515**	**1,793,118**	**3,519,341**	**208,434**	**45,523**	**225,689,931**
Commitments and contingencies	**75,774,692**	**1,962,804**	**5,285,504**	**1,233,329**	**6,006,199**	**90,262,528**
Credit exposure (stated at credit equivalent amounts)						
Assets	245,342,644	2,220,104	2,618,516	2,044,059	294,265	252,519,588
Commitments and contingencies	37,708,846	932,914	2,197,536	512,363	2,655,148	44,006,807
Derivatives	1,541,131	118,661	144,031	-	-	1,803,823
Total credit exposure	**284,592,621**	**3,271,679**	**4,960,083**	**2,556,422**	**2,949,413**	**298,330,218**

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2019 (Restated)	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
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	35,258,658	-	-	-	-	35,258,658
Corporate and institutional lending	114,188,806	434,543	-	-	-	114,623,349
Investments in associates	660,198	-	-	-	-	660,198
Property and equipment and right of use,net	3,308,278	-	-	-	-	3,308,278
Goodwill and other intangibles	18,462,065	-	-	-	-	18,462,065
Other assets	2,970,704	7,756	788,114	5,474	44	3,772,092
Total	**256,085,755**	**3,300,170**	**3,350,353**	**2,830,719**	**419,732**	**265,986,729**
Liabilities						
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
Repo with banks	-	-	-	-	-	-
Others	-	-	-	-	-	-
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	11,178,529	51,779	33,835	1,793	-	11,265,936
Total	**205,220,837**	**1,401,012**	**2,251,701**	**880,806**	**148,182**	**209,902,538**
Commitments and contingencies	**96,928,461**	**1,796,885**	**5,754,746**	**1,468,692**	**7,399,132**	**113,347,916**
Credit exposure (stated at credit equivalent amounts)						
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
Total credit exposure	**287,828,701**	**4,213,898**	**5,331,900**	**3,520,099**	**3,934,412**	**304,829,010**

b) The distributions by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

2020	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Non-performing loans and advances	5,187,783	189,570	-	-	-	5,377,353
Provision for credit losses	7,175,288	173	-	-	-	7,175,461

2019 (Restated)	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Non-performing loans and advances	4,057,132	189,570	-	-	-	4,246,702
Provision for credit losses	6,003,000	-	-	-	-	6,003,000

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 considerations include days past due and rating of customer.

Consideration due to COVID-19:
In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Programme (refer note 38 for further details). The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in cases where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

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 judgement. 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:

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Corporate exposures	Retail exposures	All exposures
• 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 • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behaviour – e.g utilisation of credit card facilities • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

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; and
- 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 into account:

- 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 recognised 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 derecognised and the renegotiated loan recognised 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-recognised 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 e.g 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 maximise collection opportunities and minimise 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 e.g 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 realising 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 the case of financial institutions including Bank and Sovereign past due more than 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.

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Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts discussed at the relevant governance forum, the Bank agrees on a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves agreeing on two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses for exposures of given tenor and rating. The economic scenarios used as at 31 December included the following ranges of key indicators:

Economic Indicators	2020	2019
Government revenue, oil (SAR in millions)	Upside: 418,277 Base case: 415,906 Downside: 413,901	Indicator not used for 2019 ECL model
GDP per capita (constant LCU)	Upside: 69,650 Base case: 69,080 Downside: 68,515	Upside: 79,720 Base case: 79,080 Downside: 78,630
Government debt, gross, LCU/GDP, nominal, LCU*100	Upside: 33.9 Base case: 34.6 Downside: 36.3	Upside: 21.1 Base case: 24.2 Downside: 27.0
3 Month Cash Deposit Mid Rate (% p.a.)	Upside: 1.27 Base case: 1.25 Downside: 1.19	Upside: 3.14 Base case: 3.04 Downside:2.78

Consideration due to COVID-19:

1. Types of forward looking:

There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year as a result of COVID-19

2. Scenario assumptions:

As at 31 December 2020, the scenario assumptions are updated to reflect the expected macroeconomic environment, which amongst other factors considers the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn.

3. Probability weightings

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes.

Probability weighting of each scenario is agreed by management considering the expert view from a third party on risks and uncertainties surrounding the base case economic scenario. A key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects the negative economic impact as compared to last year as a consequence of COVID-19, risks remain skewed to the downside.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years. The Bank has used below base case forecast in its ECL model, which is based on updated information available as at the reporting date:

	Forecast calendar years used in 2020 ECL model			Forecast calendar years used in 2019 ECL model		
Economic Indicators	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
Government revenue, oil [SAR in millions]	501,003	548,085	583,525	Variable not used for 2019 ECL model		
GDP per capita (constant LCU)	69,915	70,491	71,443	79,181	79,645	80,046
Government debt, gross, LCU/GDP, nominal, LCU*100	33.1	32.2	30.9	30.2	32.8	34.7
3 Month Cash Deposit Mid Rate (% p.a.)	0.90	1.03	1.34	3.75	3.74	3.73

COVID-19 overlays

The prevailing economic conditions require the Bank to continue to revise certain inputs and assumptions used for the determination of ECL. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. In particular, the effect on borrower credit quality after current deferrals expire is not known with certainty. Accordingly, management's ECL assessment includes analysis of expected credit behavior of accounts benefitting from deferrals at a portfolio level, segmented by credit rating and borrower type. This analysis gave rise to the Bank taking an overlay of SAR 48 million for the retail portfolios and SAR 151 million for the corporate portfolios as at 31 December 2020. The Bank will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

e) Measurement of ECL

The 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); and
- 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 authorised 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, the 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 the 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 until the estimated default point; and
- residual maturity.

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EAD for the amortised loans considers Contractual pay down; Impact of missed payments and subsequent interest accrual between reporting date and default occurrence; Expected drawdown amount on the unutilised 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.

Sensitivity of ECL allowance:
The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year end, noting that the macroeconomic factors present dynamic relationships between them.

Assumptions sensitised	PL Impact 2020
Macroeconomic factors (Base scenario 2021):	
Government revenue, oil (SAR millions) increase by 11.49%	69,944
GDP per capita (constant LCU) reduction by 7.27%	
Government debt, gross, LCU/GDP, nominal, LCU*100 reduction by 8.5%	
3 Month Cash Deposit Mid Rate (% p.a.) reduction by 33.53%	
Scenario weightages:	
Base scenario sensitised by +/- 5% with corresponding change in downside	12,837
Base scenario sensitised by +/- 5% with corresponding change in upside	12,099

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The grouping is subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Consideration due to COVID-19:
The PD, EAD and LGD models are subject to the Bank's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

During the period, the Bank has made no material changes in its ECL methodology due to COVID-19.

32. 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) for their review.

The Bank's VAR related information is as follows:

2020	**Foreign exchange**	**Special commission rate**	**Overall risk**
VAR as at 31 December 2020	504	1,738	2,121
Average VAR for 2020	509	1,417	1,602
Minimum VAR for 2020	53	554	677
Maximum VAR for 2020	1,193	3,567	3,585

2019	**Foreign exchange**	**Special commission rate**	**Overall risk**
VAR as at 31 December 2019	102	1,572	1,624
Average VAR for 2019	250	1,457	1,546
Minimum VAR for 2019	38	429	431
Maximum VAR for 2019	2,053	3,312	3,615

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For the year ended 31 December 2020

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 2020 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 2020 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represents only those exposures that directly impact OCI of the Bank.

			2020				
			Sensitivity of Equity				
Currency	**Increase in basis points**	**Sensitivity of special commission income**	**6 months or less**	**1 year or less**	**1-5 years**	**Over 5 years**	**Total**
SAR	+100	655,020	(23,969)	(51,215)	(683,933)	(869,973)	(1,629,090)
USD	+100	238,340	(2,823)	(12,451)	(94,567)	(205,067)	(314,908)
EUR	+100	(4,998)	-	-	-	-	-
Others	+100	(5,205)	-	-	-	-	-

			2020				
			Sensitivity of Equity				
Currency	**Decrease in basis points**	**Sensitivity of special commission income**	**6 months or less**	**1 year or less**	**1-5 years**	**Over 5 years**	**Total**
SAR	- 100	(984,589)	23,969	51,215	683,933	869,973	1,629,090
USD	- 100	(117,971)	2,823	12,451	94,567	205,067	314,908
EUR	- 100	-	-	--	-	-	-
Others	- 100	353	-	--	-	-	-

			2019				
			Sensitivity of Equity				
Currency	Increase in basis points	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	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				
			Sensitivity of Equity				
Currency	Decrease in basis points	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	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	-	-	-	-	-

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The following table 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.

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For the year ended 31 December 2020

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	2,252,471	2,252,471
Balances with SAMA	21,841,129	-	-	-	11,683,700	33,524,829
Other balances	-	-	-	-	672,115	672,115
Due from banks and other financial institutions, net						
Current accounts	4,010,579	-	-	-	877,093	4,887,672
Money market placements	190,359	27,467	-	-	-	217,826
Positive fair value derivatives, net						
Held for trading	-	-	-	-	1,935,515	1,935,515
Held as fair value hedges	-	-	-	-	-	-
Held as cash flow hedges	-	-	-	-	25,791	25,791
Investments, net						
FVOCI	2,963,953	1,236,775	5,189,265	4,310,160	3,080	13,703,233
FVTPL	-	-	53,959	305,280	878,521	1,237,760
Amortised cost	9,109,985	1,591,947	21,485,293	13,702,789	-	45,890,014
Loans and advances, net						
Credit cards	1,592,275	-	204,752	-	39,238	1,836,265
Other retail lending	5,073,687	3,433,189	13,305,169	11,927,127	665,083	34,404,255
Corporate and institutional lending	81,061,334	28,290,396	2,542,695	-	5,108,133	117,002,558
Investments in associates	-	-	-	-	619,232	619,232
Property and equipment and right of use, net	-	-	-	-	3,169,427	3,169,427
Goodwill and other intangibles	-	-	-	-	10,982,536	10,982,536
Other assets	-	-	-	-	4,090,172	4,090,172
Total assets	**125,843,301**	**34,579,774**	**42,781,133**	**30,245,356**	**43,002,107**	**276,451,671**
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	2,559,207	2,559,207
Money market deposits	5,596	-	-	-	-	5,596
Repo with banks	-	-	567,906	-	-	567,906
Others	-	8,537,416	5,950,831	-	-	14,488,247
Customer deposits						
Demand	78,954	-	-	-	134,161,549	134,240,503
Saving	1,829,933	-	-	-	-	1,829,933
Time	41,144,134	9,970,277	522,356	-	-	51,636,767
Margin and other deposits	168	-	-	-	1,402,769	1,402,937
Debt securities in issue	66,785	4,999,825	-	-	-	5,066,610
Negative fair value derivatives, net						
Held for trading	-	-	-	-	1,978,286	1,978,286
Held as fair value hedges	-	-	-	-	834,505	834,505
Held as cash flow hedges	-	-	-	-	6,295	6,295
Other liabilities	-	-	-	-	11,073,139	11,073,139
Equity	-	-	-	-	50,761,740	50,761,740
Total liabilities and equity	**43,125,570**	**23,507,518**	**7,041,093**	**-**	**202,777,490**	**276,451,671**
Commission rate sensitivity on assets and liabilities	**82,707,708**	**11,082,275**	**35,740,040**	**30,245,356**	**(159,775,379)**	
Commission rate sensitivity on derivative financial instruments	**8,401,454**	**132,618**	**(4,103,666)**	**(4,430,406)**	**-**	
Total special commission rate sensitivity gap	**91,109,162**	**11,214,893**	**31,636,374**	**25,814,950**	**(159,775,379)**	
Cumulative special commission rate sensitivity gap	**91,109,162**	**102,324,055**	**133,960,429**	**159,775,379**	**-**	

2019 (Restated)	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
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	7,134,587	3,282,958	13,566,932	10,934,360	339,821	35,258,658
Corporate and institutional lending	93,896,686	14,615,017	1,934,279	312,747	3,864,620	114,623,349
Investments in associates	-	-	-	-	660,198	660,198
Property and equipment and right of use, net	-	-	-	-	3,308,278	3,308,278
Goodwill and other intangibles	-	-	-	-	18,462,065	18,462,065
Other assets	-	-	-	-	3,772,092	3,772,092
Total assets	**126,855,295**	**30,432,085**	**36,770,127**	**24,316,787**	**47,612,435**	**265,986,729**
Liabilities and equity						
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	-	-	-	-	11,265,936	11,265,936
Equity	-	-	-	-	56,084,191	56,084,191
Total liabilities and equity	**44,070,081**	**10,125,156**	**1,328,491**	**11,445**	**210,451,556**	**265,986,729**
Commission rate sensitivity on assets and liabilities	**86,761,295**	**20,359,453**	**35,441,636**	**24,305,342**	**(166,867,726)**	
Commission rate sensitivity on derivative financial instruments	**10,409,094**	**(534,812)**	**(5,060,270)**	**(4,814,012)**	**-**	
Total special commission rate sensitivity gap	**97,170,389**	**19,824,641**	**30,381,366**	**19,491,330**	**(166,867,726)**	
Cumulative special commission rate sensitivity gap	**97,170,389**	**116,995,030**	**147,376,396**	**166,867,726**	**-**	

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.

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For the year ended 31 December 2020

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 32(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:

	2020 Long (short)	2019 Long (short)
US Dollar	(929,719)	(675,799)
Euro	12,716	2,459
Sterling Pounds	1,775	(4,629)
Other	(2,146)	(2,341)

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% increase or decrease in the value of the Bank's FVOCI at 31 December 2020 would have correspondingly increased or decreased equity by SAR 112.9 million (2019: SAR 122.8 million).

33. 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 following table 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 the Bank's undiscounted financial liabilities by remaining contractual maturities.

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	2,559,206	-	-	-	-	2,559,206
Money market deposits	6,960	-	-	-	-	6,960
Repo with banks	-	-	567,906	-	-	567,906
Others	-	8,537,417	5,950,830	-	-	14,488,247
Customer deposits						
Demand	-	-	-	-	134,240,501	134,240,501
Saving	1,829,933	-	-	-	-	1,829,933
Time	41,162,214	10,012,367	535,710	-	-	51,710,291
Margin and other deposits	413,950	244,158	549,835	194,995	-	1,402,938
Debt securities in issue	35,250	105,750	564,000	5,728,526	-	6,433,526
Lease liability	99,118	52,801	593,770	286,972	-	1,032,661
Derivatives:						
Special commission contractual amounts, net	3,024	615	302,711	551,606	-	857,956
Total undiscounted financial liabilities	**46,109,655**	**18,953,108**	**9,064,762**	**6,762,099**	**134,240,501**	**215,130,125**

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
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
Repo with banks	-	-	-	-	-	-
Others	-	-	-	-	-	-
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
Derivatives:						
Special commission contractual amounts, net	5,432	329	180,457	214,387	-	400,605
Total undiscounted financial liabilities	**60,828,389**	**9,044,118**	**2,624,141**	**2,536,110**	**124,564,756**	**199,597,514**

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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.

2020	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	2,252,471	-	-	-	-	2,252,471
Balances with SAMA	21,841,129	-	-	-	11,683,700	33,524,829
Other balances	672,115	-	-	-	-	672,115
Due from banks and other financial institutions, net						
Current accounts	4,010,579	-	-	-	877,093	4,887,672
Money market placements	180,341	37,485	-	-	-	217,826
Positive fair value derivatives, net						
Held for trading	90,624	58,933	831,418	954,264	276	1,935,515
Held as fair value hedges	-	-	-	-	-	-
Held as cash flow hedges	-	5,296	20,495	-	-	25,791
Investments, net						
FVOCI	211,728	1,242,001	6,769,060	4,351,529	1,128,915	13,703,233
FVTPL	-	-	53,959	305,280	878,521	1,237,760
Amortised cost	294,361	271,286	23,548,782	21,775,585	-	45,890,014
Loans and advances, net						
Credit cards	1,797,027	-	-	-	39,238	1,836,265
Other retail lending	2,570,662	1,760,577	14,736,933	14,671,000	665,083	34,404,255
Corporate and institutional lending	40,302,099	23,410,129	21,787,152	26,395,045	5,108,133	117,002,558
Investments in associates	-	-	-	-	619,232	619,232
Property and equipment and right of use, net	-	-	-	-	3,169,427	3,169,427
Goodwill and other intangible	-	-	-	-	10,982,536	10,982,536
Other assets	530,766	971,219	-	-	2,588,187	4,090,172
Total assets	**74,753,902**	**27,756,926**	**67,747,799**	**68,452,703**	**37,740,341**	**276,451,671**
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	1,963,096	-	-	-	596,111	2,559,207
Money market deposits	5,596	-	-	-	-	5,596
Repo with banks	-	-	567,906	-	-	567,906
Others	-	8,537,416	5,950,831	-	-	14,488,247
Customer deposits						
Demand	78,954	-	-	-	134,161,549	134,240,503
Saving	1,829,933	-	-	-	-	1,829,933
Time	41,144,134	9,970,277	522,356	-	-	51,636,767
Margin and other deposits	148,266	244,158	549,835	194,995	265,683	1,402,937
Debt securities in issue	66,785	-	-	4,999,825	-	5,066,610
Negative fair value derivatives, net						
Held for trading	73,104	55,618	843,536	1,005,927	101	1,978,286
Held as fair value hedges	115	9,197	322,293	502,900	-	834,505
Held as cash flow hedges	6,295	-	-	-	-	6,295
Other liabilities	1,848,578	398,890	1,006,148	572,958	7,246,565	11,073,139
Equity	-	-	-	-	50,761,740	50,761,740
Total liabilities and equity	**47,164,856**	**19,215,556**	**9,762,905**	**7,276,605**	**193,031,749**	**276,451,671**

2019 (Restated)	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
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	1,913,110	3,387,669	14,501,521	14,827,578	628,780	35,258,658
Corporate and institutional lending	23,041,231	33,782,990	24,156,270	29,820,297	3,822,561	114,623,349
Investments in associates and a joint venture	-	-	-	-	660,198	660,198
Property and equipment and right of use, net	-	-	-	-	3,308,278	3,308,278
Goodwill and other intangible	-	-	-	-	18,462,065	18,462,065
Other assets	320,824	1,076,093	-	-	2,375,175	3,772,092
Total assets	**43,704,268**	**46,802,303**	**65,000,898**	**67,419,624**	**43,059,636**	**265,986,729**
Liabilities and equity						
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	7,231,579	11,265,936
Equity	-	-	-	-	56,084,191	56,084,191
Total liabilities and equity	**61,789,212**	**9,686,435**	**3,904,694**	**2,725,862**	**187,880,526**	**265,986,729**

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 20(d) of the consolidated financial statements.

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

34. Offsetting of financial liabilities

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

				Amount not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amounts subject to enforceable master netting arrangement	Cash collateral pledged	Net amount
2020						
Derivatives	2,819,086	-	2,819,086	-	(1,979,400)	839,686
2019						
Derivatives	1,317,640	-	1,317,640	-	(816,578)	501,062

35. 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 (e.g, 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

31 December 2020	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	1,961,306	-	1,961,306	-	**1,961,306**
Investments held as FVTPL	1,237,760	878,521	359,239	-	**1,237,760**
Investments held as FVOCI – Debt	12,574,317	-	12,574,317	-	**12,574,317**
Investments held as FVOCI – Equity	1,128,916	1,103,450	-	25,466	**1,128,916**
Financial assets not measured at fair value					
Due from banks and other financial institutions	5,105,498	-	5,105,498	-	**5,105,498**
Investments held at amortised cost	45,890,014	-	47,794,071	-	**47,794,071**
Loans and advances	153,243,078	-	-	152,050,680	**152,050,680**
Financial liabilities measured at fair value					
Derivative financial instruments	2,819,086	-	2,819,086	-	**2,819,086**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	17,620,956	-	17,620,956	-	**17,620,956**
Customers deposits	189,110,140	-	189,231,025	-	**189,231,025**
Debt securities in issue	5,066,610	-	5,066,610	-	**5,066,610**

31 December 2019	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
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 – Debt	12,708,906	-	12,708,906	-	**12,708,906**
Investments held as FVOCI – Equity	1,228,767	1,202,100	-	26,667	**1,228,767**
Financial assets not measured at fair value					
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	152,075,086	-	-	150,797,694	**150,797,694**
Financial liabilities measured at fair value					
Derivative financial instruments	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 movements 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 or deferred until the instrument's fair value can be determined using market observable data or realised through disposal. Subsequent changes in fair value are recognised 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 recognised 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 judgement 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.

36. 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:

	2020	2019
The HSBC Group:		
Due from banks and other financial institutions	1,819,706	1,525,639
Investments	111,709	111,824
Negative fair value derivatives, net	20,812	41,164
Due to banks and other financial institutions	677,738	265,733
Commitments and contingencies	3,374,514	3,895,443

	2020	2019
Associates:		
Investments	619,232	660,198
Loans and advances	1,501	175,900
Other assets	21,923	155
Customer deposits	476,738	482,496
Other liabilities	37	54,486
Commitments and contingencies	1,503,428	1,501,000

	2020	2019
Directors, board committees, other major Shareholders, key management personnel and their affiliates:		
Investments	664,344	1,367,341
Loans and advances	5,680,310	14,339,076
Customers' deposits	7,606,791	5,411,005
Positive fair value derivatives, net	56,962	33,139
Debt securities issued	750,000	375,000
Other liabilities	14,532	7,592
Commitments and contingencies	787,214	2,614,504

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

	2020	2019
Related mutual funds:		
Investments	361,673	357,160
Customers' deposits	47,546	26,842
Debt securities issued	200,000	32,000

	2020	2019
Subsidiaries:		
Other assets	34,000	34,000
Related mutual funds:		
Investments	516,848	490,413

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

	2020	2019
Special commission income	149,269	727,467
Special commission expense	94,684	298,493
Fees and commission income	40,040	99,239
General and administrative expenses	54,708	33,817
Service charges paid to HSBC Group	29,906	30,001
Service charges recovered from associate	25,227	25,420
Proceeds from sale of HSBC Saudi Arabia shareholding	-	36,000
Profit share paid to associate relating to investment banking activities	24,653	13,860
Directors' and Board committees' remuneration	5,943	5,244

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

	2020	2019
Short-term employee benefits *	45,117	55,529
Termination benefits	3,081	11,131
Other long-term benefits	17,069	4,600
Share-based payments	8,681	8,197

* 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.

37. 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 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 year 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 Tier 1 and Tier 1 + 2 ratio have been an improvement of 43bps for the year ended 31 December 2020.

	2020	2019 (Restated)
Risk Weighted Assets (RWA)		
Credit Risk RWA	199,268,399	205,118,642
Operational Risk RWA	19,064,614	19,265,850
Market Risk RWA	1,988,398	1,829,683
Total RWA	**220,321,411**	**226,214,175**
Tier I Capital	**41,774,973**	**38,450,069**
Tier II Capital	**6,303,054**	**2,819,213**
Total I and II Capital	**48,078,027**	**41,269,282**
Capital Adequacy Ratio %		
Tier I ratio	18.96%	17.00%
Tier I + Tier II ratio	21.82%	18.24%

38. Impact of Coronavirus ("COVID-19") on Expected Credit Losses ("ECL") and SAMA Programmes

The Bank continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The Bank has also revised certain inputs and assumptions used for the determination of expected credit losses ("ECL"). The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Bank in its ECL model including observed default rates; and
- applying of staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. 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 exercise of the deferment option by a customer, on its own, is not considered by the Bank as triggering SICR and as a consequence the impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process, especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customers to understand their financial position and ability to repay the amount and in cases where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

SAMA programmes and initiatives

In response to COVID-19, SAMA launched the Private Sector Financing Support Programme ("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 programmes:

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

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As part of the deferred payments programme launched by SAMA, the Bank was required to initially defer payments for six months on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months and then further deferring the installments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

Further to the above, on 15 December 2020, SAMA extended the deferred payments programme by allowing additional three-month payment deferrals for eligible MSMEs until 31 March 2021. The Bank has effected the payment reliefs by extending the tenure 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 are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Bank recognising an additional modification loss of SAR 69 million during the period ended 31 December 2020.

As a result of the above programme and related extensions, the Bank has deferred the payments of SAR 6.2 billion on MSMEs portfolio and accordingly, has recognised total modification losses of SAR 329 million during the year of which SAR 270 million have been unwound. The total exposures against these customers amounted to SAR 5.1 billion as at the year end. The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has taken SAR 199 million of overlays to reflect potential further credit deterioration. The Bank has booked SAR 151 million incremental total ECL for the MSME portfolio eligible for DPP having total exposure of SAR 8.3 billion. If the balance of COVID-19 support packages in stage 1 move to stage 2, an additional ECL provision would be provided during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities programme, during the year 2020, the Bank received profit free deposits from SAMA amounting to SAR 6.3 billion with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments.

On 30 December 2020, SAMA has extended SAR 2.8 billion of the above-mentioned deposits for an additional 21 months from original maturities. This resulted in an additional gain of SAR 90 million which has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. By the end of the year 2020, total income of SAR 351 million has been recognised in the statement of income and SAR 109 million deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SAR 22 million has been recognised in the consolidated statement of income relating to unwinding of deferred income.

As at 31 December 2020, the Bank has participated in SAMA's funding for lending and facility guarantee programmes and the accounting impact for the period is immaterial. Furthermore, during the current year, the Bank received an amount of SAR 54 million on account of reimbursement from SAMA for POS and e-commerce services

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected an amount of SAR 50 billion in order to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

In this regard, during the current year, the Bank received SAR 6.1 billion profit free deposit with one year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 70 million which has been recognised in the consolidated statement of income for the year ending 31 December 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. This resulted in the Bank recognizing a day 1 modification loss of SAR 76 million in March 2020, which was presented as part of Other Operating income. As the three-month period for this voluntarily postponed payments ended; therefore, the Bank has completely unwounded the impact until Q3 2020.

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 2021 and is currently assessing their impact.

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

- Amendments to IFRS 16: Leases for COVID-19 rent related concessions.

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Bank.

- IFRS 17 – "Insurance contracts", applicable for the period beginning on or after 1 January 2023.

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

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

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)

40. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 11 Rajab 1442AH (Corresponding 23 February 2021).

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