



The Saudi British Bank

**Consolidated Financial Statements
For the year ended**

31 December 2022

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

	Page No.
Independent Auditors' Report	
Consolidated statement of financial position	9
Consolidated statement of income	10
Consolidated statement of comprehensive income	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
 Notes to the consolidated financial statements:	
1. General	14
2. Significant accounting policies	18
3. Cash and balances with SAMA	35
4. Due from banks and other financial institutions, net	35
5. Investments, net	36
6. Loans and advances, net	40
7. Investment in an associate	46
8. Property, equipment and right of use assets, net	47
9. Goodwill and other intangibles	48
10. Other assets	50
11. Derivatives	51
12. Due to banks and other financial institutions	56
13. Customers' deposits	56
14. Debt securities in issue	56
15. Other liabilities	57
16. Share capital	57
17. Statutory reserve	57
18. Other reserves	57
19. Commitments and contingencies	58
20. Net special commission income and expense	62
21. Net fees and commission income	63
22. Income from FVSI financial instruments, net	63
23. Salaries and employee related expenses	63
24. Basic and diluted earnings / (losses) per share	66
25. Zakat and income tax	66
26. Cash and cash equivalents	67
27. Employee benefit obligation	67
28. Operating segments	68
29. Financial risk management	71
30. Market risk	78
31. Liquidity risk	83
32. Offsetting of financial liabilities	87
33. Fair values of financial instruments	87
34. Related party transactions	89
35. Capital Risk Management	91
36. IBOR Transition (Interest Rate Benchmark Reforms)	91
37. Investment management and brokerage services	92
38. Business Combination	92
39. Discontinued operations	94
40. Comparative figures	94
41. Board of Directors' approval	94

**KPMG Professional Services**

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Independent Auditors' Report**To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)****Report on the audit of the consolidated financial statements****Opinion**

We have audited the consolidated financial statements of The Saudi British Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRSs that are endorsed in the Kingdom of Saudi Arabia").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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



Independent Auditors' Report (continued)

To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Carrying value of goodwill</i>	
<p>As at 31 December 2022, the Group has goodwill with a carrying value of SAR 8.78 billion. Management has conducted a goodwill impairment test as at 31 December 2022.</p> <p>We considered the impairment assessment of goodwill as a key audit matter because it involves determination of value in use ("VIU"). The VIU calculations are based on future forecasts, which are inherently uncertain, require significant judgment and are subject to the risk of management bias. Aside from profit forecasts, other significant judgments included in the VIU are discount rates and macroeconomic assumptions such as long-term growth rates. Consequently, there is a risk that if the judgments and assumptions underpinning the impairment assessments are inappropriate, then the goodwill balance may be misstated.</p> <p><i>Refer to the summary of significant accounting policies note 2K(i) for impairment policy for goodwill; and note 9 which contains the disclosure and the impairment testing of goodwill.</i></p>	<ul style="list-style-type: none"> • We obtained an understanding of management's processes for impairment assessment and evaluated the design and implementation of controls. • We assessed whether the segmentation of the cash generating units ("CGUs") reflects our understanding of the business and how it operates. • We reviewed the strategic/operating plan as approved by the Board of Directors, and ensured that forecast information used in the goodwill impairment assessment conducted by management was consistent with this plan. • We involved our specialists and assessed the reasonableness of the VIU calculations and the underlying assumptions, including cash flow projections and discount rates used. • We reviewed the sensitivity of the results of the VIU model to the various key assumptions, such as long term growth rate and discount rate, within a reasonably possible range. • We performed cross-checks against other relevant market information. • We assessed the adequacy of disclosures in the consolidated financial statements.



Independent Auditors' Report (continued)

To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Expected credit loss allowance against loans and advances</i>	
<p>As at 31 December 2022, the gross loans and advances of the Group were SAR 189.14 billion against which an expected credit loss ("ECL") allowance of SAR 6.01 billion was maintained.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgment and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include:</p> <ol style="list-style-type: none"> 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. <p>The Group has applied additional judgments to identify and estimate the likelihood of borrowers that may have experienced SICR due to the current economic outlook.</p> 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including, but not limited to, assessment of financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages. 	<ul style="list-style-type: none"> • We obtained and updated our understanding of management's assessment of the ECL allowance against loans and advances, including the Group's internal rating model, accounting policy and model methodology, considering any key changes made during the year. • We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9. • We assessed the design and implementation, and tested the operating effectiveness, of the key controls (including relevant IT general and application controls) over: <ul style="list-style-type: none"> ○ the ECL model, including governance over the model and any model updates performed during the year, including approval by the IFRS 9 Committee of the key inputs, assumptions and post model overlays; ○ the classification of loans and advances into Stages 1, 2 and 3 and timely identification of SICR and the determination of default / individually impaired exposures; ○ the IT systems and applications supporting the ECL model; and ○ the integrity of data inputs into the ECL model. • For a sample of customers, we assessed: <ul style="list-style-type: none"> ○ the internal ratings determined by management, based on the Group's internal rating model, and considered these assigned ratings in light of external market conditions and available industry information. We also confirmed that these were consistent with the ratings used as inputs in the ECL model; and ○ management's computations of ECL.



Independent Auditors' Report (continued)

To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Expected credit loss allowance against loans and advances (continued)</i>	
<p>3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors that might not have been captured by the ECL model.</p> <p>The application of these judgments and estimates results in greater estimation uncertainty, and the associated audit risk regarding the ECL calculation as at 31 December 2022.</p> <p><i>Refer to the significant accounting policy note 2B(v) for the impairment of financial assets; note 1.If(i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 6 which contains the disclosure of impairment against loans and advances and note 29(ii) for details of credit quality analysis and key assumptions and factors considered in the determination of ECL.</i></p>	<ul style="list-style-type: none"> For selected loans, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any. We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's loan portfolio. We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the output from the ECL model, due to data or model limitations or otherwise. We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios. We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2022. Where required, we involved our experts to assist us in reviewing model calculations, evaluating interrelated inputs (including EADs, PDs and LGDs) and assessing the reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights; and of assumptions used in the post model overlays. We assessed the adequacy of disclosures in the consolidated financial statements.



Independent Auditors' Report (continued)

To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments	
<p>The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); special commission rate and currency options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations.</p> <p>The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flows or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, impact the hedge accounting as well.</p> <p>We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modeling techniques and valuation inputs that are not market observable.</p> <p>As at 31 December 2022, the positive and negative fair values of derivatives held by the Group amounted to SAR 2.54 billion and SAR 1.91 billion respectively.</p> <p><i>Refer to the basis of preparation note 1.1f(ii) to the consolidated financial statements which sets out the critical accounting judgements, estimates and assumptions regarding fair value measurement; the significant accounting policies note 2.D for the accounting policy relating to derivative financial instruments and hedge accounting; and note 11 which discloses the derivative positions as at the reporting date.</i></p>	<ul style="list-style-type: none"> • We assessed the design and implementation, and tested the operating effectiveness, of the key controls over management's process for valuation of derivatives and hedge accounting, including the testing of relevant automated and manual controls covering the fair valuation process for derivatives. • We selected a sample of derivatives and: <ul style="list-style-type: none"> ○ tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; ○ assessed the appropriateness of the key inputs to the derivative valuation models; ○ involved our experts to assist us to perform independent valuations of the derivatives and compared the result with management's valuation; and ○ assessed the hedge effectiveness performed by the Group and corroborated the related hedge accounting. • We assessed the adequacy of disclosures around the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements.



Independent Auditors' Report (continued)

To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

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

Other information included in the Group's 2022 annual report

The Board of Directors of the Bank ("the Directors") is responsible for the other information in the Group's annual report. Other information consists of the information included in the Group's 2022 annual report (the "annual report"), other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of those charged with governance for the consolidated financial statements

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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



Independent Auditors' Report (continued)

To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

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

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

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

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

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

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



Independent Auditors' Report (continued)

To the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

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

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

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers

Bader I. Benmohareb
Certified Public Accountant
License Number 471



KPMG Professional Services

Dr. Abdullah Hamad Al Fozan
Certified Public Accountant
License Number 348



(22 Rajab 1444)
(13 February 2023)

Consolidated statement of financial position

As on 31 December

		2022 SAR' 000	2021 SAR' 000
	Notes		
ASSETS			
Cash and balances with Saudi Central Bank ("SAMA")	3	19,258,717	14,909,404
Due from banks and other financial institutions, net	4	5,871,533	5,993,175
Positive fair value of derivatives, net	11	2,538,074	1,109,845
Investments, net	5	86,363,159	64,903,698
Loans and advances, net	6	183,132,249	167,556,478
Investment in an associate	7	599,289	583,359
Other assets	10	2,228,977	3,353,086
Property, equipment and right of use assets, net	8	3,621,644	3,246,167
Goodwill and other intangibles, net	9	10,837,035	10,740,811
Total assets		314,450,677	272,396,023
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	12	25,517,303	14,663,666
Customers' deposits	13	214,278,851	186,760,612
Negative fair value of derivatives, net	11	1,907,436	1,514,592
Debt securities in issue	14	5,114,836	5,061,533
Other liabilities	15	12,949,047	11,367,103
Total liabilities		259,767,473	219,367,506
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	16	20,547,945	20,547,945
Share premium		8,524,882	8,524,882
Statutory reserve	17	20,547,945	20,547,945
Other reserves	18	(1,182,348)	(29,939)
Retained earnings		6,244,780	3,335,498
Total equity attributable to equity holders of the Bank		54,683,204	52,926,331
Total equity attributable to non-controlling interest	39	-	102,186
Total equity		54,683,204	53,028,517
Total liabilities and equity		314,450,677	272,396,023

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


Lama Ghazzaoui

Chief Financial Officer

Tony Cripps

Managing Director

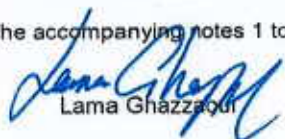
Lubna S. Olayan

Board Chair

The Saudi British Bank
Consolidated statement of income
For the year ended 31 December

		2022 SAR'000	2021 SAR'000
	Notes		
Continuing Operations			
Special commission income	20	9,321,874	6,378,670
Special commission expense	20	(1,913,587)	(661,450)
Net special commission income		7,408,287	5,717,220
Fee and commission income	21	2,770,173	2,448,995
Fee and commission expense	21,40	(1,884,517)	(1,477,112)
Net fee and commission income		885,656	971,883
Exchange income, net		777,313	602,516
Income from FVSI financial instruments	22	430,861	163,177
Dividend income		-	14,828
(Losses) / gains on FVOCI debt instruments, net	18	(11,654)	62,815
Gains on non-FVSI financial instruments		30,505	81,132
Other operating income, net	40	176,060	64,787
Total operating income		9,697,028	7,678,358
Provision for expected credit losses, net	29(a)	(445,261)	(453,743)
Operating expenses			
Salaries and employee related expenses	23	(1,809,465)	(1,734,773)
Rent and premises related expenses		(49,957)	(61,486)
Depreciation and amortization	8,9	(464,729)	(621,610)
General and administrative expenses	21,40	(1,337,942)	(1,010,688)
Total operating expenses		(3,662,093)	(3,428,557)
Income from operating activities		5,589,674	3,796,058
Share in earnings of associates	7	172,144	131,429
Net Income for the year before Zakat and income tax		5,761,818	3,927,487
Provision for Zakat and income tax	25	(835,810)	(695,675)
Net income for the year after Zakat and income tax from continuing operations		4,926,008	3,231,812
Net loss from discontinued operations	39	(53,860)	(30,167)
Net Income for the year after Zakat and income tax		4,872,148	3,201,645
Attributable to:			
Equity holders of the Bank		4,874,158	3,204,427
Non-controlling interest		(2,010)	(2,782)
Net Income for the year after Zakat and income tax		4,872,148	3,201,645
Basic and diluted earnings per share (in SAR) from continuing operations attributable to equity holders of the Bank	24	2.40	1.57
Basic and diluted losses per share (in SAR) from discontinued operations attributable to equity holders of the Bank	24	(0.03)	(0.01)
Basic and diluted earnings per share (in SAR)	24	2.37	1.56

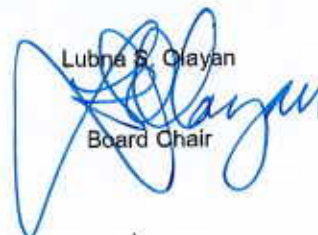
The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.


Lama Ghazzaoui

Chief Financial Officer

Tony Cripps

Managing Director

Lubna S. Olayan

Board Chair

Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	2022 SAR' 000	2021 SAR' 000
Net income for the year after Zakat and income tax		4,872,148	3,201,645
Other comprehensive income for the year			
Items that will not be reclassified to consolidated statement of income in subsequent years			
Net changes in fair value (FVOCI equity instruments)	18	4,778	368,819
Re-measurement of defined benefit liability	18,27	3,088	5,525
Items that will be reclassified to consolidated statement of income in subsequent years			
Debt instrument at FVOCI:			
Net changes in fair value	18	(1,436,597)	(39,050)
Transfer to consolidated statement of income, net	18	11,654	(62,815)
Cash flow hedges:			
Net changes in fair value	18	228,784	7,940
Transfer to consolidated statement of income, net	18	(25,617)	(18,793)
Total other comprehensive (loss) / income for the year		(1,213,910)	261,626
Total comprehensive income for the year		3,658,238	3,463,271
Attributable to:			
Equity holders of the Bank:			
Continuing operations		3,714,108	3,496,220
Discontinuing operations		(53,860)	(30,167)
Non-controlling interest		(2,010)	(2,782)
Total		3,658,238	3,463,271

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


Lama Ghazzaoui
Chief Financial Officer

Tony Cripps

Managing Director

Lubna S. Olayan

Board Chair

The Saudi British Bank
Consolidated statement of changes in equity
For the year ended 31 December

	Attributable to equity holders of the Bank						Non-controlling interest	Total Equity
	Notes	Share capital SAR'000	Share premium SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000		
2022								
Balance at the beginning of the year		20,547,945	8,524,882	20,547,945	(29,939)	3,335,498	102,186	53,028,517
Total comprehensive income / (loss) for the year		-	-	-	-	4,874,158	(2,010)	4,872,148
Net income / (loss) for the year after Zakat and income tax	18	-	-	-	-	228,784	-	228,784
Net changes in fair value of cash flow hedges	18,27	-	-	-	3,088	-	-	3,088
Re-measurement of defined benefit liability	18	-	-	-	4,778	-	-	4,778
Net changes in fair value of FVOCI equity instruments	18	-	-	-	(1,436,597)	-	-	(1,436,597)
Net changes in fair value of FVOCI debt instruments	18	-	-	-	(13,963)	-	-	(13,963)
Transfer to consolidated statement of income, net	18	-	-	-	(1,213,910)	4,874,158	(2,010)	3,658,238
Derecognition of a subsidiary upon loss of control		-	-	-	-	-	(100,176)	(100,176)
Employee share plan reserve net charge and shares vested		-	-	-	61,501	-	-	61,501
2022 interim dividend, net of Zakat and income tax	16	-	-	-	-	(1,262,501)	-	(1,262,501)
2021 final dividend, net of Zakat and income tax	16	-	-	-	-	(702,375)	-	(702,375)
Balance at the end of the year		20,547,945	8,524,882	20,547,945	(1,182,348)	6,244,780	102,186	54,683,204
Attributable to equity holders of the Bank								
2021								
Balance at the beginning of the year as reported		20,547,945	17,586,986	11,485,841	324,937	760,954	55,077	50,761,740
Effect of restatements		-	-	-	-	(49,891)	49,891	-
Restated balance as at 1 January 2021		20,547,945	17,586,986	11,485,841	324,937	711,063	104,968	50,761,740
Total comprehensive income / (loss) for the year		-	-	-	-	3,204,427	(2,782)	3,201,645
Net income / (loss) for the year after Zakat and income tax	18	-	-	-	7,940	-	-	7,940
Net changes in fair value of cash flow hedges	18,27	-	-	-	5,525	-	-	5,525
Re-measurement of defined benefit liability	18	-	-	-	368,819	-	-	368,819
Net changes in fair value of FVOCI equity instruments	18	-	-	-	(39,050)	-	-	(39,050)
Net changes in fair value of FVOCI debt instruments	18	-	-	-	(81,608)	-	-	(81,608)
Transfer to consolidated statement of income, net	18	-	-	-	261,626	3,204,427	(2,782)	3,463,271
Purchase of treasury shares		-	-	-	(115,000)	-	-	(115,000)
Employee share plan reserve		-	-	-	(6,007)	-	-	(6,007)
Transfer of gain on disposal of equity instruments at FVOCI to retained earnings	18	-	-	-	(495,495)	495,495	-	-
Transfer to statutory reserve	17	-	(9,062,104)	9,062,104	-	-	-	-
2021 interim dividend, net of Zakat and income tax	16	-	-	-	-	(1,075,487)	-	(1,075,487)
Balance at the end of the year		20,547,945	8,524,882	20,547,945	(29,939)	3,335,498	102,186	53,028,517

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

Lama Ghazzaoui
Lama Ghazzaoui
Chief Financial Officer

Tony Cripps
Tony Cripps
Managing Director


Ludja S. Olayan
Ludja S. Olayan
Board Chair

The Saudi British Bank
Consolidated statement of cash flows

For the year ended 31 December

	Notes	2022 SAR'000	2021 SAR'000
OPERATING ACTIVITIES			
Net income for the year before Zakat and income tax		5,707,958	3,897,320
Adjustments to reconcile net income before Zakat and income tax to net cash generated from / (used in) operating activities:			
Amortisation of premium on investments not held as FVSI investments, net		(28,092)	49,297
Depreciation and amortization	8,9	464,729	622,404
Special commission expense on debt securities in issue		203,039	142,352
Special commission expense on lease liabilities		19,439	24,776
Gains on non-FVSI financial instruments		(30,505)	(81,132)
Gain on disposal of non-current assets held for sale		-	(11,760)
Bargain purchase on acquisition of business		(155,400)	-
Income transferred to consolidated statement of income	18	(13,963)	(81,608)
Share in earnings of associates	7	(172,144)	(131,429)
Provision for expected credit losses, net	29 (a)	445,261	453,743
Employee share plan reserve		61,501	(6,007)
		6,501,823	4,877,956
Change in operating assets:			
Statutory deposit with SAMA		(1,260,487)	(379,873)
Due from banks and other financial institutions		297,660	(133,179)
Investments held as FVSI		420,094	(145,608)
Loans and advances		(14,675,827)	(14,684,575)
Positive fair value derivatives, net		(1,199,445)	859,401
Other assets		1,131,920	673,064
Change in operating liabilities:			
Due to banks and other financial institutions		10,853,637	(2,957,290)
Customers' deposits		27,518,239	(2,349,528)
Negative fair value derivatives, net		392,844	(1,304,494)
Other liabilities		1,431,021	331,965
		31,411,479	(15,212,161)
Zakat and income tax paid	25	(877,776)	(513,343)
Net cash generated from / (used in) operating activities		30,533,703	(15,725,504)
INVESTING ACTIVITIES			
Proceeds from sale and maturity of investments not held as FVSI		4,766,592	9,859,005
Purchase of investments not held as FVSI		(28,115,568)	(13,419,575)
Proceeds from sale of non-current assets held for sale		-	79,894
Dividend received from investment in an associate	7	156,214	99,168
Purchase of property, equipment and intangibles, net		(661,030)	(457,419)
Payment for acquisition of business	38	(1,203,209)	-
Net cash used in investing activities		(25,057,001)	(3,838,927)
FINANCING ACTIVITIES			
Special commission paid on debt securities in issue		(149,736)	(147,429)
Payment of lease liabilities		(99,854)	(137,362)
Purchase of treasury shares		-	(115,000)
Dividends paid		(1,962,582)	(1,200,924)
Net cash used in financing activities		(2,212,172)	(1,600,715)
Net change in cash and cash equivalents		3,264,530	(21,165,146)
Cash and cash equivalents at beginning of the year	26	8,543,548	29,708,694
Cash and cash equivalents at end of the year	26	11,808,078	8,543,548
Supplemental non cash information			
Right of use assets	8	499,431	607,260
Lease liabilities	15	577,398	647,888
Net changes in fair value and transfers to consolidated statement of income		(1,213,910)	261,626

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


Lama Ghazzaoui
Chief Financial Officer


Tony Cripps
Managing Director


Lubna S. Olayan
Board Chair

1. General

The Saudi British Bank ('SABB') is a Saudi joint stock company incorporated in the Kingdom of Saudi Arabia and was established by a 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 Thul Qadah 1399H (13 October 1979) as a commercial bank through a network of 109 branches (31 December 2021: 108 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 Shari'ah Committee established by SABB.

SABB had 100% (31 December 2021: 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). The company was liquidated during the year.

SABB has 100% (31 December 2021: 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). ARECO is engaged in the Real estate activities with own and leased property.

SABB has 100% (31 December 2021: 100%) directly held ownership interest in a subsidiary, SABB Markets Limited ("SABB Markets"), a limited liability company incorporated in the Cayman Islands under commercial registration No 323083 dated 21 Shaban 1438H (17 May 2017). SABB Markets is engaged in derivatives trading and repo activities.

SABB has 100% (31 December 2021: 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 Thul-Hijjah 1428H (9 January 2008). Alawwal Invest was formed and licensed as a capital market institution in accordance with the CMA's Resolution No. 1 39 2007. Alawwal Invest's principal activity is to engage in security activities regulated by the CMA related to dealing, managing, arranging, advising, and taking custody of securities. During the year, AI completed the transfer of HSBC Saudi Arabia's Asset Management, Retail Brokerage and Retail Margin Lending businesses. Please refer note 38 to these consolidated financial statements for further details.

SABB has 100% (31 December 2021: 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 is engaged in the Real estate activities with own and leased property.

SABB has 49% (31 December 2021: 49%) directly held ownership interest in HSBC Saudi Arabia an associate, a closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010221555 dated 27 Jumada II 1427H (23 July 2006). HSBC Saudi Arabia was formed and licensed as a capital market institution in accordance with the Resolution No. 37-05008 of the CMA dated 05 Thul-Hijjah 1426H corresponding to 05 January 2006. HSBC Saudi Arabia's principal activity is to engage in the full range of securities activities regulated by the CMA related to dealing, managing, arranging, advising, and taking custody of securities. HSBC Saudi Arabia is an associate of SABB with HSBC Asia Holdings B.V. a related party and shareholder in SABB. 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. It also manages mutual funds and discretionary portfolios. During the year, HSBC Saudi Arabia completed the transfer of its Asset Management, Retail Brokerage and Retail Margin Lending businesses to AI. Please refer note 38 to these consolidated financial statements for further details.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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 2021: 50%) share in Saudi Kayan Assets Leasing Company and Rabigh Asset Leasing Company (the Company is currently under liquidation) and directly owns a 100% (31 December 2021: 100%) share in Yanbu Asset Leasing Company (the company is currently under liquidation) as a result of SABB's merger with Alawwal Bank (AAB) in June 2019. SABB does not consolidate these entities as it does not have the right to variable returns from its involvement with the entities or ability to affect those returns through its power over the entities excluding Yanbu Asset Leasing Company. The related underlying funding to the relevant borrowers is recorded on SABB's consolidated statement of financial position.

1.1. Basis of preparation**a) Statement of compliance**

The consolidated financial statements of the Group have been prepared:

- in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants ('SOCPA'); and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia, and By-laws of the Bank.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of consolidated financial statements

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 31(b).

e) Basis of consolidation

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Subsidiaries are entities which are directly or indirectly controlled by SABB. SABB controls an entity (the 'investee') over which it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to SABB and cease to be consolidated from the date on which the control is transferred from SABB. Intra-group transactions and balances have been eliminated upon consolidation.

f) Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA requires the use of certain critical accounting judgements, estimates, and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Expected credit losses ("ECL") on financial assets and loan commitments and financial guarantee contracts**ECL methodology**

The measurement of impairment losses under IFRS 9 on the applicable categories of financial assets and loan commitments and financial guarantee contracts requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- the Group's internal credit grading model, which assigns Probability of Default (PDs) to the individual grades;
- the Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- the segmentation of financial assets when their ECL is assessed on a collective basis;
- development of ECL models, including the various formulas and the choice of inputs;
- determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default (EADs) and Loss Given Default (LGDs); and
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Group applies a low credit risk expedient on its margin financing portfolio as they are over collateralized by shares and cash.

Collateral and other credit enhancements held

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

ii. Fair value measurement

The Group measures financial instruments, such as investments and derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 33 to these consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Inputs that are unobservable. This category include all instruments for which the valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised in these consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

iii. Impairment of goodwill

For impairment testing, goodwill acquired through business combination is allocated to the cash generating units (CGUs) – Wealth & Personal Banking (WPB), Corporate & Institutional Banking (CIB), Capital Markets and Treasury, which are also operating and reportable segments.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

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

vi. Determination of significant influence over investees

The Group exercises judgements in assessing the significant influence over investees. The significant influence determination requires ongoing evaluation of the related facts and circumstances for each investment including governance arrangements, voting rights, underlying terms and conditions and material transactions with the investee.

vii. Determination of control over investees

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

viii. Depreciation and amortisation (refer to note 2J and 2K)

ix. Defined benefit plan (refer to note 2P)

x. Provisions for liabilities and charges (refer to note 2L)

xi. Change in estimates

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

During the year, the estimated total useful lives of certain property, equipment and intangible assets were revised as follows:

For the year ended 31 December,	Estimated Useful life before change	Estimated useful life after change
Buildings	33 years	40 years
Equipment, furniture, and vehicles*	3 to 10 years	3 to 10 years
*Useful lives of equipment and furniture were revised within the overall depreciation rates range.		

The estimated net effect of the changes during the year was a decrease in depreciation / amortisation expense of SAR 91 million. Assuming the assets are held until the end of their estimated useful lives, depreciation / amortisation in 2023 in relation to these assets is estimated to decrease by SAR 40 million.

g) Going concern

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

2. Significant accounting policies

A. Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements, except for those disclosed in 1 (f) above, are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2021. Based on the adoption of new standards and in consideration of the current economic environment, the following accounting policies are applicable effective 1 January 2022 replacing, amending, or adding to the corresponding accounting policies set out in 2021 annual consolidated financial statements.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

New standards, interpretations and amendments adopted by the Group

The following standard, interpretation or amendment are effective from the current year and are adopted by the Group, however, these do not have any impact on the consolidated financial statements of the year.

Accounting Standards, interpretations, amendments	Description	Effective date
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16.	<p>Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.</p> <p>Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.</p> <p>Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.</p> <p>Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.</p>	Annual periods beginning on or after 1 January 2022.

Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods beginning on or after 1 January 2022. The Group did not opt for early adoption of these pronouncements and does not expect to have a significant impact on the consolidated financial statements of the Group.

Accounting Standards, interpretations, amendments	Description	Effective date
Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities.	<p>These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period.</p> <p>Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.</p> <p>Note that the IASB has issued a new exposure draft proposing changes to this amendment.</p>	Deferred until accounting periods starting not earlier than 1 January 2024
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8.	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023
IFRS 17, 'Insurance contracts', as amended in December 2021.	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

B. Financial assets and financial liabilities**i) Initial recognition, measurement and classification of financial assets**

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

Amortised Cost (AC):

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVSI:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

The carrying amount of these assets is adjusted by any expected credit loss allowance recognised.

Fair value through other comprehensive income (FVOCI):

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Special commission income and foreign exchange gains and losses are recognised in consolidated statement of income.

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Equity instruments at FVOCI are not subject to an impairment assessment.

Fair value through statement of income (FVSI):

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through statement of income. A gain or loss on a debt investment that is subsequently measured at fair value through statement of income and is not part of a hedging relationship is recognised in the consolidated statement of income in the year in which it arises.

Business model assessment

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

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

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVSI because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

ii) Initial recognition, measurement and classification of financial liabilities

All financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. The Group recognise its financial liabilities at fair value. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the Effective Interest Rate (EIR) except for financial liabilities at fair value through statement of income. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

iii) Derecognition**a. Financial assets**

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

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

On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the year. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in consolidated statement of income on derecognition of such securities.

b. Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

iv) Modifications of financial assets and financial liabilities**a. Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

are deemed to have expired. In this case, the original financial asset is de-recognised with the difference recognised as a de-recognition gain or loss and a new financial asset is recognised at fair value.

In case the modification of asset does not result in de-recognition, the Group will recalculate the gross carrying amount of the asset by discounting the modified contractual cash-flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount is recognised in the consolidated statement of income for asset modification.

b. Financial liabilities

The Group derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated statement of income.

v) Impairment

The Group recognises provision for ECL on the following financial instruments that are not measured at FVSI:

- financial assets that are measured at amortised cost;
- debt instruments measured at FVOCI;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures provisions for ECL at an amount equal to lifetime ECL, except for the following, for which they are measured at 12 month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12 month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which the lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (e.g. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Bank calculates ECL for these products, is five years for corporate, three years for credit cards and seven years for retail products. The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest. The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- Undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- Financial Guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or a financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired. In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Presentation of provision for ECL in the consolidated statement of financial position

Provision for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision in other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve. Impairment losses are recognised in consolidated statement of income.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit / guarantees, real estate, receivables, inventories, other non-financial assets, and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Collateral repossessed

The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their fair value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Group's policy.

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

vi) Financial guarantees and loan commitments

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

Subsequent to the initial recognition, the Group's liability under each guarantee is measured at higher of the unamortised amount and the provision for ECL.

The premium received is recognised in the consolidated statement of income in 'Fees and commission income' on a straight-line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Group has issued no loan commitments that are measured at FVSI. For loan commitments, the Group recognises provision for ECL.

C. Trade date accounting

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

D. Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through statement of income. The embedded derivatives separated from the host are carried at fair value in the trading derivatives portfolio with changes in fair value recognised in the consolidated statement of income.

iii) Hedge accounting

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

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

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

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

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

E. Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are transferred to exchange income in the consolidated statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of FVOCI equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

F. Offsetting

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

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

G. Revenue/expenses recognition**i. Special commission income and expense**

Special commission income and expense for all commission-bearing financial instruments is recognised in the consolidated statement of income on an effective yield basis.

The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense. If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective commission rate applied to the new carrying amount.

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

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

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

ii. Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

iii. Dividend income

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

iv. Fees and commission income and expenses

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Asset management fee is recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Group attributes the revenue from management fees to the services provided during the year, because the fee relates specifically to the Group's efforts to transfer the services for that period. The asset management fee is not subject to any claw backs.

Advisory and investment banking services revenue is recognised based on services rendered under the applicable service contracts.

Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Group is satisfied when the Group carries out the transaction on behalf of the customers, which triggers immediate recognition of the revenue, as the Group will have no further commitments.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service is received. Any fee income received but not earned is classified under other liabilities.

v. Day one profit

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from active markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income in 'Gain/(loss) on FVSI financial instruments'. In cases where use is made of data which is not observable, the amount deferred should be recognized when there is a change in factors that market participants would take into account when pricing the asset or liability.

In some cases, the Group does not recognize a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input), nor based on a valuation technique that uses only data from observable markets.

vi. Customer Loyalty Program

The Group offers customer loyalty program (reward points / air miles herein referred to as 'reward points'), which allows card members to earn points that can be redeemed for certain Partner outlets. The Group allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand-alone selling price. The amount of revenue allocated to reward points is deferred and released to the consolidated statement of income when reward points are redeemed under fee commission income. The related expenses for the customers' loyalty program are recognized under fee commission expense. The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

H. Sale and repurchase agreements

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

Assets pledged under these transactions may be re-pledged / sold by the counter-parties to whom they have been transferred. These transactions are conducted under the terms that are usual and customary to standard securities borrowing and lending activities as well as requirements determined by exchanges in which the Group acts as a participant.

I. Investment in equity-accounted investees

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

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

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

The consolidated statement of income reflects the Group's share of earnings of the associate.

The reporting dates of the associates is identical to the Group and their accounting policies conform to those used by the Group for like transactions and events in similar circumstances. Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate.

J. Property and equipment

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

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

Buildings	40 years
Leasehold improvements	over period of the lease contract
Furniture, equipment, and vehicles	3 to 10 years

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

K. Intangible assets**i. Goodwill**

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities, and contingent liabilities of the acquiree. When the excess is negative (bargain purchase), it is recognised immediately in the Group's consolidated statement of income.

Measurement

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated statement of income. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

ii. Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the Group's consolidated statement of income on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

iii. Other intangibles

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Other intangibles are amortised using the straight-line method over the useful life of the asset, which is estimated to be 10 years for Purchased Credit Cards Relationships ("PCCR"), 14 years for Core Deposit Intangible ("CDI"), 5 years for brand and 11-12 years for Capital Markets ("CM"), Customer Relationships. If an indication of impairment arises, the recoverable amount is estimated, and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

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

L. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement, if any. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

M. Leases**Right of use asset (RoU) / Lease liabilities**

On initial recognition, at inception of the contract, the Group shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Group and the Group can direct the usage of such assets. The Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of use assets

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

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

Lease Liability

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

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in consolidated statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

N. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA and placements with SAMA excluding the statutory deposit, and due from banks and other financial institutions with an original maturity of 3 months or less from date of acquisition.

O. Assets held in trust or in fiduciary capacity

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

P. End of service benefits

The provision for end of service benefits is made based on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Group is reviewed by using a projected unit credit method. Actuarial gains and losses (Re-measurements) are recognized in full in the period in which they occur in other comprehensive income. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

Interest expense is calculated by applying the discount rate to the net defined benefit liability. The Group recognizes the following changes in the net defined benefit obligation under 'salaries and employee related expenses' in the consolidated statement of income.

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income

The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

Q. Share based payments

Under the terms of the Equity Based Long Term Bonus Plan, eligible employees of the Group are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Group delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions. The cost of the plans is recognised over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date').

The cumulative expense recognised for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

R. Government grant

The Group recognizes a government grant related to income, if there is a reasonable assurance that it will be received, and the Group 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 Group 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 Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

S. Zakat and Income tax**Zakat**

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the consolidated statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to Zakat.

Income tax

The income tax expense for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate in Saudi Arabia, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available, and the credits can be utilized.

Value Added tax ("VAT")

The Group collects VAT from its customers for qualifying services provided and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

T. Non-current assets classified as held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the assets to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the assets is recognised at the date of derecognition.

Assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Assets classified as held for sale are presented separately from the other assets in the consolidated statement of financial position.

U. Islamic banking products

In addition to conventional banking, the Group also provides Shari'ah-compliant products, which are approved and supervised by an independent Shari'ah Committee established by SABB. All Shari'ah approved banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

- (i) **Murabaha:** is a financing agreement whereby the Group sells to a customer an asset or a commodity, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin and is paid as agreed.
- (ii) **Istisna'a:** is a contract to manufacture goods, assemble or process them, or to build a house or other structure according to exact specifications and a fixed timeline
- (iii) **Ijarah:** is an agreement whereby the Group, acting as a lessor, purchases an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.
- (iv) **Musharaka:** is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.
- (v) **Tawarruq:** is a form of Murabaha transaction where the Group purchases a commodity and sells it to the customer at agreed-upon deferred installment terms. The customer sells the underlying commodity at spot to a third party and uses the proceeds for his financing requirements.
- (vi) **Mudaraba:** is a form of participation in profit where the client provides the capital to the Group or vice versa depending on the product type. The capital owner is called the Rab Almaal and the worker is Mudharib. The worker duty is to invest the capital in activities that comply with Shariah rules. The income is divided according to the agreement. In the case of loss, "Rab Almaal" has to bear all the losses from his capital and the "Midharib" loses his efforts.
- (vii) **Promise:** is a mandatory commitment by the Group to its client or vice versa to enter into a sale or purchase transaction for the purpose of hedge against fluctuations in rates, index prices, and currency prices.
- (viii) **Murabaha:** deposit is based on commodity Murabaha. The Group acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities. Since the Group purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.
- (ix) **Shariah compliant foreign exchange products:** are offered to clients to hedge their existing exposure to foreign currencies. It is based on the concept of Waad (binding promise) where the Group promises to buy/sell a particular amount of foreign currency at an agreed upon price. It may include only one Waad or a combination of Waads.
- (x) **Shariah compliant rates products:** are offered to clients who have exposure to fixed/floating rates and need hedging solutions. The products are designed around the concept of Waad (binding promise) to enter into Murabaha where the profit is based on a rates index or formula. It may include only one Waad or a combination of Waads.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

3. Cash and balances with SAMA

	2022	2021
Cash in hand	1,779,646	1,766,585
Statutory deposit	13,324,060	12,063,573
Placements with SAMA	4,039,485	927,961
Other balances	115,526	151,285
Total	19,258,717	14,909,404

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its deposit liabilities calculated on monthly average balances at the end of reporting period. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents (note 26). Placements with SAMA represents securities purchased under an agreement to re-sell (reverse repo) with SAMA. Balances with SAMA are investment grade as defined in note 5 (g).

4. Due from banks and other financial institutions, net

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

	2022	2021
Current accounts	5,282,629	4,961,054
Money market placements	-	1,034,323
Reverse repos	590,792	-
Provision for expected credit losses	(1,888)	(2,202)
Total	5,871,533	5,993,175

b) Movement in gross carrying amount

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

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	5,995,377	-	-	-	5,995,377
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(121,956)	-	-	-	(121,956)
Balance as at 31 December 2022	5,873,421	-	-	-	5,873,421

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	5,106,639	821	-	-	5,107,460
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	888,738	(821)	-	-	887,917
Balance as at 31 December 2021	5,995,377	-	-	-	5,995,377

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

c) Credit quality analysis

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

	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit Impaired	Total
31 December 2022	5,871,533	-	-	-	5,871,533
31 December 2021	5,993,175	-	-	-	5,993,175

Balances under due from banks and other financial institutions are investment grade as defined in note 5 (g).

d) Movement in provision for expected credit losses

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

	31 December 2022			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2022	2,202	-	-	2,202
Net reversal for the year	(314)	-	-	(314)
Balance as at 31 December 2022	1,888	-	-	1,888

	31 December 2021			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2021	1,629	333	-	1,962
Net charge for the year	573	(333)	-	240
Balance as at 31 December 2021	2,202	-	-	2,202

5. Investments, net

a) Investment, net securities are classified as follows:

	2022	2021
FVOCI – Debt	30,938,120	18,665,583
FVOCI – Equity (note 39)	218,332	24,382
FVSI	963,274	1,383,368
Held at amortised cost	54,252,894	44,843,454
Provision for expected credit losses for amortised cost	(9,461)	(13,089)
Total	86,363,159	64,903,698

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

b) Movement in gross carrying amount

The following table further explains changes in gross carrying amount of the investments to help explain their significance to the changes in the provision for ECL of the same portfolio.

• FVOCI - Debt

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	18,665,583	-	-	-	18,665,583
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	12,272,537	-	-	-	12,272,537
Balance as at 31 December 2022	30,938,120	-	-	-	30,938,120

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	12,574,317	-	-	-	12,574,317
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	6,091,266	-	-	-	6,091,266
Balance as at 31 December 2021	18,665,583	-	-	-	18,665,583

• Held at amortized cost

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	44,843,454	-	-	-	44,843,454
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	9,409,440	-	-	-	9,409,440
Balance as at 31 December 2022	54,252,894	-	-	-	54,252,894

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	45,908,019	-	-	-	45,908,019
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(1,064,565)	-	-	-	(1,064,565)
Balance as at 31 December 2021	44,843,454	-	-	-	44,843,454

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

c) Investments, net by type of securities

	Domestic		International		Total	
	2022	2021	2022	2021	2022	2021
Fixed rate securities	68,146,227	49,146,303	5,010,685	1,454,970	73,156,912	50,601,273
Floating rate securities	12,403,594	13,147,024	172,494	181,673	12,576,088	13,328,697
Equities and others	618,233	961,182	11,926	12,546	630,159	973,728
Total	81,168,054	63,254,509	5,195,105	1,649,189	86,363,159	64,903,698

d) Movement in provision for expected credit losses

An analysis of changes in provision for ECL of debt instruments measured at amortized cost, is as follows:

2022	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2022	13,089	-	-	13,089
Net reversal for the year	(3,628)	-	-	(3,628)
Balance as at 31 December 2022	9,461	-	-	9,461

2021	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2021	18,005	-	-	18,005
Net reversal for the year	(4,916)	-	-	(4,916)
Balance as at 31 December 2021	13,089	-	-	13,089

An analysis of changes in provision for ECL of debt instruments measured at FVOCI, is as follows:

2022	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2022	7,702	-	-	7,702
Net reversal for the year	(349)	-	-	(349)
Balance as at 31 December 2022	7,353	-	-	7,353

2021	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2021	7,695	-	-	7,695
Net charge for the year	7	-	-	7
Balance as at 31 December 2021	7,702	-	-	7,702

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

	2022			2021		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	71,357,561	1,799,351	73,156,912	48,109,839	2,491,434	50,601,273
Floating rate securities	8,262,779	4,313,309	12,576,088	8,240,435	5,088,262	13,328,697
Equities and others	606,396	23,763	630,159	949,346	24,382	973,728
Total	80,226,736	6,136,423	86,363,159	57,299,620	7,604,078	64,903,698

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

f) The Investments, net includes Shariah based investments as below:

	2022	2021
Debt instruments:		
Sukuks	63,707,577	51,010,277
Provision for expected credit losses	(7,255)	(10,729)
	63,700,322	50,999,548
Equities and mutual funds	604,895	919,337
Total	64,305,217	51,918,885

g) The analysis of investments, net by external ratings grade

The following table sets out information about the credit quality of investment which are defined as below:

- Investment Grade is composed of Strong Credit Quality (AAA to BBB-) or equivalent.
- Non-Investment Grade is composed of: Good, Satisfactory and Special Mention Credit Quality (BB+ to C) or equivalent.
- Unrated include securities which do not have a current or valid rating by a credit rating agency.

	31 December 2022			
	Held at Amortised Cost	FVOCI	FVSI	Total
Investment grade	53,383,592	29,844,725	551,444	83,779,761
Non-investment grade	-	958,583	-	958,583
Unrated	859,841	353,144	411,830	1,624,815
Total	54,243,433	31,156,452	963,274	86,363,159

	31 December 2021			
	Held at Amortised Cost	FVOCI	FVSI	Total
Investment grade	44,195,274	17,111,627	434,022	61,740,923
Non-investment grade	635,091	1,553,956	-	2,189,047
Unrated	-	24,382	949,346	973,728
Total	44,830,365	18,689,965	1,383,368	64,903,698

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

	2022	2021
Government and quasi government	81,860,582	61,043,089
Corporate	1,516,016	1,927,850
Banks and other financial institutions	2,973,059	1,919,154
Others	13,502	13,605
Total	86,363,159	64,903,698

i) Assets pledged

Assets pledged as collateral with other financial institutions for security are as follows:

	2022		2021	
	Assets	Related liabilities	Assets	Related liabilities
Debt securities	2,796,634	2,777,696	562,608	567,906

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

6. Loans and advances, net

a) Loans and advances are comprised of the following:

	2022			
	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,406,246	41,648,747	113,788,692	157,843,685
Lifetime ECL not credit impaired	112,842	2,401,715	20,048,085	22,562,642
Lifetime ECL credit impaired	52,208	826,047	4,016,719	4,894,974
Purchased or originated credit impaired	85	147,568	3,693,775	3,841,428
Total loans and advances, gross	2,571,381	45,024,077	141,547,271	189,142,729
Provision for expected credit losses	(186,499)	(706,885)	(5,117,096)	(6,010,480)
Loans and advances, net	2,384,882	44,317,192	136,430,175	183,132,249

	2021			
	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,012,847	35,308,631	101,401,370	138,722,848
Lifetime ECL not credit impaired	123,496	1,939,590	24,786,523	26,849,609
Lifetime ECL credit impaired	43,805	1,023,411	3,846,283	4,913,499
Purchased or originated credit impaired	90	167,734	3,604,937	3,772,761
Total loans and advances, gross	2,180,238	38,439,366	133,639,113	174,258,717
Provision for expected credit losses	(163,819)	(745,117)	(5,793,303)	(6,702,239)
Loans and advances, net	2,016,419	37,694,249	127,845,810	167,556,478

Lifetime ECL credit impaired includes non-performing loans and advances of SAR 4,292 million (31 December 2021: SAR 4,210 million). It also includes exposures that are now performing but have yet to complete a period of 12 months of performance ('the curing period') to be eligible to be upgraded to a not-impaired category. The financial assets recorded in each stage have the following characteristics:

- 12 month ECL not credit impaired (stage 1): without significant increase in credit risk on which a 12 month allowance for ECL is recognised;
- Lifetime ECL not credit impaired (stage 2): a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- Lifetime ECL credit impaired (stage 3): objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised; and
- Purchased or originated credit impaired ('POCI'): purchased or originated at a deep discount that reflects the expected lifetime credit losses at time of purchase or origination. A lifetime ECL is recognised if further credit losses are expected. POCI includes non-performing loans and advances acquired through the merger with AAB that were recorded at fair value as of acquisition date.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

b) Movement in gross carrying amount

The following table further explains changes in gross carrying amount of the loans and advances to help explain their significance to the changes in the provision for ECL of the same portfolio:

• Credit cards

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	2,012,847	123,496	43,805	90	2,180,238
Transfer to Stage 1	38,040	(32,708)	(5,332)	-	-
Transfer to Stage 2	(68,526)	71,034	(2,508)	-	-
Transfer to Stage 3	(30,011)	(13,047)	43,058	-	-
Net change for the year	453,896	(35,933)	43,504	(5)	461,462
Write-offs	-	-	(70,319)	-	(70,319)
Balance as at 31 December 2022	2,406,246	112,842	52,208	85	2,571,381

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	1,941,419	63,171	66,244	135	2,070,969
Transfer to Stage 1	10,101	(4,962)	(5,139)	-	-
Transfer to Stage 2	(91,881)	96,566	(4,685)	-	-
Transfer to Stage 3	(22,111)	(3,965)	26,076	-	-
Net change for the year	175,319	(27,314)	57,156	(45)	205,116
Write-offs	-	-	(95,847)	-	(95,847)
Balance as at 31 December 2021	2,012,847	123,496	43,805	90	2,180,238

• Other retail lending

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	35,308,631	1,939,590	1,023,411	167,734	38,439,366
Transfer to Stage 1	563,848	(543,961)	(19,887)	-	-
Transfer to Stage 2	(1,053,496)	1,417,249	(363,753)	-	-
Transfer to Stage 3	(125,760)	(178,346)	304,106	-	-
Net change for the year	6,955,524	(232,817)	56,507	(20,166)	6,759,048
Write-offs	-	-	(174,337)	-	(174,337)
Balance as at 31 December 2022	41,648,747	2,401,715	826,047	147,568	45,024,077

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	33,209,970	882,803	1,464,922	172,724	35,730,419
Transfer to Stage 1	204,919	(202,037)	(2,882)	-	-
Transfer to Stage 2	(583,717)	631,526	(47,809)	-	-
Transfer to Stage 3	(74,566)	(45,895)	120,461	-	-
Net change for the year	2,552,025	673,193	(130,504)	(4,990)	3,089,724
Write-offs	-	-	(380,777)	-	(380,777)
Balance as at 31 December 2021	35,308,631	1,939,590	1,023,411	167,734	38,439,366

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

• Corporate and institutional lending

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	101,401,370	24,786,523	3,846,283	3,604,937	133,639,113
Transfer to Stage 1	32,139	(32,139)	-	-	-
Transfer to Stage 2	(831,309)	833,985	(2,676)	-	-
Transfer to Stage 3	(103)	(843,140)	843,243	-	-
Net change for the year	13,186,595	(4,697,144)	(72,262)	88,838	8,506,027
Write-offs	-	-	(597,869)	-	(597,869)
Balance as at 31 December 2022	113,788,692	20,048,085	4,016,719	3,693,775	141,547,271

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	89,805,599	24,634,505	4,472,301	3,704,746	122,617,151
Transfer to Stage 1	570,467	(570,467)	-	-	-
Transfer to Stage 2	(561,386)	587,366	(25,980)	-	-
Transfer to Stage 3	(57)	(10,598)	10,655	-	-
Net change for the year	11,586,747	145,717	328,291	(99,809)	11,960,946
Write-offs	-	-	(938,984)	-	(938,984)
Balance as at 31 December 2021	101,401,370	24,786,523	3,846,283	3,604,937	133,639,113

c) Movement in provision for expected credit losses

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

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	511,022	3,482,551	2,600,654	108,012	6,702,239
Transfer to Stage 1	46,183	(37,154)	(9,029)	-	-
Transfer to Stage 2	(15,229)	134,791	(119,562)	-	-
Transfer to Stage 3	(3,302)	(282,551)	285,853	-	-
Net re-measurement of loss allowance	35,298	(120,565)	646,007	345,370	906,110
Write-offs	-	-	(597,869)	-	(597,869)
Financial assets disposed	-	(1,000,000)	-	-	(1,000,000)
Balance as at 31 December 2022	573,972	2,177,072	2,806,054	453,382	6,010,480

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	843,299	2,450,978	3,828,366	52,818	7,175,461
Transfer to Stage 1	31,154	(26,012)	(5,142)	-	-
Transfer to Stage 2	(15,813)	57,350	(41,537)	-	-
Transfer to Stage 3	(2,284)	(19,026)	21,310	-	-
Net re-measurement of loss allowance	(345,334)	1,019,261	(124,861)	55,194	604,260
Write-offs	-	-	(1,077,482)	-	(1,077,482)
Balance as at 31 December 2021	511,022	3,482,551	2,600,654	108,012	6,702,239

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

• Credit cards

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	87,555	42,185	34,079	-	163,819
Transfer to Stage 1	10,496	(6,549)	(3,947)	-	-
Transfer to Stage 2	(3,253)	5,153	(1,900)	-	-
Transfer to Stage 3	(1,853)	(4,431)	6,284	-	-
Net re-measurement of loss allowance	14,704	3,274	4,702	-	22,680
Balance as at 31 December 2022	107,649	39,632	39,218	-	186,499

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	150,840	39,065	44,799	-	234,704
Transfer to Stage 1	5,467	(2,026)	(3,441)	-	-
Transfer to Stage 2	(6,723)	9,817	(3,094)	-	-
Transfer to Stage 3	(1,402)	(1,530)	2,932	-	-
Net re-measurement of loss allowance	(60,627)	(3,141)	(7,117)	-	(70,885)
Balance as at 31 December 2021	87,555	42,185	34,079	-	163,819

• Other retail lending

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	207,680	181,363	286,026	70,048	745,117
Transfer to Stage 1	35,000	(29,919)	(5,081)	-	-
Transfer to Stage 2	(10,508)	126,829	(116,321)	-	-
Transfer to Stage 3	(1,448)	(30,071)	31,519	-	-
Net re-measurement of loss allowance	(24,987)	(106,878)	92,651	982	(38,232)
Balance as at 31 December 2022	205,737	141,324	288,794	71,030	706,885

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	369,082	164,100	772,765	52,818	1,358,765
Transfer to Stage 1	23,324	(21,623)	(1,701)	-	-
Transfer to Stage 2	(5,373)	30,805	(25,432)	-	-
Transfer to Stage 3	(882)	(17,001)	17,883	-	-
Net re-measurement of loss allowance	(178,471)	25,082	(338,991)	17,230	(475,150)
Write-offs	-	-	(138,498)	-	(138,498)
Balance as at 31 December 2021	207,680	181,363	286,026	70,048	745,117

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

• Corporate and institutional lending

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2022	215,787	3,259,003	2,280,549	37,964	5,793,303
Transfer to Stage 1	687	(687)	-	-	-
Transfer to Stage 2	(1,468)	2,808	(1,340)	-	-
Transfer to Stage 3	(1)	(248,048)	248,049	-	-
Net re-measurement of loss allowance	45,581	(16,960)	548,653	344,388	921,662
Write-offs	-	-	(597,869)	-	(597,869)
Financial assets disposed	-	(1,000,000)	-	-	(1,000,000)
Balance as at 31 December 2022	260,586	1,996,116	2,478,042	382,352	5,117,096

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance at 1 January 2021	323,377	2,247,813	3,010,802	-	5,581,992
Transfer to Stage 1	2,363	(2,363)	-	-	-
Transfer to Stage 2	(3,717)	16,728	(13,011)	-	-
Transfer to Stage 3	-	(495)	495	-	-
Net re-measurement of loss allowance	(106,236)	997,320	221,247	37,964	1,150,295
Write-offs	-	-	(938,984)	-	(938,984)
Balance as at 31 December 2021	215,787	3,259,003	2,280,549	37,964	5,793,303

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

2022	Performing	Non-performing	POCI	Provision for expected credit losses	Loans and advances, net
Government and quasi government	143,368	-	-	(272)	143,096
Finance	11,981,265	32,035	-	(38,707)	11,974,593
Agriculture and fishing	444,928	-	241	(12,016)	433,153
Manufacturing	23,039,899	505,542	678,828	(565,536)	23,658,733
Mining and quarrying	5,140,420	-	1,574	(7,399)	5,134,595
Electricity, water, gas, and health services	16,129,354	-	391,743	(102,519)	16,418,578
Building and construction	11,718,731	975,039	1,010,165	(1,596,619)	12,107,316
Commerce	42,043,055	2,102,332	1,360,326	(2,440,787)	43,064,926
Transportation and communication	11,074,559	4,317	1,877	(23,938)	11,056,815
Services	9,279,334	262,665	120,168	(298,174)	9,363,993
Credit cards and other retail lending	47,060,666	387,139	147,653	(893,384)	46,702,074
Others	2,953,339	23,314	128,853	(31,129)	3,074,377
Total	181,008,918	4,292,383	3,841,428	(6,010,480)	183,132,249

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Performing	Non-performing	POCI	Provision for expected credit losses	Loans and advances, net
Government and quasi government	806,152	-	-	(121)	806,031
Finance	9,666,903	-	-	(27,088)	9,639,815
Agriculture and fishing	642,292	-	241	(6,166)	636,367
Manufacturing	24,081,921	558,920	616,579	(1,610,878)	23,646,542
Mining and quarrying	3,690,721	-	3,445	(6,900)	3,687,266
Electricity, water, gas, and health services	12,741,942	-	390,663	(86,126)	13,046,479
Building and construction	9,565,209	1,197,507	954,590	(1,492,872)	10,224,434
Commerce	37,958,959	1,595,261	1,346,666	(2,091,186)	38,809,700
Transportation and communication	14,015,286	5,970	4,388	(35,671)	13,989,973
Services	9,629,580	230,523	119,675	(404,910)	9,574,868
Credit cards and other retail lending	39,865,654	586,126	167,824	(908,936)	39,710,668
Others	3,610,955	36,075	168,690	(31,385)	3,784,335
Total	166,275,574	4,210,382	3,772,761	(6,702,239)	167,556,478

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

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Strong	27,482,673	-	-	-	27,482,673
Good	64,773,640	2,667,625	73	-	67,441,338
Satisfactory	21,532,378	9,983,007	61,001	-	31,576,386
Special mention	-	7,397,454	50,401	-	7,447,855
Unrated	44,054,994	2,514,556	491,116	-	47,060,666
Non-performing	-	-	4,292,383	3,841,428	8,133,811
Total	157,843,685	22,562,642	4,894,974	3,841,428	189,142,729

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Strong	25,076,909	-	-	-	25,076,909
Good	60,438,677	2,711,022	22	-	63,149,721
Satisfactory	15,885,784	13,287,106	28,035	-	29,200,925
Special mention	-	8,788,395	193,970	-	8,982,365
Unrated	37,321,478	2,063,086	481,090	-	39,865,654
Non-performing	-	-	4,210,382	3,772,761	7,983,143
Total	138,722,848	26,849,609	4,913,499	3,772,761	174,258,717

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

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

Non-performing: A counterparty who is classified as in default or as POCI

f) Shariah-compliant loans

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

	2022	2021
Tawaruq	116,265,499	113,013,915
Murabaha	10,434,932	7,684,645
Ijara / others	15,970,902	11,412,338
Total	142,671,333	132,110,898

g) Collateral

The Group 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 is held against commercial and consumer loans and are managed against relevant exposures at their net realisable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk. As of 31 December 2022, the fair value of collateral held against those loans and advances amount to SAR 929 million (2021: SAR 1,258 million).

7. Investment in an associate

	2022	2021
HSBC Saudi Arabia		
Balance at beginning of the year	583,359	542,955
Share in earnings	172,144	139,572
Dividend received	(156,214)	(99,168)
Balance at end of the year	599,289	583,359
Wataniya		
Balance at beginning of the year	-	76,277
Share in losses	-	(8,143)
Reclassified to non-current assets held for sale and disposed off	-	(68,134)
Balance at end of the year	-	-
Total	599,289	583,359

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

2022	Land and buildings	Leasehold improvements / ROU	Equipment, furniture, and vehicles	Total
Cost:				
As at 1 January	1,671,893	1,619,485	816,841	4,108,219
Additions / re-measurement	7,201	17,987	22,615	47,803
Acquired through business combination	-	-	635	635
Disposals	(94,063)	(25,101)	(3,212)	(122,376)
As at 31 December	1,585,031	1,612,371	836,879	4,034,281
Accumulated depreciation:				
As at 1 January	440,773	933,883	711,156	2,085,812
Charge for the year	15,432	149,636	37,548	202,616
Disposals	(50,747)	(25,101)	(487)	(76,335)
As at 31 December	405,458	1,058,418	748,217	2,212,093
Net book value:				
As at 31 December	1,179,573	553,953	88,662	1,822,188
Capital work in progress				1,799,456
Total				3,621,644

2021	Land and buildings	Leasehold improvements / ROU	Equipment, furniture, and vehicles	Total
Cost:				
As at 1 January	1,664,315	1,842,240	856,280	4,362,835
Additions / re-measurement	9,202	(143,881)	48,509	(86,170)
Disposals	(1,624)	(78,874)	(87,948)	(168,446)
As at 31 December	1,671,893	1,619,485	816,841	4,108,219
Accumulated depreciation:				
As at 1 January	422,560	829,267	689,823	1,941,650
Charge for the year	18,532	180,630	81,473	280,635
Disposals	(319)	(76,014)	(60,140)	(136,473)
As at 31 December	440,773	933,883	711,156	2,085,812
Net book value:				
As at 31 December	1,231,120	685,602	105,685	2,022,407
Capital work in progress				1,223,760
Total				3,246,167

The movement of ROU is as below:

	2022	2021
Cost:		
As at 1 January	922,092	1,155,102
Additions / (re-measurement)	10,756	(155,164)
Terminations	(25,101)	(77,846)
As at 31 December	907,747	922,092
Accumulated depreciation:		
As at 1 January	314,832	257,469
Charge for the year	118,585	133,010
Terminations	(25,101)	(75,647)
As at 31 December	408,316	314,832
Net book value	499,431	607,260

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

9. Goodwill and other intangibles

Intangibles are comprised of the following:

	2022	2021
Amounts arising from acquisitions:		
Goodwill	8,778,091	8,778,091
Other intangibles	1,744,769	1,631,407
Goodwill arising from acquisition of SABB Takaful (note 39)	-	13,806
Software	314,175	317,507
Total	10,837,035	10,740,811

	Goodwill	Software	Customer relationship - PCCR	Core deposit intangible	Brand	Customer relationship - CM	Total
2022							
Cost:							
As at 1 January	16,209,673	778,340	71,200	1,875,400	75,000	-	19,009,613
Additions	-	130,070	-	-	-	-	130,070
Acquired through business combination	-	-	-	-	-	275,401	275,401
Disposals / written off	(13,806)	(46,071)	-	-	-	-	(59,877)
As at 31 December	16,195,867	862,339	71,200	1,875,400	75,000	275,401	19,355,207
Accumulated impairment / amortization:							
As at 1 January	7,417,776	460,833	17,800	334,893	37,500	-	8,268,802
Charge for the year	-	100,074	7,120	133,957	15,000	5,962	262,113
Disposals / written off	-	(12,743)	-	-	-	-	(12,743)
As at 31 December	7,417,776	548,164	24,920	468,850	52,500	5,962	8,518,172
Net book value							
As at 31 December	8,778,091	314,175	46,280	1,406,550	22,500	269,439	10,837,035

	Goodwill	Software	Customer relationship - PCCR	Core deposit intangible	Brand	Customer relationship - CM	Total
2021							
Cost:							
As at 1 January	16,209,673	791,123	71,200	1,875,400	75,000	-	19,022,396
Additions	-	174,261	-	-	-	-	174,261
Disposals / written off	-	(187,044)	-	-	-	-	(187,044)
As at 31 December	16,209,673	778,340	71,200	1,875,400	75,000	-	19,009,613
Accumulated impairment / amortization:							
As at 1 January	7,417,776	387,968	10,680	200,936	22,500	-	8,039,860
Charge for the year	-	184,898	7,120	133,957	15,000	-	340,975
Discontinued operations	-	794	-	-	-	-	794
Disposals / written off	-	(112,827)	-	-	-	-	(112,827)
As at 31 December	7,417,776	460,833	17,800	334,893	37,500	-	8,268,802
Net book value							
As at 31 December	8,791,897	317,507	53,400	1,540,507	37,500	-	10,740,811

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Impairment testing of goodwill

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

- Wealth & personal banking
- Corporate and institutional banking
- Treasury

Key assumptions used to value-in-use calculation

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

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

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

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

- Discount rate of 10.15%, which is derived using a capital asset pricing model and comparing it with cost of capital rates produced by external sources.
- Long term asset growth rate of 4.0%, derived from economists' forecasts of nominal GDP for KSA, applied to projected periods beyond 2027.
- Long-term profit growth rate of 4.6%, 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 2027.

Key assumptions used in impairment testing for goodwill

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

- interest margins;
- discount rates;
- projected growth rates used to extrapolate cash flows beyond the projection period; and
- current local GDP.

Interest margins

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Discount rates

Discount rates reflect management's estimate of Return on Capital Employed ('ROCE') required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using a capital asset pricing model.

Projected growth rate, GDP, and local inflation rates

At 31 December 2022, the Goodwill impairment test determined there was no impairment required to any of the CGUs and goodwill is allocated to the following CGUs:

Cash generating units	Goodwill allocated
	2022
Wealth & personal banking	4,649,572
Corporate and institutional banking	771,772
Treasury	3,356,747

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

31 December 2022		
Impact on the recoverable amount of CGUs		
Cash generating units	1% increase in discount rate (SAR million)	1% decrease in terminal growth rate (SAR million)
Wealth & personal banking	(4,096)	(3,452)
Corporate and institutional banking	(6,826)	(5,741)
Treasury	(2,165)	(1,826)

31 December 2021		
Impact on the recoverable amount of CGUs		
Cash generating units	1% increase in discount rate (SAR million)	1% decrease in terminal growth rate (SAR million)
Wealth & personal banking	(6,685)	(5,936)
Corporate and institutional banking	(9,944)	(8,796)
Treasury	(4,638)	(4,082)

10. Other assets

	Note	2022	2021
Accounts receivable		1,806,556	1,570,233
Collateral margin		-	1,022,851
Deferred tax	25	294,564	392,290
Others		127,857	367,712
Total		2,228,977	3,353,086

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

11. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

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

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

Credit valuation adjustment ('CVA'):

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

Debit valuation adjustment ('DVA'):

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

Credit valuation adjustment/debit valuation adjustment methodology:

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Conversely, SABB calculates the DVA by applying the PD of SABB, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to SABB and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 29 – financial risk management, note 30 - market risk and note 31 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

As part of its asset and liability management process, the Group uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against overall statement of financial position exposures. Strategic hedging other than portfolio hedging does not qualify for hedge accounting and the related derivatives are accounted for as held for trading. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Hedge effectiveness testing

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

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

Sources of ineffectiveness:

Possible sources of ineffectiveness are as follows:

- difference between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in the discounting between the hedge item and hedge instrument, as cash collateralized interest rate swaps are discounted using Overnight Indexed Swaps discount curves, which are not applied to the fixed rate mortgages;
- hedging derivative with a non-zero fair value at the date of initial designation as a hedging instrument;
- counter party credit risk which impacts the fair value of uncollateralized interest rate swaps but not the hedge items; and;

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets which bear special commission income at a variable rate. The Group uses commission rate swaps as cash flow hedges to hedge these special commission rate risks.

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect statement of income:

	Within 1 year	1-3 years	3-5 years	Over 5 years
2022				
Cash inflows (assets)	80,761	549,052	151,993	47,034
Net cash inflow	80,761	549,052	151,993	47,034
2021				
Cash inflows (assets)	45,317	80,022	-	-
Net cash inflow	45,317	80,022	-	-

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities. The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity.

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved.

These notional amounts, therefore, are neither indicative of the Group's exposure to market risk nor credit risk, which is generally limited to the positive/negative fair value of the derivatives.

	Notional amounts by term to maturity						
2022	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	1,764,483	(1,626,432)	59,706,917	2,962,216	3,225,424	23,429,234	30,090,043
Special commission rate options	186,836	(180,346)	8,689,426	211,275	1,215,338	5,791,607	1,471,206
Forward foreign exchange contracts	45,447	(37,369)	13,704,323	7,812,121	5,140,082	752,120	-
Currency options	9,108	(9,134)	1,350,151	243,218	714,150	392,783	-
Currency swaps	1,493	(128)	2,212,500	-	375,000	1,837,500	-
Derivatives held as fair value hedges:							
Special commission rate swaps	496,966	(28,079)	8,634,625	996,875	1,898,750	2,835,250	2,903,750
Derivatives held as cash flow hedges:							
Special commission rate swaps	30,691	(24,915)	3,526,000	-	-	2,841,000	685,000
Currency swaps	3,050	(1,033)	75,000	-	-	75,000	-
Total	2,538,074	(1,907,436)	97,898,942	12,225,705	12,568,744	37,954,494	35,149,999
Fair values of netting arrangements	1,072,683	(216)					
Cash collateral, net	(724,600)	69,323					
Fair values after netting	348,083	69,107					

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Notional amounts by term to maturity						
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	569,913	(547,847)	39,331,182	1,861,895	7,776,179	15,119,118	14,573,990
Special commission rate options	424,607	(446,546)	13,311,790	1,495,549	5,738,468	1,577,773	4,500,000
Forward foreign exchange contracts	40,296	(34,585)	3,534,619	1,652,726	1,880,998	895	-
Currency options	14,900	(14,922)	1,059,600	263,779	734,793	61,028	-
Currency swaps	6,456	(2,958)	4,650,000	1,500,000	562,500	2,587,500	-
Derivatives held as fair value hedges:							
Special commission rate swaps	34,794	(457,949)	12,238,311	45,000	93,750	6,165,875	5,933,686
Derivatives held as cash flow hedges:							
Special commission rate swaps	2,871	-	90,000	-	-	90,000	-
Currency swaps	16,008	(9,785)	1,068,750	-	843,750	225,000	-
Total	1,109,845	(1,514,592)	75,284,252	6,818,949	17,630,438	25,827,189	25,007,676
Fair values of netting arrangements	16,298	(768,729)					
Cash collateral, net	(39,525)	1,190,713					
Fair values after netting	(23,227)	421,984					

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

2022	Notional amounts by term to maturity						
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	20,791	(116,855)	3,260,196	10,076	422,647	2,240,121	587,352
Special commission rate options	931	(11,814)	616,386	-	174,540	141,846	300,000
Derivatives held as cash flow hedges:							
Currency swaps	236	-	187,500	-	187,500	-	-
Total	21,958	(128,669)	4,064,082	10,076	784,687	2,381,967	887,352

2021	Notional amounts by term to maturity						
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	36,280	(11,517)	2,643,052	906	1,354,906	1,099,888	187,352
Special commission rate options	11,337	(71)	1,595,455	-	700,000	895,455	-
Derivatives held as cash flow hedges:							
Currency swaps	-	(288)	187,500	-	-	187,500	-
Total	47,617	(11,876)	4,426,007	906	2,054,906	2,182,843	187,352

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2022						
Description of the hedged items:						
Fixed commission rate investments	8,455,213	8,635,625	Fair value	Special commission rate swap	496,966	(28,079)
Floating commission rate investments	285,048	285,000	Cash flow	Special commission rate swap	30,691	(24,915)
Fixed commission rate investments	3,316,232	3,316,000	Cash flow	Currency swap	3,050	(1,033)
2021						
	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of the hedged items:						
Fixed commission rate investments	13,004,457	12,238,311	Fair value	Special commission rate swap	34,794	(457,949)
Floating commission rate investments	90,009	90,000	Cash flow	Special commission rate swap	2,871	-
Fixed commission rate investments	1,079,518	1,068,750	Cash flow	Currency swap	16,008	(9,785)

Approximately 94.8% (2021: 49.8%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and out of which 68.1% (2021: 64.4%) of the positive fair value contracts are with a single counterparty at the year end.

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

12. Due to banks and other financial institutions

	2022	2021
Current accounts	3,735,075	2,207,878
Money market deposits	12,804,597	3,320,892
Repo with banks	2,777,696	567,906
Others	6,199,935	8,566,990
Total	25,517,303	14,663,666

Others include deposits from SAMA.

13. Customers' deposits

	2022	2021
Demand	141,427,465	152,966,149
Time	69,651,646	30,443,041
Savings	1,981,334	2,051,920
Margin and others	1,218,406	1,299,502
Total	214,278,851	186,760,612

The above deposits include the following deposits in foreign currency:

	2022	2021
Demand	16,515,036	16,354,307
Time	14,969,131	4,967,825
Savings	15,604	30,614
Margin and others	176,943	234,808
Total	31,676,714	21,587,554

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

	2022	2021
Demand	91,148,380	101,766,192
Time	43,808,403	18,478,213
Savings	1,915,405	1,911,289
Margin and others	223,500	373,053
Total	137,095,688	122,528,747

14. Debt securities in issue**SAR 5 Billion 10 year Sukuk – 2020**

SABB issued SAR 5 billion Tier II Sukuk on 22 July 2020 under the Group's local Sukuk Programme (the "Local Programme"). The Sukuk are unsecured and 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 Sukuk carry effective special commission income at six months' SAIBOR plus margin of 195 bps payable semi-annually.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

15. Other liabilities

	2022	2021
Accounts payable	6,893,995	5,720,329
Provision against loan commitments and financial guarantee contracts (note 19)	953,737	734,347
End of service benefits (note 27)	748,494	711,414
Collateral margin	676,158	-
Lease liabilities	577,398	647,888
Others	3,099,265	3,553,125
Total	12,949,047	11,367,103

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 2,054,794,522 shares of SAR 10 each (2021: 2,054,794,522 shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2022	2021
HSBC Holdings B.V	31%	31%
Other shareholders*	69%	69%

*Other shareholders include both Saudi and non-strategic foreign shareholders.

During the year, SABB paid the final dividend of SAR 702 million as approved by the Board of Directors, to the shareholders of the Group for the year 2021. This resulted in SAR 0.36 per share for Saudi shareholders, net of Zakat. The income tax of the foreign shareholders was deducted from their share of the dividends.

SABB also paid an interim dividend of SAR 1,263 million (2021: SAR 1,075 million) approved by the Board of Directors for distribution to the shareholders of the Group for the year 2022. This resulted in SAR 0.55 per share for Saudi shareholders' net of Zakat (2021: SAR 0.50). The income tax of the foreign shareholders was deducted from their share of the dividend.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, no further transfer of annual net income is required to Statutory reserve as its balance equals the paid up Share capital of the Group. The statutory reserve is not currently available for distribution.

18. Other reserves

2022	Cash flow hedges	FVOCI	Treasury Shares	Employee share plan reserve	Re-measurement of defined benefit liability	Total
Balance at beginning of the year	9,663	83,507	(211,293)	82,548	5,636	(29,939)
Net change in fair value	228,784	(1,431,819)	-	-	-	(1,203,035)
Transfer to consolidated statement of income	(25,617)	11,654	-	-	-	(13,963)
Net movement defined benefit liability	-	-	-	-	3,088	3,088
Net Charge and shares vested	-	-	32,293	29,208	-	61,501
Balance at end of the year	212,830	(1,336,658)	(179,000)	111,756	8,724	(1,182,348)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Cash flow hedges	FVOCI	Treasury Shares	Employee share plan reserve	Re-measurement of defined benefit liability	Total
Balance at beginning of the year	20,516	312,048	(96,293)	88,555	111	324,937
Net change in fair value	7,940	329,769	-	-	-	337,709
Transfer to consolidated statement of income	(18,793)	(62,815)	-	-	-	(81,608)
Transfer to retained earnings	-	(495,495)	-	-	-	(495,495)
Net movement defined benefit liability	-	-	-	-	5,525	5,525
Net Charge, vested and shares purchased	-	-	(115,000)	(6,007)	-	(121,007)
Balance at end of the year	9,663	83,507	(211,293)	82,548	5,636	(29,939)

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 25.6 million (2021: SAR 18.8 million) from consolidated statement of changes in equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Commitments and contingencies

a) Legal proceedings

There are no material outstanding legal matters against the Group.

b) Capital commitments

As at 31 December 2022, the Group has capital commitments of SAR 1,436 million (2021: SAR 994.5 million) in respect of land, buildings and equipment purchases.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise guarantees letters of credit acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The cash requirement under these instruments is considerably less than the amount of the related commitment because the Group generally expects the customers to fulfil their primary obligation.

Commitments to extend credit represent the unutilised portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unutilised commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unutilised commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or be terminated without being funded. Credit related commitments and contingencies are as follows:

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Letters of credit	15,267,551	801,470	7,469	38,502	16,114,992
Letters of guarantee	64,348,335	8,231,151	1,308,921	1,665,909	75,554,316
Acceptances	2,844,988	304,046	-	24,572	3,173,606
Irrevocable commitments to extend credit	4,953,207	147,960	-	-	5,101,167
Total	87,414,081	9,484,627	1,316,390	1,728,983	99,944,081

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Letters of credit	16,198,187	1,071,383	27,597	50,560	17,347,727
Letters of guarantee	60,479,102	8,190,612	1,440,987	1,883,095	71,993,796
Acceptances	1,448,655	338,972	96	-	1,787,723
Irrevocable commitments to extend credit	4,044,096	240,577	-	-	4,284,673
Total	82,170,040	9,841,544	1,468,680	1,933,655	95,413,919

The un-utilized portion of non-firm commitments, which can be revoked unilaterally at any time by the Group, is SAR 128,942 million (2021: SAR 96,572 million).

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

Letters of credit

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2022	16,198,187	1,071,383	27,597	50,560	17,347,727
Transfer to Stage 1	48,518	(48,518)	-	-	-
Transfer to Stage 2	(34,204)	34,204	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(944,950)	(255,599)	(20,128)	(12,058)	(1,232,735)
Balance as at 31 December 2022	15,267,551	801,470	7,469	38,502	16,114,992

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2021	13,908,396	1,247,896	-	92,043	15,248,335
Transfer to Stage 1	63,015	(63,015)	-	-	-
Transfer to Stage 2	(196,718)	196,718	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	2,423,494	(310,216)	27,597	(41,483)	2,099,392
Balance as at 31 December 2021	16,198,187	1,071,383	27,597	50,560	17,347,727

Letters of guarantees

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2022	60,479,102	8,190,612	1,440,987	1,883,095	71,993,796
Transfer to Stage 1	1,455,340	(1,451,526)	(3,814)	-	-
Transfer to Stage 2	(3,413,982)	3,414,882	(900)	-	-
Transfer to Stage 3	(491)	(55,223)	55,714	-	-
Net change for the year	5,828,366	(1,867,594)	(183,066)	(217,186)	3,560,520
Balance as at 31 December 2022	64,348,335	8,231,151	1,308,921	1,665,909	75,554,316

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2021	55,770,431	8,546,379	1,219,019	2,176,805	67,712,634
Transfer to Stage 1	2,141,552	(2,141,452)	(100)	-	-
Transfer to Stage 2	(1,386,434)	1,387,034	(600)	-	-
Transfer to Stage 3	(9,488)	(104,546)	114,034	-	-
Net change for the year	3,963,041	503,197	124,089	(293,710)	4,296,617
Write-offs	-	-	(15,455)	-	(15,455)
Balance as at 31 December 2021	60,479,102	8,190,612	1,440,987	1,883,095	71,993,796

Acceptances

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2022	1,448,655	338,972	96	-	1,787,723
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	1,396,333	(34,926)	(96)	24,572	1,385,883
Balance as at 31 December 2022	2,844,988	304,046	-	24,572	3,173,606

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2021	2,316,644	744,637	-	51,765	3,113,046
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(867,989)	(405,665)	96	(51,765)	(1,325,323)
Balance as at 31 December 2021	1,448,655	338,972	96	-	1,787,723

Irrevocable commitments to extend credit

2022	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2022	4,044,096	240,577	-	-	4,284,673
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	909,111	(92,617)	-	-	816,494
Balance as at 31 December 2022	4,953,207	147,960	-	-	5,101,167

2021	Non-credit impaired		Credit impaired		Total
	Stage 1	Stage 2	Stage 3	POCI	
Balance as at 1 January 2021	3,969,165	219,348	-	-	4,188,513
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	74,931	21,229	-	-	96,160
Balance as at 31 December 2021	4,044,096	240,577	-	-	4,284,673

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

The following table shows reconciliations of the provision for expected credit losses against loan commitments and financial guarantee contracts:

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 January 2022	62,055	271,134	399,589	1,569	734,347
Transfer to Stage 1	15,614	(14,659)	(955)	-	-
Transfer to Stage 2	(6,748)	7,199	(451)	-	-
Transfer to Stage 3	-	(1,000)	1,000	-	-
Net charge for the year	(18,706)	25,343	207,067	5,686	219,390
Balance as at 31 December 2022	52,215	288,017	606,250	7,255	953,737

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 January 2021	38,855	136,654	487,056	-	662,565
Transfer to Stage 1	1,747	(1,747)	-	-	-
Transfer to Stage 2	(605)	905	(300)	-	-
Transfer to Stage 3	(3)	(1,996)	1,999	-	-
Net charge for the year	22,061	137,318	(73,711)	1,569	87,237
Write-offs	-	-	(15,455)	-	(15,455)
Balance as at 31 December 2021	62,055	271,134	399,589	1,569	734,347

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

	2022	2021
Government and quasi government	5,961,803	5,903,981
Corporate	77,320,034	73,221,605
Banks and other financial institutions	16,646,677	16,269,972
Others	15,567	18,361
Total	99,944,081	95,413,919

The following table sets out information about the credit quality of commitments and contingencies. The amounts in the table represent gross carrying amounts.

2022	Stage 1	Stage 2	Stage 3	POCI	Total
Strong	33,209,809	-	-	-	33,209,809
Good	44,824,763	1,163,466	-	-	45,988,229
Satisfactory	9,379,509	5,748,232	28,084	-	15,155,825
Special mention	-	2,572,929	-	-	2,572,929
Non-performing	-	-	1,288,306	1,728,983	3,017,289
Total	87,414,081	9,484,627	1,316,390	1,728,983	99,944,081

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Strong	33,302,309	-	-	-	33,302,309
Good	41,615,682	694,142	15,455	-	42,325,279
Satisfactory	7,252,049	6,345,984	22,687	-	13,620,720
Special mention	-	2,801,418	37,508	-	2,838,926
Non-performing	-	-	1,393,030	1,933,655	3,326,685
Total	82,170,040	9,841,544	1,468,680	1,933,655	95,413,919

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

20. Net special commission income and expense

	2022	2021
Special commission income		
Investments:		
Held at amortised cost	1,343,838	1,101,626
FVOCI	705,641	205,825
	2,049,479	1,307,451
Loans and advances	7,083,479	4,993,012
Due from banks and other financial institutions	188,916	78,207
Total	9,321,874	6,378,670
Special commission expense		
Customers' deposits	(1,312,950)	(275,176)
Due to banks and other financial institutions	(378,159)	(219,146)
Debt securities in issue	(203,039)	(142,352)
Others	(19,439)	(24,776)
Total	(1,913,587)	(661,450)
Net special commission income	7,408,287	5,717,220

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

	2022	2021
Special commission income		
Investments:		
Held at amortised cost / Sukuk	1,059,274	899,789
FVOCI / Sukuk	494,321	141,131
Total	1,553,595	1,040,920
Loans and advances		
Tawaruq	4,174,972	2,796,305
Murabaha	370,135	285,449
Others	708,432	501,018
Total	5,253,539	3,582,772
Special commission expense		
Customers' deposits		
Murabaha	(670,287)	(123,314)
Others	(73,875)	(18,546)
Total	(744,162)	(141,860)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

21. Net fees and commission income

	2022	2021
Fee and commission income:		
Card products	1,313,611	1,209,323
Trade finance	700,305	656,743
Corporate finance and advisory	186,872	96,903
Fund management fees	71,772	36,222
Other banking services	497,613	449,804
Total fee and commission income	2,770,173	2,448,995
Fee and commission expense:		
Card products	(1,658,024)	(1,288,961)
Custodial services	(3,959)	(1,438)
Other banking services	(222,534)	(186,713)
Total fee and commission expense	(1,884,517)	(1,477,112)
Net fees and commission income	885,656	971,883

The comparatives for fee and commission expense include an amount of SAR 217.8 million which was previously classified under general and administrative expenses and reclassified to fee and commission expense, refer to note 40.

22. Income from FVSI financial instruments, net

	2022	2021
Foreign exchange income, net	238,031	79,733
Derivatives	141,041	76,216
Debt securities	(23,531)	6,011
Others	75,320	1,217
Total	430,861	163,177

23. Salaries and employee related expenses

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended 31 December 2022 and 31 December 2021, and the forms of such payments.

2022	Number of employees*	Fixed compensation	Variable compensation paid		
Category			Cash	Shares	Total
Senior executives requiring SAMA no objection	26	(40,657)	(16,486)	(16,918)	(33,404)
Employees engaged in risk taking activities	905	(429,843)	(99,729)	(14,504)	(114,233)
Employees engaged in control functions	686	(167,374)	(29,151)	(30,022)	(59,173)
Other employees	2,652	(551,475)	(70,951)	-	(70,951)
Outsourced employees	558	(59,969)	(22,945)	-	(22,945)
Total	4,827	(1,249,318)	(239,262)	(61,444)	(300,706)
Variable compensation accrued in 2022		(338,947)			
Other employee related benefits **		(221,200)			
Total salaries and employee related expenses		(1,809,465)			

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Number of employees*	Fixed compensation	Variable compensation paid		
Category			Cash	Shares	Total
Senior executives requiring SAMA no objection	27	(45,796)	(21,358)	(4,114)	(25,472)
Employees engaged in risk taking activities	737	(470,613)	(94,783)	(13,184)	(107,967)
Employees engaged in control functions	374	(115,401)	(21,077)	(148)	(21,225)
Other employees	3308	(708,777)	(69,505)	(390)	(69,895)
Outsourced employees	584	(75,081)	(17,177)	-	(17,177)
Total	5030	(1,415,668)	(223,900)	(17,836)	(241,736)
Variable compensation accrued in 2021		(249,221)			
Other employee related benefits **		(69,884)			
Total salaries and employee related expenses		(1,734,773)			

* Represents all employees who worked for the Group and were compensated during the year 2022 or 2021, whether they are still active or no longer employed by the Group.

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

Senior executives (requiring SAMA no objection):

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

Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

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

Outsourced employees:

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

Compensation disclosure for the annual consolidated financial statements:

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

SABB compensation policy

i. Policy objectives

The policy sets the guidelines as to how both fixed and variable pay will be managed at SABB. The scope of policy covers the following: all categories of employees; its subsidiaries; all compensation elements; key determinants of compensation; approval process; reporting processes; bonus deferral process; share retention and relevant stakeholder's roles and responsibilities. The objectives of the policy are to: align the reward practices with the Group's strategy and values so as to support the successful execution of the strategy in a risk compliant manner; offer an attractive employee value proposition to attract; retain and motivate competent and committed people; and ensure the financial sustainability of SABB.

ii. Compensation structure

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

iii. Performance management system

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

iv. Risk-adjustment for variable payschemes

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

v. Bonus deferral

Bonus deferral in the form of equity applies to all employees who are either subject to SAMA 'No Objection' and /or undertake or control significant risk undertaking by the Group. Bonuses of all these employees will be subject to deferral over a 3 year vesting period. The vesting will be subject to malus conditions.

vi. Nomination and Remuneration Committee

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

a) Share based bonus payments

The Group has Share Based Equity settled Bonus payment plans outstanding at the end of the year. Under the terms of these plans, SABB's eligible employees are offered shares at a predetermined price. At the vesting dates determined under the terms of the plan, SABB delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions.

The cost of the plans is recognised over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognised for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The Group has currently two Share Based Equity Plan, under which the grant for the Bonus Deferral Program was made at various dates during 2020, 2021 and 2022 with a maturity period of three years from the respective grant dates and shares vesting is 33%, 33% and 34% for the first, second and third year, respectively. As for the Long Term Plan with a maturity of four years of the respective grant date and shares vesting is 30%, 20% and 40%, with remaining as cash rewards. As per the settlement method, the ownership of these shares will pass to the employees at the respective vesting dates, subject to satisfactory completion of the vesting conditions.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

	Number of shares	
	2022	2021
Beginning of the year	4,591,311	1,085,913
Forfeited	(411,584)	(109,698)
Exercised / Expired	(634,519)	(485,447)
Granted during the year	687,126	4,100,543
End of the year	4,232,334	4,591,311

The weighted average price of shares granted during the year was SAR 38.2 (2021: SAR 27.8). Total treasury shares held by the Group as at 31 December 2022 were 4,181,503 shares (2021: 4,815,072 shares).

24. Basic and diluted earnings / (losses) per share

Basic and diluted earnings / (losses) per share from continuing and discontinued operations for the years ended 31 December 2022 and 31 December 2021 are calculated by dividing the net income / (loss) after Zakat and income tax from continuing and discontinued operations for the periods by the weighted average number of shares 2,054,794,522 (December 2021: 2,054,794,522) outstanding during the years.

25. Zakat and income tax

The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability. In addition, 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 filed Zakat and Tax return for the year 2021. Zakat and tax assessments for 2019 and 2020 are still under ZATCA review. SABB tax assessments for the years from 2005 to 2018 have been finalized. AAB tax assessments for the years from 2007 to 2018 have been finalized. SABB has filed an appeal on the AAB tax assessments for the years from 2005 to 2006 which is currently pending with Tax Violation and Disputes Appellate Committee".

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

	2022	2021
Opening Zakat and income tax liability	1,174,320	1,081,340
Charge for the year:		
Provision for Zakat	517,377	419,804
Provision for income tax	220,707	181,113
Payment of Zakat and income tax liability	(877,776)	(513,343)
Disposal of subsidiary	(5,992)	5,406
Closing Zakat and income tax liability	1,028,636	1,174,320

Deferred tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The following table shows the movement in deferred tax:

	2022	2021
Opening deferred tax asset	392,290	487,048
Provision for deferred tax	(97,726)	(94,758)
Closing deferred tax asset	294,564	392,290

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

The deferred tax included in these financial statements comprise of the following:

	2022	2021
Property, equipment, ROU, goodwill and other intangibles	213,837	297,098
Provision for expected credit losses	1,614	1,427
Other liabilities	79,113	93,765
Total	294,564	392,290

26. Cash and cash equivalents

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

	2022	2021
Cash and balances with SAMA excluding the statutory deposit (note 3)	5,934,657	2,845,831
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	5,873,421	5,697,717
Total	11,808,078	8,543,548

27. Employee benefit obligation

a) General description

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

b) Reconciliation of defined benefit obligation as 31 December.

	2022	2021
Defined benefit obligation at the beginning of the year	711,414	803,426
Charge for the year:		
Current service cost	68,225	73,285
Interest cost	18,160	14,469
Benefits paid	(72,772)	(174,241)
Liability acquired on acquisition of business / disposal of subsidiary	26,555	-
Re-measurement of defined benefit liability:		
Financial Assumptions	(37,108)	(10,546)
Demographic adjustments	(3,991)	-
Experience Adjustments	38,011	5,021
Defined benefit obligation at the end of the year	748,494	711,414

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

	2022	2021
Discount rate	4.20%	2.70%
Expected rate of salary increase	4.20%	2.70%
Normal retirement age	60 Years	60 years

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

d) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2022 to the discount rate and salary increase rate.

Base Scenario 2022	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(50,412)	57,310
Expected rate of salary increase	1%	58,875	(52,741)

Base Scenario 2021	Impact on defined benefit obligation –increase/(decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(42,229)	71,493
Expected rate of salary increase	1%	72,464	(44,088)

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

e) Expected maturity

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

2022	Less than a year	1-2 years	2-5 years	Over 5 years	Total
	89,328	70,870	194,204	697,625	1,052,027
2021	Less than a year	1-2 years	2-5 years	Over 5 years	Total
	75,478	52,727	156,274	611,428	895,907

The weighted average duration of the defined benefit obligation is 7 years (2021: 8 years).

f) Defined Contribution Plan

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its staff. The total amount expensed during the year in respect of this plan was SAR 77 million (2021: SAR 84 million).

28. Operating segments

The Group's primary business is conducted in Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance. The Group's reportable segments are as follows:

Wealth & Personal 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 Group's liquidity, currency, and special commission rate risks. It is also responsible for funding the Group's operations and managing the Group's investment portfolio and liquidity position.

Capital Markets – Includes activities of the Group's investment in its subsidiary for investment banking and brokerage, Alawwal Invest.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Others – Includes activities of the Group's investment in its associate, HSBC Saudi Arabia and equity investments. It also includes elimination of inter-group income and expense items.

Transactions between the operating segments are reported as recorded by the Group's transfer pricing system. The Group's total assets and liabilities as at 31 December 2022 and 2021, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

31 December 2022	Wealth & Personal Banking	Corporate and Institutional Banking	Treasury	Capital markets	Others	Total
Total assets	54,775,263	139,458,637	115,987,828	1,751,875	2,477,074	314,450,677
Loans and advances, net	45,512,240	136,430,175	-	1,189,834	-	183,132,249
Investments, net	-	-	85,951,195	193,632	218,332	86,363,159
Investment in an associate	-	-	-	-	599,289	599,289
Total liabilities	75,467,137	136,274,783	47,838,236	180,785	6,532	259,767,473
Operating income / (loss) from external customers	2,230,391	5,250,681	2,035,209	257,890	(77,143)	9,697,028
Inter-segment operating income / (expense)	595,586	(392,031)	(206,981)	-	3,426	-
Total operating income / (loss), of which:	2,825,977	4,858,650	1,828,228	257,890	(73,717)	9,697,028
Net special commission income	2,403,159	3,932,477	1,035,780	36,871	-	7,408,287
Net fees and commission income / (expenses)	184,137	684,994	(4,707)	66,502	(45,270)	885,656
Reversal of / (provision for) expected credit losses, net	80,910	(530,085)	4,291	(377)	-	(445,261)
Total operating (expenses) / income	(1,764,547)	(1,432,880)	(361,738)	(146,694)	43,766	(3,662,093)
Share in earnings of an associate	-	-	-	-	172,144	172,144
Net income for the year before Zakat and income tax from continuing operations	1,142,340	2,895,685	1,470,781	110,819	142,193	5,761,818
Net loss from discontinued operations	-	-	-	-	(53,860)	(53,860)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

31 December 2021	Wealth & Personal Banking	Corporate and Institutional Banking	Treasury	Capital markets	Others	Total
Total assets	49,389,856	131,346,804	89,265,403	409,397	1,984,563	272,396,023
Loans and advances, net	39,629,657	127,845,810	-	81,011	-	167,556,478
Investments, net	-	-	64,147,268	124,259	632,171	64,903,698
Investment in an associate	-	-	-	-	583,359	583,359
Total liabilities	81,840,357	110,847,436	25,942,313	60,154	677,246	219,367,506
Operating income from external customers	2,329,323	3,864,264	1,427,500	25,771	31,500	7,678,358
Inter-segment operating income / (expense)	193,196	(624,373)	434,934	-	(3,757)	-
Total operating income , of which:	2,522,519	3,239,891	1,862,434	25,771	27,743	7,678,358
Net special commission income / (expense)	2,161,283	2,260,842	1,299,892	3,088	(7,885)	5,717,220
Net fees and commission income	178,369	757,838	8,200	22,683	4,793	971,883
Reversal of / (provision for) expected credit losses, net	497,580	(955,933)	4,669	(59)	-	(453,743)
Total operating expenses	(1,690,447)	(1,382,983)	(191,140)	(64,367)	(99,620)	(3,428,557)
Share in earnings of an associate	-	-	-	-	131,429	131,429
Net income / (loss) for the year before Zakat and income tax from continuing operations	1,329,652	900,975	1,675,963	(38,655)	59,552	3,927,487
Net loss from discontinued operations	-	-	-	-	(30,167)	(30,167)

a) The Group's credit exposure by operating segment is as follows:

2022	Wealth & Personal Banking	Corporate and Institutional Banking	Treasury	Capital Markets	Others	Total
Assets	45,512,240	136,430,175	108,882,834	1,390,604	-	292,215,853
Commitments and contingencies	8,764	55,241,990	-	-	-	55,250,754
Derivatives	-	-	60,207,444	-	-	60,207,444
Total	45,521,004	191,672,165	169,090,278	1,390,604	-	407,674,051

2021 (restated)	Wealth & Personal Banking	Corporate and Institutional Banking	Treasury	Capital Markets	Others	Total
Assets	39,629,657	127,845,810	82,578,838	405,270	294,313	250,753,888
Commitments and contingencies	9,103	46,596,053	-	-	-	46,605,156
Derivatives	-	-	1,747,834	-	-	1,747,834
Total	39,638,760	174,441,863	84,326,672	405,270	294,313	299,106,878

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

29. Financial risk management**i) Credit risk**

The Board of Directors is responsible for the overall Risk Management approach including oversight of Credit Risk within Group and for reviewing its effectiveness. The Group follows SAMA Rules on Credit Risk Management whereby the Board has constituted a Board Risk Committee (BRC) to assist the Board in overseeing the credit risk management process and to discharge other related responsibilities.

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

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group'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 Group 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 Group may also close out transactions to mitigate credit risk.

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

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses. The Group regularly reviews its risk management policies and systems to reflect changes in market's products and emerging best practice.

a) Provision for expected credit losses, net

The following table shows the provision for expected credit losses for due from banks and other financial institutions, investments, loans and advances and off balance sheet exposures:

	Notes	2022	2021
Net provision for expected credit losses:			
Due from banks and other financial institutions	4	314	(240)
Investments	5	3,977	4,909
Loans and advances	6	(906,110)	(604,260)
Loan commitments and financial guarantee contracts	19	(219,390)	(87,237)
Write-offs net of recoveries of debts previously written-off*		675,948	233,085
Net charge for the year		(445,261)	(453,743)

* Write-offs net of recoveries of debts previously written-off include purchase price allocation release from POCI accounts of SAR 616 million (2021: SAR 273 million).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

b) Geographical concentration of financial assets, liabilities, commitments and contingencies, and their maximum exposure to credit risk.

2022	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA:						
Cash in hand	1,779,646	-	-	-	-	1,779,646
Balances with SAMA	17,363,545	-	-	-	-	17,363,545
Other balances	115,526	-	-	-	-	115,526
Due from banks and other financial institutions, net:						
Current accounts	155,194	60,055	2,626,179	2,137,725	301,588	5,280,741
Reverse repos	590,792	-	-	-	-	590,792
Positive fair value derivatives, net:						
Held for trading	142,841	16,090	1,848,375	61	-	2,007,367
Held as fair value hedges	-	306	496,627	33	-	496,966
Held as cash flow hedges	-	-	33,723	18	-	33,741
Investments, net:						
FVOCI	25,927,436	1,607,693	-	3,402,991	-	30,938,120
FVSI	378,953	-	172,494	-	-	551,447
Amortised cost	54,243,433	-	-	-	-	54,243,433
Loans and advances, net:						
Credit cards	2,384,882	-	-	-	-	2,384,882
Other retail lending	44,317,192	-	-	-	-	44,317,192
Corporate and institutional lending	131,595,057	3,401,591	-	-	1,433,527	136,430,175
Other assets	2,228,977	-	-	-	-	2,228,977
Total	281,223,474	5,085,735	5,177,398	5,540,828	1,735,115	298,762,550
Liabilities						
Due to banks and other financial institutions						
Current accounts	873,100	672,583	451,026	506,096	1,232,270	3,735,075
Money market deposits	12,179,427	625,170	-	-	-	12,804,597
Repo with banks	2,207,911	-	569,785	-	-	2,777,696
Others	6,199,935	-	-	-	-	6,199,935
Customer deposits:						
Demand	140,922,966	33,811	318,870	35,020	116,798	141,427,465
Time	69,177,627	101,250	-	347,742	25,027	69,651,646
Saving	1,969,620	-	10,587	-	1,127	1,981,334
Margin and other deposits	1,208,406	-	-	-	10,000	1,218,406
Debt securities in issue	5,114,836	-	-	-	-	5,114,836
Negative fair value derivatives, net:						
Held for trading	568,738	5,198	1,279,473	-	-	1,853,409
Held as fair value hedges	-	497	27,582	-	-	28,079
Held as cash flow hedges	-	-	25,948	-	-	25,948
Other liabilities	12,949,047	-	-	-	-	12,949,047
Total	253,371,613	1,438,509	2,683,271	888,858	1,385,222	259,767,473
Commitments and contingencies	84,804,132	2,016,088	5,920,840	1,025,453	6,177,568	99,944,081
Credit exposure (stated at credit equivalent amounts)						
Assets	277,072,010	5,069,339	2,798,673	5,540,716	1,735,115	292,215,853
Commitments and contingencies	46,849,137	1,140,687	3,340,340	578,642	3,341,948	55,250,754
Derivatives	59,420,914	56,859	704,229	25,442	-	60,207,444
Total credit exposure	383,342,061	6,266,885	6,843,242	6,144,800	5,077,063	407,674,051

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,766,585	-	-	-	-	1,766,585
Balances with SAMA	12,991,534	-	-	-	-	12,991,534
Other balances	151,285	-	-	-	-	151,285
Due from banks and other financial institutions, net						
Current accounts	-	161,673	418,507	4,163,378	215,341	4,958,899
Money market placements	1,034,276	-	-	-	-	1,034,276
Positive fair value derivatives, net						
Held for trading	564,163	9,339	482,654	-	16	1,056,172
Held as fair value hedges	-	-	34,791	-	3	34,794
Held as cash flow hedges	-	4,436	14,443	-	-	18,879
Investments, net						
FVOCI	17,198,066	1,465,750	1,767	-	-	18,665,583
FVSI	252,351	-	181,673	-	-	434,024
Amortised cost	44,830,365	-	-	-	-	44,830,365
Loans and advances, net						
Credit cards	2,016,419	-	-	-	-	2,016,419
Other retail lending	37,694,249	-	-	-	-	37,694,249
Corporate and institutional lending	125,962,235	1,883,575	-	-	-	127,845,810
Other assets	3,353,086	-	-	-	-	3,353,086
Total	247,814,614	3,524,773	1,133,835	4,163,378	215,360	256,851,960
Liabilities						
Due to banks and other financial institutions						
Current accounts	576,836	387,885	489,256	310,496	443,405	2,207,878
Money market deposits	2,200,000	1,120,892	-	-	-	3,320,892
Repo with banks	-	-	567,906	-	-	567,906
Others	8,566,990	-	-	-	-	8,566,990
Customer deposits						
Demand	152,506,132	1,061	408,974	49,982	-	152,966,149
Time	30,443,041	-	-	-	-	30,443,041
Saving	2,035,730	-	6,188	-	10,002	2,051,920
Margin and other deposits	1,291,497	-	-	-	8,005	1,299,502
Debt securities in issue	5,061,533	-	-	-	-	5,061,533
Negative fair value derivatives, net						
Held for trading	118,093	1,042	927,719	4	-	1,046,858
Held as fair value hedges	-	3,587	454,343	19	-	457,949
Held as cash flow hedges	-	-	9,777	8	-	9,785
Other liabilities	11,367,103	-	-	-	-	11,367,103
Total	214,166,955	1,514,467	2,864,163	360,509	461,412	219,367,506
Commitments and contingencies	79,964,388	1,472,805	5,691,140	1,035,769	7,249,817	95,413,919
Credit exposure (stated at credit equivalent amounts)						
Assets	242,274,770	3,500,219	600,180	4,163,378	215,341	250,753,888
Commitments and contingencies	39,064,835	731,289	2,803,987	509,956	3,495,089	46,605,156
Derivatives	1,059,924	48,112	639,798	-	-	1,747,834
Total credit exposure	282,399,529	4,279,620	4,043,965	4,673,334	3,710,430	299,106,878

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

2022	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Non-performing loans and advances	4,140,524	151,859	-	-	-	4,292,383
Provision for expected credit losses	6,007,709	2,337	-	-	434	6,010,480

2021	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Non-performing loans and advances	4,020,812	189,570	-	-	-	4,210,382
Provision for expected credit losses	6,698,260	3,979	-	-	-	6,702,239

ii) Credit quality analysis

Amounts arising from ECL – Significant increase in credit risk

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

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

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

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

Credit risk grades

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

Credit risk grades are defined and calibrated such that the probability of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in probability of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The monitoring of exposures involves use of the following data:

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets, and projections. Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes	Internally collected data and customer behaviour – e.g. utilisation of credit card facilities.	Payment record – this includes overdue status as well as a range of variables about payment ratios.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Corporate exposures	Retail exposures	All exposures
Data from credit reference agencies, press articles, changes in external credit ratings	Affordability metrics.	Utilisation of the granted limit.
Quoted bond and credit default swap (CDS) prices for the borrower where available	External data from credit reference agencies including industry-standard credit scores.	Requests for and granting of forbearance.
Actual and expected significant changes in the political, regulatory, and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions.

a) Generating the term structure of Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Generating the PD term structure per rating grade consists of:

- computation of long term average (Through the Cycle – TTC) rating grade PDs, encompassing at least 1 full economic cycle; and
- applying an adjustment factor on the TTC PDs over a given horizon from the point of calculation.

The link between the PIT PDs and the macroeconomic factors is derived at a portfolio level using statistical regression tools.

b) Determining whether credit risk has increased significantly

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

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

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

Lifetime expected credit losses are recognised against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for 30 days or more. The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- there is no unwarranted volatility in loss allowance from transfers between 12 month PD (stage 1) and lifetime PD (stage 2).

c) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy. When the terms of the financial assets are modified that does not result in de-recognition, the Group will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Any difference between the recalculated amount and the existing gross carrying amount will be recognised in statement of income for Asset Modification. To measure the significant increase in credit risk (for financial assets not de-recognised during the course of modification), the Group will compare the probability of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be recorded according to the identified staging after Asset Modification e.g. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

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

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

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

d) Definition of 'default'

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

- A quantitative objective based indicator where the obligor's contractual repayments are past due in excess-over-limits or has overdrawn advised agreed limits for more than 90 days on any material credit obligation to the Group.
- A qualitative criterion by which the Group considers that the obligor is "unlikely-to-pay" its obligations to the Group in full without recourse by the Group to action such as realizing securities (if any) i.e. "Unlikeliness-to-Pay" events causing significant increase in credit risk ("SICR").

Some of the primary indicators for qualitative criteria to objectively define "Unlikeliness to Pay" (UTP) events and "SICR" could be the following:

- Distressed debt restructuring resulting in diminished financial obligation
- Significant and/or persistent deteriorations in financial performance, financial ratios, covenants waivers/easing, cash flow and liquidity concerns and future outlook of the obligor
- Imminent probability of facility foreclosure and/or repossession of collaterals / securities due to insolvency or other financial difficulties indicating Bank's inability to recover the exposure.

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

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

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from economic experts discussed at the relevant governance forum, the Group agrees on a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves agreeing on two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

Economic Indicators	2022	2021
Government revenue, oil (SAR in Millions)	Upside: 1,081,736 Base: 1,037,847 Downside: 982,515	Upside: 615,946 Base: 552,663 Downside: 495,954
Oil Price – Arabian Light (US\$ per barrel)	Upside: 108.2 Base: 103.8 Downside: 98.4	Upside: 73.9 Base: 66.4 Downside: 59.7
GDP, non-oil, nominal, LCU (SAR in Millions)	Upside: 2,249,037 Base: 2,224,958 Downside: 2,186,582	Upside: 2,175,704 Base: 2,146,582 Downside: 2,113,156
Unemployment Rate (%)	Upside: 5.76 Base: 5.77 Downside: 5.78	Upside: 5.93 Base: 5.95 Downside: 6.0

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 years. The Group has used the below base case forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2022 ECL model			Forecast calendar years used in 2021 ECL model		
	2023	2024	2025	2022	2023	2024
Government revenue, oil (SAR in millions)	1,009,645	892,881	817,871	986,775	991,792	1,027,088
Oil Price – Arabian Light (US\$ per barrel)	97.6	88.4	81.1	62.8	59.2	59.5
GDP, non-oil, nominal, LCU (SAR in millions)	2,376,348	2,486,526	2,590,852	2,231,694	2,338,415	2,483,838
Unemployment Rate (%)	5.6	5.6	5.6	5.8	5.6	5.6

e) Measurement of ECL

The following risk parameters have been used by the Group to measure the ECL:

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

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

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

LGD is the amount of the credit that is lost when a borrower defaults. For each portfolio, the Group estimates the LGD parameters using the workout approach based on the history of recovery rates of claims against defaulted counterparties.

The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For mortgage loans secured by retail property, Loan to Value (LTV) ratios and current value of the property are key parameters in determining LGD. LGD are calculated on a discounted cash flow basis using the contractual interest rate as the discounting factor.

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

- time horizon over which EAD needs to be estimated;
- projected cash flows until the estimated default point; and
- residual maturity.

EAD for the amortised loans considers contractual pay down; impact of missed payments and subsequent interest accrual between reporting date and default occurrence; Expected drawdown amount on the unutilised balance. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are Treasury Investments, Group and Non-Banking Financial institutions and money market placements.

Sensitivity of ECL allowance:

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year end, noting that the macroeconomic factors present dynamic relationships between them.

Assumptions sensitized	PL Impact 2022 SAR' 000
Macro-economic factors(Base scenario 2023):	
Government revenue, oil (SAR in millions) reduction by 7.1%	
Oil Price – Arabian Light (US\$ per barrel) reduction by 4.4%	29,925
GDP, non-oil, nominal, LCU (SAR in millions) increase by 0.9%	
Scenario weightages:	
Base scenario sensitized by +/- 5% with corresponding change in downside	5,881
Base scenario sensitized by +/- 5% with corresponding change in upside	4,008

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The grouping is subject to regular review to ensure that exposures within a particular grouping remain appropriately homogeneous. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

30. Market risk

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading and non-trading or banking-book. Market Risk exposures in the trading book result from instruments classified as held for trading as disclosed in these consolidated financial statements. Market Risk exposures in the non-trading or banking-book arise on special commission rate risk and equity price risk as disclosed in part b) of this disclosure.

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

a) Market risk-trading book

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data.

VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for 1 day. The use of 99% confidence level depicts that within a one day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days. The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results, however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

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

The Group's VAR related information is as follows:

2022	Foreign exchange	Special commission rate	Overall risk
VAR as at 31 December 2022	3,781	13,379	13,528
Average VAR for 2022	787	7,542	7,677
Minimum VAR for 2022	31	1,984	2,230
Maximum VAR for 2022	3,781	23,685	23,756
2021	Foreign exchange	Special commission rate	Overall risk
VAR as at 31 December 2021	567	2,304	2,689
Average VAR for 2021	442	3,038	3,278
Minimum VAR for 2021	17	1,018	1,144
Maximum VAR for 2021	1,477	8,638	8,660

b) Market risk – non-trading or banking-book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non - trading financial assets and financial liabilities repricing as at 31 December 2022 including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI assets including the effect of any associated hedges as at 31 December 2022 for the effect of assumed changes in commission rates.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

The sensitivity of equity is analysed by maturity period of the asset or swap and represents only those exposures that directly impact OCI of the Group.

2022							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	+100	618,400	(33,313)	(93,860)	(866,488)	(1,839,195)	(2,832,856)
USD	+100	88,795	(2,352)	(12,184)	(83,677)	(29,199)	(127,412)
EUR	+100	(1,571)	-	-	-	-	-
Others	+100	(1,624)	-	-	-	-	-

2022							
Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	- 100	(618,400)	33,313	93,860	866,488	1,839,195	2,832,856
USD	- 100	(88,795)	2,352	12,184	83,677	29,199	127,412
EUR	- 100	1,571	-	-	-	-	-
Others	- 100	1,624	-	-	-	-	-

2021							
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			6 months or less	6-12 months	1-5 years	Over 5 years	Total
SAR	+100	1,130,252	(24,945)	(60,188)	(705,825)	(1,216,122)	(2,007,080)
USD	+100	89,635	(1,470)	(15,964)	(100,073)	(126,790)	(244,297)
EUR	+100	(6,834)	-	-	-	-	-
Others	+100	(5,938)	-	-	-	-	-

2021							
Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of Equity				
			6 months or less	6-12 months	1-5 years	Over 5 years	Total
SAR	- 100	(1,130,252)	24,945	60,188	705,825	1,216,122	2,007,080
USD	- 100	(89,635)	1,470	15,964	100,073	126,790	244,297
EUR	- 100	6,834	-	-	-	-	-
Others	- 100	5,938	-	-	-	-	-

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

The Group manages this risk by matching the repricing of financial assets and liabilities through risk management strategies.

2022	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA:						
Cash in hand	-	-	-	-	1,779,646	1,779,646
Balances with SAMA	4,039,485	-	-	-	13,324,060	17,363,545
Other balances	-	-	-	-	115,526	115,526
Due from banks and other financial institutions, net:						
Current accounts	5,280,741	-	-	-	-	5,280,741
Reverse repos	590,792	-	-	-	-	590,792
Positive fair value derivatives, net:						
Held for trading	-	-	-	-	2,007,367	2,007,367
Held as fair value hedges	-	-	-	-	496,966	496,966
Held as cash flow hedges	-	-	-	-	33,741	33,741
Investments, net:						
FVOCI	198,932	515,670	3,239,439	26,984,079	-	30,938,120
FVSI	-	10,107	218,267	323,073	-	551,447
Amortised cost	2,848,941	8,139,223	21,111,155	22,144,114	-	54,243,433
Loans and advances, net:						
Credit cards	2,384,882	-	-	-	-	2,384,882
Other retail lending	1,878,307	1,835,809	18,780,022	21,823,054	-	44,317,192
Corporate and institutional lending	103,385,652	31,088,703	1,804,933	150,887	-	136,430,175
Other assets	-	-	-	-	2,228,977	2,228,977
Total assets	120,607,732	41,589,512	45,153,816	71,425,207	19,986,283	298,762,550
Liabilities and equity						
Due to banks and other financial institutions:						
Current accounts	-	-	-	-	3,735,075	3,735,075
Money market deposits	4,485,201	8,319,396	-	-	-	12,804,597
Repo with banks	1,994,910	213,000	569,786	-	-	2,777,696
Others	1,669,595	1,793,596	2,736,744	-	-	6,199,935
Customer deposits:						
Demand	-	-	-	-	141,427,465	141,427,465
Time	60,654,812	8,692,288	304,546	-	-	69,651,646
Saving	1,981,334	-	-	-	-	1,981,334
Margin and other deposits	-	-	-	-	1,218,406	1,218,406
Debt securities in issue	5,114,836	-	-	-	-	5,114,836
Negative fair value derivatives, net:						
Held for trading	-	-	-	-	1,853,409	1,853,409
Held as fair value hedges	-	-	-	-	28,079	28,079
Held as cash flow hedges	-	-	-	-	25,948	25,948
Other liabilities	101,033	50,548	288,690	163,803	12,344,973	12,949,047
Equity	-	-	-	-	54,683,204	54,683,204
Total liabilities and equity	76,001,721	19,068,828	3,899,766	163,803	215,316,559	314,450,677
Commission rate sensitivity on assets and liabilities	44,606,011	22,520,684	41,254,050	71,261,404	(195,330,276)	(15,688,127)
Commission rate sensitivity on derivative financial instruments	4,853,102	(4,117,411)	2,380,018	(3,115,709)	-	-
Total special commission rate sensitivity gap	49,459,113	18,403,273	43,634,068	68,145,695	(195,330,276)	-
Cumulative special commission rate sensitivity gap	49,459,113	67,862,386	111,496,454	179,642,149	(15,688,127)	-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA:						
Cash in hand	-	-	-	-	1,766,585	1,766,585
Balances with SAMA	927,961	-	-	-	12,063,573	12,991,534
Other balances	-	-	-	-	151,285	151,285
Due from banks and other financial institutions, net:						
Current accounts	4,958,899	-	-	-	-	4,958,899
Money market placements	938,818	95,458	-	-	-	1,034,276
Positive fair value derivatives, net:						
Held for trading	-	-	-	-	1,056,172	1,056,172
Held as fair value hedges	-	-	-	-	34,794	34,794
Held as cash flow hedges	-	-	-	-	18,879	18,879
Investments, net:						
FVOCI	2,731,422	1,271,043	3,596,744	11,066,374	-	18,665,583
FVSI	-	-	35,933	216,418	181,673	434,024
Amortised cost	8,923,051	2,282,622	15,903,478	17,721,214	-	44,830,365
Loans and advances, net:						
Credit cards	2,016,419	-	-	-	-	2,016,419
Other retail lending	18,749,883	2,013,529	12,338,654	4,592,183	-	37,694,249
Corporate and institutional lending	114,968,524	10,345,220	2,031,638	500,428	-	127,845,810
Other assets	-	-	-	-	3,353,086	3,353,086
Total assets	154,214,977	16,007,872	33,906,447	34,096,617	18,626,047	256,851,960
Liabilities and equity						
Due to banks and other financial institutions:						
Current accounts	-	-	-	-	2,207,878	2,207,878
Money market deposits	3,320,892	-	-	-	-	3,320,892
Repo with banks	-	-	567,906	-	-	567,906
Others	-	2,235,294	6,331,696	-	-	8,566,990
Customer deposits:						
Demand	-	-	-	-	152,966,149	152,966,149
Time	27,220,151	2,985,744	237,146	-	-	30,443,041
Saving	2,051,920	-	-	-	-	2,051,920
Margin and other deposits	-	-	-	-	1,299,502	1,299,502
Debt securities in issue	5,061,533	-	-	-	-	5,061,533
Negative fair value derivatives, net:						-
Held for trading	-	-	-	-	1,046,858	1,046,858
Held as fair value hedges	-	-	-	-	457,949	457,949
Held as cash flow hedges	-	-	-	-	9,785	9,785
Other liabilities	77,720	45,461	391,481	168,680	10,683,761	11,367,103
Equity	-	-	-	-	53,028,517	53,028,517
Total liabilities and equity	37,732,216	5,266,499	7,528,229	168,680	221,700,399	272,396,023
Commission rate sensitivity on assets and liabilities	116,482,761	10,741,373	26,378,218	33,927,937	(203,074,352)	(15,544,063)
Commission rate sensitivity on derivative financial instruments	12,089,945	305,755	(6,025,370)	(6,370,330)	-	-
Total special commission rate sensitivity gap	128,572,706	11,047,128	20,352,848	27,557,607	(203,074,352)	-
Cumulative special commission rate sensitivity gap	128,572,706	139,619,834	159,972,682	187,530,289	(15,544,063)	-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

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

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Group does not maintain material non-trading open currency positions. Foreign currency exposures that arise in the non-trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 30 (a) reflects the Group's total exposure to currency risk.

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

	2022 Long / (short)	2021 Long / (short)
US Dollar	(4,462,175)	(677,828)
Euro	(10,791)	(7,388)
Sterling Pounds	(2,747)	2,235
Other	(19,425)	(10,845)

31. Liquidity risk

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

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

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

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The weekly liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset and Liability Committee ("ALCO").

A summary report, covering the Group and operating subsidiaries, including any exceptions and remedial action taken, is submitted monthly to ALCO.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

a) Analysis of undiscounted financial liabilities by remaining contractual maturities

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

2022	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	3,735,075	-	-	-	-	3,735,075
Money market deposits	4,491,390	8,359,810	-	-	-	12,851,200
Repo with banks	1,999,717	213,000	569,786	-	-	2,782,503
Others	1,700,000	1,832,603	2,799,093	-	-	6,331,696
Customer deposits						
Demand	-	-	-	-	141,427,465	141,427,465
Time	62,577,385	8,869,952	316,041	-	-	71,763,378
Saving	1,981,334	-	-	-	-	1,981,334
Margin and other deposits	74,259	162,689	698,431	283,027	-	1,218,406
Debt securities in issue	126,653	186,655	1,216,205	5,974,495	-	7,504,008
Lease liability	101,033	50,548	288,690	163,803	-	604,074
Total undiscounted financial liabilities	76,786,846	19,675,257	5,888,246	6,421,325	141,427,465	250,199,139

2021	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	2,207,878	-	-	-	-	2,207,878
Money market deposits	3,324,381	-	-	-	-	3,324,381
Repo with banks	-	-	567,906	-	-	567,906
Others	-	2,500,000	6,331,696	-	-	8,831,696
Customer deposits						-
Demand	-	-	-	-	152,966,149	152,966,149
Time	27,614,723	2,984,547	238,866	-	-	30,838,136
Saving	2,051,920	-	-	-	-	2,051,920
Margin and other deposits	119,771	238,712	703,667	237,352	-	1,299,502
Debt securities in issue	36,660	109,982	733,215	5,439,929	-	6,319,786
Lease liability	77,720	45,461	391,481	168,680	-	683,342
Total undiscounted financial liabilities	35,433,053	5,878,702	8,966,831	5,845,961	152,966,149	209,090,696

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

b) Maturity analysis of financial assets and liabilities

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

2022	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,779,646	-	-	-	-	1,779,646
Balances with SAMA	4,039,485	-	-	-	13,324,060	17,363,545
Other balances	115,526	-	-	-	-	115,526
Due from banks and other financial institutions, net						
Current accounts	5,280,741	-	-	-	-	5,280,741
Reverse repos	590,792	-	-	-	-	590,792
Positive fair value derivatives, net						
Held for trading	37,750	42,294	571,639	1,355,684	-	2,007,367
Held as fair value hedges	1,935	24,420	139,725	330,886	-	496,966
Held as cash flow hedges	-	-	28,850	4,891	-	33,741
Investments, net						
FVOCI	198,932	515,670	3,239,439	26,984,079	-	30,938,120
FVSI	-	10,107	218,267	323,073	-	551,447
Amortised cost	2,848,941	8,139,223	21,111,155	22,144,114	-	54,243,433
Loans and advances, net						
Credit cards	2,376,229	-	8,653	-	-	2,384,882
Other retail lending	2,976,276	1,781,599	19,763,382	19,795,935	-	44,317,192
Corporate and institutional lending	44,716,095	31,027,438	35,003,131	25,683,511	-	136,430,175
Other assets	-	-	-	-	2,228,977	2,228,977
Total assets	64,962,348	41,540,751	80,084,241	96,622,173	15,553,037	298,762,550
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	3,735,075	-	-	-	-	3,735,075
Money market deposits	4,485,201	8,319,396	-	-	-	12,804,597
Repo with banks	1,994,910	213,000	569,786	-	-	2,777,696
Others	1,669,595	1,793,596	2,736,744	-	-	6,199,935
Customer deposits						
Demand	-	-	-	-	141,427,465	141,427,465
Time	60,654,812	8,692,288	304,546	-	-	69,651,646
Saving	1,981,334	-	-	-	-	1,981,334
Margin and other deposits	74,259	162,689	698,431	283,027	-	1,218,406
Debt securities in issue	114,836	-	5,000,000	-	-	5,114,836
Negative fair value derivatives, net						
Held for trading	34,131	35,322	524,001	1,259,955	-	1,853,409
Held as fair value hedges	-	28,079	-	-	-	28,079
Held as cash flow hedges	-	-	12,568	13,380	-	25,948
Other liabilities	1,608,638	559,482	373,712	384,472	10,022,743	12,949,047
Equity	-	-	-	-	54,683,204	54,683,204
Total liabilities and equity	76,352,791	19,803,852	10,219,788	1,940,834	206,133,412	314,450,677

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2022	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Commitments and contingencies						
Letters of credit	7,715,812	4,379,527	429,214	1,883,509	1,706,930	16,114,992
Letters of guarantee	9,033,253	17,805,000	17,795,022	26,450,669	4,470,372	75,554,316
Acceptances	2,097,027	1,041,903	6,841	-	27,835	3,173,606
Irrevocable commitments to extend credit	71,000	895,808	2,207,607	1,187,292	739,460	5,101,167
Total Commitments and contingencies	18,917,092	24,122,238	20,438,684	29,521,470	6,944,597	99,944,081
2021	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,766,585	-	-	-	-	1,766,585
Balances with SAMA	927,961	-	-	-	12,063,573	12,991,534
Other balances	151,285	-	-	-	-	151,285
Due from banks and other financial institutions, net						
Current accounts	4,958,899	-	-	-	-	4,958,899
Money market placements	938,818	95,458	-	-	-	1,034,276
Positive fair value derivatives, net						
Held for trading	25,417	129,623	354,406	546,726	-	1,056,172
Held as fair value hedges	-	-	4	34,790	-	34,794
Held as cash flow hedges	-	97	18,782	-	-	18,879
Investments, net						
FVOCI	1,710,339	783,419	4,805,268	11,366,557	-	18,665,583
FVSI	-	-	217,606	216,418	-	434,024
Amortised cost	50,455	1,094,075	25,536,587	18,149,248	-	44,830,365
Loans and advances, net						
Credit cards	2,011,117	-	5,302	-	-	2,016,419
Other retail lending	1,379,285	1,523,200	15,962,512	18,829,252	-	37,694,249
Corporate and institutional lending	37,525,043	27,471,932	35,129,099	27,719,736	-	127,845,810
Other assets	691,523	1,206,689	392,290	-	1,062,584	3,353,086
Total assets	52,136,727	32,304,493	82,421,856	76,862,727	13,126,157	256,851,960
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	2,207,878	-	-	-	-	2,207,878
Money market deposits	3,320,892	-	-	-	-	3,320,892
Repo with banks	-	-	567,906	-	-	567,906
Others	-	2,235,294	6,331,696	-	-	8,566,990
Customer deposits						
Demand	-	-	-	-	152,966,149	152,966,149
Time	27,220,151	2,985,744	237,146	-	-	30,443,041
Saving	2,051,920	-	-	-	-	2,051,920
Margin and other deposits	119,771	238,712	703,667	237,352	-	1,299,502
Debt securities in issue	61,533	-	5,000,000	-	-	5,061,533
Negative fair value derivatives, net						
Held for trading	25,182	127,030	372,058	522,588	-	1,046,858
Held as fair value hedges	48	717	154,554	302,630	-	457,949
Held as cash flow hedges	-	9,785	-	-	-	9,785
Other liabilities	1,775,248	513,496	982,307	392,569	7,703,483	11,367,103
Equity	-	-	-	-	53,028,517	53,028,517
Total liabilities and equity	36,782,623	6,110,778	14,349,334	1,455,139	213,698,149	272,396,023

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

2021	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Commitments and contingencies						
Letters of credit	7,694,936	7,051,818	451,024	2,093,692	56,257	17,347,727
Letters of guarantee	7,098,469	20,967,317	13,605,108	27,016,350	3,306,552	71,993,796
Acceptances	1,262,509	520,740	1,254	-	3,220	1,787,723
Irrevocable commitments to extend credit	-	2,029,763	375,462	991,398	888,050	4,284,673
Total Commitments and contingencies	16,055,914	30,569,638	14,432,848	30,101,440	4,254,079	95,413,919

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks and loans and advances to customers. Letters of guarantee are as per contractual terms and in the event of default may be payable on demand and therefore are current in nature.

32. Offsetting of financial liabilities

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

				Amount not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amounts subject to enforceable master netting arrangement	Cash collateral pledged	Net amount
2022: Derivatives	1,907,436	-	1,907,436	-	655,277	2,562,713
2021: Derivatives	1,514,592	-	1,514,592	-	(1,151,188)	363,404

33. 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.

31 December 2022	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	2,538,074	-	2,538,074	-	2,538,074
Investments held as FVSI	963,274	411,827	551,447	-	963,274
Investments held as FVOCI – Debt	30,938,120	-	30,938,120	-	30,938,120
Investments held as FVOCI – Equity	218,332	194,569	-	23,763	218,332
Financial assets not measured at fair value					
Due from banks and other financial institutions	5,871,533	-	5,871,533	-	5,871,533
Investments held at amortised cost	54,243,433	-	51,735,790	-	51,735,790
Loans and advances	183,132,249	-	-	183,097,308	183,097,308
Financial liabilities measured at fair value					
Derivative financial instruments	1,907,436	-	1,907,436	-	1,907,436
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	25,517,303	-	25,517,303	-	25,517,303
Customers deposits	214,278,851	-	214,273,048	-	214,273,048
Debt securities in issue	5,114,836	-	5,114,836	-	5,114,836

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

31 December 2021	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	1,109,845	-	1,109,845	-	1,109,845
Investments held as FVSI	1,383,368	949,344	434,024	-	1,383,368
Investments held as FVOCI – Debt	18,665,583	-	18,665,583	-	18,665,583
Investments held as FVOCI – Equity	24,382	-	-	24,382	24,382
Financial assets not measured at fair value					
Due from banks and other financial institutions	5,993,175	-	5,993,175	-	5,993,175
Investments held at amortised cost	44,830,365	-	44,821,665	-	44,821,665
Loans and advances	167,556,478	-	-	164,862,626	164,862,626
Financial liabilities measured at fair value					
Derivative financial instruments	1,514,592	-	1,514,592	-	1,514,592
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	14,663,666	-	14,663,666	-	14,663,666
Customers deposits	186,760,612	-	186,754,288	-	186,754,288
Debt securities in issue	5,061,533	-	5,061,533	-	5,061,533

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 Group'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 equity investments include investments in local listed shares carried at market price listed on local stock exchange.

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 a Private Equity Fund, 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 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 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

The difference between the transaction price and the model value is commonly referred to as 'day one profit or 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 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 Group 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.

34. Related party transactions

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

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the Management and the Board, the related party transactions are performed in normal course of business. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

At the end of the year, the Group reassessed the definition of related parties per IAS 24 Related Party Disclosures and noted that certain relationships with entities with common directorships or common key management were not related parties per IAS 24. As a result, certain balances and transactions related to 2021 have been restated to remove these balances and transactions. The change resulted in a reduction in the 2021 comparative balances with related parties mainly for investments by SAR 3.8 billion, loans and advances by SAR 12.8 billion, customer deposits by SAR 6.5 billion and commitments and contingencies by SAR 3.4 billion. Furthermore, transactions during 2021 with these parties aggregated to SAR 0.3 billion, of which SAR 0.2 billion related to special commission income and the remainder of SAR 0.1 billion related to special commission expense, fee and commission income and general and administrative expenses, which have also been restated accordingly.

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

	2022	2021
The HSBC Group:		
Due from banks and other financial institutions	4,397,919	1,135,263
Investments	10,263	10,779
Fair value derivatives, net	24,517	3,421
Due to banks and other financial institutions	4,152,262	575,837
Commitments and contingencies	3,977,543	4,061,265
	2022	2021
Associates:		
Investments	599,290	583,359
Loans and advances	72,370	275,000
Other assets	16,554	47,726
Customer deposits	1,083,661	461,085
Other liabilities	8,379	-
Commitments and contingencies	3,169	1,303,655

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

	2022	2021 (restated)
Directors, board committees, other major Shareholders, key management personnel and their affiliates:		
Investments	-	-
Loans and advances	2,623,881	2,350,313
Customers' deposits	4,936,339	4,983,184
Positive fair value derivatives, net	-	1,893
Negative fair value derivatives, net	18,364	-
Debt securities issued	-	500,000
Other liabilities	19,335	18,148
Commitments and contingencies	132,056	1,339,402

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

	2022	2021
Related mutual funds:		
Investments	370,264	363,510
Customers' deposits	1,875	17,440
Debt securities issued	212,000	212,000

	2022	2021
Subsidiaries:		
Other assets	-	34,000
Related mutual funds:		
Investments	38,361	578,649

Below represents transactions with related parties other than those disclosed elsewhere in these consolidated financial statements.

	2022	2021 (restated)
Special commission income	88,478	51,724
Special commission expense	96,688	51,239
Fees and commission income	95,017	96,509
General and administrative expenses	37,312	28,887
Service charges paid to HSBC group	16,571	16,799
Service charges recovered from associate	28,776	24,320
Proceeds from sale of non-current assets held for sale	-	79,895
Profit share paid to associate relating to investment banking activities	68,803	28,084
Directors' and board committees' remuneration	6,957	6,662

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

	2022	2021
Short-term employee benefits *	34,616	35,062
Termination benefits	70	746
Other long-term benefits	12,077	37,800
Share-based payments	8,282	12,944

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

35. Capital Risk Management

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

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

As part of the latest SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two-year period comprising 2020 and 2021 effective from 31 March 2021 financial statement reporting. Starting from 2022, the add-back amount will be then phased-out on a straight-line basis over the 3 years. The impact of these revised transitional arrangements to the Group's Tier 1 ratio have been an improvement of 29bps for the year ended 31 December 2022.

	2022	2021
Risk Weighted Assets (RWA)		
Credit Risk RWA	232,948,313	209,202,075
Operational Risk RWA	16,212,894	18,021,472
Market Risk RWA	7,091,185	2,192,526
Total RWA	256,252,392	229,416,073
Tier I Capital	45,236,925	44,263,704
Tier II Capital	5,795,143	5,850,780
Total I and II Capital	51,032,068	50,114,484
Capital Adequacy Ratio %		
Tier I ratio	17.65%	19.29%
Tier I + Tier II ratio	19.91%	21.84%

36. 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") has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk Free Rate ("RFR").

Management is running a project on the Group'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 impacts the products, internal systems and processes. The Group has complied with the regulatory deadline of 31 December 2021 for the LIBOR transition and is now offering products based on overnight SOFR, Term SOFR and Islamic SOFR.

The Group is also exposed to the effects of USD LIBOR reform on its financial assets and liabilities, as set out within the table below. The Group has no exposure to any other LIBOR rates.

	Carrying Value/Nominal Amount at 31 December 2022		Have yet to transition to an alternative benchmark interest rate as at 31 December 2022	
	Assets	Liabilities	Assets	Liabilities
Non derivative assets and liabilities exposed to USD LIBOR				
Investments held as FVSI – Debt	172,494	-	172,494	-
Loans and advances	2,851,899	-	2,851,899	-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

The following table contains details of only the hedging instruments used in the Group's hedging strategies which reference USD LIBOR and have not yet transitioned to SOFR or an alternative interest rate benchmark, such that phase 1 relief(s) have been applied to the hedging relationship:

		Carrying amount		Notional amount directly impacted by IBOR reform
	Notional	Assets	Liabilities	
Fair value hedges				
Commission rate swaps	3,095,625	152,922	-	2,898,750

Of the SAR 3.1 billion notional amount of hedges above, SAR 196.8 million will mature before the anticipated USD LIBOR replacement on 30 June 2023. Whilst the LIBOR Steering Committee is overseeing a detailed transition plan to address all potential risks, the Group's overall exposure to the demise of USD LIBOR is not considered to be material.

37. Investment management and brokerage services

The Group offers investment management services to its customers that include the management of investment funds and discretionary portfolios with total assets of SAR 15.75 billion (2021: SAR 1.84 billion), in consultation with professional investment advisors. The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's investment in these funds is included in investments held as FVSI. Fees earned from management services are recorded within fee and commission income and are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, therefore, are not included in these consolidated financial statements.

38. Business Combination

During the year ended 31 December 2022, sale and transfer of the asset management, margin lending and brokerage business lines from HSBC Saudi Arabia (as Seller) to Alawwal Invest (AI) (as Buyer) was completed. SABB made an announcement earlier on the Saudi Exchange (Tadawul) dated 6/10/1442H (corresponding to 18 May 2021) in relation to this. The business acquisition has been accounted for using the acquisition method under IFRS 3 – Business Combinations (the "Standard") with AI being the acquirer of the lines of business from HSBC Saudi Arabia.

As required by the Standard, AI is currently in the process of allocating the purchase consideration to the identifiable tangible and intangible assets and liabilities acquired. Therefore, the acquisition accounting of the business is based on provisional fair values of the acquired assets and assumed liabilities as at the acquisition date. Adjustment to the provisional values will be finalised within twelve months of the date of acquisition as allowed by the Standard. In line with IAS 28 "Investments in Associates and Joint Ventures", the gain recognized by HSBC Saudi Arabia on sale and transfer of business lines has been eliminated in these consolidated financial statements to the extent of ownership of SABB in HSBC Saudi Arabia amounting to SAR 58.8 million.

The transaction enables SABB to strategically widen the service offering to a large base of clients across the Kingdom taking one step closer to the fulfillment of SABB's commitment towards helping its customers achieve long-term value creation by giving them access to one of Saudi Arabia's leading wealth and asset management platforms. The transaction will allow AI to acquire scale and significantly enhance its position in the asset management and retail brokerage businesses in the Kingdom.

a) Purchase consideration

The purchase consideration for sale and transfer of the business lines amounted to SAR 1,216.8 million. The sale and transfer comprises assets amounting to SAR 1,177.5 million with total liabilities assumed amounting to SAR 80.7 million, resulting in provisional bargain purchase of SAR 155.4 million. This has been reflected in the consolidated financial position of the Group for the year ended 31 December 2022 and is subject to adjustment within the period prescribed by IFRS 3.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

b) Business acquisition related costs

During the year ended 31 December 2022, AI incurred business acquisition 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 business transfer amounting to SAR 54 million (2021: SAR 37 million). These costs have been included in 'Salaries and employee related expenses' and 'General and administrative expenses' in the consolidated statement of income amounting to SAR 7 million (2021: SAR 4 million) and SAR 47 million (2021: SAR 33 million), respectively.

c) Identifiable assets acquired and liabilities assumed

The following table summarises the assets acquired, liabilities assumed, purchase consideration and resultant bargain purchase amount at the date of acquisition.

	15 September 2022
Margin Lending	1,169,100
Other assets	8,400
Total Assets	1,177,500
Liabilities	(80,701)
Net identifiable assets	1,096,799
Customer relationship	275,401
Bargain purchase (included in other operating income in the consolidated statement of income)	(155,400)
Total price consideration	1,216,800

The financial information provided above is neither audited nor reviewed.

d) Valuation approach and methodologies – Customer relationship:

AI has estimated the value of customer relationship with respect to asset management services and retail brokerage services using the Multi-period Excess Earnings Method ("MEEM"), which is a commonly accepted method for valuing customer relationships. A 10% increase or decrease in the attrition rate would equate to approximately SAR 8 million increase or decrease in the valuation.

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
Margin financing	1,169,100	1,169,100	-
Other financial assets	8,400	8,400	-
Total	1,177,500	1,177,500	-

f) Impact on Group's results

If the acquisition had occurred on 1 January 2022, management estimates that combined operating income for the year would be SAR 233 million. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2022.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

39. Discontinued operations

During the year, SABB Takaful entered into a binding merger agreement with Walaa on 24 February 2022. After completion of the Merger Transaction on 19 October 2022, Walaa became, by operation of law, the legal successor of the assets, liabilities, rights and obligations of SABB Takaful and SABB Takaful ceased to exist. Walaa increased its share capital by issuing 20,418,619 shares of SAR 10 per share to SABB Takaful's eligible shareholders based on the exchange ratio. The value of Walaa's share capital accordingly became SAR 850,583,250 divided into 85,058,325 shares, out of which 20,418,619 shares, 24.01% are held by the SABB Takaful shareholders.

The investment in Walaa has been classified as FVOCI from the effective date of the merger. Summarised statement of income of SABB Takaful included in SABB's consolidated statement of income under discontinued operations is as below:

	For the period ended	
	19 October 2022	31 December 2021
Net operating income	17,403	14,522
Total operating expenses	(58,668)	(39,283)
Zakat and income tax	(6,032)	(5,406)
Net loss for the year	(47,297)	(30,167)
Loss on disposal	(6,563)	-
Net loss from discontinued operations for the year	(53,860)	(30,167)

40. Comparative figures

Certain expenses which had previously been included in general and administrative expenses, are now included in fee and commission expense and other operating income, net. The primary change relating to fee and commission expenses is disclosed in note 21 and the remaining reclassification relates to other operating income. This change was made to reflect better presentation which was established as a result of management's review of its expenses allocation mechanism. Accordingly, the previously reported amounts in the consolidated financial statements for the year ended 31 December 2021 have been reclassified to conform to the current year presentation.

Furthermore, the related party note was amended, refer to note 34 for the restatement in related party transactions.

41. Board of Directors' approval

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 16 Rajab 1444AH (Corresponding 7 February 2023).