

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

31 December 2020

SABB  ساب

**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.

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Business combination</i></p> <p>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 <i>Business Combinations</i> ("IFRS 3") using the acquisition method.</p> <p>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.</p> <p>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.</p> <p>We considered this area as a key audit matter because of:</p> <ul style="list-style-type: none"> - 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. <p><i>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.</i></p>	<ul style="list-style-type: none"> ■ 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: <ul style="list-style-type: none"> • 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.

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying value of goodwill</i></p> <p>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.</p> <p>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.</p> <p>The Group's VIU model for the CGUs includes significant judgements and assumptions relating 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.</p> <p>We considered this as a key audit matter, as the estimation of future cash flows and the assumptions involved in calculating the discounted value of these cash flows 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.</p> <p><i>Refer to the summary of significant accounting policies note 2c for business combination and goodwill and note 9 which contains the disclosure of goodwill and the impairment testing of goodwill.</i></p>	<ul style="list-style-type: none"> ■ 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.

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit loss allowance against loans and advances</p> <p>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.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. 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:</p> <ol style="list-style-type: none"> Categorisation of loans into Stages 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> exposures with a significant increase in credit risk ("SICR") since their origination; and individually impaired / defaulted exposures. <p>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.</p> 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. 	<ul style="list-style-type: none"> ■ 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: <ul style="list-style-type: none"> ● 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: <ul style="list-style-type: none"> ● 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 ● management's computations for ECL. ■ We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of <i>default</i> or <i>individually impaired</i> 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.

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Expected credit loss allowance against loans and advances (continued)</i></p> <p>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.</p> <p><i>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.</i></p>	<ul style="list-style-type: none"> ■ 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.

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of derivative financial instruments</i></p> <p>The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); currency, special commission rate and equity options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective, as it takes into account a number of assumptions and model calibrations.</p> <p>The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash 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.</p> <p>We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modelling techniques and valuation inputs that are not market observable.</p> <p><i>Refer to the basis of preparation note 1.1f(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.</i></p>	<ul style="list-style-type: none"> ■ 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: <ul style="list-style-type: none"> ● 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.

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>SAMA support program and related government grant</i></p> <p>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.</p> <p>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: <i>Government Grants</i> ("IAS 20").</p> <p>We considered the accounting treatment of the SAMA support programme and the government grant as a key audit matter because:</p> <ul style="list-style-type: none"> ▪ 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: <ul style="list-style-type: none"> • 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. <p><i>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.</i></p>	<ul style="list-style-type: none"> ▪ 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 government 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.

**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.

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

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

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

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

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

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

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

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

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

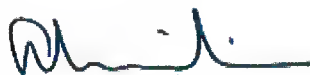
Auditors' responsibilities for the audit of the consolidated financial statements (continued)

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2020.

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17 Rajab 1442H
(1 March 2021)

Consolidated statement of financial position

As on 31 December

	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.

Mathew Pearce

Mathew Pearce

Chief Financial Officer

David Dew

David Dew

Managing Director & Authorized Member

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 amortization	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.

Mathew Pearce

Mathew Pearce

Chief Financial Officer

David Dew

David Dew

Managing Director & Authorized Member

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.

Mathew Pearce

Mathew Pearce

Chief Financial Officer

David Dew

David Dew

Managing Director & Authorized Member

Consolidated statement of changes in equity

For the year ended 31 December

	Attributable to equity holders of the Bank								Non-controlling interest SAR'000	Total Equity SAR'000
	Notes	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.

Mathew Pearce
Mathew Pearce
 Chief Financial Officer

David Dew
David Dew
 Managing Director & Authorized Member

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 amortization	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.

Mathew Pearce
Mathew Pearce
 Chief Financial Officer

David Dew
David Dew
 Managing Director & Authorized Member

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 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 cognizant 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 believe 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:

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

- 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.

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 are 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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

- 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 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 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 it is expected to impact 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 January 01, 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 programs 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

Business model assessment

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

iii) Derecognition

a. Financial assets

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

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

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

Any cumulative gain/loss 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 de-recognition 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 Program

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

iv. Fees and commission income and expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time are recognised over the period when the related service is being performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service is received. Any fee income received but not earned is classified under other liabilities.

v. Net trading income

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

vi. Day one profit

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

I) Sale and repurchase agreements

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

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

J) Investment in equity-accounted investees

The Bank's interests in equity-accounted investees comprise interests in associates.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial 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.

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 realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 2020	425	-	-	425
Net charge for the year	1,204	333	-	1,537
Balance as at 31 December 2020	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

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

2019	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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 amortized cost

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2019	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

• Corporate and institutional lending

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2019	366,723	1,624,813	2,716,152	42,924	4,750,612
Transfer to Stage 1	52,816	(42,156)	(10,660)	-	-
Transfer to Stage 2	(5,690)	27,070	(21,380)	-	-
Transfer to Stage 3	(3,630)	(258,312)	261,942	-	-
Net re-measurement of loss allowance	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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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
ROU			
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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

	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 amortization							
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.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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:

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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'.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

	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					

	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
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					

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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	-	-

	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 favor 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 standardized 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 recognized amounts and when the Bank intends to settle on a net basis, or to realize 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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

18. Other reserves

Cash flow hedges and FVOCIs investments

	Cash flow hedges	FVOCI	Total
2020			
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

	Cash flow hedges	FVOCI	Total
2019			
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 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 Merger has created the Kingdom’s fourth-largest bank (according to the total assets as of 31 December 2019), a top-tier retail and corporate bank, and provides access to a global banking network to facilitate the flow of investment capital into Saudi Arabia and the growth of international trade. SABB is better positioned to support the Saudi economy, Saudi residents and Saudi companies in Saudi Arabia and internationally. The benefits of the merger created post completion of the transaction are expected to be fully realized in the earnings of the merged bank two to three years subsequent to the completion of the transaction on 16 June 2019.

a. Purchase consideration

The purchase consideration was determined to be SAR 23,140,991 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

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 recognized 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 as at 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 guarantees letters of credit acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally 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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

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

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

• Letters of guarantees

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

• Acceptances

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

• Irrevocable commitments to extend credit

2020	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

2019 (Restated)	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

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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

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

	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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 allowance	1,094,386	999,831
Housing allowance	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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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			

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

Other employees:

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

Outsourced employees:

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

b) Qualitative disclosure

Compensation disclosure for the annual financial statements

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

SABB compensation policy

i. Policy objectives

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

The objectives of the policy are to: align the reward practices with the Bank's strategy 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 payschemes

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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 finalized. 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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:

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 incometax	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 incometax	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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 Program (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:

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

Corporate exposures	Retail exposures	All exposures
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 on account of:

- days past due;
- change in probability of default occurring since initial recognition;
- expected life of the financial instrument; and
- reasonable and supportable information, that is available without undue cost or effort that may affect credit risk.

Lifetime expected credit losses are 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).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 maximize 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 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.

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-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 macro-economic 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 analyzing 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:

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

Economic Indicators	Forecast calendar years used in 2020 ECL model			Forecast calendar years used in 2019 ECL model		
	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 48Mn for the retail portfolios and SAR 151Mn 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);
- 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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 judgment 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 sensitized	PL Impact 2020
Macro-economic factors(Base scenario 2021):	
Government revenue, oil [Riyal; Millions] increase by 11.49%	
GDP per capita (constant LCU) reduction by 7.27%	
Government debt, gross, LCU/GDP, nominal, LCU*100 reduction by 8.5%	69,944
3 Month Cash Deposit Mid Rate (% p.a.) reduction by 33.53%	
Scenario weightages:	
Base scenario sensitized by +/- 5% with corresponding change in downside	12,837
Base scenario sensitized 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 1 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

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			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							
Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			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							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			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							
Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			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	-	-	-	-	-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

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	-	

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

Notes to the consolidated financial statements (continued)

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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.

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.

	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	Amount not set off 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 realized through disposal. Subsequent changes in fair value are recognized immediately in the Interim consolidated statement of income without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist.

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

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

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:

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

	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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 years period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years. The impact of these revised transitional arrangements to the Bank's Tier 1 and Tier 1 + 2 ratio have been an improvement of 43bps for the year ended 31 December 2020.

Notes to the consolidated financial statements (continued)

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 Programs

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 judgment 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 case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

SAMA programs and initiatives

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

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

As part of the deferred payments program 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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

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 for a period of six months and then further deferring the instalments 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 program 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 recognizing an additional modification loss of SAR 69 million during the period ended 31 December 2020.

As a result of the above program and related extensions, the Bank has deferred the payments of SAR 6.2 billion on MSMEs portfolio and accordingly, has recognized 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 millions 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 provisions 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 program, during the year 2020, the Bank received profit free deposits from SAMA amounting to SR 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 30th 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 SR 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 programs and the accounting impact for the period is immaterial. Furthermore, during the current year, the Bank received an amount of SAR54 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 fifty billion riyals 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.

Notes to the consolidated financial statements (continued)

For the year ended 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 till 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 January 1, 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:

- 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 January 1, 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2020

- 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).