

25 August 2020

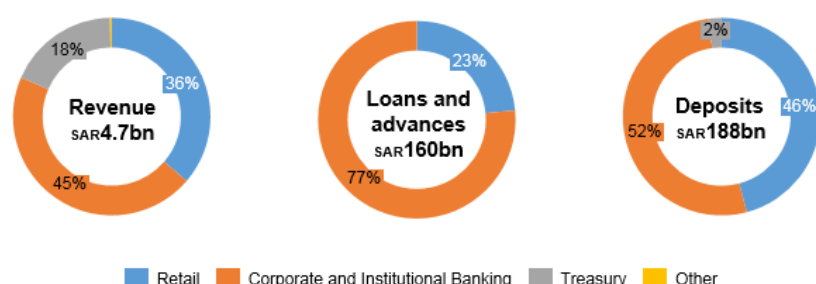
## THE SAUDI BRITISH BANK, ('SABB')

### 1H20 Earnings Release

#### Key messages

- The first half of 2020 has been challenging and unprecedented as a result of the global COVID-19 pandemic. The Bank transitioned swiftly, flexing its branch network, moving to new, remote working practices to ensure we maintained critical services and the safety of our customers and staff. The Bank extended financial support to our customers, notably offering deferrals to small business enterprises and to customers in the healthcare sector, as well as waiving certain transaction fees.
  - During the half, we completed the first anniversary of the merger - the integration of the merged bank continues to be a top priority and is on track.
  - An equal priority is also our focus on business-as-usual and advancement of digital and mobile solutions for our customers. **SABB was recently awarded 2020 Best Mobile Banking App and Best Consumer Digital Bank by Global Finance magazine, in addition to Best Bank in KSA overall. SABB's mobile app continues to be highly rated in both the Apple and Google Stores (Top 2 in KSA).**
  - Underlying profit before tax<sup>1</sup> of SAR1,373 million was SAR378 million or 22% down** (on a pro forma basis) from a fall in revenue partly offset by lower expected credit losses. **Underlying costs of SAR1,690 million were 5% down** and continued their downward trajectory reflecting the achievement of ongoing synergies. Synergy realisation remains on track and within our expectations.
  - Reported Net loss before Zakat and income tax of SAR6,215 million includes a goodwill impairment of SAR7,418 million** relating to the goodwill created following the merger with Alawwal bank. **This is a non-cash item and expected to be a one-time accounting charge that does not affect the Bank's Capital, liquidity or funding; nor our strategic strengths and competitive advantages. Our ability to lend to and support our customers, our products and services and our focus on our people all remain entirely unaffected by this accounting charge.** Goodwill was recognised following the merger of SABB-AAB in June 2019. The need to impair is driven by two factors:
    - the temporary inflation of the Bank's share price at the time of the merger caused by Saudi Arabia's inclusion into the MSCI EM Index.
    - the unprecedented and unexpected emergence of the COVID-19 pandemic and its impact on the economy has also contributed to the outcome of the impairment assessment's expectation of future returns.
- A more detailed explanation can be found on page 4.
- The **Bank completed the accounting for the merger in the second quarter**, within the 12-month period afforded by the accounting standards. The related Purchase Price Allocation exercise resulted in a final fair value of AAB net assets of SAR4.8 billion and a commensurate recognition of goodwill totalling SAR16.2 billion before goodwill impairment.
  - SABB completed the issuance of a SAR5 billion Tier II Sukuk during July**, which enhanced our Capital position further. This is the first such transaction by the merged bank in the debt capital market, the joint largest Tier II issuance by a Saudi bank in history, and the largest local issuance by a bank since the introduction of the Kingdom's national growth agenda under Vision 2030. SABB is proud to support the continued development of the local debt capital markets. The issuance was oversubscribed by a broad range of investors, once again confirming SABB's leading position in the capital markets, and its continued strength and resilience in today's challenging economic conditions.
  - SABB closed the reporting period with robust levels of capital, liquidity and a strong funding base.** CET1 ratio of 18.1%, a loan to deposit ratio of 81%<sup>2</sup>, over SAR60 billion of high quality liquid assets and strong demand deposit ratio of 71%. The funding base is diversified and surplus liquidity is ample to support lending growth.

#### 1H20 key financials by business

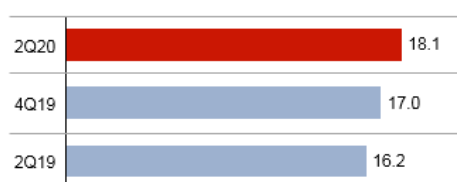


#### Credit ratings

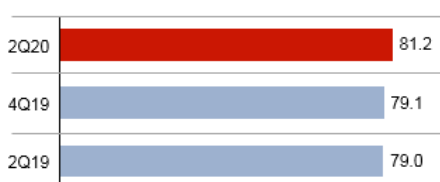
**Moody's:**  
A1 / P-1 / Negative

**Fitch:**  
BBB+ / F2 / Stable

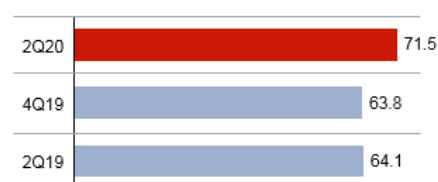
#### CET 1 ratio, %



#### Loan to deposit ratio, %



#### Demand deposit ratio, %



1. Underlying profit excludes certain notable items that can distort period-on-period comparisons (see page 11 for a complete list)  
2. Asset to deposit ratio is calculated as 'Loans and advances, net' divided by 'Customers' deposits'

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*This report contains information that has been subject to audit review and conversely that has not been subject to audit review.*

## Chairman statement

As the second quarter of 2020 drew to a close, we completed the first anniversary of the merger of SABB and Alawwal Bank, which took place on 16th June 2019. It has certainly been a year of great challenge for the Kingdom, its banking sector and the global economy. We experienced periods of lockdown and curfews in response to the COVID-19 pandemic, the price of oil turned negative for the first time ever, and we had to transition to operating remotely, an entirely new way of working.

I am very proud of how smoothly our team managed to transition to working remotely, while ensuring that we did not miss a beat in providing the high service levels our customers have come to expect from us. Not only did we maintain our standards and extend financial support, where needed, to our customers, but we made an effort to support the broader community by contributing to the Ministry of Health's COVID fund, and by waiving certain transaction fees and offering a period of deferral to our customers in the healthcare sector who were working so hard to protect us all.

We were fortunate to enter these challenging times with a strong capital position, a good position in which to be when coping with a global pandemic and the associated economic stresses. Despite short-term earnings challenges, not only did we finish this second quarter with a relatively stable capital base, as well as abundant liquidity, but in July we managed to further strengthen our capital base through the successful issuance of an SAR 5 billion Tier 2 sukuk. It was the joint largest issuance in Saudi history, a sign of immense confidence in SABB during a period of unprecedented economic stress.

That confidence is certainly warranted, because despite the scale of these challenges, SABB has proved itself resilient throughout this year. Not surprisingly, though, our financial results for the three months ended 30th June reflect the economic and other challenges being experienced by us, our customers and the broader economy.

Those results also reflect the fact that in the midst of dealing with all these challenges, we were also trying to deal with a thorny accounting issue regarding the appropriate manner in which to address the fact that our goodwill had been inflated because legal day one for our merged bank – 19 June 2019 - occurred right in the middle of Saudi Arabia's MSCI inclusion process, a period during which share values are typically distorted. In our case, SABB's share value was artificially high. We took the view that we should be allowed to reverse the goodwill associated with that artificially high value because it did not reflect the fair value of our shares, avoiding a goodwill impairment based on that artificially high value. Our efforts to deal with what is a very technical accounting issue was made more difficult by the fact that goodwill and goodwill impairment are not concepts with which the Saudi market is terribly familiar. Moreover, there was no precedent in the Kingdom or abroad, for share values being set for a merger in the midst of the MSCI inclusion process. Without a clear rule or precedent to cite, we were unable to persuade the auditors to take an alternative view, and were therefore compelled to take a significant write-off for goodwill impairment.

While I appreciate that the reported results may seem at first disappointing, I would reiterate that they are the result of a highly technical and somewhat controversial accounting issue. Moreover, the impairment does not affect our capital, liquidity, funding or strategic strengths. It is a one-off event in nature, and we now look forward to moving on with our strategic priorities.

We are certainly well positioned to do so. The way our staff, our management and our board pulled together to get SABB through this difficult period convinces me that we are well equipped to deal with the stresses in the economy, conduct our business, support our customers, and successfully complete our integration. That integration, even though slightly delayed by virtue of our having to shift to working remotely, nevertheless remains on track within our guided timeline for delivery 18 to 24 months from the date of the merger, as do the expected costs and resulting synergies.

So I would like to offer my sincere gratitude to all our staff who adapted so effectively to a new way of working and have worked, and continue working, so diligently to support our customers and each other during these very challenging times.

Our management team and board members also deserve our thanks. Throughout this period, both the board and the executive management team met on a much more frequent basis to guide the Bank through the challenges that came with the pandemic and market stresses. But rest assured we also are keeping a constant eye on the future, so as we navigate through the rest of this year and the ongoing COVID-19 crisis, we are conducting a review of the Bank's strategic plan to position the Bank for continued success.

I would be remiss if I did not also express our appreciation to the Saudi government for the actions it has taken to combat the spread of the virus and support the economy, and to SAMA for its ongoing support of our banks and the banking system.

With that continued support, the dedicated efforts of our staff, management and board members and the loyalty of our valued customers, I am confident that the merged and fully integrated SABB will emerge even stronger from this crisis.

**Lubna Suliman Olayan**

## Special Matters (Not subject to audit review)

### Goodwill inflated by temporary distortion in SABB's share price at the time of our legal merger caused by inclusion of Saudi Arabia into the MSCI Emerging Markets index

#### Goodwill inflated by share price distortion

The merger of SABB and AAB in June 2019, an all-share deal, resulted in a significant increase in SABB's accounting for equity by SAR23.1 billion and with a corresponding accounting value of Goodwill recognised of SAR16.2 billion. This was driven by the value assigned to the newly issued shares, with the purpose of quantifying the value of the share consideration transferred to AAB shareholders for the merger. The initial assessment of the value of the shares issued immediately after the merger date has, to date, been based on the publicly traded share price of SABB at the merger date, which was SAR41.70 per share.

During a period surrounding the merger date in 2019, the share price of SABB and other stocks qualified to be included in the MSCI EM Index ("the index") were temporarily inflated by the inclusion of those stocks into the index. In SABB's case the share price rose up over 30% heading into the first tranche of inclusion and then receded back towards its starting price point prior to the inclusion once the inclusion event was completed. It is a phenomenon that occurs whenever a country is included into a major index such as MSCI whereby the predictable investment inflows on inclusion from fund managers who track the index drive up prices in advance of the inclusion event and then fall back again post inclusion. The occurrence of our public merger in the middle of an inclusion event is to our understanding unique. By the time SABB and AAB legally merged, the share price of SABB was SAR41.70 per share, a high for the Bank in recent history. Subsequent to the inclusion event, SABB's share price receded to around SAR32 per share.

When SABB and AAB announced their binding merger agreement on 4<sup>th</sup> October 2018, the share price of SABB was SAR31.90 and, in the view of the Board and Management of SABB, represented the fair value of the exchange ratio agreed at that time and still represented the realisable fair value of the shares issued to AAB shareholders at the date of the merger in June 2019.

It is highly pertinent to appreciate that the vast majority of the AAB shareholders who acquired SABB shares as a result of the merger were not able to sell their shares at the inflated share price of SAR41.70 per share at the time, and thereby could not in practice realise value equivalent to that share price. This was because they were either strategic shareholders invested for the long-term, were subject to legally binding lock in agreements, or could not sell a sufficient quantity due to SABB's relatively low level of daily turnover in its shares on Tadawul. That is, by the time the vast majority of the newly issued shares could have been sold in the public market or through private deals, the realised value would have been significantly lower than the share price of SAR41.70 per share at the time of the merger. It would have been closer to the SAR31.90 per share that SABB believes is the best representation of the fair value of consideration given to complete the merger.

SABB issued 554m new shares for the merger. The average daily trading volume for SABB in 2019 was around 1m share per day. Within 50 trading days after the legal merger date, the share price of SABB had receded to around SAR32 per share, subsequent to the last inclusion event tranche that occurred in August. Accounting for the value of consideration, and thereby Goodwill, at the inflated share price does not reflect the economics of the transaction. It did not represent a realised or realisable value to the majority of recipients of the newly issued shares.

SABB has quantified the impact from the distorted share price to be an inflation of Goodwill by SAR5.4bn. That is, SABB believes the accounting should have recognised Goodwill by SAR5.4bn lower than the initially recognised amount of SAR16.2bn prior to the Goodwill impairment at 30<sup>th</sup> June 2020.

The illustrations of the historic share price of SABB, from the time of merger announcements through the period of distortion surrounding the inclusion event and subsequent normalization, together with the impact on the Goodwill of the Bank, are set out below in the section '*Share price distortion of SABB caused by inclusion into the index*'.

#### Accounting for Goodwill

The international accounting standards applied by listed companies in Saudi Arabia, require that in a merger the value of the consideration paid be valued by reference in the first instance to an active quoted share price that existed at the date of the merger. In the case of the SABB-AAB merger, that would suggest that the best value of consideration is to value the shares issued to AAB shareholders at the publicly quoted share price at the merger date, i.e. SAR41.70. This is the position of our auditors.

In accordance with accounting standards, SABB had 12 months from the date of the merger to agree the final valuation of the consideration paid (shares issued) which ends with the completion of SABB's financial statements ending 30<sup>th</sup> June 2020. SABB has been in discussion with its auditors on this matter to date and a final conclusion must now be reached.

The accounting standard does, however, allow 'judgement' to be used if the quoted share price is not considered to be the best representation of fair value. It is the view of the Board and Management that the share price of SAR41.70 at the date of the merger does not represent the fair value of the shares issued. SABB wanted to use an alternative valuation. SABB believes that a value equivalent to SAR31.90 per share is the fairest representation. This is the position of the Bank. Our auditors do not share the same conclusion and hence the Bank is obliged to accept what it views as an inflated share price to value the Goodwill. SABB does not, however, believe this is in the best interests of its shareholders or the market more broadly.

#### Goodwill Impairment

The result of locking in the value of Goodwill at the inflated price is that it significantly increases the likelihood in the future of an impairment of Goodwill, and the amount by which Goodwill might be impaired. Given the prevailing stressed economic conditions caused by the emergence of the COVID-19 global pandemic, SABB was required to conduct an impairment test of its Goodwill as at 30<sup>th</sup> June 2020. SABB believes that it is very difficult to conclude on the impairment test to a high degree of accuracy due to the following reasons: significantly heightened degree of uncertainty of the future caused by COVID-19 and the current state of global response; and the Board of SABB is not due to complete its 5-year strategic plan until the end of 2020. Both of these factors significantly impact the outcome of the impairment test. They drive the key inputs into the model, the output of which is highly sensitive to those inputs. Whilst it may be considered at the best of times that reasonable projections may be made regardless of future uncertainty, the Bank is operating in conditions that are historic in nature which undermine the reliability of information that may have been used previously to predict the future.

However, accounting standards require that SABB conclude on a best efforts basis, even absent reliable information, and hence SABB has made an impairment of its Goodwill during the 3 months-ending 30<sup>th</sup> June 2020 for an amount of SAR7.4 billion, which has been charged to the income statement, based on preliminary assumptions. The impairment amount of SAR7.4 billion includes the amount of Goodwill that is inflated by the overstatement caused by use of a temporarily inflated share price used to value the consideration for the merger; as well as factoring in additional perceived stress caused by the prevailing conditions.

In the event that an impairment test is conducted at the year-end that would incorporate an updated outlook on the health of the economy and formally-approved strategic plan aspirations that are less pessimistic than the assumptions used in the impairment test for Q2 2020, any resulting improvement in the value used to assess Goodwill for impairment would not result in a reversal of Goodwill impairment because the accounting standard does not permit reversal.

The accounting for Goodwill, and Shareholders' Equity, through a temporarily inflated share price does not reflect the economics of the merger transaction. An impairment charge for Goodwill does not affect the Bank's capital, liquidity, or funding; nor our strategic strengths and competitive advantages or our ability to lend to customers, our customer service standards, or any impact on our people. In the Bank's view this is a one-off accounting event under unprecedented circumstances.

## Share price distortion of SABB caused by inclusion into the index

MSCI or Morgan Stanley Capital International is a global provider of equity, fixed income, hedge fund stock market indexes, and multi-asset portfolio analysis tools. MSCI Emerging Markets index is used to measure equity market performance in global emerging markets. The MSCI Emerging Market Index captures mid and large caps across more than two dozen emerging market countries and represents 13% of global market capitalization.

The MSCI Emerging Markets index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates. Since its inception in 1988, the MSCI Emerging Markets Index has grown significantly. Saudi Arabia joined the index in 2019 across two tranches and initially held 2.8% of the index capitalisation. The inclusion to MSCI is an extremely unique event with the benefits of index inclusion including improved market access, an increased potential for diversifying an institution's investor base, increased foreign investment flows and improved liquidity. The general trend observed for emerging market inclusion, where an equity market is promoted to an Emerging markets status from Frontier markets or Standalone status, is outperformance of included stocks heading into the inclusion period and reversion after the inclusion event to share prices that tend towards the prices that existed prior to the inclusion event. The increased liquidity and outperformance is often associated with active investors seeking exposure to the upgraded market with some prepositioning for the index inclusion event, in the expectation that passive investors will include these stocks on the index inclusion event.

Saudi Arabia was announced to be joining the index on 20 June 2018 and was included across two tranches with the first in May 2019 and the second in August 2019. SABB was included in both tranches. The initial announcement of Saudi Arabia's inclusion together with the inclusion events have coincided with merger from the initial non-binding announcement of merger discussions to LD1 as shown in Chart 1 below. Following the index inclusion announcement and the subsequent first index inclusion event, SABB's share price increased 34% from SAR30.70 to SAR41.00. Following the inclusion event, SABB's share price fell to levels similar to the price at the MSCI announcement date.

Chart 1: SABB share price during 2018 and 2019

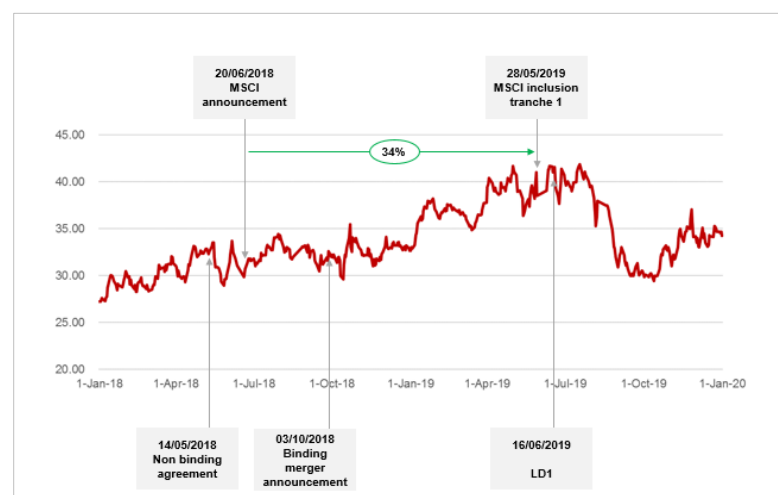
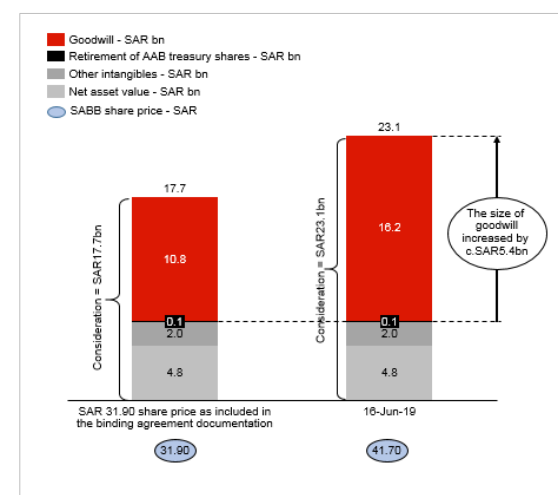


Chart 2: Goodwill using share price included in the binding agreement



A number of stocks included in the MSCI Saudi Arabia index also exhibited increases and decreases in the lead up to and following the inclusion events. This phenomenon is not unique to the Kingdom's inclusion and a number of other MSCI Emerging Market index inclusion events, including the UAE, Qatar and Pakistan have also exhibited similar profiles. What is unique in the Bank's view is the occurrence of our public merger in the middle of an inclusion event.

## Goodwill impairment test

The test was performed by comparing the estimated recoverable amount of the Bank's cash generating units ('CGU') that carry goodwill, as determined through a Value-In-Use ('VIU') model, with the carrying amount of net assets of each CGU. The Banks CGUs are Retail Banking & Wealth Management, Corporate & Institutional Banking, and Treasury.

At 30 June 2020, the Goodwill allocated to CIB was impaired by SAR 7.4 billion versus a carrying amount of SAR 8.19 billion. The impairment charge is recorded in the Interim Consolidated Statement of Income. 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 assumes 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.

The other CGUs were not impaired.

### Key assumptions in value-in-use calculation

The VIU 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 most sensitive to 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; and
- Local inflation rates
- Target Capital ratio and profit retention

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

- Discount rate of 10.3%, 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 4.1%, derived from economists' forecasts of nominal GDP for KSA, applied to projected periods beyond 2024.
- Long-term profit growth rate of 4.9%, 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.

At 30 June 2020, goodwill after impairment is allocated to the following CGUs:

Cash generating units (CGU's)	Goodwill allocated (SAR million)
Retail Banking & Wealth Management	4,650
Corporate and institutional banking	772
Treasury	3,356
Total	8,778

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

Cash generating units (CGUs)	Impact on the recoverable amount of CGUs	
	One percentage point change in discount rate (SAR million)	One percentage point change in terminal growth rate (SAR million)
Retail Banking & Wealth Management	(2,445)	(2,097)
Corporate and institutional banking	(4,803)	(4,120)
Treasury	(2,686)	(2,297)

## Completion of Purchase Price Allocation ('PPA') exercise (Not subject to audit review)

SABB has completed its PPA exercise during the second quarter of 2020. As per IFRS 3, SABB had up to 12 months from the date of the merger to complete the exercise and assign a fair value to the assets and liabilities acquired through the merger. The purchase consideration transferred to AAB shareholders was based on the closing market SABB share price on the Tadawul All Share Index on the last trading day before 16 June 2019 which was SAR41.70 resulting in a consideration of SAR23.1 billion. The PPA exercise resulted in a fair value of net assets of SAR4.8 billion with goodwill of SAR16.2 billion and other intangibles of SAR2.0 billion. The fair value of the assets and liabilities acquired as at 16 June 2019 are tabulated below:

Final PPA fair value and goodwill calculation		
SAR million	Final fair value	Original fair value estimate (as reported in the 1H19 Financial Statements)
<b>Assets</b>		
Cash and balances with SAMA	4,933.3	4,933.3
Due from banks and other financial institutions, net	966.3	966.3
Positive fair value derivatives, net	165.8	169.6
Investments, net	15,560.9	15,470.1
Loans and advances, net	45,904.1	49,363.2
Investment in an associate	80.2	89.4
Property and equipment, net	1,464.1	1,464.1
Other assets	1,545.8	1,557.4
<b>Total assets</b>	<b>70,620.5</b>	<b>74,013.4</b>
<b>Liabilities</b>		
Due to banks and other financial institutions	863.2	863.2
Customers' deposits	60,910.9	60,836.5
Negative fair value derivatives, net	132.8	137.1
Other liabilities	3,868.8	3,961.2
<b>Total liabilities</b>	<b>65,775.7</b>	<b>65,798.0</b>
AAB net assets as at acquisition date	4,844.8	8,215.4
Provisional amounts arising from the acquisition:		
Retirement of AAB treasury shares	78.7	
Goodwill	16,195.9	14,925.6 <sup>1</sup>
Other intangibles	2,021.6	
<b>Total purchase consideration</b>	<b>23,141.0</b>	<b>23,141.0</b>

Notes:

1. A provisional goodwill of SAR14,925.6 million was estimated following the merger and reported in the 1H19 Financial Statements

The completion of the PPA exercise in the 2<sup>nd</sup> quarter of 2020 mainly incorporated write downs to acquired AAB customer loans. These can be separated into the following thematic scenarios:

- i. Customers that were recognised as performing at merger date that have been identified as non-performing. These balances are written down to their net recoverable amount and now included in Purchased or originated credit impaired ('POCI').
- ii. A further decrease in the recoverable amount relating to customers that were considered non-performing at the merger date, based on updated information and assessments, resulting in a reduction in related POCI balances.

In line with accounting standards, customer balances and income statement impacts are restated historically based on the conclusion of the PPA exercise. A complete list of 1H19 restatements for the income statement can be found in Note 21 of the 1H20 Financial Statements. Restatements by quarter can be found on the following page.

# Income statement restatements following final PPA

	Quarter to date			
	2Q19 SAR million	3Q19 SAR million	4Q19 SAR million	1Q20 SAR million
<b>Revenue as originally reported</b>	<b>1,983.2</b>	<b>2,576.9</b>	<b>2,867.5</b>	<b>2,435.4</b>
Inclusion of PV unwind	36.4	177.2	(278.1)	(11.9)
Reversal of interest accrued for customers now deemed to be non-performing	(9.0)	(63.3)	(47.4)	(54.6)
<b>Restated revenue</b>	<b>2,010.6</b>	<b>2,690.8</b>	<b>2,541.9</b>	<b>2,368.9</b>
<b>Operating expenses as originally reported</b>	<b>(722.3)</b>	<b>(1,057.2)</b>	<b>(1,260.8)</b>	<b>(1,000.7)</b>
Amortisation of intangibles	(5.9)	(36.1)	42.0	-
<b>Restated operating expenses</b>	<b>(728.2)</b>	<b>(1,093.3)</b>	<b>(1,218.8)</b>	<b>(1,000.7)</b>
<b>Expected credit losses as originally reported</b>	<b>(1,628.4)</b>	<b>(235.6)</b>	<b>(654.7)</b>	<b>(254.2)</b>
Reversal of ECL charge for customers now deemed to be non-performing	36.7	3.8	67.8	15.1
<b>Restated expected credit losses</b>	<b>(1,591.7)</b>	<b>(231.9)</b>	<b>(586.9)</b>	<b>(239.1)</b>
<b>Net (loss) / income before Zakat and income tax as originally reported</b>	<b>(318.0)</b>	<b>1,313.1</b>	<b>990.1</b>	<b>1,203.9</b>
Inclusion of PV unwind	36.4	177.2	(278.1)	(11.9)
Reversal of interest accrued for customers now deemed to be non-performing	(9.0)	(63.3)	(47.4)	(54.6)
Amortisation of intangibles	(5.9)	(36.1)	42.0	-
Reversal of ECL charge for customers now deemed to be non-performing	36.7	3.8	67.8	15.1
<b>Restated Net (loss) / income before Zakat and income tax</b>	<b>(259.8)</b>	<b>1,394.6</b>	<b>774.3</b>	<b>1,152.5</b>

# Selected Balance sheet restatements following final PPA

	As at			
	30 Jun 2019 SAR million	30 Sep 2019 SAR million	31 Dec 2019 SAR million	31 Mar 2020 SAR million
<b>Net customer loans as originally reported</b>	<b>158,275.4</b>	<b>152,528.8</b>	<b>154,677.0</b>	<b>157,839.1</b>
Additional write down of AAB loans	(3,373.0)	(3,373.0)	(2,507.1)	(2,507.1)
Impact of PV unwind, reversal of previously accrued interest and reversal of ECL charge	59.1	159.4	(94.8)	(53.8)
<b>Restated net customer loans</b>	<b>154,961.5</b>	<b>149,315.2</b>	<b>152,075.1</b>	<b>155,278.2</b>
<b>Customer deposits as originally reported</b>	<b>196,145.5</b>	<b>183,417.4</b>	<b>192,166.5</b>	<b>188,275.2</b>
Further fair value adjustment	14.7	14.7	-	-
Impact of PV unwind	(2.7)	(19.0)	-	-
<b>Restated customer deposits</b>	<b>196,157.6</b>	<b>183,413.2</b>	<b>192,166.5</b>	<b>188,275.2</b>



## COVID-19 Response (Not subject to audit review)

COVID-19 has created unprecedented challenges for the global economy. The global pandemic has caused disruption to economic and social conditions and caused severe hardship across the globe and uncertainty remains on the duration of the pandemic. The first quarter of 2020 saw falling global benchmark interest rates and the worsening outlook on the macroeconomic level has continued into the second quarter. SABB's approach has been simple, swift and robust to maintain critical services and support to customers and to keep customers and staff safe.

Our digital engagement has increased with both customers and staff, and operational resilience has remained strong throughout the period. The Bank quickly deployed over 2,500 laptops, increased remote connectivity by 300% which involved expansion of our Virtual Private Network ('VPN') capacity by 12x. This has allowed the Bank to continue operations throughout. Digital penetration of our customer base has increased to 69% with a 15% month-on-month increase in SABB mobile registrations. Our ongoing investment has also translated into recognition for excellence, with SABB recently being awarded Best Mobile Banking App and Best Consumer Digital Bank by Global Finance magazine.

A brief summary by business area and wider community initiatives are summarised below:

### Retail Banking and Wealth Management

- SABB flexed its branch network in an industry-wide push together with the Ministry of Health and SAMA, encouraging customers to avoid unnecessary branch visits to reduce the risk of Coronavirus infection. RBWM further encouraged customers who were not active either on the mobile App or online banking through social media and mobile messaging, resulting in a 37% increase in App downloads.
- RBWM waived certain fees and other charges for customers.
- For retail customers working in the Health sector, SABB provided a 3-month payment deferral that has benefited over 27k customers.
- Increasing digital engagement has improved digital penetration to 69% across our retail customer base.

### Corporate and Institutional Banking

- SABB has worked diligently to implement SAMA's various initiatives to support the financial sector and in particular the MSME segment. Following the launch of SAMA's Private Sector Financing Support Program ('PSFSP') which provides support to Micro Small and Medium Enterprises ('MSME'), SABB has provided eligible customers with a 6-month payment deferral. In addition, the Bank has waived fees associated with digital payments and transfers for corporate customers for six months.
- A large proportion of transactions and services for corporate customers can be completed digitally and SABB relationship managers have the ability to support customers remotely. SABB's Global Liquidity and Cash Management ('GLCM') and Global Trade and Receivables Finance ('GTRF') businesses have digital at their core and provide products and solutions that corporates can find beneficial in their financial planning in the current challenging environment.

### Treasury

- In notably volatile markets, the Treasury business has continued to support its clients with their foreign exchange and interest rate hedging needs.
- Treasury continued to manage and monitor the funding and liquidity of the Bank ensuring that key liquidity ratios are well within the Bank's targeted appetite and within regulatory thresholds, and the bank maintains access to stable funding and retains ample liquidity. In July, SABB completed the issuance of a SAR5 billion Tier II Sukuk, which enhanced our Capital position further. This is the first such transaction by the merged bank in the debt capital market, the joint largest Tier II issuance by a Saudi bank in history, and the largest local issuance by a bank since the introduction of the Kingdom's national growth agenda under Vision 2030. SABB is proud to support the continued development of the local debt capital markets. The issuance was oversubscribed by a broad range of investors, once again confirming SABB's leading position in the capital markets, and its continued strength and resilience in today's challenging economic conditions.
- SABB as one of only five official Primary Dealers is playing a proactive role in the issuance of government debt by actively participating in the primary debt market and also supporting the secondary market.

### Society

- As mentioned earlier, SABB in line with the Ministry of Health and SAMA guidance flexed its branch network to avoid unnecessary branch visits and reduce the risk of the Coronavirus infection spreading. We have provided those branch staff who are working in branches with the necessary protective equipment as guided by the Ministry of Health. Non-branch staff have been equally protected providing staff with the ability to work from home where processes allow. SABB regularly reviews its business continuity plans and has successfully navigated its way through this challenging period.
- From a community perspective, the Bank contributed SAR27 million to the Ministry of Health's COVID-19 fund and provided food baskets to over 9,000 families across 14 charitable organisations. SABB also partnered with transport apps including Careem and Uber to deliver groceries free of charge with an additional discount when using SABB payment cards.

## Reported results (Not subject to audit review)

### Six months ended 30 June financial highlights

	Six months ended 30 June		
	2020 SAR million	2019 SAR million	Change %
		<i>Restated</i>	
Total operating income ('Revenue')	4,687	3,981	18
Operating expenses (excluding Provisions for credit losses, net)	(1,971)	(1,337)	(47)
Provision for expected credit losses, net	(1,548)	(1,682)	8
Goodwill impairment	(7,418)	-	-
Share in earnings of associates and a joint venture	35	66	(47)
Net income before Zakat and income tax	(6,215)	1,026	>(100)
Zakat and income tax	318	(117)	>100
Net (loss) / income after Zakat and income tax	(5,896)	909	>(100)
<i>Notable items:</i>			
Impairment of goodwill	(7,418)	-	-
Unwind of the fair value adjustment	187	36	>100
Charge relating to the net impact in 1H20 from the deferred payment programmes	(76)	-	-
Merger-related expenses	(187)	(133)	(41)
Intangible amortisation	(78)	(6)	>(100)
One-off expenses	(16)	(15)	(7)
<i>Key ratios:</i>			
	%	%	ppt.
Return on Tangible Equity (ROTE)	5.7	5.3	0.4
Cost efficiency ratio (CER)	42.0	33.6	(8.4)
Core Tier 1 ratio (CET1)	18.1	16.2	1.9
	As at 30 June		
	2020 SAR million	2019 SAR million	Change %
Gross customer advances	160,327	161,149	(1)
Customer deposits	188,357	196,157	(4)

The table above reflects the reported consolidated financials of SABB for the six months ended 30 June 2020 and 2019. SABB legally merged with AAB on 16 June 2019. Results for the six months ended 30 June 2020 reflect the results of the combined entity whereas the results for the six months ended 30 June 2019 reflect the results of SABB up to the merger date and the results of the combined entity for the remaining period. A clearer understanding of the underlying trends compared to history is best achieved through a review of our proforma results as set out in the section below titled 'Proforma results'.

- **SABB recorded a Net loss before Zakat and income tax of SAR6,215 million compared with a Net income before Zakat and income tax of SAR1,026 million in 1H19 and included SAR7,418 million goodwill impairment.** Excluding the impairment of goodwill, SABB had recorded a Net income before Zakat and income tax of SAR1,203 million which was SAR177 million or 17% higher than 1H19 driven by higher revenue and lower impairments, partly offset by increased costs.
- **Revenue of SAR4,687 million was SAR706 million or 18% higher than 1H19** and included revenue generated by the acquired AAB business post-merger together with SAR187 million from the unwind of the PV discount.
- **Operating expenses of SAR1,971 million were SAR634 million or 47% higher than 1H19** and included expenses incurred by the acquired AAB business post-merger and SAR187 million of merger-related expenses (1H19: SAR133 million). The merger-related expenses are temporary and will cease once the operational integration has completed.
- **Charges for provisions for expected credit losses of SAR1,548 million were SAR134 million or 8% lower than 1H19.** The charge in 1H20 and notably the second quarter reflected the increasingly worsening macro-environment underpinned by the COVID-19 global pandemic and lower oil prices. Cost of risk in the 2Q20 was 3.25%.
- **CET1 capital ratio remains strong at 18.1%.** CET1 capital ratio improved 1.1% compared with 31 December 2019 driven by income from 1H20 together with a reduction in RWAs partly offset by the payment of the final 2019 dividend. In addition, the ratio also benefitted from SAMA's regulatory COVID-19 support measures.

## Pro forma results (Not subject to audit review)

### Pro forma Income statement for six months ended 30 June

	Six months ended 30 June		
	2020 SAR million	2019 SAR million	Change %
		<i>Restated</i>	
Total operating income ('Revenue')	4,687	5,586	(16)
Operating expenses	(1,971)	(1,999)	1
Provision for expected credit losses, net	(1,548)	(2,093)	26
Goodwill impairment	(7,418)	-	-
Share in earnings of associates and a joint venture	35	66	(47)
Net (loss) / income before Zakat and tax	(6,215)	1,560	>(100)
<b>Notable items:</b>			
Goodwill impairment	(7,418)	-	-
Unwind of the fair value adjustment	187	36	>100
Charge relating to the net impact in 1H20 from the deferred payment programmes	(76)	-	-
Merger-related expenses	(187)	(166)	(13)
Intangible amortisation	(78)	(6)	>(100)
One-off expenses	(16)	(56)	71
<b>Underlying Pro forma income statement excluding notable items above:</b>			
Total operating income ('Revenue')	4,576	5,550	(18)
Operating expenses	(1,690)	(1,771)	5
Provision for expected credit losses, net	(1,548)	(2,093)	26
Share in earnings of associates and a joint venture	35	66	(47)
Net income before Zakat and tax	1,373	1,751	(22)
<b>Key ratios:</b>	%	%	ppt.
Return on Tangible Equity (ROTE)	5.7	6.1	(0.4)
Cost efficiency ratio (CER)	42.0	35.8	(6.3)
Cost of Risk (CoR)	1.94	2.45	0.49
Core Tier 1 ratio (CET1)	18.1	16.2	1.9

Pro forma financial results have been calculated for illustrative purposes only for 1H19, to enable an understanding of the period on period performance of the combined entity. It assumes SABB and AAB merged on the 1 January 2018. Because of its nature, the pro forma financial information addresses a hypothetical situation and therefore does not represent SABB's actual financial results. Restatements following the final PPA calculation have been reflected in the 1H19 above.

The following commentary is on a pro forma basis and compares the performance in 1H20 versus 1H19, unless otherwise stated:

- Net loss before Zakat and income tax of SAR6,215 million compared with a Net profit before Zakat and income tax of SAR1,559 million in 1H19.** The decline between the two periods was largely driven by the SAR7,418 million goodwill impairment during 2Q20. There were several other notable items recorded in the income statement for both periods and these are listed above. Excluding all these items, 1H20 net income before Zakat and income tax was SAR1,281 million which was 24% lower than 1H19 driven by lower revenue partly offset by lower charges for expected credit losses and lower operating expenses. The notable items and their impact on the income statement are explained further below.
- Revenue of SAR4,687 million was SAR899 million or 16% lower than 1H19** and included SAR187 million from the unwind of the fair value adjustment in 1H20 (1H19 restated: SAR36 million; 1Q20 restated SAR94 million; 2Q20: SAR93 million) and a net charge of SAR76 million for the net impact relating to the Healthcare programme deferred payment programme.

**Unwind of the fair value adjustment:** Following the completion of the accounting for the merger through the Purchase Price Allocation ('PPA') exercise, SABB has recorded the acquired AAB loan portfolio at fair value which is a discounted amount to the contractual amounts that are due from the underlying loans. For those loans that are considered performing, the discount applied will be unwound over time to the contractual maturity date of the loans and recognised in 'Net special commission income' using the effective interest rate method ('EIR'). The amount recognised in the future will be on a declining basis, in line with the EIR method.

**Impact in 1H20 from two specific deferred payment programmes ('DPP'):** Two key support packages for customers affected by the COVID-19 pandemic include:

- 6-month DPP for MSME customers – Following the launch of SAMA's Private Sector Financing Support Program ('PSFSP') which provides support to Micro Small and Medium Enterprises ('MSME'), SABB has provided eligible customers with a 6-month payment deferral by extending the tenure of applicable loans granted with no additional costs to be borne by the customer.
- 3-month DPP for retail customers who work in the healthcare sector - 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, SABB postponed payments for all public and private health care workers who had credit facilities for three months.

From an accounting perspective, both DPPs have been treated in line with IFRS 9 accounting standard as a modification in the terms of the arrangement and has resulted in a net modification loss of SAR200 million in 1H20 (1Q20: SAR170 million) recorded in 'Other operating income' and a discount has been applied to 'Loans and advances, net' of the same value. The discount for the MSME programme and Healthcare programme will be unwound over a 6-month and 3-month period respectively on a flat line basis and will be recorded in 'Net special commission income'. In order to offset the modification loss for the

MSME DPP, SABB has received SAR5.4 billion in deposits from SAMA with a tenure of 36 months. This has been accounted for in line with government grant accounting requirements which has resulted in a gain of SAR326 million, of which SAR124 million has been recorded in 'Other Operating Income' with the remainder deferred.

For both deferred payment programmes, the unwind of the respective discounts will broadly offset the lower Special Commission Income as a result of the deferred accrual period, thereby maintaining a constant yield throughout the life of the contract, in line with the effective interest method.

Excluding the unwind of the fair value adjustment, revenue of SAR4,576 million fell SAR974 million or 18%, largely from reduced Net special commission income reflecting lower performing lending balances and repricing as a result of the cuts in benchmark interest rates. Net fee income fell from a reduction in trade fees reflecting the current challenging macro-environment and lower oil prices together with lower loan origination fees and lower net fees from credit cards as a result of increased competition and the challenging economic activity.

- **Operating expenses of SAR1,971 million were SAR29 million or 1% lower than 1H19** and included SAR187 million of merger-related expenses (1H19: SAR166 million), and an intangible amortisation charge of SAR78 million (1H19 restated: SAR6 million), relating to the intangible assets which were recognised following the merger. Costs of a one-off nature were minimal in the current period, but excluding one-off costs from both periods and the aforementioned items, underlying costs fell 5%, reflecting the ongoing synergies that are being generated and are expected to grow.
- **Cost efficiency ratio was 42.0%.** Excluding the notable items and one-off expenses, the adjusted cost efficiency ratio for 1H20 was 36.9%.
- **Charges for provisions for expected credit losses of SAR1,548 million were SAR545 million or 26% lower than 1H19** mainly from lower charges in CIB. 2Q20 ECL of SAR1,309 million increased SAR1,070 million reflecting the worsening global macro-economic environment following COVID-19 and fall in global oil prices. Cost of risk for 1H20 was 1.94% (1H19: 2.45%, 2Q20: 3.25%).
- **Gross customer advances of SAR160.3bn fell SAR0.8 billion or 1% compared with 1H19** (1H19 restated following PPA exercise: SAR161.1 billion). Year-to-date growth of SAR2.2 billion or 1.4% was largely from growth in the corporate sector in the first quarter of 2020.
- **Customer deposits of SAR188.4 billion fell 4% compared with 1H19 and were broadly unchanged compared with 1Q20.** Overall funding remains strong and SABB was able to begin optimising its funding base post-merger. SABB's demand deposit ratio increased to 71% (2Q19: 64%, 1Q20: 68%), reflecting strong funding dynamics of the Bank.

## Business<sup>1</sup> review (Not subject to audit review)

### Pro forma Total operating income ('Revenue') by business

	Six months ended 30 June		
	2020 SAR million	2019 SAR million <i>Restated</i>	Change %
Retail Banking and Wealth Management	1,701	2,040	(17)
Corporate and Institutional Banking	2,118	2,728	(22)
Treasury	855	708	21
Other	13	111	(88)
Total	4,687	5,586	(16)

### Pro forma Net income before Zakat and income tax by business excluding goodwill impairment

	Six months ended 30 June		
	2020 SAR million	2019 SAR million <i>Restated</i>	Change %
Retail Banking and Wealth Management	167	695	(76)
Corporate and Institutional Banking	473	422	12
Treasury	765	561	37
Other	(203)	(118)	(71)
Total	1,203	1,560	(23)

### Net customer advances by business

	As at 30 June		
	2020 SAR million	2019 SAR million <i>Restated</i>	Change %
Retail Banking and Wealth Management	35,889	37,896	(5)
Corporate and Institutional Banking	117,063	117,065	0
Treasury	-	-	-
Other	-	-	-
Total	152,952	154,961	(1)

### Customer deposits by business

	As at 30 June		
	2020 SAR million	2019 SAR million <i>Restated</i>	Change %
Retail Banking and Wealth Management	86,411	88,232	(2)
Corporate and Institutional Banking	97,885	101,917	(4)
Treasury	4,061	6,009	(32)
Other	-	-	-
Total	188,357	196,158	(4)

Notes  
1. Certain historic business segment data has been re-stated to ensure comparability to current period data, as a result of ongoing alignment of businesses and products post-merger.

## Retail Banking and Wealth Management

### Financial performance

- Net income before Zakat and income tax of SAR167 million was 76% lower than 1H19 driven by lower revenue and higher charges for expected credit losses. The prior period also included a net reversal of expected credit losses relating to mortgages and personal lending.
- Revenue of SAR1,701 million was 17% lower than 1H19 and included SAR105 million from the unwind of the fair value adjustment (1H19 restated: SAR9 million). In addition, a modification loss of SAR76 million relating to the Healthcare DPP was recorded in 'Other Operating Losses, net'. Excluding these impacts, revenue was down 18% mainly from lower average lending balances, relating to mortgages and personal lending, and also reflects the cuts in benchmark interest rates during 2019 and the start of 2020 together with increased competition. In addition, revenue also fell from reduced fee income relating to credit cards.
- Net customer lending of SAR35.9 billion fell by 5% and included the impact of the additional adjustments made through the final accounting for the merger. Compared with 1Q20, customer lending balances were 2% lower.
- Customer deposits of SAR86.4 billion decreased 2%. The proportion of demand deposits remained stable at 80%, a notable strength for the Bank.

## Corporate and Institutional Banking

### Financial performance

- Net income before Zakat and income tax of SAR473 million was 12% higher than 1H19 driven by lower charges for expected credit losses and reduced costs partly offset by reduced revenue.
- Revenue of SAR2,118 million was 22% lower than 1H19 and included SAR81 million from the unwind of the fair value adjustment in the first half (1H19 restated: SAR28 million). Excluding this impact, revenue fell 25% from lower average lending balances together with reduced trade activity resulting in lower fee income. Fee income was also impacted by lower loan originations. Margins fell across the term and trade lending portfolios reflecting the fall in benchmark rates and from increased competition as a result of the muted growth seen in the prior year, although this was partly offset by a decrease in special commission expense on commission expense bearing deposits as we optimised certain expensive special commission expense bearing deposits gained through the merger with AAB. In addition, a modification loss of SAR124 million relating to the MSME DPP was recorded in 'Other Operating Income' offset by a gain of equal value, following the SAR5.4 billion deposit from SAMA.
- Net customer lending of SAR117.1 billion increased marginally compared with 1H19 and decreased 1% compared with 1Q20 as repayments were broadly higher than new origination.
- Customer deposits of SAR97.9 billion fell 4% compared with 1H19 and increased 6% compared with 1Q20.

## Treasury

### Financial performance

- Net income before Zakat and income tax of SAR765 million was SAR205 million or 37% higher than 1H19 primarily from higher revenue and lower impairments and costs.
- Revenue of SAR855 million was 21% higher than 1H19 primarily from lower funding costs as a result of cuts in benchmark interest rates as well as an improvement in Foreign Exchange income.

## Other

### Financial performance

- Net loss before Zakat and income tax of SAR203 million was SAR84 million or 71% higher than 1H19. The movement was driven in part by increased costs mainly relating to the integration.
- Revenue of SAR13 million was SAR98 million or 88% lower than 1H19 primarily from lower dividend income and a fall in revenue from SABB Takaful.

## Pro forma Net special commission income margin (Not subject to audit review)

### Pro forma Net special commission income by quarter excluding the unwind of the fair value adjustment

	Quarter ended		
	30 June 2020 SAR million	31 March 2020 SAR million	30 June 2019 SAR million
		Restated	Restated
Special commission income	1,948	2,146	2,697
Special commission expense	(222)	(338)	(560)
<b>Net special commission income</b>	<b>1,726</b>	<b>1,808</b>	<b>2,138</b>
Average special commission income earning assets <sup>1</sup>	259,748	251,034	262,224
	%	%	%
Gross Yield	3.0	3.4	4.1
Cost of funding <sup>2</sup>	(0.4)	(0.7)	(1.1)
Net special commission income spread	2.6	2.7	3.0
Net special commission income margin	2.7	2.9	3.3

#### Notes

1. Average special commission income earning assets is calculated using daily average balances of Cash & balances with SAMA, Due from banks and other financial institutions, Loans and advances to customers (gross) and Investments excluding equity investments.
2. Cost of Funding is calculated using daily average balances of Due to banks and other financial institutions, Customer deposits, Debt securities in issue and borrowings.

Pro forma net special commission income margin for 2Q20, excluding the benefit from the unwind of the fair value adjustment was 2.7%. Net special commission income margin was 0.3ppt lower than 1Q20, in line with previous guidance as global benchmark interest rates began to fall. Costs of funds fell in part as we actively reduced our time deposits together with the benefit of repricing. Net special commission income also declined due to a decrease in customer lending.

Average special commission income earning assets increased as a result of an increase in liquidity in the second quarter driven by management action to manage the current environment, with lower outflows from the retail deposit base, together with receipt of funding from SAMA to support COVID-19 countermeasure support for customers. The increase in ASCIEA also led to a lesser impact on Net special commission income spread compared with the 0.3ppt. fall in margin.

#### NSCI sensitivity

For every 25bps change in benchmark interest rates, we expect up to 10bps impact on our net special commission income margin.

# Reported Income statement

	Six months ended	
	30 June 2020	30 June 2019
	SAR million	SAR million
		Restated
Special commission income	4,275	3,774
Special commission expense	(557)	(677)
<b>Net special commission income</b>	<b>3,718</b>	<b>3,097</b>
Fee and commission income, net	649	550
Exchange income, net	260	211
Trading income, net	102	44
Dividend income	25	42
Gains on FVOCI debt instruments, net	27	40
Other operating losses, net	(94)	(3)
<b>Total operating income</b>	<b>4,687</b>	<b>3,981</b>
Salaries and employee-related expenses	(951)	(700)
Rent and premises-related expenses	(31)	(21)
Depreciation and amortisation	(316)	(131)
General and administrative expenses	(673)	(485)
<b>Total operating expenses</b>	<b>(1,971)</b>	<b>(1,337)</b>
Provision for expected credit losses, net	(1,548)	(1,682)
Goodwill impairment	(7,418)	-
Share in earnings of associates and a joint venture	35	66
<b>Net income before Zakat and income tax</b>	<b>(6,215)</b>	<b>1,026</b>
Provision for Zakat and income tax - current	(142)	(152)
Reversal for income tax – deferred	461	35
<b>Net (loss) / income after Zakat and income tax</b>	<b>(5,896)</b>	<b>910</b>
<i>Attributable to:</i>		
Equity holders of the Bank	(5,876)	916
Non-controlling interests	(20)	(6)
Net income for the period	(5,896)	910



## Reported Balance Sheet

	As at		
	30 June 2020	31 December 2019	30 June 2019
	SAR million	SAR million	SAR million
<b>Assets</b>		<i>Restated</i>	<i>Restated</i>
Cash and balances with SAMA	20,156	21,267	23,738
Due from banks and other financial institutions, net	7,284	4,988	9,129
Positive fair value derivatives, net	2,246	971	961
Investments, net	64,018	60,484	56,183
Loans and advances, net	152,952	152,075	154,961
Investment in associates and a joint venture	572	660	616
Property and equipment, net	3,247	3,308	3,412
Goodwill and other intangibles	10,984	18,462	18,526
Other assets	5,532	3,772	3,291
<b>Total assets</b>	<b>266,991</b>	<b>265,987</b>	<b>270,817</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	14,958	3,653	3,903
Customers' deposits	188,357	192,167	196,158
Debt securities in issue	-	1,500	1,500
Borrowings	-	-	1,697
Negative fair value derivatives, net	3,232	1,318	1,272
Other liabilities	12,129	11,265	10,883
<b>Total liabilities</b>	<b>218,676</b>	<b>209,903</b>	<b>215,413</b>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Bank</b>			
Share capital	20,548	20,548	20,548
Share premium	17,587	17,587	17,587
Statutory reserve	11,486	11,486	11,007
Other reserves	(382)	238	212
Retained earnings	(994)	4,901	5,934
Proposed dividends	-	1,234	-
<b>Total equity attributable to equity holders of the Bank</b>	<b>48,244</b>	<b>55,994</b>	<b>55,289</b>
Non-controlling interests	71	90	115
<b>Total equity</b>	<b>48,315</b>	<b>56,084</b>	<b>55,404</b>
<b>Total liabilities and equity</b>	<b>266,991</b>	<b>265,987</b>	<b>270,817</b>

## Saudi British Bank

SABB is a Saudi Joint Stock Company with a strong track record and a heritage that stretches back more than 40 years. Established on 12 Safar 1398(H) (corresponding to 21 January 1978G), SABB formally commenced activities on 26 Rajab 1398(H) (01 July 1978) when it took over the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB provides Shariah approved products, which are approved and supervised by an independent Shariah board. SABB also provides the option of a complete set of conventional banking products and services to our corporate and institutional customers, which include current accounts, savings, time deposits, corporate credit facilities, trade finance, cash and payments management, and treasury risk management solutions.

On 13 Shawwal 1440H (corresponding to 16 June 2019G), SABB completed a statutory merger with Alawwal Bank ('AAB'), resulting in the transfer of the net assets and liabilities of AAB to SABB. The transaction was effected by a capital issuance of 554,794,522 shares of SAR10 by SABB to the shareholders of AAB, in a share swap transaction at the exchange ratio of 0.48535396 shares of SABB for each share of AAB. Pursuant to the transaction, the shares of AAB were delisted from Tadawul Stock Exchange and the AAB legal entity ceased to exist.

SABB has a 49% investment in its associate HSBC Saudi Arabia, following the completion of the sale of 2% of the issued share capital to HSBC on 1 October 2019 (51% as at 30 September 2019G). In addition, SABB has a 100% controlling stake in Alawwal Invest. Both HSBC Saudi Arabia and Alawwal Invest conduct investment banking services in the Kingdom. SABB also has a 65% controlling ownership stake in SABB Takaful, a listed insurance company in Saudi Arabia, and a 20% ownership interest in Wataniya Insurance Company.

SABB's strategic vision is to bring a world of financial opportunities to an ambitious Kingdom. SABB is the leading international bank in Saudi Arabia. Through a tested strategic partnership spanning more than 40 years with HSBC, one of the world's largest and most international financial institutions, SABB has delivered upon this through its corporate and institutional banking business, achieving leadership positions in trade finance, payments and cash management, foreign exchange, and investment banking; and supported by a meaningful domestic retail banking franchise.

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### Earnings Release Legal disclaimer

#### Important notice

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This Earnings release may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position, strategy and business of SABB which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "seek", "intend", "target" or "believe" or the negatives thereof or other variations thereon or comparable terminology (together, "forward-looking statements"), including the strategic priorities and any financial, investment and capital targets described herein. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Certain of the assumptions and judgements may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of SABB. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). Any such forward-looking statements are based on the beliefs, expectations and opinions of SABB at the date the statements are made, and SABB does not assume, and hereby disclaims, any obligation or duty to update, revise or supplement them if circumstances or management's beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. No representations or warranties, expressed or implied, are given by or on behalf of SABB as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein.

# **Interim Condensed Consolidated Financial Statements**

**For the six month period ended  
30 June 2020  
(Unaudited)**

**The Saudi British Bank**

**SABB**  **ساب**



KPMG Al Fozan & Partners  
Certified Public Accountants

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

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

**Introduction**

We have reviewed the accompanying interim consolidated statement of financial position of The Saudi British Bank ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2020, and the related interim consolidated statements of income and comprehensive income for the three and six month periods then ended, and the related interim consolidated statements of changes in equity and cash flows for the six month period then ended, and other explanatory notes (collectively referred to as "the interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of review**

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

**Conclusion**

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

**Other regulatory matters**

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

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Abdulaziz A. Al Sowailim  
Certified Public Accountant  
License No. 277



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P.O. Box 92876  
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Certified Public Accountant  
License No. 460



6 Muharram 1442H  
(25 August 2020)

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>30 June 2020 Unaudited SAR' 000</b>	<b>31 December 2019 Audited SAR' 000</b>	<b>30 June 2019 Unaudited SAR' 000</b>
	<b>Notes</b>			
<b>ASSETS</b>			(Restated)	(Restated)
Cash and balances with SAMA	5	<b>20,156,478</b>	21,266,892	23,738,405
Due from banks and other financial institutions, net	6	<b>7,284,282</b>	4,987,766	9,128,528
Positive fair value derivatives	12	<b>2,246,612</b>	970,526	961,282
Investments, net	7	<b>64,017,639</b>	60,483,826	56,183,453
Loans and advances, net	8	<b>152,951,504</b>	152,075,086	154,961,498
Investment in associates and a joint venture	9	<b>571,824</b>	660,198	615,698
Property and equipment, net		<b>3,246,883</b>	3,308,278	3,411,543
Goodwill and other intangible assets	10	<b>10,984,004</b>	18,462,065	18,525,746
Other assets		<b>5,531,784</b>	3,772,092	3,291,124
<b>Total assets</b>		<b>266,991,010</b>	<b>265,986,729</b>	<b>270,817,277</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		<b>14,957,955</b>	3,652,686	3,902,740
Customers' deposits	11	<b>188,357,410</b>	192,166,524	196,157,561
Debt securities in issue		-	1,499,752	1,500,535
Borrowings		-	-	1,697,172
Negative fair value derivatives	12	<b>3,231,555</b>	1,317,640	1,272,200
Other liabilities		<b>12,129,182</b>	11,265,936	10,883,268
<b>Total liabilities</b>		<b>218,676,102</b>	<b>209,902,538</b>	<b>215,413,476</b>
<b>Equity</b>				
<b>Equity attributable to equity holders of the Bank</b>				
Share capital		<b>20,547,945</b>	20,547,945	20,547,945
Share premium		<b>17,586,986</b>	17,586,986	17,586,986
Statutory reserve		<b>11,485,841</b>	11,485,841	11,007,305
Other reserves		<b>(382,370)</b>	237,429	211,382
(Accumulated losses)/ Retained earnings		<b>(994,451)</b>	4,901,004	5,934,923
Proposed dividends		-	1,234,454	-
<b>Total equity attributable to equity holders of the Bank</b>		<b>48,243,951</b>	<b>55,993,659</b>	<b>55,288,541</b>
Non-controlling interest		<b>70,957</b>	90,532	115,260
<b>Total equity</b>		<b>48,314,908</b>	<b>56,084,191</b>	<b>55,403,801</b>
<b>Total liabilities and equity</b>		<b>266,991,010</b>	<b>265,986,729</b>	<b>270,817,277</b>

Mathew Pearce  
  
Chief Financial Officer

David Dew  
  
Managing Director & Authorized Member

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

## INTERIM CONSOLIDATED STATEMENT OF INCOME

## Unaudited

	Notes	Three months ended		Six months ended	
		30 June 2020 SAR'000	30 June 2019 SAR'000	30 June 2020 SAR'000	30 June 2019 SAR'000
			(Restated)		(Restated)
Special commission income		2,036,994	1,977,291	4,274,559	3,773,710
Special commission expense		(221,856)	(367,394)	(556,846)	(676,870)
<b>Net special commission income</b>		<b>1,815,138</b>	<b>1,609,897</b>	<b>3,717,713</b>	<b>3,096,840</b>
Fee and commission income, net		302,531	245,162	648,872	550,396
Exchange income, net		113,903	112,695	260,178	210,997
Trading income, net		91,222	22,879	102,423	43,711
Dividend income		-	-	25,284	41,999
Gains on FVOCI debt instruments, net		-	23,175	26,506	40,029
Other operating losses, net		(4,693)	(3,198)	(93,985)	(3,350)
<b>Total operating income</b>		<b>2,318,101</b>	<b>2,010,610</b>	<b>4,686,991</b>	<b>3,980,622</b>
Provision for expected credit losses, net	20(a)	(1,308,783)	(1,591,650)	(1,547,849)	(1,682,426)
Goodwill impairment	10	(7,417,776)	-	(7,417,776)	-
<b>Operating expenses:</b>					
Salaries and employee related expenses		(449,092)	(370,002)	(951,277)	(699,830)
Rent and premises related expenses		(16,247)	(5,680)	(30,887)	(20,909)
Depreciation and amortisation		(158,306)	(73,880)	(315,628)	(130,555)
General and administrative expenses		(346,378)	(278,646)	(672,931)	(486,032)
<b>Total operating expenses</b>		<b>(970,023)</b>	<b>(728,208)</b>	<b>(1,970,723)</b>	<b>(1,337,326)</b>
<b>(Loss) / income from operating activities</b>		<b>(7,378,481)</b>	<b>(309,248)</b>	<b>(6,249,357)</b>	<b>960,870</b>
Share in earnings of associates and a joint venture	9	11,186	49,445	34,528	65,535
<b>Net (loss)/ income for the period before Zakat and income tax</b>		<b>(7,367,295)</b>	<b>(259,803)</b>	<b>(6,214,829)</b>	<b>1,026,405</b>
Reversal/ (Provision) for Zakat and income tax – Current		35,896	30,713	(142,451)	(152,029)
Reversal for income tax – Deferred		464,084	33,146	460,850	35,185
<b>Net (loss)/ income for the period after Zakat and income tax</b>		<b>(6,867,315)</b>	<b>(195,944)</b>	<b>(5,896,430)</b>	<b>909,561</b>
<b>Attributable to:</b>					
Equity holders of the Bank		(6,857,492)	(188,134)	(5,876,855)	916,175
Non-controlling interest		(9,823)	(7,810)	(19,575)	(6,614)
<b>Net (loss)/ income for the period after Zakat and income tax</b>		<b>(6,867,315)</b>	<b>(195,944)</b>	<b>(5,896,430)</b>	<b>909,561</b>
<b>Basic and diluted (loss)/ earnings per share (SAR)</b>	17	<b>(3.34)</b>	<b>(0.12)</b>	<b>(2.86)</b>	<b>0.59</b>

Mathew Pearce

*Mathew Pearce*

Chief Financial Officer

David Dew

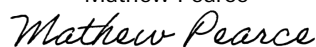
*David Dew*

Managing Director &amp; Authorized Member

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

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****Unaudited**

	Three months ended		Six months ended	
	30 June 2020 SAR'000	30 June 2019 SAR'000	30 June 2020 SAR'000	30 June 2019 SAR'000
		(Restated)		(Restated)
<b>Net (loss)/ income for the period after Zakat and income tax</b>	<b>(6,867,315)</b>	<b>(195,944)</b>	<b>(5,896,430)</b>	<b>909,561</b>
<b>Other comprehensive income/ (loss) for the period</b>				
<b>Items that cannot be reclassified to interim consolidated statement of income in subsequent periods</b>				
- Net changes in fair value (FVOCI equity instruments)	<b>246,954</b>	(136,498)	<b>(203,466)</b>	177,388
<b>Items that can be reclassified to interim consolidated statement of income in subsequent periods</b>				
Debt instruments at FVOCI				
- Net changes in fair value	<b>514,657</b>	18,497	<b>(415,664)</b>	128,718
- Transfer to interim consolidated statement of income, net	-	(23,175)	<b>(26,506)</b>	(40,029)
Cash flow hedges				
- Net changes in fair value	<b>(1,752)</b>	1,072	<b>(676)</b>	14,937
- Transfer to interim consolidated statement of income, net	<b>(760)</b>	(759)	<b>(4,430)</b>	(1,510)
<b>Total other comprehensive income/ (loss) for the period</b>	<b>759,099</b>	(140,863)	<b>(650,742)</b>	279,504
<b>Total comprehensive (loss) / income for the period</b>	<b>(6,108,216)</b>	<b>(336,807)</b>	<b>(6,547,172)</b>	<b>1,189,065</b>
<b>Attributable to:</b>				
Equity holders of the Bank	<b>(6,098,393)</b>	(328,997)	<b>(6,527,597)</b>	1,195,679
Non-controlling interest	<b>(9,823)</b>	(7,810)	<b>(19,575)</b>	(6,614)
<b>Total</b>	<b>(6,108,216)</b>	<b>(336,807)</b>	<b>(6,547,172)</b>	<b>1,189,065</b>

Mathew Pearce  
  
 Chief Financial Officer

David Dew  
  
 Managing Director & Authorized Member

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

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the six months ended 30 June**
**Unaudited**

	Attributable to equity holders of the Bank								
	Share capital SAR '000	Share premium SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	(Accumulated losses)/ Retained earnings SAR '000	Proposed dividends SAR '000	Total SAR '000	Non-controlling Interest SAR '000	Total equity SAR '000
<b>2020</b>									
Balance at the beginning of the period as previously 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 restatement (note 21)	-	-	-	-	(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 loss for the period									
Net loss for the period after Zakat and income tax	-	-	-	-	(5,876,855)	-	(5,876,855)	(19,575)	(5,896,430)
Net changes in fair value of cash flow hedges	-	-	-	(676)	-	-	(676)	-	(676)
Net changes in fair value of FVOCI equity instruments	-	-	-	(203,466)	-	-	(203,466)	-	(203,466)
Net changes in fair value of FVOCI debt instruments	-	-	-	(415,664)	-	-	(415,664)	-	(415,664)
Transfer to interim consolidated statement of income	-	-	-	(30,936)	-	-	(30,936)	-	(30,936)
				(650,742)	(5,876,855)		(6,527,597)	(19,575)	(6,547,172)
Transfer of gain on disposal of FVOCI equity instruments to retained earnings	-	-	-	(3,623)	3,623	-	-	-	-
Employee share plan reserve	-	-	-	34,566	-	-	34,566	-	34,566
2019 final dividend paid net of zakat and income tax	-	-	-	-	(22,223)	(1,234,454)	(1,256,677)	-	(1,256,677)
Balance at the end of the period	20,547,945	17,586,986	11,485,841	(382,370)	(994,451)	-	48,243,951	70,957	48,314,908
<b>2019</b>									
Balance at the beginning of the period as previously reported	15,000,000	-	10,778,261	(3,123)	5,135,131	1,430,954	32,341,223	121,874	32,463,097
Effect of restatement on adoption of IAS 12	-	-	-	-	112,661	-	112,661	-	112,661
Restated balance as at 1 January 2019	15,000,000	-	10,778,261	(3,123)	5,247,792	1,430,954	32,453,884	121,874	32,575,758
Total comprehensive income for the period									
Net income for the period after Zakat and income tax (restated)	-	-	-	-	916,175	-	916,175	(6,614)	909,561
Net changes in fair value of cash flow hedges	-	-	-	14,937	-	-	14,937	-	14,937
Net changes in fair value of FVOCI equity instruments	-	-	-	177,388	-	-	177,388	-	177,388
Net changes in fair value of FVOCI debt instruments	-	-	-	128,718	-	-	128,718	-	128,718
Transfer to interim consolidated statement of income	-	-	-	(41,539)	-	-	(41,539)	-	(41,539)
				279,504	916,175		1,195,679	(6,614)	1,189,065
Business combinations (note 21)	5,547,945	17,586,986	-	(72,646)	-	-	23,062,285	-	23,062,285
Employee share plan reserve	-	-	-	7,647	-	-	7,647	-	7,647
Transfer to statutory reserve (restated)	-	-	229,044	-	(229,044)	-	-	-	-
2018 final dividend net of Zakat and income tax	-	-	-	-	-	(1,430,954)	(1,430,954)	-	(1,430,954)
Restated balance at the end of the period	20,547,945	17,586,986	11,007,305	211,382	5,934,923	-	55,288,541	115,260	55,403,801

Mathew Pearce  
*Mathew Pearce*  
Chief Financial Officer

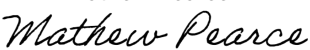
David Dew  
*David Dew*  
Managing Director & Authorized Member

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



**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the six months ended 30 June**
**Unaudited**

	<b>Notes</b>	<b>2020 SAR'000</b>	<b>2019 SAR'000</b>
<b>OPERATING ACTIVITIES</b>			(Restated)
<b>Net (loss)/ income for the period before Zakat and income tax</b>		<b>(6,214,829)</b>	<b>1,026,405</b>
<b>Adjustments to reconcile net (loss) / income before Zakat and income tax to net cash from operating activities:</b>			
Amortisation of premium / (accretion of discount) on investments not held as FVTPL, net		<b>21,396</b>	(2,053)
Depreciation and amortization		<b>315,628</b>	130,555
Loss/ (Income) from FVTPL financial instruments, net		<b>9,946</b>	(4,110)
Gains on FVOCI debt instruments, net		<b>(26,506)</b>	(40,029)
Cash flow hedge gains transfer to interim consolidated statement of income		<b>(4,430)</b>	(1,510)
Share in earnings of associates and a joint venture	9	<b>(34,528)</b>	(65,535)
Provision for expected credit losses, net	20(a)	<b>1,547,849</b>	1,682,426
Goodwill impairment	10	<b>7,417,776</b>	-
Employee share plan reserve		<b>34,566</b>	7,647
		<b>3,066,868</b>	2,733,796
<b>Change in operating assets:</b>			
Statutory deposit with SAMA		<b>(943,312)</b>	(489,491)
Due from banks and other financial institutions, net		<b>(92,206)</b>	1,080,622
Investments held as FVTPL		<b>(161,174)</b>	(311,001)
Loans and advances, net		<b>(2,518,404)</b>	317,772
Other assets and derivatives		<b>(2,589,467)</b>	(795,785)
<b>Change in operating liabilities:</b>			
Due to banks and other financial institutions		<b>10,880,617</b>	2,026,314
Customers' deposits		<b>(3,806,038)</b>	4,799,791
Other liabilities and derivatives, net		<b>2,105,561</b>	(896,805)
<b>Net cash from operating activities</b>		<b>5,942,445</b>	<b>8,465,213</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturity of investments not held as FVTPL		<b>4,126,432</b>	2,328,181
Purchase of investments not held as FVTPL		<b>(7,520,919)</b>	(7,763,859)
Dividend received from investment in associates and a joint venture		<b>122,902</b>	62,638
Cash and cash equivalents acquired through business combination		-	2,632,553
Purchase of property and equipment		<b>(193,947)</b>	(156,615)
<b>Net cash used in investing activities</b>		<b>(3,465,532)</b>	<b>(2,897,102)</b>
<b>FINANCING ACTIVITIES</b>			
Debt securities in issue		<b>(1,499,752)</b>	1,253
Borrowings		-	1,864
Dividends paid		<b>(1,250,798)</b>	(1,462,193)
<b>Net cash used in financing activities</b>		<b>(2,750,550)</b>	<b>(1,459,076)</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(273,637)</b>	<b>4,109,035</b>
<b>Cash and cash equivalents at beginning of the period</b>	15	<b>26,673,648</b>	<b>16,801,572</b>
<b>Cash and cash equivalents at end of the period</b>	15	<b>26,400,011</b>	<b>20,910,607</b>
Special commission received during the period		<b>4,127,638</b>	3,903,752
Special commission paid during the period		<b>755,560</b>	623,499
<b>Supplemental non cash information</b>			
Net changes in fair value and transfers to interim consolidated statement of income		<b>(650,742)</b>	279,504

Mathew Pearce  
  
Chief Financial Officer

David Dew  
  
Managing Director & Authorized Member

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

## 1. General

The Saudi British Bank ("SABB") is a joint stock company incorporated in the Kingdom of Saudi Arabia and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) by taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 127 branches (31 December 2019: 136 Branches) in the Kingdom of Saudi Arabia. The address of SABB's head office is as follows:

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

The objectives of SABB are to provide a range of banking services. SABB also provides Shariah compliant products, which are approved and supervised by an independent Shariah Board established by SABB.

Further to receipt of regulatory approvals, the shareholders of SABB and Alawwal Bank ("AAB") approved the merger of the two banks at Extraordinary General Meetings held on 15 May 2019 pursuant to Articles 191-193 of the Companies Law 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 21 for details.

SABB has 100% (31 December 2019: 100%) ownership interest in a subsidiary, SABB Insurance Agency Limited ("SIAL"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB holds 98% of its interest in SIAL directly and 2% 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). SABB holds 99.8% of its interest in SRECO directly and 0.2% indirect ownership interest through another subsidiary ("Arabian Real Estate Company Limited") incorporated in the Kingdom of Saudi Arabia. SRECO's principal activity is the registration of real estate and to hold and manage collateral on behalf of SABB.

SABB has 100% (31 December 2019: 100%) directly held ownership interest in a subsidiary, SABB Markets Limited ("SABB Markets"), a limited liability company incorporated in the Cayman Islands. SABB Markets is engaged in derivatives trading and repo activities.

SABB has 65% (31 December 2019: 65%) directly held ownership interest in a subsidiary, SABB Takaful, a joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumada Awal 1428H (6 June 2007). SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and to offer family and general Takaful products to individuals and corporates in the Kingdom of Saudi Arabia.

SABB has 100% (31 December 2019: 100%) directly held ownership interest in a subsidiary, Alawwal Invest ("AI"), a closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010242378 dated 30 Dhul Hijjah 1428H (9 January 2008). Alawwal Invest was formed in accordance with the CMA's Resolution No. 1 39 2007. Alawwal Invest's principal activity is to engage in investment services and asset management activities regulated by the CMA related to dealing, managing, arranging, advising and taking custody of securities.

SABB has 100% (31 December 2019: 100%) directly held ownership interest in a subsidiary, Alawwal Real Estate Company ("AREC"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010250772 dated 21 Jumada I 1429H (26 May 2008). AREC's principal activity is the registration of real estate assets under its name which are received by the Bank from its borrowers as collaterals and to hold and manage collateral on behalf of SABB.

SABB has 100% (31 December 2019: 100%) directly held ownership interest in a subsidiary, Alawwal Insurance Agency Company ("AIAC"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010300250 dated 29 Muharram 1432H (4 January 2011). AIAC's principal activity is to act as an insurance agent for Wataniya Insurance Company (WIC), an associate, to sell its insurance products.

SABB has 100% (31 December 2019: 100%) directly held ownership interest in a subsidiary, Alawwal Financial Markets Limited ("AFM"), a limited liability company incorporated in the Cayman Islands. AFM is engaged in derivatives trading and repo activities.

SABB has 49% (31 December 2019: 49%) directly held ownership interest in HSBC Saudi Arabia, a closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010221555 dated 27 Jumada Al-Akhirah 1427H (23 July 2006). HSBC Saudi Arabia was formed in accordance with the Resolution No. 37-05008 of the CMA dated 05/12/1426H corresponding to 05/01/2006G. HSBC Saudi Arabia's principal activity is to engage in the full range of investment banking and advisory services and asset management activities regulated by the CMA related to brokerage, dealing, managing, arranging, advising and taking custody of securities. HSBC Saudi Arabia is an associate of SABB (31 December 2019: an associate) with HSBC Asia Holdings B.V. a related party and shareholder in SABB.

SABB has participated in the following three structured entities for the purpose of effecting syndicated loan transactions in the Kingdom of Saudi Arabia and securing collateral rights over specific assets of the borrowers of those facilities under Islamic financing structures. These entities have no other business operations.

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

SABB directly owns a 50% (31 December 2019: 50%) share in Saudi Kayan Assets Leasing Company and Rabigh Asset Leasing Company and directly owns a 100% (31 December 2019: 100%) share in Yanbu Asset Leasing Company as a result of SABB's merger with AAB in June 2019 (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.

## **2. Basis of preparation**

The interim condensed consolidated financial statements of the Bank as at and for the period ended 30 June 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organisation of Certified Public Accountants ("SOCPA").

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

The consolidated financial statements of the Bank as at and for the year ended 31 December 2019, were prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

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

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

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

### Use of estimates and judgements

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

There were no changes in the current period to the critical accounting estimates and judgements that were applied on 31 December 2019, except for the level of estimation uncertainty and judgement for the calculation of goodwill impairment and expected credit losses ('ECL') as detailed in note 10 and note 22, respectively.

## **3. Basis of consolidation**

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

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

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

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

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

##### **Government grant**

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

##### **Impact of changes in accounting policies due to adoption of new standards:**

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

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Amendments to References to the Conceptual Framework in IFRS Standards

The above amendments to IFRS do not have material impact on the accompanying interim condensed consolidated financial statements of the Bank.

##### **IBOR Transition (Interest Rate Benchmark Reforms)**

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

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

Phase 2 – The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

Therefore, the Bank believes the current market structure supports the continuation of hedge accounting as at 30 June 2020.

Management is running a project on the Bank's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

**5. Cash and balances with SAMA**

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)	30 June 2019 (Unaudited)
Cash in hand	<b>2,610,921</b>	2,375,158	2,380,997
Statutory deposit	<b>11,885,394</b>	10,942,082	11,341,097
Placements with SAMA	<b>5,386,948</b>	7,653,718	9,848,416
Other balances	<b>273,215</b>	295,934	167,895
<b>Total</b>	<b>20,156,478</b>	21,266,892	23,738,405

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

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)	30 June 2019 (Unaudited)
Current accounts	<b>6,805,607</b>	4,473,830	5,026,794
Money market placements	<b>478,675</b>	513,936	4,101,734
<b>Total</b>	<b>7,284,282</b>	4,987,766	9,128,528

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

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
30 June 2020 (Unaudited)	<b>7,284,282</b>	-	-	-	<b>7,284,282</b>
31 December 2019 (Audited)	4,987,766	-	-	-	4,987,766

The following table shows reconciliations from the opening to the closing balance of the provision for expected credit losses against due from banks and other financial institutions:

	<b>30 June 2020 (Unaudited)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at 1 January 2020	<b>425</b>	-	-	<b>425</b>
Net charge for the period	<b>784</b>	-	-	<b>784</b>
Balance as at 30 June 2020	<b>1,209</b>	-	-	<b>1,209</b>

	<b>31 December 2019 (Audited)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at 1 January 2019	98	-	-	98
Net charge for the year	327	-	-	327
Balance as at 31 December 2019	425	-	-	425

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2020**
**7. Investments, net**

Investment securities are classified as follows:

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited)	30 June 2019 (Unaudited) (Restated)
FVOCI – Debt, net	<b>12,611,640</b>	12,708,906	11,458,762
FVOCI – Equity	<b>995,544</b>	1,228,767	1,526,596
FVTPL	<b>1,130,467</b>	1,142,573	1,025,027
Held at amortised cost, net	<b>49,279,988</b>	45,403,580	42,173,068
<b>Total</b>	<b>64,017,639</b>	60,483,826	56,183,453

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

	<b>30 June 2020 (Unaudited)</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
Debt instruments at FVOCI, net	<b>12,611,640</b>	-	-	-	<b>12,611,640</b>
Debt instruments at amortised cost, net	<b>49,279,988</b>	-	-	-	<b>49,279,988</b>

	31 December 2019 (Audited)				
	Stage 1	Stage 2	Stage 3	POCI	Total
Debt instruments at FVOCI, net	12,517,887	191,019	-	-	12,708,906
Debt instruments at amortised cost, net	45,403,580	-	-	-	45,403,580

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

	<b>30 June 2020 (Unaudited)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at 1 January 2020	<b>10,951</b>	<b>115</b>	-	<b>11,066</b>
Net charge/ (reversal) for the period	<b>101</b>	<b>(115)</b>	-	<b>(14)</b>
Balance as at 30 June 2020	<b>11,052</b>	-	-	<b>11,052</b>

	31 December 2019 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	2,581	148	16,571	19,300
Net charge/ (reversal) for the year	8,370	(33)	-	8,337
Write offs	-	-	(16,571)	(16,571)
Balance as at 31 December 2019	10,951	115	-	11,066

**8. Loans and advances, net**

Loans and advances are comprised of the following:

	30 June 2020 (Unaudited)			
	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	1,848,160	32,819,851	94,911,586	129,579,597
Life time ECL not credit impaired	95,547	1,530,573	19,392,343	21,018,463
Life time ECL credit impaired	80,676	1,152,150	4,809,581	6,042,407
Purchased or originated credit impaired	432	135,393	3,550,441	3,686,266
Total loans and advances, gross	2,024,815	35,637,967	122,663,951	160,326,733
Provision for expected credit losses, net	(295,366)	(1,478,479)	(5,601,384)	(7,375,229)
Loans and advances, net	1,729,449	34,159,488	117,062,567	152,951,504

	31 December 2019 (Audited) (Restated)			
	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,326,426	33,579,624	95,922,761	131,828,811
Life time ECL not credit impaired	74,200	1,150,384	15,665,513	16,890,097
Life time ECL credit impaired	67,267	838,399	4,223,705	5,129,371
Purchased or originated credit impaired	1,113	219,472	4,009,222	4,229,807
Total loans and advances, gross	2,469,006	35,787,879	119,821,201	158,078,086
Provision for expected credit losses, net	(275,927)	(1,179,028)	(4,548,045)	(6,003,000)
Loans and advances, net	2,193,079	34,608,851	115,273,156	152,075,086

Lifetime ECL credit impaired includes non-performing loans and advances of SAR 5,585 million (31 December 2019: SAR 4,247 million). It also includes exposures that are now performing but have yet to complete a period of 12 months of performance ("the curing period") to be eligible to be upgraded to a not-impaired category.

The financial assets recorded in each stage have the following characteristics:

12 month ECL not credit impaired (stage 1): without significant increase in credit risk on which a 12-month allowance for ECL is recognised;

Life time ECL not credit impaired (stage 2): a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;

Life time 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



**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2020**

Purchased or originated credit impaired ('POCI'): purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised. POCI includes non-performing loans and advances acquired through the merger with AAB that are recorded at written down value and therefore do not carry a provision for expected credit loss. It also includes recognition of previously written off loans of SABB where the expectation of recovery has improved.

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

	<b>30 June 2020 (Unaudited)</b>				
	<b>Non-Credit Impaired</b>		<b>Credit Impaired</b>		<b>Total</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	
Balance at 1 January 2020	643,024	2,157,375	3,142,099	60,502	6,003,000
Transfer to Stage 1	40,474	(38,095)	(2,379)	-	-
Transfer to Stage 2	(13,720)	28,267	(14,547)	-	-
Transfer to Stage 3	(6,726)	(33,554)	40,280	-	-
Net re-measurement of loss allowance	57,220	449,598	904,710	(6,495)	1,405,033
Write-offs	-	-	(32,804)	-	(32,804)
Balance as at 30 June 2020	720,272	2,563,591	4,037,359	54,007	7,375,229

	<b>31 December 2019 (Audited) (Restated)</b>				
	<b>Non-Credit Impaired</b>		<b>Credit Impaired</b>		<b>Total</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	
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	232,805	805,960	1,084,862	17,578	2,141,205
Write-offs	-	-	(888,817)	-	(888,817)
Balance as at 31 December 2019	643,024	2,157,375	3,142,099	60,502	6,003,000

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2020**

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

	Performing	Non-performing	POCI	Provision for expected credit losses	Loans and advances, net
<b>30 June 2020 (Unaudited)</b>					
Government and quasi Government	13,105,004	189,570	-	(4,506)	13,290,068
Finance	6,389,993	-	-	(110,796)	6,279,197
Agriculture and fishing	702,076	-	212,473	(4,721)	909,828
Manufacturing	21,810,779	606,612	848,426	(1,543,546)	21,722,271
Mining and quarrying	3,714,593	-	-	(3,769)	3,710,824
Electricity, water, gas and health services	5,981,472	194,879	472,227	(208,030)	6,440,548
Building and construction	12,613,298	1,943,168	690,710	(1,619,212)	13,627,964
Commerce	33,222,584	666,873	864,726	(1,392,922)	33,361,261
Transportation and communication	8,260,387	12,651	191,759	(44,969)	8,419,828
Services	7,753,356	5,727	18,981	(176,047)	7,602,017
Credit cards and other retail lending	36,383,052	1,143,905	135,825	(1,773,845)	35,888,937
Others	1,119,316	821,172	251,139	(492,866)	1,698,761
<b>Total</b>	<b>151,055,910</b>	<b>5,584,557</b>	<b>3,686,266</b>	<b>(7,375,229)</b>	<b>152,951,504</b>
<b>31 December 2019 (Audited) (Restated)</b>					
Government and quasi Government	11,343,218	189,570	-	(2,998)	11,529,790
Finance	6,006,276	-	-	(163,060)	5,843,216
Agriculture and fishing	557,020	-	227,716	(1,709)	783,027
Manufacturing	22,747,265	568,972	953,200	(1,455,641)	22,813,796
Mining and quarrying	2,783,633	-	-	(3,169)	2,780,464
Electricity, water, gas and health services	5,531,374	166,741	484,722	(177,117)	6,005,720
Building and construction	12,265,304	1,799,436	821,003	(1,380,702)	13,505,041
Commerce	33,069,707	538,750	994,191	(1,008,722)	33,593,926
Transportation and communication	8,739,756	4,933	224,705	(29,405)	8,939,989
Services	7,818,888	20,579	30,016	(156,785)	7,712,698
Credit cards and other retail lending	37,293,107	743,193	220,585	(1,454,955)	36,801,930
Others	1,446,029	214,528	273,669	(168,737)	1,765,489
<b>Total</b>	<b>149,601,577</b>	<b>4,246,702</b>	<b>4,229,807</b>	<b>(6,003,000)</b>	<b>152,075,086</b>

## 9. Investment in associates and a joint venture

	30 June 2020 (Unaudited)	31 December 2019 (Audited)	30 June 2019 (Unaudited) (Restated)
<b>HSBC Saudi Arabia</b>			
Balance at beginning of the period / year	585,987	532,597	532,597
Share in earnings	30,647	138,611	65,535
Dividend received	(122,902)	(62,640)	(62,638)
Disposal	-	(22,581)	-
Balance at end of the period / year	493,732	585,987	535,494
<b>Wataniya Insurance Company</b>			
Balance at beginning of the period / year	74,211	-	-
Acquired through business combination	-	80,204	80,204
Share in earnings / (loss)	3,881	(5,993)	-
Balance at end of the period / year	78,092	74,211	80,204
<b>Total</b>	<b>571,824</b>	<b>660,198</b>	<b>615,698</b>

SABB owns 49% (31 December 2019: 49%) of the shares of HSBC Saudi Arabia, an associate. The main activities of HSBC Saudi Arabia are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios. HSBC Saudi Arabia is an authorised person licensed by the CMA to carry out securities business activities.

In October 2019, SABB disposed of 1,000,000 shares in the share capital of HSBC Saudi Arabia (the "Shares") to HSBC Asia Holdings B.V., representing 2% of the issued share capital of HSBC Saudi Arabia, as a result of which SABB no longer shares joint control and governance rights over HSBC Saudi Arabia with HSBC.

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

**10. Goodwill and other intangible assets**

Intangibles are comprised of the following:

	<b>30 June 2020</b> <b>(Unaudited)</b>	31 December 2019 (Audited) (Restated)	30 June 2019 (Unaudited) (Restated)
Amounts arising from business combination (note 21)			
- goodwill	<b>8,778,091</b>	16,195,867	16,195,867
- intangibles	<b>1,865,523</b>	1,943,561	2,015,718
Goodwill arising from acquisition of a subsidiary	<b>13,806</b>	13,806	13,806
Software	<b>326,584</b>	308,831	300,355
<b>Total</b>	<b>10,984,004</b>	18,462,065	18,525,746

**Goodwill impairment test**

For impairment testing, goodwill acquired through business combinations (note 21) is allocated to the cash generating units (CGUs) of Retail Banking & Wealth Management (RBWM), Corporate & Institutional Banking (CIB), and Treasury, which are also operating and reportable segments.

The test was 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.

At 30 June 2020, the Goodwill allocated to CIB was impaired by SAR 7.4 billion versus a carrying amount of SAR 8.19 billion. The impairment charge is recorded in the Interim Consolidated Statement of Income. 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 assumes 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.

The other CGUs were not impaired.

**Key assumptions in value-in-use calculation**

The VIU 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 most sensitive to the following assumptions:

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

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

- Discount rate of 10.3%, 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 4.1%, derived from economists' forecasts of nominal GDP for KSA, applied to projected periods beyond 2024.
- Long-term profit growth rate of 4.9%, 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.

At 30 June 2020, the carrying amount of goodwill after impairment is allocated to the following CGUs:

Cash generating units (CGU's)	(SAR million)
Retail Banking and Wealth Management	4,650
Corporate and Institutional Banking	772
Treasury	3,356
Total	8,778

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

Cash generating units (CGUs)	Impact on the recoverable amount of CGUs	
	One percentage point increase in discount rate (SAR million)	One percentage point decrease in terminal growth rate (SAR million)
Retail Banking and Wealth Management	(2,445)	(2,097)
Corporate and Institutional Banking	(4,803)	(4,120)
Treasury	(2,686)	(2,297)

## 11. Customers' deposits

Customers' deposits are comprised of the following:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)	30 June 2019 (Unaudited) (Restated)
Demand	134,623,193	122,517,724	125,717,898
Savings	1,759,506	1,691,003	2,309,409
Time	50,517,573	51,825,874	66,347,595
Margin and others	1,457,138	16,131,923	1,782,659
<b>Total</b>	<b>188,357,410</b>	<b>192,166,524</b>	<b>196,157,561</b>

**12. Derivatives**

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

	30 June 2020 (Unaudited)			31 December 2019 (Audited)			30 June 2019 (Unaudited) (Restated)		
	Positive fair Value	Negative fair value	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value	Notional
<b>Derivatives held for trading:</b>									
Special commission rate swaps	1,674,947	(1,654,921)	52,639,336	732,749	(709,194)	59,941,010	734,577	(676,205)	63,169,516
Special commission rate options	494,910	(509,188)	17,861,320	124,349	(128,907)	13,661,863	152,373	(152,705)	16,083,980
Forward foreign exchange contracts	40,534	(38,721)	3,259,217	33,028	(22,491)	9,290,855	13,726	(20,224)	7,322,763
Currency options	2,044	(2,045)	3,000,293	1,102	(982)	1,673,918	3,629	(3,282)	5,754,514
Currency swaps	6,416	(5,291)	862,500	6,995	(6,995)	487,500	10,591	(10,201)	1,487,500
Others	360	(360)	20,415	11,090	(11,090)	352,773	7,984	(7,984)	360,836
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	-	(1,014,391)	10,413,969	15,189	(425,325)	11,205,022	2,840	(382,335)	9,559,825
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	21,321	(6,634)	90,000	9,195	(454)	440,000	5,960	(3,930)	645,000
Currency swaps	6,080	(4)	1,106,250	36,829	(12,202)	1,668,750	29,602	(15,334)	1,762,500
<b>Total</b>	<b>2,246,612</b>	<b>(3,231,555)</b>	<b>89,253,300</b>	<b>970,526</b>	<b>(1,317,640)</b>	<b>98,721,691</b>	<b>961,282</b>	<b>(1,272,200)</b>	<b>106,146,434</b>

**13. Zakat and income tax**

In March 2019, new Zakat Regulations were issued by GAZT under resolution No. 2215 dated 7 Rajab 1440 (14 March 2019) (the "Zakat Regulations"), which provided a new basis for calculation of Zakat for companies engaged in financing activities. The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability. SABB is subject to pay corporate income tax to reflect the portion of the shareholder base that is non-Saudi. Corporate income tax is calculated at a rate of 20%, applied to the share of taxable income of the non-Saudi shareholders.

SABB has received tax assessments for fiscal years 2005 to 2009 in which the GAZT raised additional demands for income tax and withholding tax. Together with assessments relating to AAB for fiscal years from 2006 to 2013, SABB will continue to contest its appeals before the Appellate Committee for Resolution of tax disputes and expects a favourable outcome of the aforementioned appeals. The amounts are not material.

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## 14. Commitments and contingencies

## a. Legal proceedings

There are no material outstanding legal matters against the Bank.

## b. Credit related commitments and contingencies

Credit related commitments and contingencies are as follows:

	30 June 2020 (Unaudited)				
	Stage 1	Stage 2	Stage 3	POCI	Total
Letters of credit	12,108,397	828,321	3,383	90,668	13,030,769
Letters of guarantee	57,683,903	5,688,241	1,640,712	2,256,206	67,269,062
Acceptances	2,004,744	389,520	-	23,741	2,418,005
Irrevocable commitments to extend credit	3,470,103	105,854	-	-	3,575,957
<b>Total</b>	<b>75,267,147</b>	<b>7,011,936</b>	<b>1,644,095</b>	<b>2,370,615</b>	<b>86,293,793</b>

	31 December 2019 (Audited) (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
<b>Total</b>	<b>99,506,453</b>	<b>9,845,359</b>	<b>1,565,371</b>	<b>2,430,733</b>	<b>113,347,916</b>

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

	30 June 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	28,129	126,322	481,614	636,065
Transfer to Stage 1	993	(993)	-	-
Transfer to Stage 2	(10,999)	10,999	-	-
Transfer to Stage 3	(38)	(1,591)	1,629	-
Net charge/ (reversal) for the period	4,891	(21,574)	14,025	(2,658)
Balance as at 30 June 2020	22,976	113,163	497,268	633,407

	31 December 2019 (Audited) (Restated)			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	31,331	237,530	156,235	425,096
Transfer to Stage 1	13,811	(13,373)	(438)	-
Transfer to Stage 2	(636)	1,192	(556)	-
Transfer to Stage 3	-	(26,405)	26,405	-
Net (reversal)/ charge for the year	(16,377)	(72,622)	299,968	210,969
Balance as at 31 December 2019	28,129	126,322	481,614	636,065

**15. Cash and cash equivalents**

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

	<b>30 June 2020</b> <b>(Unaudited)</b>	31 December 2019 (Audited)	30 June 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	<b>8,271,084</b>	10,324,810	12,397,308
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	<b>18,128,927</b>	16,348,838	8,513,299
<b>Total</b>	<b>26,400,011</b>	26,673,648	20,910,607

**16. Operating segments**

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

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

The Bank's reportable segments are as follows:

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

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

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

**Others** – includes activities of the Bank's investment in its insurance subsidiary and associate, SABB Takaful and WIC, as well as a subsidiary and associate (30 June 2019: joint venture) for investment banking and brokerage, Alawwal Invest and HSBC Saudi Arabia, equity investments, and merger-related expenses. It also includes elimination of inter-group income and expense items.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 30 June 2020 and 2019, its total operating income and expenses, and the results for the six months period then ended, by operating segment, are as follows:



<b>30 June 2020 (Unaudited)</b>	<b>Retail Banking</b>	<b>Corporate and Institutional Banking</b>	<b>Treasury</b>	<b>Others (including intergroup eliminations)</b>	<b>Total</b>
Total assets	46,445,175	121,785,157	95,006,191	3,754,487	266,991,010
- Loans and advances, net	35,888,937	117,062,567	-	-	152,951,504
- Investments	-	-	62,413,618	1,604,021	64,017,639
Total liabilities	90,694,655	104,037,339	23,371,151	572,957	218,676,102
- Customer deposits	86,410,667	97,884,709	4,062,034	-	188,357,410
Operating income from external customers	1,376,443	2,569,080	727,862	13,606	4,686,991
Inter-segment operating income (expense)	324,316	(451,213)	127,625	(728)	-
Total operating income	1,700,759	2,117,867	855,487	12,878	4,686,991
Provision for expected credit losses, net	455,145	1,092,014	690	-	1,547,849
Goodwill impairment	-	7,417,776	-	-	7,417,776
Total operating expenses	1,078,412	552,934	89,359	250,018	1,970,723
Share in earnings of associates and a joint venture, net	-	-	-	34,528	34,528
Net income/ (loss) for the period before Zakat and income tax	167,202	(6,944,857)	765,438	(202,612)	(6,214,829)

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2020**

30 June 2019 (Unaudited) (Restated)	Retail Banking	Corporate and Institutional Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	46,216,772	128,977,250	91,503,803	4,119,452	270,817,277
- Loans and advances, net	37,895,593	117,065,905	-	-	154,961,498
- Investments	-	-	54,023,668	2,159,785	56,183,453
Total liabilities	91,874,621	107,528,876	14,987,596	1,022,383	215,413,476
- Customer deposits	88,232,408	101,917,475	6,007,678	-	196,157,561
Operating income from external customers	935,748	2,391,468	607,698	45,708	3,980,622
Inter-segment operating income (expense)	431,618	(415,836)	(26,127)	10,345	-
Total operating income	1,367,366	1,975,632	581,571	56,053	3,980,622
Provision for expected credit losses, net	167,502	1,507,600	7,324	-	1,682,426
Total operating expenses	694,585	390,283	84,741	167,717	1,337,326
Share in earnings of associates and a joint venture, net	-	-	-	65,535	65,535
Net income/ (loss) for the period before Zakat and income tax	505,279	77,749	489,506	(46,129)	1,026,405

**17. Basic and diluted (loss)/ earnings per share**

Basic and diluted (loss)/ earnings per share for the periods ended 30 June 2020 and 30 June 2019 is calculated by dividing the net (loss)/ income for the period by the weighted average number of shares outstanding during the period.

**18. Capital adequacy**

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

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

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2020**

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 Q2 2020 Tier 1 and Tier 1 + 2 ratio have been an improvement of 41bps.

	<b>30 June 2020 (Unaudited)</b>	31 December 2019 (Audited) (Restated)	30 June 2019 (Unaudited) (Restated)
<b>Risk Weighted Assets (RWA)</b>			
Credit Risk RWA	<b>198,162,809</b>	205,118,642	210,846,804
Operational Risk RWA	<b>19,064,614</b>	19,265,850	19,265,850
Market Risk RWA	<b>2,084,173</b>	1,829,683	2,488,246
<b>Total RWA</b>	<b>219,311,596</b>	226,214,175	232,600,900
<b>Tier I Capital</b>	<b>39,614,996</b>	38,450,069	37,761,956
<b>Tier II Capital</b>	<b>1,331,349</b>	2,819,213	2,971,420
<b>Total I &amp; II Capital</b>	<b>40,946,345</b>	41,269,282	40,733,376
<b>Capital Adequacy Ratio %</b>			
Tier I ratio	<b>18.06%</b>	17.00%	16.23%
Tier I + Tier II ratio	<b>18.67%</b>	18.24%	17.51%

**19. Fair values of financial instruments**

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

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

**Determination of fair value and fair value hierarchy**

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

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

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

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

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2020**

30 June 2020 (Unaudited)	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Positive fair value derivatives	2,246,612	-	2,246,612	-	2,246,612
Investments held as FVTPL	1,130,467	825,633	304,834	-	1,130,467
Investments held as FVOCI, net	13,607,184	969,808	12,611,640	25,736	13,607,184
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions, net	7,284,282	-	7,284,282	-	7,284,282
Investments held at amortised cost, net	49,279,988	-	50,864,276	146,186	51,010,462
Loans and advances, net	152,951,504	-	-	152,398,388	152,398,388
<b>Financial liabilities measured at fair value</b>					
Negative fair value derivatives	3,231,555	-	3,231,555	-	3,231,555
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	14,957,955	-	14,957,955	-	14,957,955
Customers' deposits	188,357,410	-	188,407,479	-	188,407,479

31 December 2019 (Audited) (Restated)	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Positive fair value derivatives	970,526	-	970,526	-	970,526
Investments held as FVTPL	1,142,573	847,573	295,000	-	1,142,573
Investments held as FVOCI, net	13,937,673	1,202,100	12,708,906	26,667	13,937,673
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions, net	4,987,766	-	4,987,766	-	4,987,766
Investments held at amortised cost, net	45,403,580	-	46,172,171	-	46,172,171
Loans and advances, net	152,075,086	-	-	150,797,694	150,797,694
<b>Financial liabilities measured at fair value</b>					
Negative fair value derivatives	1,317,640	-	1,317,640	-	1,317,640
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	3,652,686	-	3,652,686	-	3,652,686
Customers' deposits	192,166,524	-	192,261,356	-	192,261,356
Debt securities in issue	1,499,752	-	1,499,752	-	1,499,752

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

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

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

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

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

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

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

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

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

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

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

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

## **20. Financial risk management**

### **Credit Risk**

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

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

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

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

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

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

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

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

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements.

#### **a. Provision for expected credit losses, net**

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

	<b>Notes</b>	<b>30 June 2020 (Unaudited)</b>	30 June 2019 (Unaudited) (Restated)
Net provision for expected credit losses:			
Due from banks and other financial institutions	6	784	444
Investments	7	(14)	6,881
Loans and advances	8	1,405,033	1,436,936
Off balance sheet exposures	14	(2,658)	195,867
Write-offs net of recoveries of debts previously written-off		144,704	42,298
<b>Net charge for the period</b>		<b>1,547,849</b>	<b>1,682,426</b>

**b. Collateral**

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

**21. Business combination**

Further to receipt of regulatory approvals, on 16 June 2019 SABB completed a statutory merger with AAB. On this date, the net assets and business activities of AAB were transferred to SABB in exchange for newly issued shares of SABB. The AAB legal entity ceased to exist following the transfer. Shares of AAB were cancelled and the new shares in SABB were issued to shareholders of AAB at an exchange ratio of 0.48535396 new SABB shares for each AAB share. The issue of new shares has increased SABB's paid-up capital by 37% from SAR 15,000,000,000 to SAR 20,547,945,220 and the number of its issued shares have increased from 1,500,000,000 to 2,054,794,522. SABB and AAB's original shareholders owned 73% and 27% respectively, of the combined bank on a fully diluted basis on the merger date.

The merger has been accounted for using the acquisition method under IFRS 3 – Business Combinations (the "Standard") with SABB being the acquirer and AAB being the acquiree. As required by the Standard, SABB 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 period ended 30 June 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 187 million (30 June 2019 : SAR 133 million). These costs have been included in 'Salaries and employee related expenses' and 'General and administrative expenses' in the interim consolidated statement of income amounting to SAR 50 million (30 June 2019 : SAR 28 million) and SAR 137 million (30 June 2019 : SAR 105 million), respectively.

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

- **Customer relationships - Purchased Credit Card Receivables**

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

- **Core deposits Intangible - CDI**

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

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

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

- **Brand**

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

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

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

	16 June 2019
<b>Assets</b>	
Cash and balances with SAMA	4,933,326
Due from banks and other financial institutions, net	966,284
Positive fair value derivatives, net	165,849
Investments, net	15,560,922
Loans and advances, net	45,904,064
Investment in an associate	80,204
Property and equipment, net	1,464,093
Other assets	1,545,806
<b>Total assets</b>	<b>70,620,548</b>
<b>Liabilities</b>	
Due to banks and other financial institutions	863,192
Customers' deposits	60,910,930
Negative fair value derivatives, net	132,810
Other liabilities	3,868,798
<b>Total liabilities</b>	<b>65,775,730</b>
Alawwal Bank net assets as at acquisition date	4,844,818
Provisional amounts arising from the acquisition:	
- Retirement of AAB treasury shares	78,706
- goodwill	16,195,867
- other intangibles	2,021,600
<b>Total purchase consideration</b>	<b>23,140,991</b>

**e. Acquired receivables**

For each class of acquired receivables, the fair value, gross contractual amounts receivable and the best estimate of the contractual cash flows not expected to be collected are as follows:

	Fair value of the acquired receivables	Gross contractual amount receivable	The contracted cash flows not expected to be collected
Due from banks and other financial institutions	966,284	966,343	59
Investments, net	15,560,922	15,597,717	36,795
Loans and advances, net	45,904,064	58,339,024	12,434,960
Other financial assets	80,204	54,204	-
<b>Total</b>	<b>62,511,474</b>	<b>74,957,288</b>	<b>12,471,814</b>

**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 interim condensed consolidated financial statements.

**Notes To The Interim Condensed Consolidated Financial Statements (continued)**  
**30 June 2020**

The goodwill is primarily attributable to the expected future earnings of the acquired business and synergies created. The goodwill recognised is deductible for income tax purposes.

The completion of the purchase price allocation exercise within twelve months from the acquisition date, including restatement of provisional fair values at which the net assets were acquired from AAB, has had the following impact on the line items of the interim consolidated statements of income, financial position and changes in equity as at and for the periods ended 30 June 2019 and 31 December 2019:

<b>Financial statements Impacted</b>	<b>Description</b>	<b>As previously reported for the period ended/ as at 30 June 2019</b>	<b>Effect of restatement</b>	<b>Restated - 30 June 2019</b>
Interim Consolidated Statement of Financial Position	Positive fair value derivatives	965,082	(3,800)	961,282
Interim Consolidated Statement of Financial Position	Investments, net	56,092,480	90,973	56,183,453
Interim Consolidated Statement of Financial Position	Loans and advances, net	158,275,404	(3,313,906)	154,961,498
Interim Consolidated Statement of Financial Position	Investment in an associate and a joint venture	624,898	(9,200)	615,698
Interim Consolidated Statement of Financial Position	Property and equipment, net	3,711,898	(300,355)	3,411,543
Interim Consolidated Statement of Financial Position	Goodwill & other intangibles assets	14,939,392	3,586,354	18,525,746
Interim Consolidated Statement of Financial Position	Other assets	2,801,965	489,159	3,291,124
Interim Consolidated Statement of Financial Position	Total assets	270,278,052	539,225	270,817,277
Interim Consolidated Statement of Financial Position	Customers' deposits	196,145,482	12,079	196,157,561
Interim Consolidated Statement of Financial Position	Negative fair value derivatives	1,276,500	(4,300)	1,272,200
Interim Consolidated Statement of Financial Position	Other liabilities	10,331,323	551,945	10,883,268
Interim Consolidated Statement of Financial Position	Total liabilities	214,853,752	559,724	215,413,476
Interim Consolidated Statement of Financial Position	Other reserves	290,088	(78,706)	211,382
Interim Consolidated Statement of Financial Position	Retained earnings	5,892,921	42,002	5,934,923
Interim Consolidated Statement of Financial Position	Total equity	55,424,300	(20,499)	55,403,801

**Notes To The Interim Condensed Consolidated Financial Statements (continued)****30 June 2020**

<b>Financial statements Impacted</b>	<b>Description</b>	<b>As previously reported for the period ended/ as at 30 June 2019</b>	<b>Effect of restatement</b>	<b>Restated - 30 June 2019</b>
Interim Consolidated Statement of Income	Special commission income	3,749,002	24,708	3,773,710
Interim Consolidated Statement of Income	Special commission expense	(679,527)	2,657	(676,870)
Interim Consolidated Statement of Income	Depreciation and amortisation	(124,673)	(5,882)	(130,555)
Interim Consolidated Statement of Income	Provision for expected credit losses, net	(1,719,150)	36,724	(1,682,426)
Interim Consolidated Statement of Income	Net income for the period after Zakat and tax	851,354	58,207	909,561
Interim Consolidated Statement of Income	EPS	0.55	0.04	0.59

<b>Financial statements Impacted</b>	<b>Description</b>	<b>As previously reported as at 31 December 2019</b>	<b>Effect of restatement</b>	<b>Restated - 31 December 2019</b>
Consolidated Statement of Financial Position	Loans and advances, net	154,676,970	(2,601,884)	152,075,086
Consolidated Statement of Financial Position	Goodwill & other intangibles assets	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

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

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

Oil prices witnessed significant volatility during the first half of 2020, owing not just to demand issues arising from COVID-19 as the world economies went into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production, coupled with increasing of demand as countries emerged from lockdowns.

The Bank continues to evaluate the current situation through conducting stress testing scenarios on expected movements of oil prices and other macroeconomic indicators and its impact on key credit, liquidity, operational, solvency and performance indicators. In addition, the Bank has applied other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance. The steps taken by management also include review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection thereby conducting timely review and taking appropriate customer credit rating actions, initiating restructuring loans, where required and reducing some of uncommitted exposure to Borrowers. These credit reviews also take into consideration the impacts of government and SAMA support relief programmes such as Deferred Payment Programme for SME.

In line with the requirements of IFRS 9, the Bank periodically updates macroeconomic factors and considers the various scenario probabilities used in the ECL estimation. In Q1 2020, the Bank made an overlay to the model outcome to reflect the deteriorated economic outlook arising from the COVID-19 pandemic and sharp drop in oil prices. During Q2 2020 as more data became available, management has adopted updated macroeconomic forecasts in the estimation of expected credit losses. Management also considered the scenario probability weighting and whether any other changes to model estimates were required in light of the developing COVID-19 situation. This update resulted in an additional ECL of SAR 253 million compared to ECL calculated using macroeconomic forecasts valid at the year end.

ECL models, by design, are sensitive to forecast macroeconomic variables. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The Bank has an established process to review and challenge macroeconomic forecasts on a regular basis and to apply judgement in their application.

It continues to be challenging to reliably ascertain the specific effects the pandemic and the government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Bank has therefore concluded that it is too early for any potential credit impairment to be reflected through the application of the staging under IFRS 9 and has instead put more emphasis on the macroeconomic model underpinning the PD and LGD determinations. The Bank will continue to individually assess significant counterparty exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

### **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;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the DPP, the Bank has deferred payments for six months on lending facilities to those companies that qualify as MSME. The payment reliefs are considered as short-term liquidity support to address the borrowers' potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months by extending the tenor of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and treated as per the requirements of IFRS 9 as a modification in terms of arrangement. The modification to the contracts has resulted in modification losses of SAR 94 million for the three month period ended 31 March 2020.

To give effect to the guidance issued by SAMA during April 2020, the Bank has also deferred MSME customers classified as Stage 2 and some other stage 1 customers which have met the definition of MSME during Q2 2020 for the same period i.e. 14 March 2020 to 14 September 2020. This has resulted in additional modification losses amounting to SR 30 million which has been recognised during Q2 2020. The modification losses have been presented as part of Other Operating 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. During the six months period ended 30 June 2020, SR 62 million has been recognized in the statement of income relating to unwinding of modification losses.

In order to offset the modification loss that the Bank is expected to incur in deferring the payments under SAMA and other public authorities program, the Bank received SAR 1.7 billion profit free deposit from SAMA for a period of 3 years during Q1 2020. Management had 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. The benefit of the subsidised funding rate has been accounted for in accordance with government grant accounting requirements, which resulted in a total income of SR 108 million, of which SR 94 million has been recognised in the interim consolidated statement of income for the three month period ended 31 March 2020 immediately in Other Operating Income and SAR 14 million recognised in Other Operating Income during the three month period ended 30 June 2020. The management has exercised certain judgements in the recognition and measurement of this grant income.

During Q2 2020, the Bank has received additional profit free deposit from SAMA amounting to SAR 3.7 billion for a period of 3 years and the benefit of the subsidised funding rate has also been accounted for in accordance with government grant accounting requirements, which resulted in a total income of SR 218 million, of which SR 16 million has been recognised in the interim consolidated statement of income as at 30 June 2020 immediately in Other Operating Income, with the remaining amount deferred. During the six month period ended June 30, 2020, SAR 18 million for unwinding of day 1 gain has been charged to special commission expense.

On 16 July 2020, the Bank received an additional profit free deposit from SAMA amounting to SAR 702 million for a period of three years under the same program.

As at 30 June 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, during Q2 2020, SAMA has confirmed to the Bank that the POS and e-commerce service fee amounting to SR 57 million will be reimbursed to the Bank. However, since the ultimate beneficiaries in this case are the customers, therefore, it is not treated as grant income for the Bank under IAS 20.

### **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 period ended 30 June 2020, 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, of which SAR 34 million has been recognised in the interim consolidated statement of income as at June 30, 2020 and with the remaining amount deferred.

#### **Health care sector support**

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. The modification of these contracts has resulted in the Bank recognising a modification loss of SAR 76 million as at 31 March 2020, and this has been presented as part of Other Operating Income. During the three months period ended 30 June 2020, SR 76 million has been recognized in the interim consolidated statement of income relating to unwinding of modification losses, and is presented in Special Commission Income.

#### **23. Post Balance Sheet events**

Subsequent to the period ended 30 June 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 6 months' SAIBOR plus margin of 195 bps payable semi-annually.

#### **24. Comparative figures**

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

#### **25. Board of directors' approval**

These interim condensed consolidated financial statements were approved by the Board of Directors on 4 Muharram 1442AH (23 August 2020G).