SABB ساب

The Saudi British Bank

Annual Report & Accounts 2018





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This report is issued by SABB (The Saudi British Bank)
To receive a copy of this report, please visit our website.

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Annual



Custodian of The Two Holy Mosques
King Salman bin Abdulaziz Al Saud



His Royal Highness
Prince Mohamed bin Salman bin Abdulaziz Al Saud,

Crown Prince, Deputy Prime Minister and Minister of Defense
Chairman of the Council of Political and Security Affairs
Chairman of the Council of Economic and Development Affairs

Board of Directors



Chairman
Khaled Suliman Olayan



David Dew



Sulaiman Abdulkader
Al Muhaidib



Mr Samir Assaf



Khalid Abdullah
Al Molhem



Mohammed Omran
Al Omran



Georges Elhedery



Saad Abdulmohsen
Al Fadly



Mr. Stephen Moss



Top Management



David Dew



Faisal Jadu



Ghassan Alamoudi



Hussain Alyami



Mathew Pearce



Naif Alabdulkareem



Richard Hinchley



Saleh Almutawa



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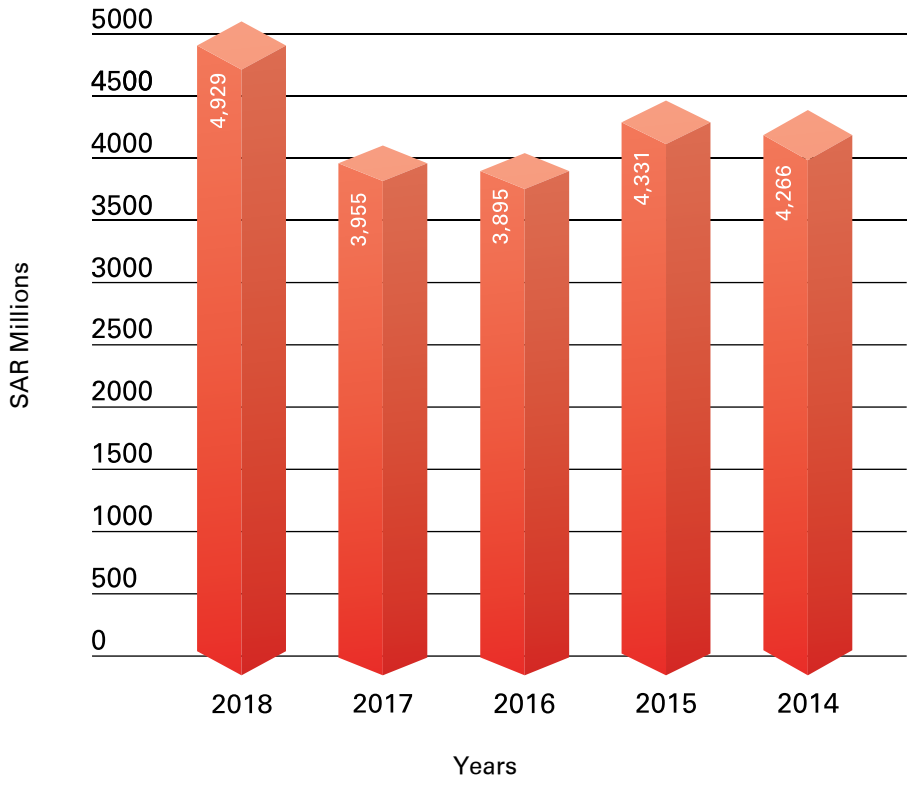


Sami Almuhaid

Financial Highlights

Five-year financial highlights

SAR millions	2018	2017	2016	2015	2014
Customer Deposits	**130,507**	140,240	140,640	148,887	145,870
Shareholders' Equity	**32,341**	33,345	31,279	28,175	26,071
Investments, Net	**34,570**	26,977	29,273	35,527	45,281
Loans and Advances, Net	**110,326**	117,006	120,965	125,947	115,221
Total Assets	**174,564**	187,615	186,056	187,750	187,609
Total Liabilities	**142,101**	154,145	154,777	159,575	161,538
Net Income	**4,929**	3,955	3,895	4,331	4,266
Gross Dividend	**3,320**	2,235	1,155	1,245	1,150





Chairman's Statement



Your Honors, Shareholders of the Bank
It gives me great pleasure on behalf of the Board of Directors to present to you the Annual Report of the Saudi British Bank (SABB) for the fiscal year 2018.

In 2018, the Board of Directors entered into a binding merger agreement with Alawwal bank on October 3, 2018, which is subject to regulatory and shareholder approval. The potential merger with Alawwal bank offers value and opportunities to our shareholders, our customers and our people. If approved, the combined bank would be the 3rd largest bank in the Kingdom, one of the top 2 corporate lenders and 3rd largest retail bank. It will aim to be the best place to bank in Saudi Arabia, complemented with leading market positions in trade finance, foreign exchange, payments and liquidity management solutions, and supported by the leading investment bank in Saudi Arabia. As such the combined bank will be well placed to support and benefit from the national economic agenda. The bank will aim to be the best place to work in Saudi Arabia, offering first class training and career development. The Board and the management team are working hard to complete this transaction in the first half of 2019, subject to shareholder and regulatory approvals.

The Kingdom's ambitious economic and social targets under its Vision 2030 includes notable focus on home finance, small and medium sized enterprises, long-term savings, privatization initiatives, growing non-oil exports, supporting new industries, and the development of the capital markets. The SABB Board and its management remain committed to supporting the national agenda and envisage opportunities from the aforementioned that play to SABB's strengths where it can add value.

During 2018, SABB delivered a quality set of earnings under continued challenging macroeconomic conditions, generating a Net Income of SAR 4,929 million for the fiscal year ending 31 December 2018, which equates to Earnings per Share of SAR 3.29. The Board further improved the returns to SABB's shareholders through increasing the dividend payout for the fiscal year 2018. The SABB Board and its management team remain dedicated to supporting customers, and generating value for our shareholders through focus on asset quality, optimal returns, and cost efficiency. SABB's market-leading client solutions, strong risk management, success in attracting and developing local talent, strong capital, abundant liquidity, and a strategic advantage as the leading international bank in the Kingdom continue to serve as core strengths underpinning its current and future success.

Retail Banking expanded its customer base in 2018 by adding more new to bank customers in target segments, and continued excellence in its roll out of digital services. It also enhanced its customer experience and maintained a leading position in housing loans and credit cards.

Corporate Banking continued to win recognition for SABB from major international establishments. It also continued to participate in the financing of key infrastructure, and support small and medium sized enterprises. It has launched a number of initiatives to digitalize its trade environment in the Kingdom through providing world-class digital trade solutions. Work is under way on developing trade finance platforms and additional financing solutions to be launched in 2019.



In regard to Treasury and Global liquidity, SABB has obtained a number of franchises, foremost of which is the appointment of SABB as one of the primary dealers for primary domestic debt issuances by the government. SABB will continue to support the development of the Capital Markets in Saudi Arabia. Flexible performance continues as customers are provided with effective risk management solutions and access to capital markets as well as managing the Bank's liquidity surplus.

In fulfilling its commitment to customers, SABB has made every endeavor to be fully compliant with all regulatory requirements, including the Capital Market Authority's Corporate Governance Regulations and the Saudi Arabian Monetary Authority's Principles of Governance, in addition to best local and international practices. Integral to the Bank's compliance activities has been detailed attention to combating financial crime.

SABB continues to strengthen its leading position in community service and developing positive corporate social responsibility through its adoption of community-based activities and programs aimed at community building and sustainable development. It also continues to support the National Vision 2030, through placing focus on collaboration with government sector institutions and specialized humanitarian and social centers to achieve the desired benefit.

Ultimately, and together with the Board of Directors, it is a great pleasure to express thanks and gratitude to the Custodian of the Two Holy Mosques, HRH The Crown Prince for their support and encouragement of the financial sector that is wholly integral to the national economic development of the Kingdom. The Board also wishes to recognize the important role played by the Saudi government and its continued leadership and cooperation in taking the nation forward and in supporting all national banking institutions. In particular, thanks are due to the Ministries of Finance, Commerce and Investment, the Saudi Arabian Monetary Authority and the Capital Market Authority for working jointly and constructively with all Saudi banks to advance the best interests of the Kingdom.

In conclusion, sincere thanks and appreciation are due to all SABB's stakeholders for their confidence and support and especially to all the Bank's hard-working staff for their loyalty and desire to attain yet further achievements in continuing to ensure SABB continues to be the leading financial institution in Saudi Arabia.

Regards,,,



Directors' Report





Directors Report 2018

The Board of Directors (the "Board") is pleased to submit to shareholders the Annual Report of The Saudi British Bank ("SABB") for the financial year ended 31st December 2018.

1. Principal activities

The Saudi British Bank ("SABB") or (the "Bank"), a Saudi Joint Stock Company, was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978G). The Bank's capital is Saudi Riyals (SAR) 15 billion divided into 1.5 billion shares with a nominal value of SAR 10.

The main objectives of the Bank are to provide a complete range of integrated banking products and services to both retail and corporate sectors throughout its departments, business segments and its branch network across the Kingdom of Saudi Arabia (the Kingdom). The Bank has no subsidiaries established or operating outside the Kingdom.

The Bank provides Shariah approved products, which are approved and supervised by an independent Shariah Committee. The Bank also provides to its customers a complete set of conventional banking products and services which include current accounts, savings, time deposits, corporate credit facilities, consumer and mortgage loans, trade receivable and supply chain finance solutions, cash and payments management, treasury and credit cards.

SABB maintains a valuable strategic partnership with the HSBC Group, one of the largest and most geographically diverse banking groups in the world. This strategic partnership provides SABB with a competitive advantage to provide its customers with access to the best local and international service offering in the market. HSBC owns 40% of SABB shares.

The Bank is organised into the following main business segments:

Retail banking

Retail Banking provides services and products to personal and private banking customers including time deposits, current and savings accounts, home finance, consumer loans, and credit cards where it maintains a market leading position in the Kingdom. Retail Banking provides a range of digital solutions so customers can access their finances anytime and anywhere, as well as access to a traditional branch network.

The branch network is based across the Kingdom with 95 retail outlets, and includes 17 exclusive Ladies' sections and 3 lite Branches. The branches are tiered so as to provide a balanced service and sales experience, reflective of the local environment and matching the expectations of customers. As at 31st December 2018 there were 27,492 Point of Sale (PoS) terminals, 910 Automated Teller Machines (ATMs), which includes 80 Cash Deposit Machines (CDMs).

Retail customers are segmented into Premier, Advance and Mass supported by a tiered service approach. Premier and Advance customers are serviced by Relationship Managers who are able to offer individual customers financial management solutions. SABB's focus on higher net worth customers is now represented by the number of dedicated Premier Centres within the Kingdom totalling 18. These exclusive centres provide Premier customers with tailored products and services, as well as addressing their international needs through HSBC's global network.

Corporate banking

In terms of both operating income and balance sheet, SABB is one of the largest commercial banks in the Kingdom. SABB serves its corporate customers through teams of relationship managers based in the Kingdom's main commercial hubs. Through long term relationships the relationship managers build a detailed understanding of an individual client's financial needs to deliver tailored solutions from SABB's full suite of corporate banking products and services, both conventional and Islamic. To serve their clients the relationship managers can draw on specialist teams in treasury, liquidity and cash management, trade and receivables finance, investment banking and insurance. In addition to this comprehensive range of local products and services, SABB is also in a unique position to provide access to global financial markets and services through SABB's partnership with the HSBC Group, Corporate Banking is divided into two segments: Global Banking (GB) and Commercial Banking (CMB).

GB, through a team of relationship managers, serves the needs of leading Saudi companies that are globally managed by SABB; multinational companies operating in the Kingdom but headquartered overseas; and institutional

clients such as ministries, government agencies and departments, banks and other financial institutions. Through SABB's strong ties to the HSBC Group and the joint venture, HSBC Saudi Arabia, the GB team is in a unique position to deliver tailored solutions to its clients, both domestically and internationally. Through this unrivalled combination of expertise and resources, GB has been able to support major infrastructure projects in the Kingdom, support and advise Saudi clients with their international expansion and to tap into liquidity through non-Saudi financial institutions by way of Export Credit Agency finance and international bonds and sukuks.

CMB services and supports small, medium and large enterprises both domestic and international in the Kingdom. CMB maintains its long term commitment to small business customers in Saudi Arabia and actively participates in the Kafalah Programme, a government Guarantee programme that encourages banks to lend to small businesses.

Included within the aforementioned full suite of products and services, Corporate Banking includes two product groups of particular note: Global Liquidity & Cash Management (GLCM); and Global Trade & Receivables Finance (GTRF). SABB maintains a leadership position in the market in these two product offerings that lie at the core of corporate customers' treasury activities.

GLCM offers a wide range of integrated digital and electronic business solutions to customers to cater to their payment, receivables and liquidity management needs.

GTRF offers a comprehensive range of core trade products (Imports, Exports & Guarantees) and structured solutions such as Receivable Finance and Supply Chain Finance solutions. GTRF provides efficient and optimal financing structures (both Conventional & Islamic) to clients in support of their trade and working capital optimisation while minimising market risk.

Treasury

Treasury undertakes two functions in SABB. Principally it provides corporate, institutional, retail and private banking customers with access to capital markets, foreign currency and derivative solutions through its Sales & Trading unit. In addition, it manages the liquidity and market risk of the Bank, including the deployment of the Bank's commercial surplus through its investment portfolio, managed by its Balance Sheet Management unit.

Others

The Other segment primarily includes activities of the Bank's investment in its insurance subsidiary, SABB Takaful, its investment banking joint venture, HSBC Saudi Arabia, and equity investments. HSBC Saudi Arabia (HSBC SA) is a leading investment bank in the Kingdom and consistently tops key league tables, leveraging upon the strength of the SABB franchise in the Kingdom and the international capability of HSBC globally.

2. Strategic Focus

SABB's Vision

SABB is a diversified financial services institution operating in the Kingdom. SABB also maintains a strategic partnership with the HSBC Group which is a significant shareholder in SABB. This partnership means that SABB corporate and institutional customers not only have access to our own market-leading services and customer care domestically, but can also tap into the HSBC Group's global network, resources, skills, specialist knowledge and expertise.

SABB's vision is to be the Leading International Bank in the Kingdom, supported by a leading corporate and institutional banking proposition; and the Leading Wealth Bank in the Kingdom, centered on best in class retail banking solutions catered to a focussed segmentation.

To achieve our mission, SABB will continue to focus on the following key strategic objectives.

- Customer Experience – market leading customer service through a customer-centric approach, underpinned by investment in digital channels, quality staff, and a 'Think Yes' attitude.
- Digital banking – invest in technology to achieve a leading position as a digitally engaged and enabled bank in the Kingdom.

- People – attract, retain and grow talent by being the best place to work.
- Risk appetite – maintain a conservative strategic approach to risk management.
- SABB International Standards – strict adherence to treating customers fairly, complying with laws and regulations, and protecting the confidentiality of customer information.
- Operational efficiency and organisational effectiveness.

Our strategic objectives will ensure that SABB remains a successful and sustainable organisation over the long-term.

Vision 2030 is the Kingdom's plan for economic transformation, supported by 13 transformation programs. SABB's strategy is well aligned to Vision 2030 to ensure that SABB can support Saudi Arabia in achieving its goals and benefit from its success, in particular the support of the following realisation programs:

- Housing Program
- National Transformation Program
- Financial Sector Development Program
- Privatisation Program
- PIF Program
- National Companies Promotion Program
- National Industrial Development and Logisitics Program
- Enriching the Hajj and Umrah Experience
- Human Capital Development

SABB has a strong balance sheet, a competitive position, and access to both domestic and international expertise to engage with and fully support the Vision 2030.

On 3rd October 2018, the Board entered into a binding merger agreement with Alawwal bank, which is subject to regulatory and shareholder approval. The potential merger with Alawwal bank offers value and opportunities to our shareholders, our customers and our people. If approved, the combined bank would be the 3rd largest bank in the Kingdom, one of the top 2 corporate lenders and 3rd largest retail bank. It will aim to be the best place to bank in Saudi Arabia, complemented with leading market positions in trade finance, foreign exchange, payments and liquidity management solutions, and supported by the leading investment bank in Saudi Arabia. As such the combined bank will be well placed to support and benefit from the national economic agenda. The bank will aim to be the best place to work in Saudi Arabia, offering first class training and career development. The Board and the management team are working hard to complete this transaction in the first half of 2019, subject to shareholder and regulatory approvals.

Customer Experience

SABB continues to focus on customer experience (CE) with the strategic objective to provide market-leading customer and client services across all business areas. There has been significant improvements made during 2018 with a key focus on governance, front-line service, staff recognition, complaint management, enhancing customer end-to-end journeys, awareness and culture. In Q1 2018, SABB was ranked second in the kingdom-wide banking benchmarking assessment conducted by the central bank, the Saudi Arabia Monetary Authority (SAMA), an improvement upon the previous biannual survey, illustrating the success of the CE focus.

Culture & Recognition: SABB has continued to further develop the CE culture through the CE-branded "Think-Yes" training program, extending the staff recognition program and adding further CE-based performance metrics to staff assessments. The "Think-Yes" program delivers training across the bank focussing on promoting positive staff behaviours with emphasise on achieving service excellence.

Customer Journey: SABB continues to focus on adopting the best customer journey across all customer touch points. The prime focus is on accelerating digital transformation plans as the financial services industry is transforming rapidly with the adoption of new technology, with more banking services being provided through on-line channels, especially Internet and Mobile. In 2018, significant improvements were made, SABB launched a new Internet banking platform and added more customer journeys to the both the internet and mobile platforms.

Voice of the Customer: Customer voice is a great way to help evaluate customer satisfaction, feedback, social media buzz, and drive changes to already existing service standards and product offerings.

In 2018 SABB established a new customer-centric committee (Voice of Customer Committee) to maximise awareness of stakeholders' main challenges, market trends and performance indicators impacting customer experience.

Digital Banking

SABB aims to be the *Leading Digital Bank* in the Kingdom and has been recognised with a number of industry awards - a testament to its existing customer-centric and market-leading digital propositions.
The Bank continues to strategically adapt to the evolving banking landscape, investing resources to develop an agile, efficient and secure technology architecture and deliver best-in-class digital customer journeys, products and services. The enhanced technology solutions have empowered customers to customise their banking experience and channel preference (mobile, in particular) and SABB has successfully migrated existing customers progressively to digital channels and attracted prospective and new-to-bank audiences via its innovative digital solutions.
SABB's relentless focus to be the Leading Digital Bank is evidenced by the series of digital advancements in 2018, some of which are highlighted below:

Enriching Digital Channel Functionality

In 2018, SABB successfully launched its new online banking platform including an intuitive customer interface, enriched features and functionality. With over 30 new digital services introduced in the first 10 months, customer digital engagement has increased to 34% active users who have conducted 14.9m online transactions. In 2019, SABB will continue its strategic investment in digital platforms, launching a new world-class mobile banking app.

Establishing Branches of the Future

SABB's first Digital Branch was launched in 2016. In 2018, SABB has opened two new Digital Branches incorporating a range of customer-centric digital and self-service technologies. Newly-introduced automated ID update, instant card printing and multi-currency cash withdrawal has supported migration of over 330,000 branch transactions to automated and straight-through-process channels. In parallel, the Bank continues to deploy the new self-service fleet across its existing branch network.

Enhancing e-Payment Solutions

The Global Liquidity and Cash Management (GLCM) product group continues to win a number of major mandates in public and private sector via its market leading position in innovative e-payment and liquidity management solutions.

In 2018, SABB recorded a 151% increase in online payment gateway transactions and 59% increase in Point of Sales (PoS) in-store transactions. Reinforcing its competitive strength in e-payments, in 2018, SABB was one of the first banks in the Kingdom to process MADA online payments and introduce the MADA mobile payment scheme. These offerings have enabled 80% of SABB PoS Portfolio to accept mobile payments and provided debit cardholders a new feature to pay using their Android devices.

Embedding FinTech Partnerships

In 2018, SABB has enhanced its digital capabilities via strategic collaborations and deepened partnerships with local and regional FinTechs and Kingdom Authorities to support the government's ambitious digital agenda under Saudi Vision 2030.

SABB engaged with Ripple to deliver the blockchain-based cross-border solution - one of three chosen banks as part of the SAMA-Ripple Program, the second to go live. Ripple will help expand SABB's remittance footprint and deliver cost effectiveness, speed and transparency. SABB was also the first bank to offer Online KYC via the SAMA SandBox initiative.

Embarking on Robotics

SABB is currently piloting robotic solutions to enhance operational efficiency in its back-end processing to drive efficiency gains, customer speed-of-service and security. Additionally, the bank is exploring further opportunities in artificial intelligence and robotics to migrate from manual to straight-through front-to-back solutions.

Empowering a Digital Workforce

In 2018, SABB established a new Agile Office purposed to deliver an integrated development environment and streamline plan, build, test and deploy monthly release cycles. The Agile Office complements the Innovation Team established in 2017.

In support of SABB's *Leading Digital Bank* aspirations, the Bank is continuing to engage its workforce on the digital banking imperative; embed innovation and digital culture at the heart of the 'Think Yes' customer campaign; and establish clearly defined roles and governance to drive an enterprise-wide collective approach to digital design, development, deployment and delivery.

Engaging via Social Media

The Kingdom has a digitally engaged population and one of the most active users across Twitter and YouTube globally. SABB continues to leverage a number of innovative, interactive local and international social media platforms to broaden its omni-channel reach to connect with customers, collate valuable feedback and insights, communicate campaigns and capitalize on its brand value.

People

People are core to the success of SABB's strategy. Our talent pursues customer satisfaction, innovates technological and product solutions, lives the strong risk management culture, and aspires for SABB to be the Leading International Bank in the Kingdom. Accordingly SABB has built a leading employer brand in the market to attract talent, which is built on management ethos towards prioritising People, an internationally-connected professional environment, top class training, a values driven culture, and career development structure.

SABB's 'Best Place to Work' (BPTW) people strategy has been designed to attract and retain the best, create an agile culture that is modern, progressive and provides a healthy working environment. SABB periodically reviews and updates its people strategy. The Board approved a refreshed strategy in late 2017 which builds on the progress achieved to date and recognises the people challenges over the next few years for the SABB Group in a dynamic and changing landscape to build the 'Best Place to Work'. Developing the Saudi workforce has continued to be a priority, with SABB now high green rated (according to the newly amended Nitaqat programme) with the Ministry of Labour and Social Development as the percentage of Saudi staff members now exceeds 91% of the total number of bank staff. Moreover, SABB's diversity agenda continues to flourish with women now representing a market leading 22% of the workforce. These measures will continue to be a focus of the Board and executive management.

SABB has an established Human Resources function (HR) that reports directly to the Managing Director and regularly reports to the Board committees on the direction, initiatives and success of SABB's People Strategy. The General Manager, HR is a member of the executive management committee. People related objectives form a key and specific component of SABB's strategic plan and the annual performance assessment of executive management.

Key priorities for the Board, executive management team and HR include ensuring that all staff live up to the values of SABB and adhere to SABB International Standards through embedding them in all development and engagement activities.

In support of SABB's strategy, HR's Learning & Talent department conducts regular key competency gap assessments and partners with the best providers, global business schools and HSBC to deliver quality customised development solutions. In addition to a plethora of leading edge flagship programs some of which are mentioned below, SABB's focus during the year on experiential learning has led to a three-fold increase in developmental assignments across its local and international affiliates spread across France, Hong Kong, Dubai and London:

- The SABB Springboard Women's Development program is an award winning work and personal development program for women. The program is run in partnership with UK's leading Springboard consultancy and enables women to take more control over their lives by helping them to explore their values, important work and personal goals to identify the practical steps to achieve them and build greater self-confidence.

- The SABB Management Development Program (SMDP) seeks to attract and develop the future leaders of SABB from an early stage of their career. SMDP sources high quality graduates from national and international universities who embark on a 12 month program involving training on the industry, products, and operations of SABB, and rotation to roles throughout the company. SABB conducts this program every year to maintain a consistent pipeline of future talent. In 2018, the SABB SMDP program had a 50% representation of female candidates.

- 'Leadership Essentials' program is delivered as part of SABB's HSBC University partnership and has been designed as a development solution that introduces managers to what it means to be a leader in the banking and financial

industry today. This programme forms part of the "Leadership Essentials Series" and is complemented by 'Team Management' essentials and 'People Management' essentials programs.

- 'Building High Value Partnerships' is a key program delivered through HSBC University in two variants to ensure that SABB's First Line Managers and Senior Managers gain an insight into how they build trusted relationships, learn new approaches and tools to develop actions for addressing current relationship challenges, and devise future personal development plans.

The Bank regularly 'promotes from within' through succession planning input and accelerated development. In 2018 a number of our staff were promoted into senior management positions having been subject to rigorous scrutiny through a Promotion Assessment Panel and the People Committee, both of which are constituted by members of the executive management team who focus considerable time towards talent development. As a reflection of SABB's commitment towards developing its female employees, in 2018 several senior female appointments were made.

A career with SABB offers the opportunity to enhance performance, experience and skills sets through its international connectivity with HSBC and that forms a leading global career proposition in the Kingdom. SABB staff have the opportunity for international secondment or attachment to HSBC to enhance their capabilities. SABB also benefits from this partnership through inbound attachments from HSBC to support the Bank in enhancing its capabilities. In 2018 SABB employees went on international assignments to France, Dubai, London, Hong Kong, Turkey, UAE, Oman, Kuwait and Bahrain. All SABB staff have the opportunity to network with HSBC staff around the world to benchmark processes and initiatives in many fields such as customer service, technological solutions, risk management practices, and people management.

In line with Vision 2030, SABB had introduced the 'Tamheer' program which continues to be a key element of the Ministry of Labor and Social Development's NTP 2020. The program aims at raising the skill and experience level of educated and talented Saudi youth by providing them with opportunities for 'on the job' training in partnership with distinguished government and private organisations. SABB has already onboarded a number of Tamheer trainees who have proven to be an invaluable source of talent for the future.

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

SABB has a proud history of doing the Right Thing, for its people, its customers, its shareholders and the regulators. SABB Values are the essence of the Bank's culture, SABB International Standards are a statement of how the Bank goes about its business. Combined, they are how the Bank aims for growth, whilst protecting against Financial Crime and Bribery & Corruption.

SABB values and standards provide a framework for its employees to make the right decisions in order to drive long-term growth and sustainability. It is everyone's responsibility at SABB to demonstrate values and International Standards in all of their interactions with colleagues, customers, regulators and the wider community at all times.

SABB Values and International Standards are summarised as follows:

SABB International Standards:	**SABB Values:**
1) Treat customers fairly	1) Dependable
2) Comply with laws and regulations	2) Open
3) Protect confidential information	3) Connected
	4) Work Together

3. Best in Class Recognition: Industry Awards

In 2018, SABB was recognised for its progress in delivering upon its strategy through prestigious industry awards including:

- 'Best Trade Finance Bank - 2018 in Saudi Arabia' for the 10th time in a row by Global Finance Magazine
- 'Best Trade Finance Bank in KSA - 2018' by Euromoney for the 2nd consecutive year
- Best Supply Chain Finance Bank in the Middle East – 2018 by Global Finance
- "Best Treasury and Cash Management – 2018" by the Global Finance Magazine
- Best Private Bank – 2018 By Global Finance Magazine
- Best Supply Chain Provider in the Middle East – 2018 by Global Finance Magazine
- Best FX Provider – KSA by Global Finance
- Best Bank for Asia – 2018 by Asiamoney
- Best CSR Bank - 2018 by Global Banking and Finance Review
- Best Human Capital Development KSA by Banker Middle East
- Best CSR Bank KSA by Banker Middle East
- Best in Social Media Marketing and Services – 2018 by Global Finance Magazine
- Market Leader - Cash Management and Best Service – Cash Management in Euromoney Cash Management Survey
- No. 1 Private Bank in KSA for HNW Clients, Super Affluent Clients, Commercial Banking Activities and International Clients in Euromoney Private Banking Survey
- Best Bank for CE – KSA by Banker Middle East
- Best Credit Card Brand – KSA by Banker Middle East
- Best Place to Work KSA by International Business Magazine
- Best Corporate Bank KSA by International Business Magazine

HSBC SA received recognition in 2018 as follows:

- "Best Investment Bank in Saudi Arabia" by Euromoney
- "Best Foreign Investment Bank in Saudi Arabia" by EMEA
- "Best sub-custodian in Saudi Arabia" by The Asset magazine
- "Best sub-custodian in Saudi Arabia" by Global Finance
- "Saudi Asset Manager for 2018" by MENA FM Performance Awards

4. Corporate social responsibility

In line with SABB values, the Bank continues to strengthen its leading position in community service and developing positive corporate social responsibility through its adoption of community-based activities and programs aimed at community building and sustainable development.

As a leading financial institution, and on the basis of keenness to perform its national duty, SABB continued to harness its full potential to support the National Vision 2030, including its community-based activities and programs. Focus was placed on the principle of synergy with government sector institutions and specialized humanitarian and social centers to ensure maximum benefit for each activity.

As part of its community service programs, SABB seeks to provide a range of initiatives for the benefit of various groups in need of support in all regions of the Kingdom, as well as the adoption of a set of humanitarian and social projects in cooperation with the Ministry of Labor and Social Development as well as related charities. SABB has intensified its efforts to consolidate and strengthen the culture of social responsibility in society with aim to inculcate volunteerism by involving its staff in many of the community service programs implemented by SABB, emphasizes on its mission to unite collective and individual efforts and contribute to the development process and the national and society development in all fields.

The strategic cooperation between SABB and KAUST has also been a milestone in supporting the Kingdom's Vision 2030 through the "TAQADAM" program which was designed to support young people's ambition and the development of the SMEs sector, which is one of the most important drivers of economic growth.

SABB Academy continued to train graduates to enter the labor market by offering advanced courses in several disciplines, which were carefully selected according to the needs of the labor market, in cooperation with a specialized training center. SABB Academy has received wide acceptance by applicants for training programs, and received compliments of many specialists in the training and employment.

SABB has been associated with a strategic cooperation relationship with many social and educational institutions and humanitarian centers. These efforts have created a range of unique community projects and programs. For example, the cooperation between SABB and Sultan Bin Abdulaziz Humanitarian City has led to the adoption of

several prominent humanitarian projects such as the establishment of the Sultan Bin Abdulaziz Specialized Center for prostheses and orthopedic, in addition to the expansion of buildings No. 6 and No. 7 in order to enhance the internal working capacity.
SABB also signed a partnership with the SEDCO Holding Group to sponsor the Riyali Financial Awareness Program, a program approved by the Ministry of Education in schools and universities. Riyali program has managed to reach 400,000 beneficiaries and seeking to reach 2 Million beneficiaries by 2020. Riyali aims to enhance the financial awareness of different segments of the society and develop their skills and provide them with the knowledge that enables them to face their financial responsibilities for a better life.

SABB also continues to sponsor "SABB Employment Program for People with Special Needs" under the supervision of the Association of Disabled Children. Over the past eight years, the program has employed more than 5,000 individuals with special needs in various private companies and institutions.

5. Financial results and business segment performance highlights

Key financial highlights

SAR millions

	2018	2017	2016	2015	2014
Customer Deposits	**130,507**	140,240	140,640	148,887	145,870
Shareholders' Equity	**32,341**	33,345	31,279	28,175	26,071
Investments, Net	**34,570**	26,977	29,273	35,527	45,281
Loans and Advances, Net	**110,326**	117,006	120,965	125,947	115,221
Total Assets	**174,564**	187,615	186,056	187,750	187,609
Total Liabilities	**142,101**	154,145	154,777	159,575	161,538
Net Income	**4,929**	3,955	3,895	4,331	4,266
Gross Dividend	**3,320**	2,235	1,155	1,245	1,150

Geographical analysis of operating income

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

SAR millions

Year	Central Province	Western Province	Eastern Province	Total
2018	**4,854**	**1,406**	**1,117**	**7,377**
2017	4,651	1,357	1,119	7,127

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total operating income and expenses and the results for the year ended 31 December 2018 and 2017, by business segments, are as follows.

SAR millions

2018	Retail Banking	Corporate Banking	Treasury	Other	Total
Total Operating Income	2,678	3,440	1,200	59	7,377
Total Operating Expenses	1,496	833	157	28	2,514
Share in Earnings of a Joint Venture	-	-	-	66	66
Net Income	**1,182**	**2,607**	**1,043**	**97**	**4,929**

SAR millions 2017	Retail Banking	Corporate Banking	Treasury	Other	Total
Total Operating Income	2,567	3,220	1,287	53	7,127
Total Operating Expenses	1,656	1,330	157	98	3,241
Share in Earnings of a Joint Venture	-	-	-	69	69
Net Income	**911**	**1,890**	**1,130**	**24**	**3,955**

Financial results for the year-ended 31 December 2018

SABB recorded a net income for the year of SAR 4,929 million for the year ended 31 December 2018. This was an increase of SAR 974 million or 24.6% compared to SAR 3,955 million for the year ended 2017. During 2018, SABB grew operating income by SAR 250 million and operating expenses decreased by SAR 727 million mainly due to lower provision for credit losses and impairment of other financial assets. Earnings per share were SAR 3.29 for the year ended 31 December 2018 as against SAR 2.64 for 2017.

Balance sheet as at 31 December 2018

Recognising the persistent challenging market conditions, SABB maintained a conservative risk appetite. Benign economic growth conditions, a cautious approach to risk, and the implementation of a new accounting standard on credit provisions (IFRS9) led to a decrease of SAR 6.7 billion or 5.7% in net loans and advances to customers. The impact from an increase in impairment provisions against loans and advances to customers, largely due to IFRS9, was SAR 1,194 million.

Customer deposits totalled SAR 130.5 billion at 31 December 2018, a decrease of SAR 9.7 billion or 6.9 %, compared with SAR 140.2 billion at 31 December 2017. The Bank's investment portfolio totalled SAR 34.6 billion at 31 December 2018, an increase of SAR 7.6 billion or 28.1 %, compared with SAR 27.0 billion at 31 December 2017. Total assets were SAR 174.6 billion at 31 December 2018, compared with SAR 187.6 billion at 31 December 2017, a decrease of SAR 13.0 billion or 6.9 %.

Shareholders' Equity was negatively impacted in 2018 by provisions made for a settlement with the General Authority for Zakat and Tax (GAZT) in respect of zakat claims for historic years up to and including 2017 which totalled SAR 1,628 million.

Business segment performance highlights

Retail banking

In 2018 SABB progressed the implementation of the Retail Bank Digital Strategy, with roll-out of multiple mobile and internet banking upgrades, issue of advanced payment technology for customers within the Merchant Acquiring business and contactless debit card, and continued automation of customer facing processes.

The SABB product proposition remains strong, with competitive pricing across the lending product range and maintenance of a resilient liability business supporting corporate banking. As a leading residential mortgage lender in the Kingdom, SABB has been an active supporter of the Government's Vision 2030 Strategy to increase the percentage of home ownership in the Kingdom. The Bank is a participant of the Saudi Real Estate Development Fund (REDF), is developing new off-plan mortgage products, and is currently working with the Saudi Real Estate Refinance Company (SRC) on securitisation. Following a review in late 2017 of its lending policy and the launch of a new fixed rate Murabaha home loan product, SABB has widened customer access to its lending proposition, with sales volumes increasing significantly by 65% for Home Finance and 21% for Personal Finance. SABB has remained number one in the Kingdom in spend per credit card, a reflection of its competitive product offering and attractive ICSABB loyalty programme. Our credit card business continues to be a key revenue area for the Bank, and in 2018 we have invested in enhancements to our product proposition through the launch of the new co-brand Emirates and the Umlaty multi-currency travel card.

The Merchant Acquiring business grew sales transactions by 64%, as new merchants were acquired and e-commerce and point of sale propositions were enhanced and deployed.

SABB Retail Bank customer base continued to grow across the target higher net worth segments with the number of Premier and Advance customers increasing 6% and 6% respectively in 2018. Following an adjustment to the business model of Private Banking over the last couple of years, and with the transfer of margin lending proposition to HSBC Saudi Arabia, we have started to implement a number of strategic initiatives for Private Bank customers, including a new "by invitation only" Elite credit card and bespoke lending facilities. The Bank is leveraging its connectivity with HSBC to enhance the Premier international customer proposition, and plans in 2019 to implement global account view, which enables customers to link their SABB account with other HSBC non-KSA accounts for a truly global service. Retail Bank is also working closely with SABB Group companies, HSBC Saudi Arabia and SABB Takaful, to offer our customers best-in-class wealth management, investment and protection solutions in the KSA market.

Digital transformation across our branches through investment in new generation multi-touch Automated Teller Machines, Cash Deposit Machines, and Interactive Teller Machines has reduced waiting times for personal and corporate customers in branches, and also helped convert "over the counter" customer transactions to digital transactions. The Bank has streamlined customer processes by deploying e-forms for payments, is continuing to develop at pace digital customer facing processes, and through continued deployment of Virtual Relationship Managers, has simplified and enhanced the face to face customer experience. The Bank leads on great customer service, by always listening to customers and expecting staff to put customers first. In early 2018, SABB's excellence was recognised through the award of second place in the 2017 Finalta Customer Experience Bank Survey (sponsored by SAMA).

Corporate banking

As the leading international bank in the Kingdom, SABB supports Saudi corporates seeking opportunities through international expansion, and international corporates wishing to operate their business in the Kingdom. SABB competes effectively with a strong balance sheet, insightful understanding of both local and international markets and sectors supported by its strategic partnership with HSBC, and leading capability in trade finance and cash management.

Economic conditions in 2018 remained challenging. The rationalisation of government infrastructure expenditure and uncertainty over near term outlook have led to a decline in overall trade volumes, foreign exchange flows and capital expenditure investment. Against this backdrop, SABB focussed on improving customer experience, enhancing product and service capability, and developing digital solutions, whilst maintaining a cautious approach to risk appetite. SABB's core focus is to ensure it maintains its leading competitive advantage in trade finance and in payments and liquidity management which it does through its two key corporate product groups: Global Trade and Receivables Finance (GTRF), and Global Liquidity and Cash Management (GLCM). SABB also continued to participate in the financing of key infrastructure and other capital expenditure, and support small and medium sized enterprises in the Kingdom.

Winning the Global Finance award for "Best Trade Finance Bank Award 2018" for the 10th year in a row, as well as Euromoney's "Best Trade Finance Provider in KSA, 2018", for the 2nd year in a row and Global Finance award for "Best Supply Chain Finance Bank in the Middle East for 2018" is testament to SABB's leading position in Trade Finance. In the current business environment, customers are increasingly looking to manage their working capital better and the GTRF product group is well positioned through its structured trade finance solutions. To remain at the forefront of client solution innovation and service standards, SABB recently introduced mobile authorization for imports and trade transaction tracking through mobile app. SABB has also launched a proprietary receivables finance platform and has experienced sizable growth in business. SABB is currently developing additional and complimentary structured trade finance platforms to be rolled out during early 2019.

SABB embarked on a number of initiatives to digitalise its trade environment in 2018. For example, as the leading trade bank in the Kingdom, SABB has a sizable share of the Documentary trade business. Recognising that this product set has traditionally been heavily paper based, SABB partnered with a leading global digital trade solution provider to digitalise such products.

SABB offers Internet Trade Services (ITS) e-channel to provide a single platform to its corporate customers covering a range of services. During 2018, ITS was upgraded to include guarantees. SABB clients can now initiate guarantee transactions and carry out associated activities, including online viewing, through this channel. It has not only enhanced client experience but also helped clients mitigate operational risks which remains a key focus.

Winning Global Finance magazine awards for the "Best Treasury and Cash Management Bank" in Saudi Arabia for 2018 for the 2nd year in row as well as Euromoney's Cash Management Poll: for "Best Cash Management Bank" is a clear testimony of SABB's leading position in cash management.

GLCM offers key standardised solutions to suit many customers. In addition, GLCM continued to make strong gains in winning mandates in 2018 by offering innovative customised solutions to a number of major customers in the public and private sector. SABB's approach to innovation on complex requirements has set it out as a thought leader in the Kingdom which has been a competitive basis for winning proposals.

GLCM successfully launched its new proactive services in 2018, with dedicated Client Service Managers to top corporate clients to enhance customer engagement. SABB also launched the GLCM Customer Experience and Quality Management unit to improve customer awareness of GLCM Products and Cyber Security to enhance the quality of GLCM services.

Treasury

In Sales & Trading, client flows were generally lower in 2018 reflecting lower trade volumes and market sentiment but SABB maintained its market share. In 2018, SABB was appointed as one of only five Primary Dealers for primary domestic debt issuances by the government. As a major player in Treasury business in the Kingdom, supported by its international expertise through HSBC, SABB is pleased to be supporting the development of the Capital Markets in Saudi Arabia.

With credit demand weak, liquidity abundant and the interest rate hiking cycle tapering out, the Balance Sheet Management unit of Treasury expanded the deployment of SABB's commercial surplus into longer-dated securities to enhance the yield of the Investments book. Deployment was primarily focused on domestic, local currency government securities.

SABB›s conservative approach to liquidity management remains a competitive advantage, offering clients a healthy balance sheet to support their borrowing and own treasury needs. The Bank maintained healthy liquidity ratios as set out in the Pillar 3 disclosures, and generated a reliable level of stable funding from its core Retail and Banking franchises.

Supporting Micro, Small and Medium-sized Enterprises

The Kingdom's Vision 2030 strategy sets out a target to increase the contribution of Micro, Small and Medium Enterprises to the economy. In support of the Kingdom's strategy, SABB is proud to service over 11,700 active MSME customers from our three main regional offices in Riyadh, Jeddah and AlKhobar, as well as a number of other cities throughout the Kingdom. SABB also provides services to a number of larger companies that support the downstream MSME supply chain. Customers are supported directly by 55 staff as well as a much larger number of managerial and support staff that service the overall infrastructure of the Bank. SABB offers Islamic solutions for MSME.

SABB's MSME portfolio spans our Retail (Business Banking Mass – Micro and Small) and Corporate Banking (Business Banking Upper - Medium) operating segments. The definition of each sub-segment is set out below.

In 2018, SABB increased the number of MSME customers with credit facilities by 49%, implemented some new digital solutions, and completed the second cycle of its SABB Taqadam programme supporting entrepreneurs and started the Taqadam cohort III during Dec'18.

MSME segment definitions

SABB defines its MSME segments as follows.

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

Effective Management Oversight

In 2018, SABB establish a new management position, Head of SME, to lead the implementation of the bank's strategic initiatives for the SME segment. The Head of SME reports to executive management. SABB has an SME Steering Committee (SME SteerCo) formed with senior management representation and chaired by the Managing Director of SABB.

Strategic Initiatives

Customer Experience

SABB has 8 Business Banking Centers to serve MSME clients, including presence in Riyadh, Jeddah, Alkhobar, and Dammam. A dedicated Relationship Manager is assigned to each customer to assess their banking needs and provide solutions to meet their requirements. SABB continues to invest in upgrading the skills of our Relationship Managers through relevant training programmes. Staff supporting MSMEs have undergone more than 4 days of training in 2018. All Kafalah Programme financing applications are handled by dedicated Relationship Managers within specialised Teams.

Digital banking

A leading market position servicing a range of corporate customers, means that SABB can bring best in class digital solutions to its MSME customer base. In recent periods, SABB has sought to improve the digital experience of customers by migrating over the counter transactions towards e-channels, including but not limited to Internet Banking, Interactive Teller Machines, Cash Deposit Machines, Point of Sales Terminals, Sadad and Payment gateway solutions. SABB is developing a new advanced platform for SMEs mobile banking and internet banking to replace the existing platform, as well as developing end to end digital solution for On-Boarding journey.

Trade Finance solutions

SABB offers a comprehensive Receivable Finance proposition that allows MSMEs to be able to discount receivables of Larger Corporates at a discounted cost. SABB also offers Supply Chain Finance Solutions to larger companies to support the downstream MSMEs who are in the supply chain to manage their cash flows efficiently, reducing funding costs. SABB is currently investing in a new Supply Chain Management system to further enhance this proposition which will encourage the large corporates to promote this solution to their MSME supplier base.

Entrepreneurial development and training

In line with the Kingdom's Vision 2030, SABB launched the SABB TAQADAM programme in collaboration with King Abdullah University of Science and Technology (KAUST). The programme aims to develop early stage entrepreneurs, engaging with them and providing them with the support and guidance they need. The programme was launched in October 2016 and completed its second year in September 2018.

TAQADAM II: The 2018 Program came to a close on September 2018 when the Jury chose six winning start-ups according to their market viability scalability and profitability. Prizes included six grants of SAR 375,000 each, the people's choice prize of SAR 187,500 and a fintech track award of SAR 37,500. Taqdam III opened up for applications mid-November and boot camp is scheduled for January 2019. 29 teams received seed funding, and will now develop their final project for the September Finals.

SABB supported the Saudi/UK SME Partnership Forum as an event partner, held on 24-25th April 2018 in London.

Loans and off-balance positions to MSME customers

December 2018	SAR ‹000			
	Micro	Small	Medium	Total
Loans to MSMEs	82	529,796	1,066,249	1,596,128
Off Balance Sheet positions to MSMEs	22,251	115,786	931,520	1,069,557
Loans to MSMEs as a percentage of Total SABB Loans	0.00%	0.46%	0.93%	1.39%
Off Balance Sheet positions to MSMEs as a percentage of total SABB off balance sheet positions	0.03%	0.16%	1.30%	1.49%
Number of credit facilities	135	397	2,595	3,127
Number of customers with credit facilities	93	182	325	600
Number of credit facilities guaranteed by Kafalah programme	-	19	255	274
Amount of credit facilities guaranteed by Kafalah programme	-	12,824	132,225	145,049

December 2017	SAR ‹000			
	Micro	Small	Medium	Total
Loans to MSMEs	1,199	206,659	370,589	578,447
Off Balance Sheet positions to MSMEs	18,422	190,270	270,689	479,381
Loans to MSMEs as a percentage of Total SABB Loans	0.00%	0.17%	0.31%	0.48%
Off Balance Sheet positions to MSMEs as a percentage of total SABB off balance sheet positions	0.03%	0.27%	0.38%	0.68%
Number of credit facilities	83	910	1,097	2,090
Number of customers with credit facilities	61	232	110	403
Number of credit facilities guaranteed by Kafalah programme	-	141	5	146
Amount of credit facilities guaranteed by Kafalah programme	-	113,751	1,441	115,192

HSBC Saudi Arabia (investment banking)

HSBC SA maintained its leadership as the leading investment bank in the Kingdom in 2018, and was recognised as "Best Investment Bank in Saudi Arabia" by Euromoney and "Best Foreign Investment Bank in Saudi Arabia" by EMEA Finance. During the year, among other transactions, HSBC SA advised the Public Investment Fund in its acquisition of a stake in ACWA Power, advised SABIC in its stake acquisition of Clariant, successfully participated in a number of major local and cross-border Debt Capital Markets and Syndicated Finance transactions, and was the only bank to have played a lead role in all Sovereign international bond/Sukuk issuances since inception of the DMO programme in 2016. HSBC SA also continued to play a key role in supporting the Kingdom's infrastructure build through its Project and Export Finance capability, executing PPP advisory mandates in the Education and Healthcare sectors, among others.

HSBC SA is a leading custodian in the market, offering custody and administration services to local and foreign institutional investors. HSBC SA played a pivotal role in facilitating foreign institutions obtain Qualified Foreign Investor (QFI) status and is market leader with QFI assets of over USD 5 billion and is well positioned for inclusion in the MSCI and FTSE EM indices expected in 2019. HSBC SA was recognised as "Best sub-custodian in Saudi Arabia", by 'The Asset' magazine and 'Global Finance'.

HSBC SA asset management continued to maintain its strong position during the year in managing local equity mandates for institutional as well as retail and private banking clients. HSBC has an eminent position in terms of product offering with a product suite of 19 public funds and a private real estate fund. Our market share of local equity mutual funds is around 20%. HSBC SA is also one of the only two Authorised Persons in Saudi Arabia offering an Exchange Traded Fund that is listed on the Saudi Stock Exchange.

HSBC SA also operates a sizable institutional and retail brokerage business, and during 2018 maintained its status as the leading brokerage by market share as compared to all its internationally-linked peers operating in Saudi Arabia.

People are core to the success of HSBC SA's strategy to build 'The Best Place to Work'. Accordingly HSBC SA has built a leading employer brand in the market to attract, engage, develop and retain talent. Developing the Saudi workforce has continued to be a priority, including diversity agenda with women now representing around 24% of the work force. During the year, HSBC SA successfully implemented a number of programs, notably Global graduate and Youth for Saudi program's run in partnership with HSBC, JODP program, short term intern placements for university students with overall objective to identify, train and develop the best in class Saudi talent and support KSA vision 2030.

SABB Takaful (insurance)

In line with its strategy, SABB Takaful has been focused on preparing itself for Vision 2030 relevant initiatives including reconfiguring the organisational and proposition structure to improve relevance and flow and working with SABB in recognising the strategic digital initiatives that will be required to harmonise with SABB and to meet customers' increasing needs. In 2018, SABB Takaful added a simple savings product to its product suite to support customers in their long-term savings efforts, a key feature of the Financial Sector Development Program of Vision 2030.

The Company is most mindful of the improving regulatory environment and is focused on at least meeting the standards required to operate in this market. Much work has been done to lift the Company's Enterprise Risk Management Framework, Governance, Financial Crime Compliance, Customer Care and Cyber Security Framework Requirements.

6. Risk management

All SABB's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are Credit risk (including counterparty and cross-border country risk); Market risk (including special commission rate and FX risks); Liquidity risk; and Operational risk in various forms including but not limited to Compliance risk (regulatory and Financial Crime risks), Information security risk, Reputational risk and Sustainability (environmental and social) risks.

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. The Board or its designated committee, Board Risk Committee (BRC), approves the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

SABB's risk appetite framework was reviewed and approved by the BRC during the year and describes the quantum and types of risk that SABB is prepared to take in executing its strategy. It is central to an integrated approach to risk, capital and business management and supports the Bank in achieving its return on equity objectives, as well as being a key element in meeting the Bank's obligations under Pillar 2 of the Basel Accord.

Credit risk

The Bank operates an independent Credit risk function which provides high-level oversight and management of Credit and Market risk for SABB, aligned with SAMA Rules on Credit Risk Management in Banks. Its primary responsibilities include: independent review / objective risk assessment to ensure applications conform with SABB's credit policy and local applicable regulations; guiding business segments on the Bank's appetite for Credit and Market risk exposure to specified industry sectors, activities and banking products; controlling exposures to sovereign entities, banks and other financial institutions.

Shariah Risk

Shariah risk is the risk of financial loss, regulatory sanction and/or reputational damage to SABB as a result of failure to comply with the directions, guidelines and conditions issued by SABB's Shariah Committees in respect of the development, execution, delivery and marketing of Islamic Products.
Shariah rules are open to different interpretations; hence, there are potential risks that a SABB product can

be interpreted as non-compliant by another Shariah body. To mitigate this, SABB has ensured that its Shariah Committee members are of high standing. Further, SABB has a dedicated Shariah Affairs team specialising in Shariah compliant issues. Training and awareness seminars are undertaken on Islamic banking principles as well as product specific processing requirements. Finally, SABB has a Technology platform that is increasingly compatible with Shariah requirements to further reduce the risk of operational error or oversight.

Shariah risk was also identified as a distinct risk recognised in the business risk heatmaps as well at the Shariah Affairs level which are monitored through the appropriate governance committees. The Head of Islamic Financial Services reports directly to the Chief Risk Officer to oversee the development and independent control of Shariah products and services.

This increased focus has demanded a strong and robust Shariah risk compliance framework closely aligned with the Operational Risk Management Framework (ORMF). SABB refined the framework further as it embedded it within the three lines of defence model to ensure that the governance ensures on-going transparency and accountability across Business Management, IFS, Audit and interaction with the SABB Board through the Operational Risk and Internal Control Committee, Risk Management Committee (RMC), and Audit Committee. Furthermore IFS maintains a strong interaction with the Shariah Committee with respect to all Shariah related Affairs. The Shariah Committee reports directly to the SABB Board Risk Committee.

Market risk

The risk that movements in market factors, including foreign exchange rates, special commission rates, credit spreads and equity prices, will reduce our income or the value of our portfolios. Exposure to market risk is separated into two portfolios:

Trading portfolios - comprise positions arising from market making and warehousing of customer-derived positions.

Non-trading portfolios - comprise positions that primarily arise from the special commission rate management of our retail and commercial banking assets and liabilities and financial investments designated as Held to Collect and Sell and Held to Collect.

Market risk is monitored and measured using limits and metrics approved by the Board Risk Committee. The exposure and limits are monitored by an independent risk function. Key measurements include:

- Measured in terms of value at risk, which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables;
- Monitored using measures including the sensitivity of special commission income and the sensitivity of foreign exchange.

Liquidity risk

Liquidity risk is the risk that SABB does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.

SABB has established a Risk Appetite Statement (RAS) for liquidity risk that is approved by the BRC annually, and reviewed monthly through the Asset Liability Management Committee (ALCO) and RMC, with quarterly reports provided to the BRC.

To support adherence to the RAS on an ongoing basis, SABB has established a range of key monitoring metrics, including but not limited to the Liquidity Coverage Ratio and the Net Stable Funds Ratio. All metrics are closely monitored against RAS limits in the ALCO and RMC and reported to the BRC.

SABB conducts cash flow stress testing for liquidity and funding risk. The stress test takes into consideration a number of market wide and idiosyncratic scenarios and time periods, to assess the Bank's ability to continue

to operate effectively in support of its customers throughout the stress period and beyond. The stress tests are conducted biannually.

The Bank has established a mechanism for charging the cost of liquidity within the organisation to support the management of the balance sheet structure for liquidity and funding risk purposes. This policy is updated by the ALCO at least annually and approved by the BRC.

SABB maintains a Liquidity Contingency Funding Plan (CFP) to provide guidance for the senior management who constitute its Liquidity Crisis Management Team (LCMT) during a period of liquidity stress. The CFP establishes early warning monitoring metrics to forewarn management of an impending stress, sets out responsibilities, and describes the approach management may take during various stages of severity of a crisis. The CFP is updated at least annually whereby the LCMT also takes the opportunity to review the plan in detail to ensure familiarity in advance of a crisis.

SABB Credit Ratings

A strong credit rating is a sign of SABB's relative financial strength and supports access to optimally priced funding sources. The credit ratings consider SABB's financial strengths, comfortable liquidity position, and strong franchise as well as consideration of the local Sovereign rating. During 2018, SABB external ratings remained unchanged in the context of downgrades for certain peer banks, and with our outlook upgraded by Fitch to stable. The current external ratings as at 31 December 2018 for SABB affirmed by the leading global rating agencies are as per following table:

Agency	Rating
S&P	BBB+ with stable outlook
Fitch	A- with stable outlook
Moody›s	A1 with stable outlook

Debt securities in issue and other borrowings

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

SAR'000

	As at 31 December 2017	Payments for the year	As at 31 December 2018
SAR 1,500 million 7 year subordinated Sukuk - 2013	1,500,000	1,500,000	-
SAR 1,500 million 10 year subordinated Sukuk- 2015	1,500,000	-	1,500,000
Total	**3,000,000**	**1,500,000**	**1,500,000**

SAR 1,500 million 7 year subordinated Sukuk - 2013

The Sukuk was issued by SABB on 17 December 2013 having maturity in December 2020. This was a Basel compliant issuance and SABB had an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement. The Sukuk was repaid earlier on 17 December 2018.

The Sukuk carried effective special commission rate at six months' SAIBOR plus 140 bps payable semi-annually. The Sukuk was unsecured and was registered on Tadawul.

SAR 1,500 million 10 year subordinated Sukuk -2015

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

The Sukuk carries effective special commission rate at six months' SAIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is registered on Tadawul.

Borrowings consist of the following.

Syndicated loan

On 19 October 2016, the Bank obtained a floating rate syndicated loan amounting to USD 450 million. This loan is unsecured and matures on 19 October 2019. Following are the participants in the syndication:

Name of lender	Amount USD
Bank of America Merrill Lynch International Limited, London	75,000,000
Chang Hwa Commercial Bank Limited, London	10,000,000
Commerzbank Aktiengesellschaft, Luxembourg	50,000,000
Hongkong and Shanghai Banking Corporation, Hong Kong	75,000,000
Mega International Commercial Bank Co. Limited, Taipei	15,000,000
Mizuho Bank Limited, London	75,000,000
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	75,000,000
The Bank of Tokyo-Mitsubishi UFJ, Limited, Dubai	75,000,000
Total	**450,000,000**

Operational risk

Operational risk is the risk to achieving the Bank's strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events.

The Risk Appetite for Operational Risk is established annually and approved by the Board Risk Committee. This is reviewed monthly at the Operational Risk Committee and Risk Management Committee with quarterly updates to the Board Risk Committee.

In order to ensure continuous assessment of adequacy of control over operational risks periodical reviews based on the risk and control assessment are carried out by Business Risk Control Managers. Issues identified are entered in the Risk Repository System and the resolution of the issues are monitored and followed up by the oversight managers and the status is communicated to and monitored by the governance committees.

In addition issues identified in other reviews including internal audit and regulatory authorities are also communicated and followed up by the governance committees.

7. Legal Entity Structure

Subsidiaries

The Bank holds a 100% (2017:100%) ownership interest in a subsidiary, SABB Insurance Agency with a capital of SAR 500,000 , a limited liability company registered and operating in the Kingdom under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has a 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The principal activity of the subsidiary is to act as the sole insurance agent for SABB Takaful Company within the Kingdom as per the agreement between them.

The Bank holds a 100% (2017:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited with a capital of SAR 1,000,000 , a limited liability company registered in the Kingdom under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). The Bank has a 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

The Bank holds a 100% (2017:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited with a capital of SAR 500,000 , a limited liability company registered in the Kingdom under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). The Bank has 99.8% direct and 0.2% indirect ownership

interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The main purpose of this subsidiary is the registration of real estate.

On 17 May 2017, SABB established a Special Purpose Vehicle ("SPV") SABB Markets Limited, a wholly owned subsidiary with a share capital of US$250, incorporated as a limited liability company under the laws of Cayman Islands. The subsidiary is engaged in derivatives trading and repo activities.

SABB has 65% (2017: 65%) ownership interest in a subsidiary, SABB Takaful, a joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumad Awal 1428H (6 June 2007). SABB Takaful became a subsidiary of SABB effective 23 November 2017. The share capital of SABB Takaful is SAR 340,000,000. SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom.

The Bank assures there are no debt securities in issue for any of these subsidiaries.

Structured entities

SABB has participated with other local banks in three Structured Entities for the purpose of effecting syndicated loan transactions and to secure collateral rights over specific assets of the borrowers under Islamic financing structures. The entities have no other business operations. These are:

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

Each entity has a share capital of SAR 500,000 of which SABB owns 50% (2016: 50%) share in each entity. SABB does not consolidate the entities as it does not have the right to variable returns from its involvement with the entities and ability to affect those returns through its power over the entities. The related underlying funding to the borrower is recorded on SABB's books.

Joint venture

The Bank's share in earnings of a joint venture represents its share in the profits of HSBC Saudi Arabia (HSBC SA).

SABB owns 51% (2017: 51%) directly and indirectly through its subsidiaries of the shares of HSBC SA, is a Saudi closed Joint Stock company, licensed by CMA and conducts its business in the Kingdom of Saudi Arabia. The authorised, issued and fully paid share capital of the HSBC SA consists SAR 500 million divided into 50 million shares of SAR 10 each. No single investor group can direct the activities of the entity without cooperation of the other. Both investors can appoint an equal number of board members and thereby board resolutions require joint decision making. Hence, SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of the Company are to provide a full range of investment banking services including arranging, brokerage, advisory, asset management and custody.

8. Corporate Governance

Corporate governance principles

SABB is aware of the positive impact associated with the adoption of prudent Corporate Governance Principles and Standards and that such adoption will lead to observance of professional and ethical standards in the Bank's dealings as well as transparency and disclosure which will contribute to the furthering and improvement of its efficiency and relations with all interested parties. It is also believed that the adoption of this approach will enhance investors› confidence both in the Bank and in the Saudi banking industry, which in turn will reflect positively on the security, integrity and stability of the Banking Sector in the Kingdom.

The Bank regularly updates its policy to regulate potential conflicts of interest of Board directors and senior executives as well as a policy that handles the disclosure mechanism and its requirements. The two policies were implemented with Board approval. The Bank, in its endeavour to enhance communication with its shareholders, pursued its initiative to urge shareholders who did not receive their dividends in the past to communicate with the Bank to update their details and arrange for receipt of their rights.

The Bank's Articles of Association and the SABB Governance Document as approved by the Board provide for shareholders' right to dividends, attendance at General Meetings, discussion, voting and the disposal of shares. In line with SABB's disclosure policy, the information relating to General Meetings, balance sheets, profit and loss accounts and the Board's annual report are provided to shareholders and published in the newspapers and on Tadawul and Bank's website. In its endeavour to enhance its shareholders' awareness, the Bank issued Guidelines for Shareholders Rights at General Meetings, which are distributed to shareholders at such meetings.

In its endeavour to meet the regulatory requirements stated in the Corporate Governance Regulations issued by the CMA, the Principles of Governance issued by SAMA and best international and local practices, and to ensure fulfilment of such requirements in a documented frame and approach, the Bank conducts thorough regular internal reviews to assess the Bank's compliance with governance requirements and best practices. As a result of such revisions, and at the direction of the Board and the Remuneration and Nomination Committee, governance policies and frameworks and terms of reference of Board Sub-committees and the Board and Board Sub-Committees' training and evaluation framework are designed and revised where applicable as to ensure full compliance with the regulatory requirements.

SABB's corporate governance policies include the following:

A) Policies and Procedures:

1. Disclosure Policy
2. Conflict of Interests Policy
3. The Policies and Criteria for Selection of Board Directors and Committees
4. The policy regulating the relationship with stakeholders
5. The policy to regulate Related Parties' transactions
6. The Policy for Directors' Remuneration and Compensation
7. The Corporate Governance Document

B) Terms of reference of Board Committees:

During the past few years, the Bank has prepared the terms of reference of all Board committees in line with the Principles of Governance, Membership Criteria, Banking Control Law, Corporate Governance Rules and Companies Act. SABB's Board endorsed the terms of reference of all Board committees, while the General Assembly Meeting has approved terms of reference of the Audit Committee (AUCOM) and the Nomination and Remuneration Committee (REMCO) as per the regulatory directives.

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

C) Assessment of the efficiency of the Board, Directors and Board Committees:

In line with the regulatory requirements of the Governance Principles and Corporate Governance Rules and SABB Corporate Governance Document, SABB Board of Directors regularly conduct a self-assessment of its performance as well as of the performance of its members and committees on a continual annual basis to assess its efficiency, and the size of their contribution to its business individually and as a group.

Also a framework was designed to evaluate the efficiency of Board Sub-Committees and the work they have undertaken measured against the scope of their responsibilities, on a continual annual basis.

D) Board and Committee Members Training Programmes:

In the Bank's endeavour to enhance the skills of the Board and Committee members in all aspects of the banking industry, direct and remote training programmes, were designed. Such programmes cover all Board and Committee members.

E) Rights of the shareholders

In line with the relevant Regulations, and as a general rule, the Bank facilitate the shareholders to exercise their rights completely including their right to give feedback about the Bank and its performance, the Board as per practice entertained questions and comments from Shareholders during the Annual General meetings held in 2018 or through the Share Registry unit, they review the feedback and the opinions of the shareholders and discuss these opinions.

Company's requests of shareholders records			
	Type	Date	Reason
1	Shareholders Report	1/1/2018	Annual Report 2017
2	Shareholders Report	16/01/2018	Update of Shareholders Records
3	Shareholders Report	13/02/2018	Update of Shareholders Records
4	Shareholders Report	12/3/2018	Update of Shareholders Records
5	Shareholders Report	28/03/2018	Extra-Ordinary General Meeting
6	Shareholders Report	1/4/2018	Distribution of Dividends
7	Shareholders Report	11/4/2018	Update of Shareholders Records
8	Shareholders Report	9/5/2018	Update of Shareholders Records
9	Shareholders Report	4/6/2018	Update of Shareholders Records
10	Shareholders Report	9/6/2018	Update of Shareholders Records
11	Shareholders Report	2/7/2018	Update of Shareholders Records
12	Shareholders Report	6/8/2018	Distribution of Dividends
13	Shareholders Report	2/9/2018	Update of Shareholders Records
14	Shareholders Report	3/10/2018	Update of Shareholders Records
15	Shareholders Report	22/11/2018	Update of Shareholders Records
16	Shareholders Report	27/11/2018	Update of Shareholders Records
17	Shareholders Report	3/12/2018	Update of Shareholders Records
18	Shareholders Report	31/12/2018	Update of Shareholders Records

Generally, SABB complies in form and content with all Corporate Governance guidelines included in the Corporate Governance Regulations issued by the CMA. This commitment has resulted in the inclusion of the compulsory requirements in the Bank's Articles of Association and the Terms of Reference of Board Committees as well as in the Internal Policies and Guidelines regulating the work of different Bank sectors. These include establishment of the rights of shareholders to purchase and own shares and to participate in General Meetings; the provision of all information that ensures shareholders can exercise their rights; the disclosure of financial and non-financial information and the complete observance of transparency requirements in line with the regulatory limits; and the definition of the liabilities of the Board of Directors and formation of its various committees under Terms of Reference that are in line with the Regulatory Guidelines.

In addition, the Bank is committed to observing the guidelines included in the Corporate Governance Regulations with the exception of the following:

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

Directors of the Board

The Board of the Saudi British Bank comprises ten members, six of whom represent Saudi interests and are elected and appointed by the General Assembly of the Bank for three Gregorian years with the possibility of re-election (The General Assembly elect the directors by way of accumulative voting). The other four members are appointed by HSBC Holdings BV.

On 15 December 2016, The General Assembly of the Bank convened and elected the Directors of the Board representing the Saudi shareholders for a term of 3 years which commenced from 01 January 2017 to 31 December 2019. The General Assembly approved the election and appointment of directors by way of accumulative voting.

On 14 January 2018 Mr. Stephen Moss replaced Mr. Nigel Hinshelwood who resigned on 11 January 2018 as a Board of Director representing HSBC Group and on 30 May 2018 Mr. Mohammed Abdullah Al-Yahya has resigned from the Board and Board Risk Committee (BRC).

In the light of the above, the Board of Directors as at 31 December 2018 comprised of the following members, whose membership was classified as per Article (20) of the Corporate Governance Regulations issued by the CMA's and SAMA's Corporate Governance Principles Document:

Director name & membership classification	Names of the companies in which a Board member is a member of their current Board member or manager (Legal entity type / Location) 2018	Names of the companies in which a Board member is a member of their current Board member or manager (Legal entity type / Location) 2017
Mr. Khaled Suliman Olayan Independent Director - Chairman	• Chairman of the Olayan Financing Company (Not Listed / Saudi Arabia)	Chairman of the Olayan Financing Company (Not Listed / Saudi Arabia)
Eng. Khalid Abdullah Al-Molhem Independent Director Vice Chairman	• Saudi White Cement Co. (Not Listed/ Saudi Arabia) • King Abdullah Economic City (Emaar) (Listed / Saudi Arabia) • Aseer Trading, Tourism and Manufacturing Co. (Listed / Saudi Arabia)	• King Abdullah Economic City (Emaar) (Listed / Saudi Arabia) • Saudi White Cement Co. (Not Listed / Saudi Arabia) • United Electronics Company (Extra) (Listed / Saudi Arabia) • Aseer Trading, Tourism and Manufacturing Co. (Listed / Saudi Arabia) • Knowledge Economic City (Listed / Saudi Arabia) • King Abdullah Port Rabigh (Not Listed / Saudi Arabia) • HSBC Middle East (Not Listed / UAE)
Mr. Mohammed Omran Al-Omran Independent Director	• Saudi Orix Leasing Company (Not Listed CJ / Saudi Arabia) • Tarabot Investment & Development Company (Not Listed / Saudi Arabia)	• Saudi Orix Leasing Company (Not Listed CJ / Saudi Arabia) • Al-Rajhi Insurance (Listed / Saudi Arabia) • Tarabot Investment & Development Company (Not Listed / Saudi Arabia)

Mr. Sulaiman Abdulqader Al-Muhaideb Non-Executive Director	• Al Muhaideb Group (Not Listed CJ / Saudi Arabia) • Savola Group (Listed / Saudi Arabia) • ACWA Power International (Not Listed CJ / Saudi Arabia) • Tasnee (Listed / Saudi Arabia) • Al Marai (Listed / Saudi Arabia) • Rafal (Not Listed CJ / Saudi Arabia) • Vision Invest (Not Listed CJ / Saudi Arabia)	• Al Muhaideb Group (Not Listed CJ / Saudi Arabia) • Savola Group (Listed / Saudi Arabia) • Middle East Paper Company (Listed / Saudi Arabia) • ACWA Power International (Not Listed CJ / Saudi Arabia) • Tasnee (Listed / Saudi Arabia) • Al Marai (Listed / Saudi Arabia) • Rafal (Not Listed CJ / Saudi Arabia) • ACWA Holding (Not Listed CJ / Saudi Arabia)
Mr. Saad Abdulmohsen Al-Fadly Non-Executive Director	• CEO of Hassanah Investment Company (Not Listed / Saudi Arabia)	• CEO of Hassanah Investment Company (Not Listed / Saudi Arabia)
Mr. Stephen Moss Non-Executive Director	• HSBC Middle East Holdings B.V. (Not Listed / Netherland) • HSBC Global Asset Management Limited (Not Listed / United Kingdom)	_
Mr. Samir Assaf Non-Executive Director	• HSBC France (Listed / France) • HSBC Trinkhaus & Burkhardt AG (Listed / Germany)	• HSBC France (Listed / France) • HSBC Trinkhaus & Burkhardt AG (Listed / Germany)
Mr. Georges Elhedery Non-Executive Director	• HSBC Bank Middle East Limited (Not Listed / UAE) • HSBC Bank Egypt (Not Listed / Egypt) • HSBC Saudi Arabia (Not Listed CJ / Saudi Arabia) • HSBC Bank A.S. Turkey (Not Listed / Turkey) • HSBC Middle East Holdings B.V.	• HSBC Bank Middle East Limited (Not Listed / UAE) • HSBC Bank Egypt (Not Listed / Egypt) • HSBC Saudi Arabia (Not Listed CJ / Saudi Arabia) • HSBC Bank A.S. Turkey (Not Listed / Turkey)
Mr. David Dew Executive Director	• HSBC Bank Middle East Limited (Not Listed / UAE) • HSBC Saudi Arabia (Not Listed / Saudi Arabia)	• HSBC Bank Middle East Limited (Not Listed / UAE) • HSBC Saudi Arabia (Not Listed / Saudi Arabia)

Profiles of Directors

Name	Current Position	Former Position	Qualifications	Experience
Mr. Khaled Suliman Olayan	Board Member in: Chairman of the Olayan Financing Company.	Board Member in: Chairman of the Olayan Financing Company.	• Bachelor Degree in Business Administration from Menlo College, California • Master Degree in International Businesses from the American University in Washington DC	Wide range of experience in the management, financial and investment fields

Eng. Khalid Abdullah Al-Molhem	Board Member in: • King Abdullah Economic City (Emaar) • Saudi White Cement Co. • Aseer Trading, Tourism and Manufacturing Co.	Board Member in: • King Abdullah Economic City (Emaar) • Saudi White Cement Co. • United Electronics Company (Extra) • Aseer Trading, Tourism and Manufacturing Co. • Knowledge Economic City • King Abdullah Port Rabigh • HSBC Middle East	• Bachelor of Science in Electrical Engineering and Bachelor of Engineering Management from the University of Evansville, USA	Experience in the business of banks and companies and he has taken the lead in the privatisation of a number of major Saudi companies
Mr. Mohammed Omran Al-Omran	Board Member in: • Saudi Orix Leasing Company • Tarabot Investment & Development Company	Board Member in: • Saudi Orix Leasing Company • Al-Rajhi Insurance. • Tarabot Investment & Development Company	• Bachelors of Science in Civil Engineering from King Saud University in Riyadh. • Master in Construction management from the University of South California, USA.	Experience in the business and investment sectors
Mr. Sulaiman Abdulqader Al-Muhaideb	Board Member in: • Al Muhaideb Group • Savola Group • Middle East Paper Company • ACWA Power International • Tasnee • Al Marai • Rafal • ACWA Holding	Board Member in: • Al Muhaideb Group • Savola Group • Middle East Paper Company • ACWA Power International • Tasnee • Al Marai • Rafal • ACWA Holding	-	Vast experience in the management and financial fields.
Mr. Saad Abdulmohsen Al-Fadly	• CEO of Hassanah Investment Company	• CEO of Hassanah Investment Company	• Bachelors of Science in Accounting, King Saud University, Riyadh • Master degree in Financial Economics, Boston University, USA	Experience in investment management and banking services at a number of financial and regulatory institutions, for more than 20 years

Mr. Stephen Moss	Group managing Director Chief of Staff • HSBC Middle East Holdings B.V. • HSBC Global Asset Management Limited	• Group Head of Mergers & Acquisitions	• Qualified chartered accountant and member of the Institute of Chartered Accountants in England and Wales	Stephen became a Group Managing Director in 2018 and has been with HSBC for 27 years. As Chief of Staff to the Group Chief Executive, Stephen leads Group Strategy and Planning, Group Mergers and Acquisitions, Global Communications, Global Events, Group Public Affairs and Group Corporate Sustainability.
Mr. Samir Assaf	Board Member in: • HSBC France (Chairman) • HSBC Trinkhaus & Burkhardt AG	Board Member in: • HSBC France (Chairman) • HSBC Trinkhaus & Burkhardt AG	• Master in Economics from USJ, Lebanon • MA in Finance from L› Institut d›Etudes Politiques, France • Master in Economics from La Sorbonne University, France	Experience in the banking and financial markets field acquired from working at HSBC group, where he held several leading roles
Mr. Georges Elhedery	Board Member in: • HSBC Bank Middle East Limited • HSBC Bank Egypt • HSBC Saudi Arabia • HSBC Bank A.S. Turkey • HSBC Middle East Holdings B. V.	Board Member in: • HSBC Bank Middle East Limited • HSBC Bank Egypt • HSBC Saudi Arabia • HSBC Bank A.S. Turkey	• Post graduate degree in Statistics and Economy at the Ecole Nationale de la Statistique et de l›Administration Economique, France. • Graduate degree in Engineering from École Polytechnique, France.	Accumulated administrative and leadership experience for more than 20 years in Banking, Finance and Markets acquired from working in senior positions with a number of leading international financial institutions
Mr. David Dew	Board Member in: • HSBC Bank Middle East Limited • HSBC Saudi Arabia	Board Member in: • HSBC Bank Middle East Limited • HSBC Saudi Arabia	• Masters in Economics from Cambridge University, UK. • Associate of the Institute of Bankers	Management and financial experience gained during his 40 years career with HSBC in a number of regions and roles.

Board meetings

In 2018, the Board of Directors of SABB held 7 meetings. The following table shows details of those meetings and the record of attendance of directors during the year:

Name	Meeting dates						
	28 Mar 2018	13 May 2018	15 May 2018	17 Jul 2018	27 Sep 2018	29 Nov 2018	19 Dec 2018
Mr. Khaled Suliman Olayan (Chairman)	√	√	√	√	√	√	√
Eng. Khalid Abdullah Al-Molhem (Vice Chairman)	√	√	√	√	√	√	√
Mr. Sulaiman Abdulqader Al-Muhaideb	√	√	√	√	√	√	√
Mr. Mohammed Omran Al-Omran	√	√	√	√	√	√	√
Mr. Saad Abdulmohsen Al-Fadly	-	√	√	√	√	√	√
Mr. David Dew	√	√	√	√	√	√	√
Mr. Samir Assaf	√	√	-	√	√	√	√
Mr. Georges Elhedery	√	√	√	√	√	√	√
Mr. Stephen Moss*	√	√	√	√	√	√	√
Mr. Mohammed Abdullah Al-Yahya**	√	√	√	-	-	-	-
Mr. Nigel Hinshelwood*	-	-	-	-	-	-	-

* The Directorship of Mr. Nigel Hinshelwood (Representing HSBC Group) with the Bank ended on 11 January 2018 and was replaced by Mr. Stephen Moss as of 14 January 2018.

** The Directorship of Mr. Mohammed Abdullah Al-Yahya with the Bank ended on 30 May 2018.

Board committees

In line with the regulatory requirements issued by the Supervisory Authorities, SABB's Articles of Association and SABB's Governance Document, which provide for the formation of an appropriate number of committees, depending on the Bank's size, needs and activity diversification, the Board formed four Board sub-committees, the membership and formation of which is described in the following sections.

Executive committee

The Executive Committee (EXCOM) is appointed by the Board in accordance with the Bank's Articles of Association and reports directly to the Board. The committee consists of the Managing Director (Chairman) and four other members, at least two of them are selected from among the Board of Directors.

The main task of this committee is to assist the Managing Director ("MGD") within the powers determined by the Board to deal with matters referred by the MGD or by the Board. The Board approved new revised terms of reference for the committee in December 2016. In addition, EXCOM reviews and considers all monthly reports submitted by different functional heads and business segments of the Bank, and meets at least 6 times during the year.

In 2018, the Committee held 10 meetings. The following table shows details of those meetings and the record of attendance of members during the year.

Name	Meeting dates									
	29 Jan 2018	27 Feb 2018	27 Mar 2018	25 Apr 2018	03 May 2018	28 May 2018	16 Jul 2018	26 Sep 2018	25 Oct 2018	18 Dec 2018
Mr. David Dew (Chairman)	√	√	√	√	√	√	√	√	√	√
Eng. Khalid Abdullah Al-Molhem	√	√	√	√	√	√	√	√	√	√
Mr. Khaled Suliman Olayan	√	√	√	√	√	√	√	√	-	√
Mr. Mohammed Omran Al-Omran	√	√	√	√	√	√	√	√	√	√

Audit committee

SABB's Audit Committee (AUCOM) was formed in 1992 and as per the formation rules and terms of reference consists of three to five members from within and outside the Board. The committee reports directly to the Board and meets at least four times during the year.

On 15 December 2016, The General Assembly of the Bank convened and appointed the Audit Committee members for a term of 3 years which commenced from 01 January 2017 to 31 December 2019. The General Assembly of the Bank convened on 25 April 2017 appointed Eng. Khalid Abdullah Al-Molhem as an Audit Committee member.

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

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

In 2018, the Committee held 5 meetings. The following table shows details of those meetings and the record of attendance of members during the year.

Name		Meeting dates				
		15 Feb 2018	24 Apr 2018	08 Aug 2018	28 Oct 2018	18 Dec 2018
1.	Eng. Khalid Abdullah Al-Molhem (Chairman)	√	√	√	√	√
2.	Mr. Talal Ahmed Al-Zamil	√	√	√	√	√
3.	Mr. Khalid Saleh Al Subayel	√	√	√	√	√
4.	Mr. Saad Saleh Al-Sabti	√	√	√	√	√
5.	Mr. James Madsen	√	√	√	√	√

Nomination and remuneration committee

The Nomination and Remuneration Committee (REMCO) was formed in 2009 and meets at least twice during the year. The committee consists of three to five members from within and outside the Board, who are appointed by the Board, and reports directly to the Board.

REMCO recommends to the Board the nominations for Board membership in line with SABB Board membership policies and criteria as approved by the Board, annually reviews the skills and capabilities required of those suitable for Board membership including the time needed by a Board member for Board business, reviews the structure of the Board, evaluates the effectiveness thereof as well as of the members and committees and ensures the independence of independent members and the absence of potential conflicts of interest. It also reviews the scope and limits of SABB's governance in addition to drawing-up and approving the compensation and remuneration policies and schemes, and submits necessary recommendations in that regard.

During 2018, the formation of the Nomination and Remuneration Committee was changed as Mr. Zaid Abdulrahman AlGwaiz, an independent non board member has resigned from the committee with effect from 31 March 2018.

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

In 2018, the Committee held 3 meetings. The following table shows details of those meetings and the record of attendance of members during the year.

Name	Meeting dates		
	27 Mar 2018	27 Sep 2018	19 Dec 2018
Mr. Mohammed Omran Al-Omran (Chairman)	√	√	√
Mr. Khaled Suliman Olayan	√	√	√
Mr. Samir Assaf	√	√	√
Mr. Zaid Abdulrahman AlGwaiz*	√	-	-
Mr. Saad Saleh Al-Azwari	√	√	√
* The membership of Mr. Zaid Abdulrahman AlGwaiz with REMCO has ended on 31 March 2018.			

Board Risk Committee

The Board Risk Committee (BRC) was formed by the Board in the second half of 2013 in line with SAMA's rules on Credit Risk Management, which require the formation of a committee to handle risk management affairs. As per its terms of reference, the BRC consists of three to five non-executive directors or non-board members and reports directly to the Board.

It meets four times a year and supervises and gives advice to the Board on all matters relating to key risks pertinent to the Bank's business in addition to the strategic direction of risks across SABB, including the drawing up of a risk appetite, prioritisation and supervision of principal initiatives and overseeing the execution of major transformational risk initiatives.

In 2018, the formation of the Board Risk Committee was changed as Mr. Mohammed Abdullah Al-Yahya resigned from the Board and Committee membership on 30 May 2018, and as Mr. James Madsen an independent non-board member joined the committee with effect from 25 July 2018.

In 2018, the Committee held 4 meetings. The following table shows details of those meetings and the record of attendance of members during the year.

Name	Meeting dates			
	22 Feb 2018	28 Jun 2018	26 Sep 2018	19 Dec 2018
Mr. Saad Abdulmohsen Al-Fadly (Chairman)	√	√	√	√
Mr. Georges Elhedery	√	√	√	√
Mr. James Madsen*	-	-	√	√

Mr. Mohammed Abdullah Al-Yahya**	√	-	-	-
* The membership of Mr. James Madsen with BRC has started on 25 July 2018.				
** The membership of Mr. Mohammed Abdullah Al-Yahya with BRC has ended on 30 May 2018. .				

Profiles of Board committees members (not Directors of the Board)

No.	Name	Current Position	Former Position	Qualifications	Experience
1	**Mr. Talal Ahmed Al-Zamil:** (Audit Committee Member)	General Manager The Middle East Battery Company Board Member in: • Saudi Steel Pipe Company. • Electrical Industries Company • Saudi marketing company Committee Memberships: • Member of the Industrial Committee of the Chamber of Commerce and Industry, Eastern Province • Member of the National Industrial Committee	• Saudi Industrial Development Fund – Team Leader in Credit Department • Member of the Municipal Council of the Eastern Region • Saudi Fransi Capital - Board Member	• Bachelor of Mechanical Engineering - King Fahd University of Petroleum and Minerals • MBA - King Fahd University of Petroleum and Minerals	Extensive experience of over 25 years in management, financial analysis and credit
2	**Mr. Khalid Saleh Al Subayel:** (Audit Committee Member)	• NAS Holding - Audit Committee Member	• Saudi Arabian Monitory Authority - Director of the Banking Inspection Department • The Mediterranean & Gulf Insurance & Reinsurance - Audit Committee Member	• Bachelor's Degree in Literature from King Saud University in Riyadh. • Master Degree in Accounting from University of Illinois at US, Chicago. • Banking Diploma from IPA, Riyadh	26 years of experience in a number of leadership positions in the Saudi Arabian Monetary Authority (SAMA).
3	**Mr. Saad Saleh Al-Sabti:** (Audit Committee Member)	• Protiviti – Executive Partner	• AL Sabti & Bannaga – RSM Managing Partner • Alfaisaliah Group – Chief Internal Auditor • Saudi Venture Capital - Audit Committee Member	• Bachelor›s Degree in Accounting from King Saud University in Riyadh. • Master degree in Accounting from Welch University, USA. • Professional certificates including CPA, AICPA, IIA, and SOCPA.	Experience in the financial and accounting sector, especially in the internal audit field.

4	**Mr. James Madsen:** (Audit and Board Risk Committee Member)	-	• Head of HSBC›s Internal Audit Department in the Middle East and North Africa.	• BA, Economics & Social Studies, Manchester University, UK	Extensive managerial, financial and accounting experience in the banking and financial sector.
5	**Mr. Saad Saleh Al-Azwari:** (REMCO Committee Member)	Board Member in: • Middle East Specialised Cables Company (MESC) • Saudi Advance Industrial co • Alsalam Aerospace Industry co	• Chief Executive Officer NAS Private Aviation • Chief Executive Officer Saudi Printing and Packaging Company • Chief Operating Officer Obeikan Investment Group.	• BS in Engineering and Quality Control from KWU, USA. • MBA from Hull University, UK.	Experience of 19 years in leading positions in the human resources sector.

Profile of senior executives and management team (other than Managing Director)

No.	Name	Current position	Former position	Qualifications	Experience
1	**Mr. Naif Al Abdulkareem**	General Manager Retail Banking & Wealth Management since 2015	General Manager Branches and Wealth Management	A Master's degree in Business Administration	Joined SABB in January 2012 as Head of Private Banking followed by his appointment as Head of Branches & Wealth Management. He has more than 17 years of experience in banking where he worked previously for ANB, Riyad Bank, NCB in various roles in Retail and Commercial Banking fields.
2	**Mr. Ghassan Al Amoudi**	General Manager Commercial Banking (CMB) from 1 January 2018	Acting Head of Commercial Banking	A Bachelor degree in Business Administration	Joined SABB in 1996 and he is a skilled banking professional with two decades of comprehensive corporate banking expertise and managed multiple teams with divergent portfolios with attention and continual analysis of economic trends.
3	**Yasser AlBarrak**	CO-Head of Global Banking since March 2018	Head of Public Sector since March 2013	BS in Management Information Systems	Joined SABB in 2012 in Global Banking and Markets. Has over 14 years of experience across Capital Markets Authority, SAMBA Corporate Banking
4	**Mazen Abu Nayyan**	CO-Head of Global Banking since March 2018	Head of Saudi Global Corporates since September 2015	MBA, Aston University, UK, 2012 (Saudi British Bank Scholarship Recipient)	Joined SABB in 2003 and has held many roles in Credit and Risk, Global & Multinationals. He left for Deutche bank in 2013 and rejoined SABB/ HSBC
5	**Mr. Saleh Al Motawa**	Treasurer since 2009	Deputy Treasurer	A Bachelor's degree in Public Relations	Joined SABB in 1991, has over 25 years of experience in Treasury.

6	Mr. Faisal Jadu	General Manager Human Resources since August 2017	Head of Performance, Reward and Organisational Development	A Bachelor's degree in Management Information System	Joined SABB in 2011 and since then held several leadership positions heading multiple functions in Human Resources contributing to the successful implementation of the people strategy. Faisal has more than 12 years of experience in the banking industry.
7	Mr. Nabeel Shoaib	Company Secretary since May 2017	Chief Operating Officer and Deputy CEO in HSBC Saudi Arabia	A General Certificate of Education	Joined SABB in 1981 and since held many senior positions in Audit, Operations, Retail Banking, and Credit as well as handling key senior roles.
8	Mr. Sami Al Mehaid	Chief Compliance Officer since January 2015	Deputy Chief Compliance Officer	International Diploma in Compliance	Joined SABB in 2013 and has more than 16 years of banking experience in different banks including SAMBA, Alawwal Bank, Al Rajhi Bank and SABB.
9	Mr. Hussain Al Yami	Chief Internal Auditor since 2014	Chief Risk and Administration Officer	A Bachelor's degree in Computer Information System	Joined SABB in 2006, from SAMBA where he was Assistant General Manager Head of e-Commerce Systems. Prior to his current role as Chief Internal Auditor, Hussain was the Chief Information officer.
10	Mr. Robin Jones	Chief Operating Officer since 2017	Deputy Chief Executive Officer and Chief Operating Officer, MENA	Qualified Accountant with the Chartered Association of Certified Accountants	Over 23 years of HSBC experience in a number of senior leadership positions across multiple geographies including the UK, US, Canada, Australia, South Africa and, more recently, MENA.
11	Mr. Richard Hinchley	Chief Risk Officer since 2016	Chief Risk Officer in HSBC Saudi Arabia	BSc degree in Business from University of Bradford Management Centre, UK	A seasoned and experienced Risk professional with 24 years of executive experience in HSBC, including 15 years at Senior Management levels, across the UK, USA, South America, Asia and Middle East.
12	Mr. Mathew Pearce	Chief Financial Officer since 2016	Chief Financial Officer covering all of HSBC›s businesses in Japan.	Qualified Chartered Accountant with Institute of Chartered Accountants in England & Wales BSc (Hons) degree in Business Studies and Japanese	Joined HSBC in 2004 from PriceWaterhouseCoopers, since when he has had a variety of finance roles in HSBC in the UK and Asia.

Notification relating to substantial shareholdings

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

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

Major Shareholders				
Name of stakeholder	No. of Shares at the beginning of the year 01/01/2018	No. of Shares at year-end 31/12/2018	Net Change during the year	
			No. of Shares	%
HSBC Holdings BV	600,000,000	600,000,000	-	-
Olayan Saudi Investment Company Ltd.	254,352,582	254,352,582	-	-
General Organisation for Social Insurance	146,125,438	146,125,438	-	-
Abdulqader Al-Muhaideb and Sons Company	75,013,539	75,013,539	-	-

Description of any interest, option rights and subscription rights of Directors of the Board and their wives and minor children

Directors of the Board and their wives and minor children					
Name of stakeholder		No. of Shares at the beginning of the year 01/01/2018	No. of Shares at year-end 31/12/2018*	Net Change during the year	
			No. of Shares	No. of Shares	%
1.	Khaled Suliman Olayan	7,500	7,500	-	-
2.	Khalid Abdullah Al-Molhem	53,119	53,119	-	-
3.	Sulaiman Abdulqader Al-Muhaideb and family members	123,739	123,739	-	-
4.	Mohammed Omran Al-Omran and family members	14,060,540	14,060,540	-	-
5.	Saad Abdulmohsen Al-Fadly (representing GOSI)	-	-	-	-
6.	David Dew (Representing HSBC Group)	-	-	-	-
7.	Samir Assaf (Representing HSBC Group)	-	-	-	-
8.	Georges Elhedery (Representing HSBC Group)	-	-	-	-
9.	Stephen Moss (Representing HSBC Group)*	-	-	-	-
10.	Mohammed Abdullah Al-Yahya**	2,000	-	(2,000)	(100)%
11.	Nigel Hinshelwood (Representing HSBC Group)*	-	-	-	-

* The Directorship of Mr. Nigel Hinshelwood (Representing HSBC Group) with the Bank ended on 11 January 2018 and was replaced by Mr. Stephen Moss as of 14 January 2018.

** The Directorship of Mr. Mohammed Abdullah Al-Yahya with the Bank ended on 30 May 2018.

Description of any interest, option rights and subscription rights of senior executives and their wives and minor children

Bank›s Senior Executives, their Spouses and Minor Children				
Name of stakeholder	No. of Shares at the beginning of the year 01/01/2018	No. of Shares at year-end 31/12/2018	Net Change during the year	
			No. of Shares	%
David Dew	-	-	-	-
Robin Jones	-	-	-	-
Nabeel Ali Shoaib	36,102	46,831	10,729	30%
Mathew Pearce	-	-	-	-

Dividends

In accordance with the Bank's Articles of Association and the SABB Governance Document, the Bank's dividend distribution policy is in compliance with the provisions of the Banking Control Law. The annual net income of the Bank is distributed as follows:

1. Amounts for payment of Zakat payable by Saudi shareholders and tax payable by the non-Saudi partner, will be calculated and allocated in line with the rules and regulations in force in the Kingdom of Saudi Arabia. The Bank will pay such amounts from the net income distributed to these parties.
2. 25% of the net income is transferred to statutory reserves until this reserve equals at least the paid up share capital of the Bank.
3. Based on the recommendation of the Board and the approval of shareholders at the Ordinary General Meeting dividends will be paid to shareholders in accordance with the number of shares held by each shareholder.
4. Undistributed net income is carried forward as retained earnings or transferred to statutory reserve.

The Extra-Ordinary General Meeting of the Bank, which was held on 28 March 2018, approved the Board recommendation for the distribution of cash dividends to shareholders for the second half of the year 2017 amounting to SAR 1,110 million (gross) at the rate of SAR 0.74 per share, in addition to the interim dividend of SAR 1,125 million (gross) at the rate of SAR 0.75 per share which has been previously distributed for the first half of the fiscal year 2017. Accordingly, total dividends paid or proposed for the financial year ended 31 December 2017 amounted to SAR 2,235 million (gross) at the rate of SAR 1.49 per share. The total distribution to Saudi shareholders after deducting Zakat is SAR 1.42 per share (representing 14.2% of the nominal value of each share).

The Bank proposed cash dividends to shareholders for the first half of the year 2018, amounting to SAR 1,500 million (gross) at the rate of SAR 1.00 per share. Eligibility to such dividends was for the shareholders owning shares on the due date on 2 August 2018 and those shareholders registered in the Bank share registry at the Securities Depository Center (SDC) at the end of the second trading day following the due date. The dividend for the first half of 2018 amounted to SAR 0.96 per share (representing 9.6% of the nominal value of each share); net of zakat was paid to Saudi shareholders on 16 August 2018.

With regard to the distributable profits proposed for the second half of the year ended 31 December 2018, the Bank announced on 27 December 2018 that the Board has recommended to the General Meeting of the Bank the distribution of cash dividends to shareholders for the second half of the year 2018 amounting to SAR 1,820 million (gross) at the rate of SAR 1.21 per share. Eligibility for such dividends will be for the shareholders owning shares on the due date and those shareholders registered in the Banks share registry at the SDC at the end of the second trading day following the due date which shall be announced later. A dividend of SAR 1.00 per share (representing 10.0% of the nominal value of each share), net of Zakat will be distributed to Saudi shareholders.

Accordingly, total dividends paid or proposed for the financial year ended 31 December 2018 amount to SAR 3,320 million (gross) at the rate of SAR 2.21 per share. The total distribution to Saudi shareholders after deducting Zakat is SAR 1.96 per share (representing 19.6% of the nominal value of each share).

The Board has recommended the appropriation / distribution of profits as follows:

	SAR' 000
Shareholder's net income 2018	4,933,108
Retained earnings from the previous year	7,858,470
Impact of adopting new standards at 1 January 2018	(1,472,777)
Total	**11,318,801**
Distributed as follows:	
Transferred to statutory reserves	1,232,277
Zakat and income tax for the current year	626,313
Provision for zakat for previous years	1,628,070
Paid / Proposed dividend, net	2,697,010
Retained earnings for 2018	**5,135,131**

Arrangements for shareholders' waiver of rights to dividends

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

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

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

Accounting standards

The consolidated financial statements have been prepared in accordance with the applicable accounting standards and other requirements as disclosed in the statement of compliance in note 1.1 (a) of the 2018 audited consolidated financial statements.

Basel III

Certain qualitative and quantitative disclosures are published by SABB. These disclosures are available in the Annual Report and are available on the SABB website (www.sabb.com).

9. Statutory payments

Statutory payments payable by the Bank during 2018 consist of Zakat payable by Saudi shareholders, tax payable by the foreign partner, and the amounts payable to The General Organisation for Social Insurance (GOSI) which represents staff insurance contributions.

The statutory payments for the year 2018 were as follows:

	SAR' 000
Zakat attributable to the Saudi shareholders for the year 2018	227,759
Zakat paid to GAZT to settle zakat claims pertaining to previous fiscal	
years and up to the fiscal year 2017	325,614
Income tax attributable to the share of the non-Saudi shareholders for the year 2018	394,829
GOSI payments	108,425
Withholding tax	51,889
Other payments	10,963

10. Remuneration Report

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

Directors' fees for their membership of the Board and participation in the Banks' operations, during 2018 amounted to SAR 4,582,250 including SAR 1,082,250 in attendance fees at Board meetings and Board Committees, namely: Executive Committee, Audit Committee, Nomination and Remuneration Committee and Board Risk Committee. The compensation is paid towards the end of the year.

During 2018, none of the board or committee members have assumed any work of technical or advisory role, and therefore they did not obtain any consideration or special benefits in this respect.

The following table shows details of remuneration paid to Board and Committee members and senior executives of the Bank during the year:

2018 SAR' 000	Salaries and Remuneration	Allowances	Annual and Periodic Bonuses*	Incentive Schemes **	Any Remuneration or other benefits in kind paid monthly or annually ***
Board of Directors					
Non-Executive Board Members	2,207	-	-	-	-
Independent Board Members	2,376	-	-	-	-
Top six senior executives (including CEO**** and CFO)	8,955	3,970	18,724	-	1,912
Senior executives whose appointment requires SAMA no objection	21,695	10,192	30,504	-	2,533

* Includes both cash and deferred bonus.
** Retention scheme amount has been granted and will be vested in 3 years.
*** Includes end of service benefit for resigned senior executives, education benefit and accommodation rent.
**** The CEO is the only member of the Board of Directors who is an Executive Director.

2018 SAR' 000	Fixed Remuneration	Allowance for attending Board meetings	Total
Audit Committee Members	668	129	797
Remuneration and Nomination Committee Members	342	66	408
Board Risk Committee Members	199	58	257
Executive Committee Members	153	148	301
Special committee for merger project	-	523	523

Staff benefits and schemes

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

According to the Labour Law of The Kingdom of Saudi Arabia and SABB's internal policies, employee end of service benefits become due for payment at the end of an employee's period of service. The end of service benefits outstanding at the end of 2018 amount to SAR 453.6 million.

SABB also operates three share based schemes for certain employees. These schemes reflect the number of committed shares for performance years 2015, 2016 and 2017 as of 31 December 2018 with a total market value of SAR 34,723,961.

Under the terms of these schemes, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions. The cost of the plans is recognised over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognised for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

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

	Number of shares	
	2018	2017
Beginning of the year	1,142,854	919,102
Forfeited	(66,915)	(180,850)
Exercised/Expired	(470,281)	(404,674)
Granted during the year	457,863	809,276
End of the year	1,063,521	1,142,854

The weighted average price of shares granted during the year was SAR 31.1 (2017: SAR 20.67).

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

No. of treasury stocks	Market value SAR	Date of holding	Details of uses
1,598,946	52,205,587	31 December 2018	The Bank acquires its own shares in connection with the actual grant of shares to the key management in future. Until such time as the beneficial ownership of such shares in the Bank passes to the employees, the unallocated / non-vested shares are treated as treasury shares to be used to fund future employee long term incentive plans.

11.Board of directors' assurance

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

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

Transactions with the related parties and the information relating to any business or contract to which the Bank is a party and in which there were substantial interests for one of the Board Members, Managing Director, Chief Financial Officer or any person who has a relationship with them, are disclosed in section 16 of this report and note 36 of the 2018 audited consolidated financial statements.

12. Compliance with local regulatory and international standards

SABB implements strict Transaction Monitoring programme capturing a number of instructions made by SAMA as well as international best practices. The AML-CTF programme has been highly effective in achieving its strategic objectives in place to enhance SABB's defences against financial crime activities.

Since Saudi Arabia gained the Financial Action Task Force (FATF) membership in the Observer capacity and in pursuit of permanent membership, the Bank has conducted a self-evaluation of the implementation of FATF recommendations demonstrating its keenness to establish sustainable controls across the Bank. As a result of that, significant progress has been made in strengthening internal FCC controls, which covered enhancement to the Anti-Money Laundering (AML) monitoring system, revising the Know Your Customer policy and improving the awareness of staff. Also, dedicated themes for combating Financial Crimes and combating the Bribery and Corruption has been initiated in order to enhance our focus on this growing FCC risk. All existing policies have been revised and monitoring controls established.

Staff Awareness and development through training and attachments is a priority for SABB. All staff at induction are provided with classroom training covering Compliance, AML, Sanctions, Fraud and Anti-Bribery & Corruption. All staff in high risk roles are given tailored-training on an annual basis in the field of AML, Sanctions and Compliance. As part of the SABB International Standards program, Anti-financial crime and Anti-bribery and corruption are added to the pillars of this programme, and the bank has launched a number of training programmes through e-Learning covering the afore-mentioned compliance related training programmes.

13. Statement on internal controls

SABB's management is responsible for establishing and maintaining an adequate and effective framework of internal control which encompasses the policies as approved by the Board, the procedures / processes and information systems that facilitate effective and efficient operations. The Internal Control System ensures quality of external and internal reporting, maintenance of proper records and processes, compliance with applicable laws and regulations, and internal policies with respect to conduct of business. However, the ultimate responsibility for a system of internal controls resides with the Board and the Internal Control System is designed to manage, rather than eliminate, the risk of failure to achieve SABB's strategic objectives.

In 2018, SABB endeavoured to ensure that an effective Internal Control System continued to perform as per the requirements of Guidelines on Internal Controls issued by SAMA, which is an ongoing process for the identification, evaluation and management of significant risks faced by the Bank. The observations made by the external/internal auditors and SAMA's inspection team in their respective audits/inspections were promptly reviewed and addressed by the Board, Audit Committee and SABB's management for rectification of such observations to safeguard SABB's interest. As per SABB's assessment, the Internal Control System in place provides reasonable assurance as to the integrity and reliability of the controls established and the management information produced.

Audit committee assessment of the adequacy of the Bank's internal control system

The Audit Committee (AuCom) during 2018 reviewed various reports on the adequacy of internal controls and systems including the financial statements and risk reports. AuCom reviews the minutes of the various management committees, for example, Risk Management Committee, Compliance Committee, Audit Tracker Committee. AuCom's discussions and decisions are documented in the meetings' minutes and matters requiring attention are escalated to the Board.

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

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

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

14. Annual review of the effectiveness of internal control procedures

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

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

The Risk function, under the Chief Risk Officer, is responsible for maintaining oversight of the management of various risks across the Bank. The Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements, particularly the Rules for Opening of bank accounts, Anti-Money Laundering and Terrorism Finance Fighting Rules, Capital Market Authority Rules and Regulations, and other key level international regulatory requirements. The risk management process is fully integrated with strategic planning, the annual operating plan and the capital planning cycle. Results are communicated for the information of the directors by means of periodic reports provided to the Audit Committee (AUCOM) and Board Risk Committee (BRC) members.

The Key elements of internal control include the following:

- **SABB standards.** SABB has established clear standards that should be met by employees, departments and the Bank as a whole. Functional, operating and financial reporting standards are established for application across the whole of SABB.

- **Policies & Procedure Framework.** SABB has a strong policies and procedures framework governed by the "Procedures of SABB Manuals". SABB Standards Manuals set out the core principles within which SABB must operate. Functional Instructions Manuals (FIMs) articulate the key policies related to all major activities of the Bank besides standalone policies on the key regulations. All policies are approved by the Board and are subject to periodical review to keep these align with the regulations and the international best practices.

- **Delegation of authority within limits set by the Board.** Authority to carry out various activities and responsibilities for financial performance against plan are delegated to SABB management within limits set by the Board. Delegation of authority from the Board to individuals requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of system of controls appropriate to the business. Authorities to enter into credit and market risk exposures are delegated with limits to line management. The concurrence of the Executive Committee is required, however, for credit proposals with specified higher risk characteristics. Credit and market risks are measured and aggregated for

review of risk concentrations. The appointment of executives to the most senior positions within SABB requires the approval of the Board and the concurrence from SAMA.

- **Risk identification and monitoring.** Systems and procedures are in place in SABB to identify, monitor, control and report on the major risks including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability, compliance, other operational risks and any emerging risks. Exposure to these risks is monitored by various management governance forums such as the Management Committee, the Asset and Liability Committee, the Risk Management Committee, the Compliance Committee, Fraud High Committee, IT Steering Committee, Customer Experience Steering Committee, the Audit Tracker Committee and their various sub-committees. Minutes of these meetings are submitted to the Board sub-committees, and through these sub-committees to the Board. All significant operational risks and the related controls are identified through Risk & Control Assessment (RCA) process by the risk owners and input is also provided by the subject matter expert functions. The design and operating effectiveness of these controls is tested at several levels that include Business Risk & Control Manager (within the first line of defence), the relevant risk stewards (second line of defence) and by INA (the third line of defence) to provide reasonable assurance to the management about the adequacy of the controls.

- **Financial reporting.** SABB's financial reporting process for preparing the consolidated *Annual Report and Accounts 2018* is controlled using documented accounting policies and reporting formats. The submission of financial information is subject to certification by the Chief Financial Officer.

- **Changes in market conditions/practices.** Processes are in place to identify new risks arising from changes in market conditions and practices and customer behaviour. During 2018, attention was focused on:

  a) maintaining the highest international standards across all SABB activities;
  b) identifying and mitigating regulatory compliance, money laundering and financial crimes risks facing the businesses;
  c) embedding risk appetite and stress testing into the business of SABB;
  d) identifying and managing the top and emerging risks ;
  e) managing geopolitical risk and on-going instability in the region; and
  f) mitigation of information risks and cyber security threats.

- **Strategic plans:** The Board of SABB is finalising its strategic plan, for the years 2019-2022, which will be made available to the Board of the combined bank in the event that the proposed merger with Alawwal bank is approved. Annual operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that SABB is prepared to take in executing its strategy, are prepared at business and functional levels and set out the key business initiatives and the likely financial effects of those initiatives.

- **Governance arrangements:** Governance arrangements are in place to provide oversight of, and advice to the Board on, material risk related matters. These are effected through the Board sub-committees as well as management sub-committees which oversee the effectiveness of risk management and report to the Board sub-committees.

- **Internal Audit:** Internal Audit (INA) represents the Third Line of Defence and monitors the effectiveness of the internal control framework across the whole of SABB focusing on the areas of greatest risk to the Bank as determined by a risk-based audit approach. INA accomplishes this by independently reviewing the design and operating effectiveness of internal control systems and policies established by first and second line functions to ensure that the Bank is operating within its stated risk appetite and in compliance with the regulatory framework. The Chief Internal Auditor (CIA) reports to AUCOM on all audit related matters. The SABB Internal Audit Activity Charter sets out the accountability, independence, responsibility and authority of the INA function, while the SABB Audit Standards Manual prescribes the standards and procedures adhered to by the INA function. Both documents are reviewed and approved by AUCOM, acting on behalf of the Board on an annual basis. Executive management is responsible for ensuring that Management Action Plans agreed by the INA function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to INA.

During 2018, INA reviewed a number of activities and processes of SABB following a risk-based approach. Reports of these audits have been submitted to the AUCOM highlighting areas where the effectiveness of controls or management's effectiveness in addressing control deficiencies was found to be less than satisfactory. On an overall

basis, audits of the effectiveness of the internal control environment conducted during 2018 confirmed that systems and procedures for the on-going identification, evaluation and management of significant risks faced by SABB were in place throughout the year. These procedures enabled SABB to discharge its obligations under the rules and regulations issued by SAMA and the standards established by the Board.

During the year, BRC and AUCOM have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews BRC and AUCOM receive business and operational risk assessments; regular reports from SABB's risk functions, compliance function and the Head of INA ; reports on reviews of the internal control framework, both financial and nonfinancial; contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Directors, through BRC and AUCOM, review the effectiveness of the Bank's system of internal control covering all material controls, including financial, operational and compliance controls, risk management systems, the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. BRC and AUCOM receive confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of the Bank's framework of controls.

15. Penalties

The Bank applies in form and spirit all banking laws, rules and regulations issued by the regulators in its day to day business. Through the establishment of three lines of defence it ensures that the application of regulations is robust and sustainable in the businesses and functions.

Below table shows a comparison of 2017 and 2018 fines by SAMA:

Subject of violation	Previous fiscal year 2017		Current fiscal year 2018	
	Number of penalties	The total amount of fines in SAR	Number of penalties	The total amount of fines in SAR
Violation of SAMA's supervisory instructions	8	666,000	3	1,090,000
Violation of the SAMA›s instructions for customer protection	1	15,000	-	-
Violation of SAMA's due diligence instructions.	-	-	-	-
Violation of the SAMA's instructions regarding the level of performance of ATMs and POS	1	20,000	3	15,000
Violation of SAMA's instructions for due diligence in AML & CTF	-	-	-	-
Total	10	701,000	6	1,105,000

The table shown below includes the details of fines in 2018 and the measures undertaken by the Bank to remedy and avoid such non-compliance in the future:

NO	Fines	Reason of penalty	Remedial Action
1	785,000	Violation of SAMA regulations on Reinstating Financial Allowances- SABB deducted / blocked a number of allowances and financial benefits	SABB had reversed the debits within 48 hours of deduction. For other allowance related activities SABB has developed a working group to implement SAMA guidance and also agreed with SAMA that for a period of 2 months there will be no penalties if SABB reverses any incorrect debits within 48 hours
2	105,000	Violation of SAMA regulations regarding the Provision of Riyal Coins at the Bank's Branches	The SAMA rule refresher will be shared as part of TIP activity and morning meetings held in the branches. Moreover, business risk and control management along with branch support teams have randomly conducted surprise checks and reported findings accordingly to the branch management
3	200,000	Not requesting for target date extension before a month of the due date	All extension requests to be submitted to SAMA ahead of time. Operational Risk and Internal Control team will be monitoring action plan and ensure no delay on meeting SAMA requirement
4	15,000	POS SLA Breach	SABB digital payments has continued to improve their performance by coordinating with SABB vendors and making sure that SAMA POS SLA is being fulfilled in monthly basis. This has been resulted to not receiving fines from March 2018 – Onwards
5	77,836	SADAD SLA Breach	System fix to ensure the issue does not occur again
6	164,398	GOSI-Registration Incident	HR has applied a newly process on administrating GOSI piece in terms of addition-attrition and reconciliation
7	163,082	GOSI-Registration Incident	HR has applied a newly process on administrating GOSI piece in terms of addition-attrition and reconciliation
8	10,000	Salary Ex-Staff -A staff submitted resignation which was rejected by mistake; thus continued paying payroll for 5 months	HR has strengthened the process wherein Off-Boarding team will be receiving weekly report from the MI Team showing staff who resigned during that specific week and reconcile their records. Further, cessation process is centralized with the Service Delivery Team and no manual cessation payment is made until it is processed in the system.
9	350,000	Riyadh province Municipality - Non-Compliance with ATMs changed requirements	ATMs declaration been reviewed by CRE and RBWM to stop operating ATMs and apply necessary requirements
10	186,000	Riyadh province Municipality - Non-Compliance with ATMs changed requirements	ATMs declaration been reviewed by CRE and RBWM to stop operating ATMs and apply necessary requirements
11	4,000	Makkah province Municipality- Non-Obtaining required licenses	This was a new requirements from Municipality to have a licenses for the ATM inside SABB branches. However, SABB provided the new requirements to the Municipality in order to get the licenses.
Total	2,060,316		

16. SABB general meetings

In 2018, SABB held one Extra-Ordinary General Meeting for shareholders, as follows:

Extra-ordinary general meeting

In line with the regulatory guidelines, SABB Extra-Ordinary General Meeting (First Meeting) was held on Wednesday, 28 March 2018 at 6:30 PM at the Head Office of The Saudi British Bank, located at Prince Abdulaziz Bin Jalawi Street in Riyadh with the required quorum and attendance of 78.384% of shareholders were present.

The resolutions of the Extra-Ordinary General Meeting are publicly available on the Tadawul's website (www.tadawul.com.sa) including notably the following resolutions relating to any business or contract with the related party:

1) To vote on the dealings and contracts which will be implemented between the bank and members of HSBC Holdings BV (each in his capacity), where the following members of SABB Board of Directors, namely: Mr. David Dew, Mr. Samir Assaf, Mr. Stephen Moss and Mr. Georges Elhedery have indirect interest therein as they are representatives of the foreign partner, and to license it for the next year. This is a joint finance agreement for three years and the share of HSBC Group (BV) of the total amount of the finance subject of this agreement is SAR 281,250,000 equivalent to USD 75 million, noting that there are no preferential conditions in this Agreement.

   It is worth mentioning that the Bank obtained the approval of the General Meeting to enter into this Agreement at its meeting held on 25 April 2017. Moreover, no amendments have been made to the terms and conditions of this Agreement since the date of approval by the General Meeting of the Bank.

2) To vote on the dealings and contracts which will be implemented between the bank and members of HSBC Holdings BV (each in his capacity), being the parties which provide arrangement, lending, coordination and act as the authenticating bank, where the following members of the Board of Directors, namely: Mr. David Dew, Mr. Samir Assaf, Mr. Stephen Moss and Mr. Georges Elhedery have indirect interest therein as they are representatives of the foreign partner, and to license it for the next year. This is an agreement on Sukuk issuance program of USD 2 billion.

   The role of HSBC Group BV members is to provide the necessary support and service to the bank regarding Sukuk issue program, noting that there are no preferential conditions in this Agreement. It is worth mentioning that the Bank obtained the approval of the General Meeting to enter into this Agreement at its meeting held on 25 April 2017. Moreover, no amendments have been made to the terms and conditions of this Agreement since the date of approval by the General Meeting of the Bank.

Extra-ordinary general meeting Board Attendance:

In 2018, SABB held 1 meeting. The following table shows details of that meeting and the record of attendance of directors during the year:

	Name	Meeting dates
		28 March 2018
1.	Mr. Khaled Suliman Olayan	√
2.	Eng. Khalid Abdullah Al-Molhem	√
3.	Mr. Sulaiman Abdulqader Al-Muhaideb	√
4.	Mr. Mohammed Omran Al-Omran	√
5.	Mr. Saad Abdulmohsen Al-Fadly	-
6.	Mr. David Dew	√
7.	Mr. Samir Assaf	√
8.	Mr. Georges Elhedery	√
9.	Mr. Stephen Moss	√
10.	Mr. Mohammed Abdullah Al-Yahya	√

17. Appointment of external auditors

The Extra Ordinary General Meeting of the Bank held on 28 March 2018, endorsed the selection of both KPMG Al Fozan & Partners and Ernst & Young as external auditors from among the candidates and according to the recommendation of the Audit Committee, to audit the Bank's annual financial statements and review quarterly interim condensed financial statements for the year ended 31 December 2018 and the determination of their remuneration.

18. Board of directors' approval

The consolidated financial statements were approved by the Board of Directors on 7 February 2019.

Report on the Audit of the Consolidated Financial Statements





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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Saudi British Bank ("SABB" or "the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics as endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances As at 31 December 2018, the gross loans and advances of the Group were SAR 115.08 billion against which an impairment allowance of SAR 4.75 billion was maintained. During the year the Group has adopted IFRS 9, which introduced a forward-looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a transition adjustment to the Group's equity as at 1 January 2018 of SAR 1.63 billion. The impact of transition is explained in note 2(B)(iv) to the consolidated financial statements. We considered this as a key audit matter, as the determination of ECL involves significant management judgement, and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with significant deterioration in credit quality since their origination; and (b) individually impaired / defaulted exposures. 2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors, etc. 3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the ECL model. *Refer to the summary of significant accounting policies notes 2(A) and 2(B) to the consolidated financial statements for the impact of adoption of IFRS 9 – Financial Instruments and impairment of financial assets; note 1.1(f)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 6(b) which contains the disclosure of impairment against loans and advances; and note 31(ii) for details of credit quality analysis and key assumptions and factors considered in determination of ECL .*	▪ We have obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, impairment allowance policy and ECL modelling methodology. ▪ We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9, and assessed the underlying assumptions and the data inputs used. ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls over: • the modelling process, including governance over the monitoring of the model and approval of key assumptions; • the classification of borrowers into various stages and timely identification of significant increase in credit risk ("SICR"); and • the integrity of data inputs into the ECL model. ▪ For a sample of customers, we assessed: • the internal ratings determined by management based on the Group's internal rating model; • the staging as identified by management; and • management's computations for ECL. ▪ We checked 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 Group's staging categorisation. ▪ We assessed the forward looking assumptions used by the Group in the ECL calculations. ▪ Where management overlays were used, we assessed those overlays and the governance process around such overlays. ▪ We checked the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2018. ▪ Where relevant, we involved specialists to assist us in reviewing model calculations and data integrity. ▪ As the Group has used the modified retrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of adjustments to the Group's equity as at 1 January 2018 (as a result of adoption of IFRS 9). ▪ We assessed the disclosures in the consolidated financial statements.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); currency, special commission rate and equity options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations. The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flow or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, impact the hedge accounting as well. We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modelling techniques and valuation inputs that are not market observable. *Refer to the basis of preparation note 1.1(f)(ii) to the consolidated financial statements which sets out the critical accounting judgements, estimates and assumptions regarding fair value measurement; the summary of significant accounting policies note 2(G) for the accounting policy relating to derivative financial instruments and hedge accounting; and note 10 which discloses the derivative positions as at the reporting date.*	▪ We assessed the design and implementation, and tested the operating effectiveness, of the key controls over management's processes for valuation of derivatives and hedge accounting, including the testing of relevant automated controls covering the fair valuation process for derivatives. ▪ We selected a sample of derivatives and: • Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Assessed the key inputs to the valuation models; • Performed independent valuations of the derivatives and compared the result with management's valuation; • Checked the hedge effectiveness performed by the Group and the related hedge accounting; and • Assessed disclosures about the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges administrative fees up-front to borrowers in respect of certain loan financing transactions. All such fees are an integral part of generating an involvement with the resulting financial instrument, and therefore these fees should be considered as part of the effective yield on loans and advances and recognised within Special Commission Income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgements in relation to the recognition of such fees which are recorded within "Fee and Commission Income, net". We considered this as a key audit matter since the use of management assumptions and judgements could result in material misstatement to the consolidated financial statements, as they affect the timing and recognition of fees. *Refer to the summary of significant accounting policies note 2(J) to the consolidated financial statements.*	▪ We performed the following audit procedures: • We assessed the design and implementation, and tested the operating effectiveness, of the controls over the consistent application of management's assumptions and judgements for recognition of fee income; and • We assessed the assumptions and judgements used by management for making adjustments to the effective yield of loans and advances and amortizing fee income accordingly. ▪ We obtained management's assessment of the impact of the use of assumptions and judgements and: • on a sample basis, traced the historical and current year data used by management to the underlying accounting records; • on a sample basis, checked the accuracy of the management's assessment, including calculations and related assumptions; and • assessed management's estimation of the impact on the recognition of fee and commission income and special commission income.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investments at fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL") Investments classified as FVOCI and FVTPL comprise both debt and equity instruments. These instruments are measured at fair value, with the corresponding unrealised fair value changes recognised in other comprehensive income or in the profit or loss. The fair value of these financial instruments is determined through the application of valuation techniques which often involve the exercise of judgement by management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use: ○ significant observable valuation inputs (i.e. level 2 investments); and ○ significant unobservable valuation inputs (i.e. level 3 investments). Estimation uncertainty is particularly high for level 2 and level 3 investments. The valuation of the Group's investments in the level 2 and level 3 categories was therefore considered a key audit matter, given the degree of complexity involved in valuing these investments and the significance of the judgements and estimates made by the management. *Refer to the summary of significant accounting policies note 2(C)(i) to the consolidated financial statements; and notes 35 and 1.1(f)(ii) which explain the investment valuation methodology used by the Group and the related critical judgements and estimates.*	▪ We assessed the design and implementation, and tested the operating effectiveness, of key controls over: • managements' processes for performing valuations of investments classified as FVOCI and FVTPL which are not traded in an active market; and • the integrity of data inputs used in the investment portfolio valuation process. ▪ We assessed the valuation techniques and inputs used by management to value the FVOCI and FVTPL investments. As part of these audit procedures, we considered the key inputs and assumptions used in the valuations, such as comparable entity data and liquidity discounts, by benchmarking them with external data. ▪ We re-performed the valuation of a sample of FVOCI and FVTPL investments not traded in an active market and compared the results with management's valuation. ▪ We assessed the disclosures in the consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Other Information included in the Group's 2018 Annual Report

The Board of Directors ("the Directors") is responsible for the other information. Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors and 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 IFRS as modified by SAMA for the accounting of zakat and income tax, applicable provisions of Companies' Law, 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 has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

Report on the Audit of the Consolidated Financial Statements





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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Report on the Audit of the Consolidated Financial Statements

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

Report on the Audit of the Consolidated Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance with the requirements of 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.

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12 Jumada Al-Thani 1440H
(17 February 2019)

Consolidated Financial Statements for the year 2018

القوائم المالية المجمعة للسنة





Consolidated Statement of Financial Position

As at 31 December

	Notes	2018 SAR'000	2017 SAR'000
ASSETS			
Cash and balances with SAMA	3	**14,101,089**	26,874,499
Due from banks and other financial institutions	4	**12,041,294**	13,490,700
Positive fair value derivatives	10	**562,373**	532,364
Investments, net	5	**34,570,456**	26,976,751
Loans and advances, net	6	**110,325,959**	117,006,087
Investment in a joint venture	7	**532,597**	524,924
Property and equipment, net	8	**1,280,670**	1,134,927
Other assets	9	**1,149,673**	1,075,092
Total assets		**174,564,111**	187,615,344
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**1,013,233**	3,690,975
Customers' deposits	12	**130,506,505**	140,239,513
Debt securities in issue	13	**1,499,282**	2,998,748
Borrowings	14	**1,695,308**	1,682,445
Negative fair value derivatives	10	**547,253**	481,195
Other liabilities	15	**6,839,433**	5,051,997
Total liabilities		**142,101,014**	154,144,873
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	**15,000,000**	15,000,000
Statutory reserve	17	**10,778,261**	9,545,984
Other reserves	18	**(3,123)**	488
Retained earnings		**5,135,131**	7,858,470
Proposed dividends	27	**1,430,954**	939,650
Total equity attributable to equity holders of the Bank		**32,341,223**	33,344,592
Non-controlling interest	19	**121,874**	125,879
Total equity		**32,463,097**	33,470,471
Total liabilities and equity		**174,564,111**	187,615,344

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

Consolidated Statement Of Income

For the years ended 31 December

	Notes	2018 SAR'000	2017 SAR'000
Special commission income	21	6,642,002	6,051,288
Special commission expense	21	1,064,673	953,404
Net special commission income		5,577,329	5,097,884
Fees and commission income, net	22	1,182,117	1,255,534
Exchange income, net		412,545	431,407
Income from FVTPL financial instruments		3,515	-
Trading income, net	23	171,209	258,398
Dividend income		65,099	52,499
Losses on FVOCI debt instruments, net	24	(20,947)	-
Gains on non-trading investments, net		-	30,944
Other operating (loss)/ income, net		(13,645)	242
Total operating income		7,377,222	7,126,908
Salaries and employee related expenses	25	1,239,055	1,228,591
Rent and premises related expenses		135,938	139,773
Depreciation	8	131,465	124,785
General and administrative expenses		748,180	697,414
Provision for credit losses, net	5,6 & 31	259,032	1,001,828
Impairment charge for other financial assets, net		-	48,855
Total operating expenses		2,513,670	3,241,246
Income from operating activities		4,863,552	3,885,662
Share in earnings of an associate and a joint venture	7	65,551	68,916
Net income		4,929,103	3,954,578
Attributable to:			
Equity holders of the Bank		4,933,108	3,954,578
Non-controlling interest		(4,005)	-
Net income		4,929,103	3,954,578
Basic and diluted earnings per share (in SAR)	26	3.29	2.64

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

Consolidated Statement Of Comprehensive Income

For the years ended 31 December

	Notes	2018 SAR'000	2017 SAR'000
Net income for the year		**4,929,103**	3,954,578
Other comprehensive income for the year			
Items that cannot be reclassified subsequently to consolidated statement of income in subsequent periods			
- Movement in fair value reserve (FVOCI equity instruments)		**333,078**	-
Items that may be reclassified subsequently to consolidated statement of income in subsequent periods			
Debt instrument at fair value through other comprehensive income			
- Net change in fair value	18	**(176,408)**	-
- Transfer to consolidated statement of income, net	18	**20,947**	-
Available for sale financial assets			
- Net change in fair value	18	**-**	(87,156)
- Transfer to consolidated statement of income, net	18	**-**	19,056
Cash flow hedges			
- Net change in fair value	18	**6,760**	89,927
- Transfer to consolidated statement of income, net	18	**(7,865)**	(54,276)
Total other comprehensive income / (loss) for the year		**176,512**	(32,449)
Total comprehensive income for the year		**5,105,615**	3,922,129
Attributable to:			
Equity holders of the Bank		**5,109,620**	3,922,129
Non-controlling interest		**(4,005)**	-
Total		**5,105,615**	3,922,129

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

Consolidated Statement Of Changes In Equity

For the years ended 31 December

	Notes	Attributable to equity holders of the bank						Non-controlling interest	Total Equity
		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total		
		SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
2018									
Balance at the beginning of the year		15,000,000	9,545,984	488	7,858,470	939,650	33,344,592	125,879	33,470,471
Impact of adopting of new standards at 1 January 2018									
- Re-measurement of financial instruments		-	-	-	(1,642,777)	-	(1,642,777)	-	(1,642,777)
- Reclassification of AFS equity to FVOCI		-	-	(170,000)	170,000	-	-	-	-
- Reclassification of AFS debt to HAC		-	-	(11,133)	-	-	(11,133)	-	(11,133)
Restated balance at 1 January 2018		15,000,000	9,545,984	(180,645)	6,385,693	939,650	31,690,682	125,879	31,816,561
Total comprehensive income for the year									
Net income for the year		-	-		4,933,108		4,933,108	(4,005)	4,929,103
Net changes in fair value of cash flow hedges	18	-	-	6,760	-	-	6,760	-	6,760
Net changes in fair value of FVOCI equity investments	18	-	-	333,078	-	-	333,078	-	333,078
Net changes in fair value of FVOCI debt instruments	18	-	-	(176,408)	-	-	(176,408)	-	(176,408)
Transfer to consolidated statement of income	18	-	-	13,082	-	-	13,082	-	13,082
				176,512	4,933,108		5,109,620	(4,005)	5,105,615
Treasury shares	18	-	-	500	-	-	500	-	500
Employee share plan reserve		-	-	510	-	-	510	-	510
Transfer to statutory reserve	17	-	1,232,277	-	(1,232,277)	-	-	-	-
Provision for income tax for the year	27	-	-	-	(398,664)	-	(398,664)	-	(398,664)
Provision for zakat for the year	27	-	-	-	(227,649)	-	(227,649)	-	(227,649)
Provision for zakat for previous years	27	-	-	-	(1,628,070)	-	(1,628,070)	-	(1,628,070)
2017 final dividend paid, net of zakat and income tax	27	-	-	-	-	(939,650)	(939,650)	-	(939,650)
2018 interim dividend paid, net of zakat and income tax	27	-	-	-	(1,266,056)	-	(1,266,056)	-	(1,266,056)
2018 final dividend proposed, net of zakat and income tax	27	-	-	-	(1,430,954)	1,430,954	-	-	-
Balance at the end of the year		15,000,000	10,778,261	(3,123)	5,135,131	1,430,954	32,341,223	121,874	32,463,097
2017									
Balance at the beginning of the year		15,000,000	8,557,339	24,052	7,127,537	570,000	31,278,928	-	31,278,928
Total comprehensive income for the year									
Net income for the year		-	-	-	3,954,578	-	3,954,578		3,954,578
Net changes in fair value of cash flow hedges	18	-	-	89,927	-	-	89,927	-	89,927
Net changes in fair value of available for sale investments	18	-	-	(87,156)	-	-	(87,156)	-	(87,156)
Transfer to consolidated statement of income	18	-	-	(35,220)	-	-	(35,220)	-	(35,220)
				(32,449)	3,954,578		3,922,129		3,922,129
Non-controlling interest arising on business combination		-	-	-	-	-	-	125,879	125,879
Treasury shares	18	-	-	6,655	-	-	6,655	-	6,655
Employee share plan reserve		-	-	2,230	-	-	2,230	-	2,230
Transfer to statutory reserve	17	-	988,645	-	(988,645)	-	-	-	-
Provision for zakat for the year	27	-	-	-	(63,000)	(27,000)	(90,000)	-	(90,000)
Provision for income tax for the year	27	-	-	-	(316,500)	(131,068)	(447,568)	-	(447,568)
2016 final dividend paid, net of zakat and income tax	27	-	-	-	-	(411,932)	(411,932)	-	(411,932)
2017 interim dividend paid, net of zakat and income tax	27	-	-	-	(915,850)	-	(915,850)	-	(915,850)
2017 final dividend proposed, net of zakat and income tax	27	-	-	-	(939,650)	939,650	-	-	-
Balance at the end of the year		15,000,000	9,545,984	488	7,858,470	939,650	33,344,592	125,879	33,470,471

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

Consolidated Statement Of Cash Flows

For the years ended 31 December

	Notes	2018 SAR'000	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the year		4,929,103	3,954,578
Adjustments to reconcile net income to net cash (used in) / from operating activities:			
Amortisation of premium on investments not held as FVTPL / non-trading investments, net		(2,873)	10,150
Depreciation	8	131,465	124,785
Income from FVTPL financial instruments, net		(3,515)	-
Losses on FVOCI debt instruments, net	24	20,947	-
Gains on non-trading investments, net		-	(30,944)
Cash flow hedge gain transfer to consolidated statement of income		(7,865)	(54,276)
Share in earnings of an associate and a joint venture	7	(65,551)	(68,916)
Provision for credit losses, net	5,6 & 31	259,032	1,001,828
Employee share plan reserve		15,040	13,386
Impairment charge for other financial assets, net		-	48,855
		5,275,783	4,999,446
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	3	552,214	691,152
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		376,498	(1,579,983)
Investments held at FVTPL		(38,988)	-
Loans and advances, net		5,206,242	2,956,900
Other assets and derivatives		(104,590)	438,566
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,677,742)	271,801
Customers' deposits		(9,733,008)	(373,936)
Other liabilities and derivatives		(802,950)	203,877
Net cash (used in) / from operating activities		(1,946,541)	7,607,823
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		-	21,177,306
Proceeds from sales and maturities of investments not held as FVTPL		6,190,565	-
Purchase of investments not held as FVTPL		(13,596,085)	-
Purchase of non-trading investments		-	(18,443,972)
Purchase of property and equipment	8	(277,208)	(219,531)
Dividend received from investment in a joint venture	7	57,878	56,500
Acquisition of subsidiary, net of cash and cash equivalent acquired	19	-	84,384
Net cash (used in) / from investing activities		(7,624,850)	2,654,687
FINANCING ACTIVITIES			
Treasury shares purchased		(14,031)	(4,500)
Debt securities in issue	13	(1,499,466)	(1,518,888)
Borrowings		12,863	(27,513)
Dividends paid		(2,221,982)	(1,574,807)
Net cash used in financing activities		(3,722,616)	(3,125,708)
Net (decrease) / increase in cash and cash equivalents		(13,294,007)	7,136,802
Cash and cash equivalents at beginning of the year		30,095,579	22,958,777
Cash and cash equivalents at end of the year	28	16,801,572	30,095,579
Special commission received during the year		6,416,182	6,069,144
Special commission paid during the year		1,057,604	1,062,816
Supplemental non cash information			
Net changes in fair value and transfers to consolidated statement of income		176,512	(32,449)

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

Notes To The Consolidated Financial Statements

31 December 2018

1. General

The Saudi British Bank ("SABB" or the "Bank") is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 78 branches (2017: 81 branches) in the Kingdom of Saudi Arabia. SABB employed 3,171 staff as at 31 December 2018 (2017: 3,263). 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 approved products, which are approved and supervised by an independent Shariah Board established by SABB.

SABB has 100% (2017:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (a subsidiary company of SABB - see note 19) within the Kingdom of Saudi Arabia as per the agreement between the two subsidiaries. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2017:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

SABB has 100% (2017:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary's main purpose is the registration of real estate and to hold and manage collateral on behalf of the Bank.

On 17 May 2017, SABB established a Special Purpose Vehicle ("SPV") SABB Markets Limited, a wholly owned subsidiary incorporated as a limited liability company under the laws of Cayman Islands. The subsidiary is engaged in derivatives trading and repo activities.

SABB has 65% (2017: 65%) ownership interest in a subsidiary, SABB Takaful, a joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010234032

Notes To The Consolidated Financial Statements

dated 20 Jumad Awal 1428H (6 June 2007). SABB Takaful became a subsidiary of SABB effective 23 November 2017 (note 19). SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom.

SABB had 100% (2017:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada Alakhirah 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). On 15 June 2017, the subsidiary was liquidated.

SABB owns 51% (2017: 51%) of the shares of HSBC Saudi Arabia Closed Joint Stock Company, a joint venture with HSBC. The main activities of HSBC Saudi Arabia Closed Joint Stock Company are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

SABB has participated in three Structured Entities for the purpose of effecting syndicated loan transactions and to secure collateral rights over specific assets of the borrowers under Islamic financing structures. The entities have no other business operations.

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

SABB owns 50% (2017: 50%) share in each entity. SABB does not consolidate the entities as it does not have the right to variable returns from its involvement with the entities and ability to affect those returns through its power over the entities. The related underlying funding to the borrower is recorded in SABB's balance sheet.

Further to the 1/9/1439H (corresponding to May 16, 2018G) announcement of a non-binding agreement between the Saudi British Bank ("SABB") and Alawwal bank with respect to the exchange ratio of their proposed merger, SABB announced to its shareholders that it entered into a binding merger agreement on 3 October 2018 with Alawwal bank under which the two banks agreed to take the necessary steps to implement a merger by way of a statutory merger pursuant to Articles 191-193 of the Companies Law and Article 49(a)(1) of the Merger and Acquisition Regulations (the "Agreement"). The merger remains conditional upon shareholder approvals in forthcoming Extraordinary General Meetings and regulatory approvals.

1.1. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared;

-in accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings; and

-in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws.

Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks as promulgated by SAMA. These are no longer applicable from January 1, 2017.

Notes To The Consolidated Financial Statements

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at fair value through Profit or Loss ("FVTPL") and FVOCI investments. 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), rounded off to the nearest thousands, which is the functional currency of SABB.

d) Presentation of consolidated financial statements

The Bank presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 33 (b).

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of SABB and its subsidiaries (collectively referred to as "the Bank"). The financial statements of the subsidiaries are prepared for the same reporting year as that of SABB, using consistent accounting policies, except for SABB Takaful whose financial statements are made up to the previous quarter end for consolidation purpose to meet the group reporting timetable.

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

f) Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates, and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment losses on financial assets

Impairment methodology

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

Notes To The Consolidated Financial Statements

-The Bank's internal credit grading model, which assigns PDs to the individual grades

-The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment

-The segmentation of financial assets when their ECL is assessed on a collective basis

-Development of ECL models, including the various formulas and the choice of inputs

- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

-Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Collateral and other credit enhancements held

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

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk.

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

ii. Fair value Measurement

The Bank measures financial instruments, such as, derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 35 to these consolidated financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
-In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

-Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

-Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value

Notes To The Consolidated Financial Statements

measurement is directly or indirectly observable

-Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

iii. Impairment of debt investments

iv. Classification of investments at Amortised Cost

v. Determination of control over investees

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

vi. Depreciation and amortisation

vii. Define benefit plan

viii. Provisions for liabilities and charges

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

g) Going concern

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

2. Summary of significant accounting policies

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

A) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended

Notes To The Consolidated Financial Statements

December 31, 2017 except for the following two new accounting standards and other amendments to existing standards that the Bank has adopted effective 1 January 2018. The impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

The Bank adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Bank in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. While IFRS 15 contains more structured guidance than the existing Standard IAS 18, the outcomes for revenue recognition are very similar to current practice of allocating income over the period of the service rendered and therefore IFRS 15 does not have a material impact on the Bank.

IFRS 9 – Financial Instruments

The Bank has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018.The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see respective section of significant accounting policies.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Bank therefore does not have any material impact on its financial liabilities and the de-recognition accounting policy.

Notes To The Consolidated Financial Statements

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

IFRS 7R – Financial Instruments Disclosure

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 2 (b), detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used and the reconciliation from opening to closing ECL allowances are set out in note 2(c), note 5, note 6 and note 31.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  i. The determination of the business model within which a financial asset is held.

  ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.

  iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

  It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

B) Financial assets and financial liabilities

i)Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

Notes To The Consolidated Financial Statements

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR in '000'	
Financial assets				
Cash and balances with SAMA	Loans and receivables	Amortised cost	26,874,499	26,874,499
Due from banks and other financial institutions	Loans and receivables	Amortised cost	13,490,700	13,490,700
Positive fair value derivatives	Held for trading	FVTPL	532,364	532,364
Investments- (debt and equities)	Available for Sale	FVOCI	15,872,540	12,735,843
Investments - (debt)	Loans and receivables	Amortised cost	10,724,146	13,842,933
Investments- Mutual Funds	Available for Sale	FVTPL	380,065	380,065
Loans and advances	Loans and receivables	Amortised cost	117,006,087	115,860,147
Other Assets	Loans and receivables	Amortised cost	839,192	839,192
			185,719,593	184,555,743

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial liabilities			SAR in '000'	
Due to banks and other financial institutions	Amortised cost	Amortised cost	3,690,975	3,690,975
Customers' deposits	Amortised cost	Amortised cost	140,239,513	140,239,513
Debt Securities in issue	Amortised cost	Amortised cost	2,998,748	2,998,748
Borrowings	Amortised cost	Amortised cost	1,682,445	1,682,445
Negative fair value derivatives	Held for trading	FVTPL	481,195	481,195
Other liabilities (including credit provision for off-balance sheet exposures)	Amortised cost	Amortised cost	4,671,931	5,161,991
Other liabilities (reserve for takaful activities)	Held for trading	FVTPL	380,066	380,066
			154,144,873	154,634,933

ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

Notes To The Consolidated Financial Statements

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
Financial assets				
Amortized cost				
Cash and balances with SAMA	26,874,499	-	-	26,874,499
Due from banks and other financial institutions	13,490,700	-	-	13,490,700
Loans and advances:				
Opening balance	117,006,087	-	-	117,006,087
Remeasurement	-	-	(1,145,940)	(1,145,940)
Closing balance	117,006,087	-	(1,145,940)	115,860,147
Investments (debt):				
Opening balance	10,724,146	-	-	10,724,146
Transferred from FVOCI*	-	3,122,300	-	3,122,300
Remeasurement	-	-	(3,513)	(3,513)
Closing balance	10,724,146	3,122,300	(3,513)	13,842,933
Other assets	839,192	-	-	839,192
Total amortized cost	168,934,624	3,122,300	(1,149,453)	170,907,471
FVOCI (debt and equities)				
Investment:				
Opening balance	15,872,540	-	(3,264)	15,869,276
Transferred to amortized cost*	-	(3,133,433)	-	(3,133,433)
Closing balance	15,872,540	(3,133,433)	(3,264)	12,735,843
FVOCI (mutual funds)				
Investment:				
Opening balance	380,065	-	-	380,065
Transferred to FVTPL	-	(380,065)	-	(380,065)
Closing balance	380,065	(380,065)	-	-

Notes To The Consolidated Financial Statements

* There are certain debt securities that have been reclassified from FVOCI to amortised cost, having a net remeasurement impact of SAR 11.13 million (the difference between transfer out and transfer in between the categories).

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
FVTPL				
Positive fair value of derivatives	532,364	-	-	532,364
Investment transferred from FVOCI	-	380,065	-	380,065
Closing balance	532,364	380,065	-	912,429
Financial liabilities				
Amortized cost				
Due to banks and other financial institutions	3,690,975	-	-	3,690,975
Customers' deposits	140,239,513	-	-	140,239,513
Debt Securities in issue	2,998,748	-	-	2,998,748
Borrowings	1,682,445	-	-	1,682,445
Other liabilities (including credit provision for off-balance sheet exposures)	4,671,931	-	490,060	5,161,991
Total amortized cost	153,283,612	-	490,060	153,773,672
FVTPL				
Negative fair value derivatives	481,195	-	-	481,195
Other liabilities (reserve for takaful activities)	380,066	-	-	380,066
Total FVTPL	861,261	-	-	861,261

iii) Reconciliation of reclassifications of financial assets and financial liabilities into amortized cost under IFRS 9

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortized cost category under IFRS 9.

	SAR in '000'
From available for sale financial assets under IAS 39	
Fair value at 31 December 2018	2,319,472
Fair value loss that would have been recognized during 2018 in OCI if the financial assets had not been reclassified	(520)

Notes To The Consolidated Financial Statements

Financial assets having fair value of SAR 1,010 million as at 31 December 2017 reclassified from AFS/FVOCI to amortised cost have been matured during the year ended 31 December 2018.

iv) Impact on retained earnings and other reserves

	Retained earnings	Other reserves
	SAR in '000'	
Closing balance under IAS 39 (31 December 2017)	7,858,470	488
Reclassifications under IFRS 9	170,000	(181,133)
Recognition of expected credit losses under IFRS 9 (including loan commitments and financial guarantee contracts)	(1,642,777)	-
Opening balance under IFRS 9 (1 January 2018)	6,385,693	(180,645)

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39 / IAS 37)	Reclassification	Re-measurement	1 January 2018 (IFRS 9)
	SAR in '000'			
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans and advances, net	3,556,133	-	1,145,940	4,702,073
AFS (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment, net	186,571	(170,000)	3,513	20,084
Held at amortised cost (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment, net	-	-	3,264	3,264
Loan commitments and financial guarantee Contracts	-	-	490,060	490,060
Total	3,742,704	(170,000)	1,642,777	5,215,481

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The following table provides carrying value of financial assets and financial liabilities in the consolidated statement of financial position as at 31 December 2018.

SAR in '000'	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity investments	Amortized cost	Total carrying amount
Financial assets						
Cash and balances with SAMA	-	-	-	-	14,101,089	14,101,089
Due from banks and other financial institutions	-	-	-	-	12,041,294	12,041,294
Investments, net	368,594	50,539	11,642,455	1,346,179	21,162,689	34,570,456
Positive fair value derivatives	562,373	-	-	-	-	562,373
Loans and advances, net	-	-	-	-	110,325,959	110,325,959
Other assets	-	-	-	-	831,919	831,919
Total financial assets	930,967	50,539	11,642,455	1,346,179	158,462,950	172,433,090
Financial liabilities						
Due to banks and other financial institutions	-	-	-	-	1,013,233	1,013,233
Customers' deposits	-	-	-	-	130,506,505	130,506,505
Debt securities in issue	-	-	-	-	1,499,282	1,499,282
Borrowings	-	-	-	-	1,695,308	1,695,308
Negative fair value derivatives	547,253	-	-	-	-	547,253
Other liabilities	-	368,594	-	-	6,470,839	6,839,433
Total financial liabilities	547,253	368,594	-	-	141,185,167	142,101,014

C) Policies applicable from 1 January 2018

i) Classification of financial assets (policy applicable from 1 January 2018)

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

1) Amortised cost, and

2) Fair value through other comprehensive income (FVOCI);

3) Fair value through profit or loss (FVTPL);

The classification requirements for loans & advances, debt instruments and equity investment are described below:

Loans & Advances and Debt instruments

Classification and subsequent measurement of loans & advances and debt instruments depend on:

(i) the Bank's business model for managing the asset; and

(ii) the cash flow characteristics of the asset which are referred as cash flows are solely payments of principal and interest (SPPI).

Based on these factors, the Bank classifies its loans & advances and debt instruments into one of the following three measurement categories:

Notes To The Consolidated Financial Statements

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the fair value are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to Interim Consolidated Statement of Income.

- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in the interim consolidated Statement of Income in the period in which it arises.

Business model assessment

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

1) the stated policies and objectives for the portfolio and the operation of those policies in practice;

2) how the performance of the portfolio is evaluated and reported to the Bank's management;

3) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

4) how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

5) the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains

a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

Equity Instruments

On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to interim consolidated Statement of Income, including disposal. This election is made on an investment-by-investment basis.

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL (for example: equity held for trading and debt securities not classified neither as AC or FVOCI, mutual fund).

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

ii) Classification of financial liabilities

(Policy applicable before 1 January 2018)

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the interim consolidated statement of income.

(Policy applicable after 1 January 2018)

The Bank classifies its financial liabilities as measured at amortized cost except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

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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 profit or loss. Separated embedded derivatives are presented in the interim condensed consolidated statement of financial position together with the host contract.

iii) Derecognition

a. Financial assets

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

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

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

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

b. Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv) Modifications of financial assets and financial liabilities

a. Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

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

b. Financial liabilities

The Bank derecognizes 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 recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the interim consolidated statement of income.

Notes To The Consolidated Financial Statements

v) Impairment

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

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- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

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

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

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision in other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

Notes To The Consolidated Financial Statements

- debt instruments measured at FVOCI: no loss allowance is recognized 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 recognized in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

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

Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy.

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

vi) Financial guarantees and loan commitments

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

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Subsequent to the initial recognition,

- From 1 January 2018: the Bank's liability under each guarantee is measured at higher of the unamortized amount and the loss allowance.
- Before 1 January 2018: the Bank's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

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

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Bank has issued no loan commitments that are measured at FVTPL. For loan commitments:

- from 1 January 2018: the Bank recognizes loss allowance;
- Before 1 January 2018: the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

vii) Rendering of services

The Bank provides various services to its customer. These services are either rendered separately or bundled together with rendering of other services.

The Bank has concluded that revenue from rendering of various services related to Share trading and fund management, trade finance, corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognizes revenue over the period of time.

viii) Customer Loyalty Program

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

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

D) Policies applicable before adoption of IFRS 9

i) Investments

All investment securities are initially recognised at their fair value which represents the consideration given, including acquisition charges associated with the investment (except for investments held as FVIS, where acquisition charges are not added to the cost at initial recognition and are charged to the consolidated statement of income). Premiums are amortised and discounts accreted using the effective yield method and are taken to special commission income.

Following initial recognition, for securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Investments

Notes To The Consolidated Financial Statements

in listed equity instruments are valued at the exchange quoted prices as of day close. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

Following initial recognition, for securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

(i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS at inception or on adoption of the revised IAS 39. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term. An investment may be designated as FVIS by the management if it satisfies the criteria set out below (except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured):

- it is a financial instrument containing one or more embedded derivatives that significantly modify the cash flows resulting from the financial instrument, or
- it is a financial instrument with an embedded derivative that is required to be separated from the host contract under IAS 39, but the Bank is unable to measure reliably the embedded derivative separately either at acquisition or at a subsequent reporting date

The fair value designation is made in accordance with the Risk Management Strategy approved by the Bank's Assets and Liabilities Committee (ALCO) and is irrevocable. Designated financial assets are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties on trade date and derecognised when sold.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from financial instruments designated as FVIS in the consolidated statement of income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments.

(ii) Available for sale

Available-for-sale investments are those non-derivative equity and debt securities which are neither classified as held to maturity investments, loans and receivables nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments classified as "available for sale", are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in the consolidated statement of comprehensive income. On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

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(iii) Held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Investments in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised and is disclosed as gains/ (losses) on non-trading investments. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method.

(iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of "held at amortised cost" are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

ii) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at cost, being the fair value of consideration given, including acquisition charges associated with the loans and advances.

The Bank's loans and advances are classified as held at amortised cost less any amount written off and provisions for impairment.

For loans and advances, which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

iii) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, due from banks and other financial institutions are stated at cost less any amount written off and provisions for impairment, if any.

iv) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

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When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss on investments other than available for sale equity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in provision for credit losses.

i. Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is objective evidence of credit related impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost, including those arising from sovereign risk exposures, is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. Renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 100% for such non-performing loans (other than home loans), which reach the "write-off point" (write-off points which are set at 180 days past due). Write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

Notes To The Consolidated Financial Statements

The carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated statement of income.

ii. Impairment of financial assets held at fair value

For financial assets held at fair value, where a loss has been recognised directly through the consolidated statement of comprehensive income under shareholders' equity, the cumulative net loss recognised in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

iii. Impairment of available for sale investments

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. Unlike debt securities, the previously recognised impairment loss cannot be reversed through the consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in consolidated statement of income for the period.

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. 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. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

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

iv. Impairment of available for sale- debt securities

In assessing objective evidence of impairment at the reporting date, the Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

v) Financial liabilities

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums

are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense. Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

vi) Guarantees and loan commitments

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "provision for credit losses".

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

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

vii) Derecognition of financial instruments

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

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

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires.

E) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable

assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

F) Trade date accounting

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

G) Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into 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 i.e. 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

Notes To The Consolidated Financial Statements

management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the effectiveness of the hedge is assessed on an ongoing basis.

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

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

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

H) Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

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

I) Offsetting financial instruments

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

Notes To The Consolidated Financial Statements

J) Revenue/expenses recognition

Special commission income and expense

Special commission income and expense for all commission-bearing financial instruments is recognised in the consolidated statement of income on an effective yield basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective commission rate applied to the new carrying amount.

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

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

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

Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

Dividend income

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

Fees and commission income and expenses

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

Notes To The Consolidated Financial Statements

Net trading income

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

Day one profit

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

K) Sale and repurchase agreements

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

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

L) Investment in equity-accounted investees

The Bank's interests in equity-accounted investees comprise interests in an associate and a joint venture.

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

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

The statement of income reflects the Bank's share of the results of operations of the associate and the joint venture.

The reporting dates of the associate and joint venture are identical to the Bank and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Notes To The Consolidated Financial Statements

Unrealised profits and losses resulting from transactions between the Bank and its associate and joint venture are eliminated to the extent of the Bank's interest in the associate and joint venture.

M) Property and equipment

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

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

Buildings	33 years
Leasehold improvements	over the period of the lease contract
Furniture, equipment, vehicles and software	3 to 4 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.

N) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

O) Accounting for leases

Leases entered into by the Bank as a lessee are all operating leases. Payments made under these operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

P) 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 three months or less from date of acquisition.

Q) Assets held in trust or in fiduciary capacity

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

R) Zakat and income taxes

Zakat is computed on the Saudi shareholders' share of equity and net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Zakat and income tax are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax. Previously, zakat and income tax was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time.

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Zakat and income taxes are not charged to the Bank's consolidated statement of income as they are the liabilities of the shareholders and therefore are deducted from the dividends paid to the shareholders.

S) Shariah approved banking products

In addition to conventional banking, the Bank offers its customers certain Shariah approved banking products, which are approved by its Shariah Board.

All Shariah approved banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

T) End of service benefits

The provision for end of service benefits is made based on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Bank is reviewed by using a projected unit credit method. The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

U) Share Based payments

Under the terms of the Equity Based Long Term Bonus Plan, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions.

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

3. Cash and balances with SAMA

	2018	2017
	SAR'000	SAR'000
Cash in hand	**1,542,528**	1,304,487
Statutory deposit	**7,609,549**	8,161,763
Placements with SAMA	**4,811,666**	17,379,275
Other balances	**137,346**	28,974
Total	**14,101,089**	26,874,499

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its deposit liabilities calculated at the end of each month. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents. Placements with SAMA represents securities purchased under an agreement to re-sell (reverse repo) with SAMA.

Notes To The Consolidated Financial Statements

4. Due from banks and other financial institutions

	2018	2017
	SAR'000	SAR'000
Current accounts	6,896,890	6,808,077
Money market placements	5,144,404	6,682,623
Total	12,041,294	13,490,700

5. Investments, net

a) Investment securities are classified as follows:

	2018	2017
	SAR'000	SAR'000
- FVOCI – Debt	11,642,455	-
- FVOCI – Equity	1,346,179	-
- FVTPL	419,133	-
- Held at amortised cost	21,162,689	10,724,146
- Available for sale	-	16,252,605
Total	34,570,456	26,976,751

b) Investments by type of securities

	Domestic		International		Total	
	2018	2017	2018	2017	2018	2017
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	20,289,399	11,680,992	3,656,236	5,300,583	23,945,635	16,981,575
Floating rate securities	7,619,493	7,731,928	1,659,149	866,673	9,278,642	8,598,601
Equities and others	1,327,537	1,375,807	18,642	20,768	1,346,179	1,396,575
Total	29,236,429	20,788,727	5,334,027	6,188,024	34,570,456	26,976,751

An analysis of changes in loss allowance for debt instruments not measured at fair value through profit or loss, is as follows:

	31st December 2018 SAR'000			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	3,137	3,640	16,571	23,348
Transfers to 12 month ECL	598	(598)	-	-
Transfers to Life time ECL not credit impaired	(16)	16	-	-
Net charge for the period	(1,138)	(2,910)	-	(4,048)
Loss allowance as at 31 December 2018	2,581	148	16,571	19,300

Notes To The Consolidated Financial Statements

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

	2018			2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	23,830,738	114,897	23,945,635	16,901,399	80,176	16,981,575
Floating rate securities	3,935,173	5,343,469	9,278,642	3,082,064	5,516,537	8,598,601
Equities and others	1,318,781	27,398	1,346,179	1,367,052	29,523	1,396,575
Investments, net	29,084,692	5,485,764	34,570,456	21,350,515	5,626,236	26,976,751

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

	2018	2017
	SAR'000	SAR'000
Government and quasi government	26,862,791	20,278,786
Corporate	2,267,776	3,493,616
Banks and other financial institutions	5,429,343	3,194,621
Others	10,546	9,728
Total	34,570,456	26,976,751

Others represent FVOCI investments in unquoted shares that are carried at cost, as their fair value cannot be reliably measured.

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2018			SAR' 000
Held at amortised cost	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances	2,130,911	19,883,855	89,734,554	111,749,320
Non-performing loans and advances	55,305	242,120	3,029,826	3,327,251
Total loans and advances	2,186,216	20,125,975	92,764,380	115,076,571
Provision for credit losses	(195,050)	(686,621)	(3,868,941)	(4,750,612)
Loans and advances, net	1,991,166	19,439,354	88,895,439	110,325,959

Notes To The Consolidated Financial Statements

Held at amortised cost	2017 Credit cards	Consumer loans	Commercial loans and overdrafts	SAR' 000 Total
Performing loans and advances	2,232,841	21,552,924	94,882,921	118,668,686
Non-performing loans and advances	5,623	105,065	1,782,846	1,893,534
Total loans and advances	2,238,464	21,657,989	96,665,767	120,562,220
Provision for credit losses	(115,664)	(441,087)	(2,999,382)	(3,556,133)
Loans and advances, net	2,122,800	21,216,902	93,666,385	117,006,087

Loans and advances, net include Shariah approved products totalling SAR 84,103.9 million (2017: SAR 92,611.4 million) which are stated at cost less provision for credit losses of SAR 2,605.1 million (2017: SAR 1,842.5 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 172.6 million (2017: SAR 209.1 million).

b) Movement in provision for credit losses

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

Loans and advances to customers at amortised cost SAR in '000'	31st December 2018 12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired	Total
Balance at 1 January	517,743	1,951,464	2,201,897	30,969	4,702,073
Transfer to 12 month ECL	299,344	(286,794)	(12,550)	-	-
Transfer to lifetime ECL not credit impaired	(41,087)	155,415	(114,328)	-	-
Transfer to lifetime ECL credit impaired	(9,600)	(313,956)	323,556	-	-
Net charge / (reversal) for the year	(399,677)	118,684	420,581	11,955	151,543
Write-offs	-	-	(103,004)	-	(103,004)
Balance as at 31 December	366,723	1,624,813	2,716,152	42,924	4,750,612

	2017 Credit cards	Consumer loans	Commercial loans and overdrafts	SAR' 000 Total
Balance at beginning of the year	102,355	356,714	2,430,642	2,889,711
Bad debts written off	(129,793)	(399,439)	(55,472)	(584,704)
Provided during the year, net of reversals	143,102	483,812	626,857	1,253,771
Recoveries of amounts previously provided	-	-	(2,645)	(2,645)
Balance at the end of the year	115,664	441,087	2,999,382	3,556,133

The net charge to consolidated statement of income on account of provision for credit losses is SAR 327.9 million (2017: SAR 1,001.8 million), which is net of recoveries of amounts previously provided as shown above and also includes direct write offs net of recoveries of debts previously written off amounting to SAR 176.4 million (2017: SAR (249.3) million).

Notes To The Consolidated Financial Statements

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

2018 SAR'000	Performing	Non performing	Provision for credit losses	Loans and advances, net
Government and quasi Government	8,296,736	-	(3,413)	8,293,323
Finance	6,250,863	-	(90,780)	6,160,083
Agriculture and fishing	723,932	-	(1,487)	722,445
Manufacturing	18,624,305	535,331	(1,110,702)	18,048,934
Mining and quarrying	3,491,737	-	(3,795)	3,487,942
Electricity, water, gas and health services	3,301,400	166,320	(109,269)	3,358,451
Building and construction	9,910,835	1,182,719	(1,226,655)	9,866,899
Commerce	24,770,141	383,865	(625,351)	24,528,655
Transportation and communication	6,323,640	77,966	(88,518)	6,313,088
Services	4,442,247	7,499	(60,216)	4,389,530
Consumer loans and credit cards	22,014,766	297,425	(881,671)	21,430,520
Others	2,944,364	676,126	(548,755)	3,071,735
Accrued special commission (commercial loans and overdrafts)	654,354	-	-	654,354
Total	111,749,320	3,327,251	(4,750,612)	110,325,959

2017 SAR'000	Performing	Non performing	Provision for credit losses	Loans and advances, net
Government and quasi Government	7,771,991	-	-	7,771,991
Finance	7,076,588	-	-	7,076,588
Agriculture and fishing	855,355	-	-	855,355
Manufacturing	18,549,066	168,196	(144,947)	18,572,315
Mining and quarrying	3,518,518	-	-	3,518,518
Electricity, water, gas and health services	3,673,031	32,799	(32,799)	3,673,031
Building and construction	10,010,328	720,305	(583,861)	10,146,772
Commerce	28,188,884	356,945	(307,065)	28,238,764
Transportation and communication	5,758,488	77,966	(77,966)	5,758,488
Services	5,359,114	6,899	(6,899)	5,359,114
Consumer loans and credit cards	23,785,765	110,688	-	23,896,453
Others	3,526,714	419,736	(311,326)	3,635,124
Accrued special commission (commercial loans and overdrafts)	594,844	-	-	594,844
Collective impairment provision	-	-	(2,091,270)	(2,091,270)
Total	118,668,686	1,893,534	(3,556,133)	117,006,087

Consumer loans and credit cards balances include the related accrued special commission income as at the year end.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2017, the provision for credit losses on the consumer loans and advances was calculated on a collective basis and included in the collective impairment provision. The collective impairment provision was based on an asset quality matrix, which included the grading structure in respect of the credit risk of the customers as well as general economic outlook.

d) Collateral

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. This collateral mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets.

As of 31 December 2018, the carrying amount of gross non-performing loans and advances amounted to SAR 3,327.3 million (2017: SAR 1,893.5 million) and the value of identifiable collateral held against those loans and advances amount to SAR 2,028.8 million (2017: SAR 1,521.1 million).

The table below set out the principal types of collateral held against loan and advances;

	2018	2017	Principal type of Collateral held
Consumer Loans			
Mortgage Finance	**100%**	100%	Residential Property
Commercial Loans and Overdrafts	**38%**	42%	Commercial and Residential Property

7. Investment in an associate and a joint venture

SABB owns 51% (2017: 51%) of the shares of HSBC Saudi Arabia Closed Joint Stock Company, a joint venture with HSBC. No single investor group can direct the activities of the entity without cooperation of the other. Both investors can appoint an equal number of board members and thereby board resolutions require joint decision making. Hence, SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity.

During 2017, SABB increased its ownership percentage in its associate, SABB Takaful, from 32.5% to 65% (note 19). This has resulted in SABB owning a controlling stake in SABB Takaful. SABB Takaful has become a subsidiary of SABB and therefore, SABB consolidates SABB Takaful financial statements starting November 2017.

	2018			2017		
	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	**SABB Takaful**	**Total**	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	SABB Takaful	Total
	SAR' 000	**SAR' 000**	**SAR' 000**	SAR' 000	SAR' 000	SAR' 000
Balance at beginning of the year	**524,924**	**-**	**524,924**	513,678	128,619	642,297
Share of undistributed profits	**65,551**	**-**	**65,551**	67,746	1,170	68,916
Dividend received	**(57,878)**	**-**	**(57,878)**	(56,500)	`-	(56,500)
Acquired as a subsidiary	**-**	**-**	**-**	-	(129,789)	(129,789)
Balance at end of the year	**532,597**	**-**	**532,597**	524,924	-	524,924

Notes To The Consolidated Financial Statements

Share of an associate and a joint venture financial statements:

	2018		2017	
	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	**SABB Takaful**	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	SABB Takaful
	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Total assets	**656,766**	-	635,181	-
Total liabilities	**257,949**	-	228,726	-
Total equity	**398,817**	-	406,455	-
Total income	**205,960**	-	200,651	-
Total expenses	**131,659**	-	124,486	-

8. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Software	2018 Total	2017 Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Cost						
As at 1 January	**921,133**	**582,009**	**590,374**	**148,341**	**2,241,857**	2,056,015
Additions	**5,595**	**2,564**	**37,221**	**31,242**	**76,622**	175,071
Acquisition of a subsidiary during the year	-	-	-	-	-	11,361
Disposals	-	-	**(9,921)**	-	**(9,921)**	(590)
As at 31 December	**926,728**	**584,573**	**617,674**	**179,583**	**2,308,558**	2,241,857
Accumulated depreciation						
As at 1 January	**383,051**	**439,258**	**468,822**	**97,883**	**1,389,014**	1,255,287
Charge for the year	**10,334**	**38,907**	**56,362**	**25,862**	**131,465**	124,785
Acquisition of a subsidiary during the year	-	-	-	-	-	9,532
Disposals	-	-	**(9,921)**	-	**(9,921)**	(590)
As at 31 December	**393,385**	**478,165**	**515,263**	**123,745**	**1,510,558**	1,389,014
Net book value						
As at 31 December 2018	**533,343**	**106,408**	**102,411**	**55,838**	**798,000**	
As at 31 December 2017	**538,082**	**142,751**	**121,552**	**50,458**		852,843
Capital work in progress					**482,670**	282,084
Total					**1,280,670**	1,134,927

Notes To The Consolidated Financial Statements

9. Other assets

	2018 SAR'000	2017 SAR'000
Accounts receivable	**488,704**	521,642
Advance tax	**239,133**	235,900
Others	**421,836**	317,550
Total	**1,149,673**	1,075,092

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Risk-related adjustments

Bid-offer:

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

Notes To The Consolidated Financial Statements

Credit valuation adjustment ('CVA'):

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

Debit valuation adjustment ('DVA'):

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

Credit valuation adjustment/debit valuation adjustment methodology:

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 31 - financial risk managment, note 32 - market risk and note 33 - liquidity risk). Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

As part of its asset and liability management process, the Bank uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against overall statement of financial position exposures. Strategic hedging other than portfolio hedging does not qualify for hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items

Notes To The Consolidated Financial Statements

and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Hedge effectiveness testing

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

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

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission income at a variable rate. The Bank uses commission rate swaps as cash flow hedges of these special commission rate risks. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect statment of income:

				SAR' 000
2018	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**42,886**	**33,641**	**6,412**	**1,066**
Cash out flows (liabilities)	**(5,231)**	**(3,486)**	**-**	**-**
Net cash inflow	**37,655**	**30,155**	**6,412**	**1,066**

				SAR' 000
2017	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	41,654	86,625	38,319	6,787
Cash out flows (liabilities)	(4,964)	(9,337)	-	-
Net cash inflow	36,690	77,288	38,319	6,787

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to market risk nor credit risk, which is generally limited to the positive fair value of the derivatives.

Notes To The Consolidated Financial Statements

2018			Notional amounts by term to maturity				
SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	283,080	(271,665)	39,675,381	4,389,170	3,584,180	26,207,556	5,494,475
Special commission rate options	128,632	(135,847)	18,386,296	37,000	1,038,500	17,050,833	259,963
Forward foreign exchange contracts	18,852	(14,135)	3,710,093	1,680,176	1,559,779	470,138	-
Currency options	133	(133)	5,513,328	1,576,414	3,936,914	-	-
Currency swaps	11,962	(11,113)	1,487,500	-	1,000,000	487,500	-
Others	5,198	(5,198)	360,835	-	8,063	352,772	-
Derivatives held as fair value hedges:							
Special commission rate swaps	76,710	(84,558)	9,420,627	262,500	881,250	5,621,875	2,655,002
Derivatives held as cash flow hedges:							
Special commission rate swaps	13,169	(10,716)	1,190,000	-	750,000	440,000	-
Currency swaps	24,637	(13,888)	1,462,500	-	168,750	1,106,250	187,500
Total	562,373	(547,253)	81,206,560	7,945,260	12,927,436	51,736,924	8,596,940

2017			Notional amounts by term to maturity				
SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	270,248	(241,185)	41,249,303	5,108,269	3,515,608	27,423,804	5,201,622
Special commission rate options	91,904	(93,830)	15,748,090	-	2,857,148	12,358,141	532,801
Forward foreign exchange contracts	34,516	(25,406)	14,073,054	12,274,747	1,608,807	189,500	-
Currency options	18,355	(18,441)	41,251,205	15,974,503	22,689,202	2,587,500	-
Currency swaps	18,023	(16,521)	3,205,935	250,000	1,468,435	1,487,500	-
Others	14,862	(14,861)	360,836	-	-	360,836	-
Derivatives held as fair value hedges:							
Special commission rate swaps	42,027	(40,034)	6,498,750	187,500	1,200,000	2,748,750	2,362,500
Derivatives held as cash flow hedges:							
Special commission rate swaps	30,282	(15,273)	1,390,000	-	-	1,190,000	200,000
Currency swaps	12,147	(15,644)	1,419,078	333,034	186,044	900,000	-
Total	532,364	(481,195)	125,196,251	34,128,053	33,525,244	49,246,031	8,296,923

The Bank 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 notionals included in each structure as of the reporting date is disclosed in the table above.

Notes To The Consolidated Financial Statements

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

2018

SAR'000

Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	**9,367,452**	**9,420,627**	**Fair value**	**Special commission rate swap**	**76,710**	**(84,558)**
Floating commission rate investments	**1,190,072**	**1,190,000**	**Cash flow**	**Special commission rate swap**	**13,169**	**(10,716)**
Fixed commission rate investments	**1,273,205**	**1,275,000**	**Cash flow**	**Currency swap**	**24,266**	**(13,888)**
Fixed commission rate deposits	**187,500**	**187,500**	**Cash flow**	**Currency swap**	**371**	**-**

2017

SAR'000

Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	6,485,500	6,498,750	Fair value	Special commission rate swap	42,027	(40,034)
Floating commission rate investments	1,390,142	1,390,000	Cash flow	Special commission rate swap	30,282	(15,273)
Fixed commission rate investments	1,229,903	1,230,592	Cash flow	Currency swap	12,147	(15,041)
Fixed commission rate deposits	187,500	187,500	Cash flow	Currency swap	-	(603)

The hedge inception value has been adjusted, where necessary, to reflect book values.

The net losses on the hedging instruments for fair value hedges are SAR 9.8 million (2017: net losses of SAR 30.1 million). The net losses on the hedged item attributable to the hedged risk are SAR 39.9 million (2017: net gains of SAR 18.6 million).

Approximately 68% (2017: 65%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and out of which 38% (2017: 8%) of the positive fair value contracts are with any individual counterparty at the consolidated statement of financial position date.

11. Due to banks and other financial institutions

	2018	2017
	SAR'000	SAR'000
Current accounts	**956,730**	1,780,975
Money market deposits	**56,503**	1,910,000
Total	**1,013,233**	3,690,975

Notes To The Consolidated Financial Statements

12. Customers' deposits

	2018	2017
	SAR'000	SAR'000
Demand	82,086,159	88,538,701
Savings	7,823,077	6,868,200
Time	39,560,510	43,860,973
Margin	1,036,759	971,639
Total	130,506,505	140,239,513

Customers' deposits include SAR 80,450.9 million (2017: SAR 78,849.5 million) deposits under Shariah approved product contracts.

The above deposits include the following deposits in foreign currency:

	2018	2017
	SAR'000	SAR'000
Demand	11,076,510	11,946,994
Savings	237,074	294,069
Time	8,410,185	8,930,155
Margin	200,831	216,606
Total	19,924,600	21,387,824

13. Debt securities in issue

	2018	2017
	SAR'000	SAR'000
SAR 1,500 million 7 year subordinated Sukuk - 2013	-	1,500,452
SAR 1,500 million 10 year subordinated Sukuk- 2015	1,499,282	1,498,296
Total	1,499,282	2,998,748

SAR 1,500 million 7 year subordinated Sukuk – 2013

The Sukuk was issued by SABB on 17 December 2013 having maturity in December 2020. This was a Basel III compliant issuance and SABB had an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and the terms and conditions of the agreement. The Sukuk was repaid on 17 December 2018.

The Sukuk carried effective special commission income at six months' SAIBOR plus 140 bps payable semi-annually. The Sukuk was unsecured and was listed on the Saudi Stock Exchange (Tadawul).

SAR 1,500 million 10 year subordinated Sukuk -2015

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

The Sukuk carries effective special commission income at six months' SAIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

14. Borrowings

Syndicated loan represents a floating rate loan obtained by the Bank on 19 October 2016 amounting to USD 450 million at three months' LIBOR plus 125 bps payable quarterly. The loan is unsecured and matures on 19 October 2019.

Notes To The Consolidated Financial Statements

15. Other liabilities

	2018 SAR'000	2017 SAR'000
Accounts payable	1,222,879	1,098,226
Drawings payable	590,437	809,135
Dividends payable	225,958	242,234
End of service benefits	453,605	434,890
Others	4,346,554	2,467,512
Total	6,839,433	5,051,997

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 1,500 million shares of SAR 10 each (2017: 1,500 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2018	2017
Saudi shareholders	60%	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	40%	40%

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 1.232.2 million (2017: SAR 988.6 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

Cash flow hedges and available for sale investments

2018 SAR'000	Cash flow hedges	FVOCI	Total
Balance at beginning of the year	10,007	8,209	18,216
Impact of adopting of new standard at 1 Jan 2018			
- Reclassification AFS equity to FVOCI	-	(181,133)	(181,133)
Restated balance at 1 Jan 2018	10,007	(172,924)	(162,917)
Net change in fair value	6,760	156,670	163,430
Transfer to consolidated statement of income	(7,865)	20,947	13,082
Net movement during the year	(1,105)	177,617	176,512
Sub total	8,902	4,693	13,595
Treasury shares			(36,993)
Employee share plan reserve			20,275
Sub total			(16,718)
Balance at end of the year			(3,123)

Notes To The Consolidated Financial Statements

2017 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	(25,644)	76,309	50,665
Net change in fair value	89,927	(87,156)	2,771
Transfer to consolidated statement of income	(54,276)	19,056	(35,220)
Net movement during the year	35,651	(68,100)	(32,449)
Sub total	10,007	8,209	18,216
Treasury shares			(37,494)
Employee share plan reserve			19,766
Sub total			(17,728)
Balance at end of the year			488

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 7.9 million (2017: SAR 54.3 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Business combination

On 17 August 2017, SABB entered into an agreement with HSBC Asia Holdings BV and certain other wholly-owned subsidiaries of HSBC Holdings plc (together HSBC) to purchase HSBC's combined 32.5% shareholding in SABB Takaful, a Saudi Joint Stock Company listed in Tadawul, at a purchase price of SAR 10.66 per share, totaling SAR 117.8 million. This transaction was completed on 23 November 2017, resulting in SABB owning 65% in SABB Takaful. Effective 23 November 2017, SABB Takaful has been classified as a subsidiary and no longer treated as an associate. The acquisition has been accounted for using the acquisition method. SABB elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets. SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom. The Bank completed the exercise of calculating carrying value of SABB Takaful as at 23 November 2017 and following table summarises the recognised amounts of assets and liabilities assumed at the date of acquisition:

SAR'000 **Assets**	**23 November 2017**
Due from banks and other financial institutions	**228,512**
Investments, net	**533,191**
Property and equipment, net	**1,829**
Other assets	**144,482**
Total assets	**908,014**
Liabilities	
Other liabilities	**548,359**
Total liabilities	**548,359**
Total identifiable net assets at provisional fair value	**359,655**
Non-controlling interest	**(125,879)**

Notes To The Consolidated Financial Statements

Goodwill arising on acquisition	13,806
Total consideration	247,582
This comprises of:	
Cash paid on acquisition	117,793
Fair value of previously held equity interest	129,789
Cash flow on acquisition	
Cash and cash equivalents in subsidiary acquired	202,177
Cash consideration paid	(117,793)
Net cash inflow on acquisition	84,384

The goodwill is attributed mainly to synergies expected to arise from the integration of SABB Takaful business into SABB group.

20. Commitments and contingencies

a) Legal proceedings

As at 31 December 2018, there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) Capital commitments

As at 31 December 2018, the Bank has capital commitments of SAR 576.2 million (2017: SAR 746.5 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 Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The cash requirement under these instruments is considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfil their primary obligation.

Commitments to extend credit represent the unutilised portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unutilised commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unutilised commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or be terminated without being funded.

Notes To The Consolidated Financial Statements

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

2018	Within 3	3-12	1-5	Over 5	
SAR'000	months	months	years	years	Total
Letters of credit	**5,944,584**	**2,038,908**	**628,047**	**3,164,066**	**11,775,605**
Guarantees	**8,124,323**	**20,111,100**	**10,817,155**	**14,208,658**	**53,261,236**
Acceptances	**1,851,536**	**1,132,165**	**1,101**	**-**	**2,984,802**
Irrevocable commitments to extend credit	**300,254**	**403,581**	**2,038,949**	**791,803**	**3,534,587**
Total	**16,220,697**	**23,685,754**	**13,485,252**	**18,164,527**	**71,556,230**

2017	Within 3	3-12	1-5	Over 5	
SAR'000	months	months	years	years	Total
Letters of credit	5,122,801	3,732,706	435,493	1,709,938	11,000,938
Guarantees	8,608,542	22,753,910	10,456,345	10,787,136	52,605,933
Acceptances	2,188,752	1,092,795	401	-	3,281,948
Irrevocable commitments to extend credit	125,500	1,324,643	825,000	1,242,934	3,518,077
Total	16,045,595	28,904,054	11,717,239	13,740,008	70,406,896

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 51,003 million (2017: SAR 49,316 million).

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

	2018	2017
	SAR'000	SAR'000
Government and quasi government	**2,428,562**	3,398,385
Corporate	**55,313,975**	52,768,439
Banks and other financial institutions	**13,767,327**	14,226,426
Other	**46,366**	13,646
Total	**71,556,230**	70,406,896

f) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows:

	2018	2017
	SAR'000	SAR'000
Less than 1 year	**69,706**	78,187
1 to 5 years	**129,640**	188,271
Over 5 years	**53,059**	105,199
Total	**252,405**	371,657

Notes To The Consolidated Financial Statements

21. Net special commission income

	2018 SAR'000	2017 SAR'000
Special commission income		
Investments		
– FVOCI / available for sale	248,060	380,681
– held at amortised cost	658,030	160,226
	906,090	540,907
Due from banks and other financial institutions	295,406	254,849
Loans and advances	5,440,506	5,255,532
Total	6,642,002	6,051,288
Special commission expense		
Due to banks and other financial institutions	39,576	15,370
Customers' deposits	844,184	769,596
Debt securities in issue	119,523	124,830
Borrowings	61,390	43,608
Total	1,064,673	953,404
Net special commission income	5,577,329	5,097,884

22. Fees and commission income, net

	2018 SAR'000	2017 SAR'000
Fee and commission income:		
- Fund management fees	11,390	9,496
- Trade finance	609,019	648,546
- Corporate finance and advisory	106,948	132,301
- Card products	490,263	523,074
- Other banking services	424,533	344,837
Total fee and commission income	1,642,153	1,658,254
Fee and commission expense:		
- Card products	363,984	307,381
- Custodial services	834	718
- Other banking services	95,218	94,621
Total fee and commission expense	460,036	402,720
Fees and commission income, net	1,182,117	1,255,534

Notes To The Consolidated Financial Statements

23. Trading income, net

	2018 SAR'000	2017 SAR'000
Foreign exchange income, net	82,424	98,541
Derivatives	86,471	156,488
Debt securities	161	271
Others	2,153	3,098
Total	171,209	258,398

24. Losses on FVOCI debt investments, net

	2018 SAR'000	2017 SAR'000
FVOCI investments	20,947	-

25. Salaries and employee related expenses

	2018 SAR'000	2017 SAR'000
Salaries and allowance	795,247	732,515
Housing allowance	119,338	120,075
End of service benefits	57,120	57,682
Others	267,350	318,319
Total	1,239,055	1,228,591

a) Quantitative Disclosure

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended 31 December 2018 and 31 December 2017, and the forms of such payments.

2018 Category	Number of Employees *	Fixed compensation SAR'000	Variable compensation paid in 2018		
			Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	21	34,403	17,517	8,497	26,014
Employees engaged in risk taking activities	543	186,936	53,739	5,971	59,710
Employees engaged in control functions	327	117,210	23,425	871	24,296
Other employees	2,505	501,225	76,703	683	77,386
Outsourced employees	375	36,311	4,078	-	4,078
Total	3,771	876,085	175,462	16,022	191,484

Variable compensation accrued in 2018	185,959
Other employee related benefits **	177,011
Total salaries and employee related expenses	1,239,055

Notes To The Consolidated Financial Statements

2017 Category	Number of Employees *	Fixed compensation SAR'000	Variable compensation paid in 2017		
			Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	22	40,225	19,997	11,724	31,721
Employees engaged in risk taking activities	587	188,061	58,784	4,090	62,874
Employees engaged in control functions	299	105,114	20,293	677	20,970
Other employees	2,544	488,791	72,583	561	73,144
Outsourced employees	554	38,034	3,415	-	3,415
Total	4,006	860,225	175,072	17,052	192,124
Variable compensation accrued in 2017		215,907			
Other employee related benefits **		152,459			
Total salaries and employee related expenses		1,228,591			

* Represent all employees who worked for the Bank and were compensated during the year 2018 or 2017, whether they are still active or no longer employed by the bank.

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

Senior executives (requiring SAMA no objection):

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

Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

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

Outsourced employees:

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

Notes To The Consolidated Financial Statements

b) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements

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

SABB Compensation Policy

i. Policy Objectives

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

The objectives of the policy are to: align the reward practices with the Bank's strategy & values so as to support the successful execution of the strategy in a risk compliant manner; offer an attractive employee value proposition to attract, retain and motivate competent and committed people; and ensure the financial sustainability of SABB.

ii. Compensation Structure

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

iii. Performance Management System

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

iv. Risk-adjustment for Variable Pay schemes

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

v. Bonus Deferral

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

vi. Nomination and Remuneration Committee

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

Notes To The Consolidated Financial Statements

c) Share based bonus payments

The Bank has Share Based Equity settled Bonus payment plans outstanding at the end of the year. Under the terms of these plans, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions. The cost of the plans is recognized 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 recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

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

	Number of shares	
	2018	2017
Beginning of the year	**1,142,854**	919,102
Forfeited	**(66,915)**	(180,850)
Exercised/Expired	**(470,281)**	(404,674)
Granted during the year	**457,863**	809,276
End of the year	**1,063,521**	1,142,854

The weighted average price of shares granted during the year was SAR 31.1 (2017: SAR 20.67).

26. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended 31 December 2018 and 2017 are calculated by dividing the net income for the year attributable to the equity holders of the Bank by the weighted average number of issued shares.

27. Gross dividends, Zakat and income tax

The Board of Directors has proposed a gross final dividend of SAR 1,820 million for the year 2018 (2017: SAR 1,110 million). During 2018, an interim dividend of SAR 1,500 million (2017: SAR 1,125 million) was also proposed and paid. Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Saudi shareholders:

The zakat settlement agreed with GAZT also includes agreement on the amounts due for fiscal year 2018. The zakat liability for the year ended 31 December 2018 attributable to Saudi shareholders is SAR 227.8 million (2017: SAR 63.0 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 1.96 per share (2017: SAR 1.42 per share).

Notes To The Consolidated Financial Statements

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 394.8 million (2017: SAR 316.5 million). The share of dividend of HSBC Holdings BV will be paid after deducting the related taxes due.

Status of Zakat and Income Tax assessments

On 20th December 2018, the Bank announced it has entered into a settlement agreement with the General Authority of Zakat and Tax (GAZT) to settle certain claims relating to zakat pertaining to fiscal years up to 2017 against which it agreed to pay an amount of SAR 1,628.1 million. In accordance with the settlement agreement, the Bank paid 20% of the settlement amount in December 2018. The remaining amount will be settled in equal installments annually over the subsequent 5 years until the end of 2023. The incremental liability resulted in a decrease in the shareholders equity in the fourth quarter of 2018 by SAR 1,128.1 million.

The Bank has also received tax assessments for fiscal years 2005 to 2009 in which the GAZT raised additional demands for income tax and withholding tax. The amounts are not material.

28. Cash and cash equivalents

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

	2018	2017
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit amounting to SAR 7,610 million (2017: SAR 8,162 million) (note 3)	**6,491,540**	18,712,736
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	**10,310,032**	11,382,843
Total	**16,801,572**	30,095,579

29. Employee benefit obligation

a) General description

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

b) The amounts recognized in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2018	2017
	SAR'000	SAR'000
Defined benefit obligation at the beginning of the year	**434,890**	414,510
Current service cost	**36,756**	43,919
Interest cost	**16,737**	15,830
Benefits paid	**(32,342)**	(37,523)
Unrecognized actuarial gain	**(2,436)**	(1,846)
Defined benefit obligation at the end of the year	**453,605**	434,890

Notes To The Consolidated Financial Statements

c) Charge for the year

	2018	2017
	SAR'000	SAR'000
Current service cost	**36,756**	43,919
Interest cost	**16,737**	15,830
Total	**53,493**	59,749

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

	2018	2017
Discount rate	**4.60% p.a**	4.00% p.a
Expected rate of salary increase	**3.85% p.a**	2.90% p.a
Normal retirement age	**60 years**	60 years

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

e) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at 31 December 2018 to the discount rate 4.60% (December 2017: 4.00%), salary escalation rate 3.85% (December 2017: 2.90%), withdrawal assumptions and mortality rates.

	SAR'000		
2018	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1.00%**	**(43,612)**	**51,629**
Expected rate of salary increase	**1.00%**	**53,885**	**(46,233)**
Normal retirement age	**1 year**	**(980)**	**947**

	SAR'000		
2017	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	(36,788)	42,353
Expected rate of salary increase	1.00%	44,709	(39,428)
Normal retirement age	1 year	(1,078)	1,102

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

f) Expected maturity

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

SAR'000

2018	**Less than a year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
453,605	38,713	21,800	73,148	651,198	784,859

2017	Less than a year	1-2 years	2-5 years	Over 5 years	Total
434,890	19,765	47,398	71,875	510,569	649,607

The weighted average duration of the defined benefit obligation is 10.54 years (2017: 9.11 years).

Notes To The Consolidated Financial Statements

30. Operating segments

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

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

a) The Bank's reportable segments are as follows:

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

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

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

Others – includes activities of the Bank's investment in insurance subsidiary, SABB Takaful, its investment banking joint venture, HSBC Saudi Arabia, and equity investments.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2018 and 2017, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

2018

SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	25,871,991	87,698,216	58,329,917	2,663,987	174,564,111
Total liabilities	59,238,230	67,606,923	14,735,343	520,518	142,101,014
Investment in a joint venture	-	-	-	532,597	532,597
Total operating income, of which:	2,677,756	3,439,920	1,199,961	59,585	7,377,222
Special commission income, net	2,198,966	2,498,199	869,037	11,127	5,577,329
Fees and commission income, net	351,464	830,515	138	-	1,182,117
Trading income, net	266	11,085	159,858	-	171,209
Credit losses and impairment provision, net	190,979	72,003	(3,950)	-	259,032
Other operating expenses	1,304,899	761,490	160,647	27,602	2,254,638
Share in earnings of a joint venture	-	-	-	65,551	65,551
Net income for the year	1,181,878	2,606,427	1,043,264	97,534	4,929,103

Notes To The Consolidated Financial Statements

2017 SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	27,728,040	92,111,925	65,338,461	2,436,918	187,615,344
Total liabilities	58,902,458	73,940,989	20,753,067	548,359	154,144,873
Investment in a joint venture	-	-	-	524,924	524,924
Total operating income, of which:	2,567,438	3,219,555	1,287,416	52,499	7,126,908
Special commission income, net	2,102,772	2,190,731	804,381	-	5,097,884
Fees and commission income, net	344,590	911,173	(229)	-	1,255,534
Trading income, net	114	8,788	249,496	-	258,398
Credit losses and impairment provision, net	388,082	613,746	(1,145)	50,000	1,050,683
Other operating expenses	1,267,941	716,804	157,899	47,919	2,190,563
Share in earnings of an associate and a joint venture	-	-	-	68,916	68,916
Net income for the year	911,415	1,889,005	1,130,662	23,496	3,954,578

b) Total operating income by operating segments

2018 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
External	**1,945,778**	**4,417,150**	**956,726**	**57,568**	**7,377,222**
Internal	**731,978**	**(977,230)**	**243,235**	**2,017**	**-**
Total operating income	**2,677,756**	**3,439,920**	**1,199,961**	**59,585**	**7,377,222**

2017 SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
External	2,109,765	4,331,267	633,377	52,499	7,126,908
Internal	457,673	(1,111,712)	654,039	-	-
Total operating income	2,567,438	3,219,555	1,287,416	52,499	7,126,908

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

2018 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
Assets	**23,432,481**	**86,893,478**	**57,163,466**	**292,072**	**167,781,497**
Commitments and contingencies	**26,908**	**42,404,714**	**-**	**-**	**42,431,622**
Derivatives	**-**	**-**	**828,940**	**-**	**828,940**
Total	**23,459,389**	**129,298,192**	**57,992,406**	**292,072**	**211,042,059**

2017 SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
Assets	25,586,028	91,420,059	64,285,585	355,301	181,646,973
Commitments and contingencies	6,823	33,102,276	-	-	33,109,099
Derivatives	-	-	1,207,929	-	1,207,929
Total	25,592,851	124,522,335	65,493,514	355,301	215,964,001

Credit exposure comprises the carrying value of assets excluding cash, property and equipment, other assets, investment in associate and joint venture 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

31. Financial risk management

i) Credit risk

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

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

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

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

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

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 20. The information on Bank's maximum credit exposure by operating segment is given in note 30.

Notes To The Consolidated Financial Statements

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

2018 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,542,528	-	-	-	-	1,542,528
Balances with SAMA	12,421,215	-	-	-	-	12,421,215
Other balances	137,346	-	-	-	-	137,346
Due from banks and other financial institutions						
Current accounts	-	59,380	1,886,211	4,914,373	36,926	6,896,890
Money market placements	4,718,592	388,242	37,570	-	-	5,144,404
Investments, net						
FVTPL	419,133	-	-	-	-	419,133
FVOCI	8,624,106	2,726,934	1,450,879	92,065	94,650	12,988,634
Amortised cost	20,193,190	386,827	-	-	582,672	21,162,689
Positive fair value derivatives						
Held for trading	182,582	27,706	237,519	-	50	447,857
Held as fair value hedges	-	3,556	73,154	-	-	76,710
Held as cash flow hedges	-	22,420	15,386	-	-	37,806
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Consumer loans	19,439,354	-	-	-	-	19,439,354
Commercial loans and overdrafts	88,480,748	189,570	225,121	-	-	88,895,439
Investment in a joint venture	532,597	-	-	-	-	532,597
Property and equipment, net	1,280,670	-	-	-	-	1,280,670
Other assets	1,149,673	-	-	-	-	1,149,673
Total	161,112,900	3,804,635	3,925,840	5,006,438	714,298	174,564,111
Liabilities						
Due to banks and other financial institutions						
Current accounts	2,248	458,019	471,951	9,156	15,356	956,730
Money market deposits	-	56,503	-	-	-	56,503
Customer deposits						
Demand	81,961,755	1,631	83,433	21,471	17,869	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	39,441,098	4,518	24,358	8,933	81,603	39,560,510
Margin	1,036,759	-	-	-	-	1,036,759
Debt securities in issue	1,499,282	-	-	-	-	1,499,282
Borrowings	-	282,551	791,145	-	621,612	1,695,308
Negative fair value derivatives						
Held for trading	93,117	12,379	332,570	-	25	438,091
Held as fair value hedges	-	4,321	80,237	-	-	84,558
Held as cash flow hedges	-	12,230	12,374	-	-	24,604
Other liabilities	6,839,433	-	-	-	-	6,839,433
Total	138,696,769	832,152	1,796,068	39,560	736,465	142,101,014
Commitments and contingencies	58,924,589	872,400	4,674,413	913,833	6,170,995	71,556,230
Credit exposure (stated at credit equivalent amounts)						
Assets	154,728,719	3,750,953	3,597,991	4,989,586	714,248	167,781,497
Commitments and contingencies	35,109,342	516,826	2,702,949	528,772	3,573,733	42,431,622
Derivatives	467,822	117,530	243,588	-	-	828,940
Total credit exposure	190,305,883	4,385,309	6,544,528	5,518,358	4,287,981	211,042,059

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2017 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,304,487	-	-	-	-	1,304,487
Balances with SAMA	25,541,038	-	-	-	-	25,541,038
Other balances	28,974	-	-	-	-	28,974
Due from banks and other financial institutions						
Current accounts	-	33,378	1,776,450	4,944,942	53,307	6,808,077
Money market placements	5,287,342	1,132,021	175,354	78,010	9,896	6,682,623
Investments, net						
Available for sale	10,364,664	2,627,612	2,660,200	75,572	524,557	16,252,605
Amortised cost	10,424,063	-	300,083	-	-	10,724,146
Positive fair value derivatives						
Held for trading	182,547	37,273	228,088	-	-	447,908
Held as fair value hedges	-	-	42,027	-	-	42,027
Held as cash flow hedges	-	8,695	33,734	-	-	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	21,216,902	-	-	-	-	21,216,902
Commercial loans and overdrafts	93,251,815	189,570	225,000	-	-	93,666,385
Investment in a joint venture	524,924	-	-	-	-	524,924
Property and equipment, net	1,134,927	-	-	-	-	1,134,927
Other assets	1,075,092	-	-	-	-	1,075,092
Total	172,459,575	4,028,549	5,440,936	5,098,524	587,760	187,615,344
Liabilities						
Due to banks and other financial institutions						
Current accounts	2,597	539,170	1,138,595	47,687	52,926	1,780,975
Money market deposits	1,175,123	734,877	-	-	-	1,910,000
Customer deposits						
Demand	87,667,777	6,830	812,433	37,709	13,952	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	42,914,272	-	863,150	3,836	79,715	43,860,973
Margin	971,639	-	-	-	-	971,639
Debt securities in issue	2,998,748	-	-	-	-	2,998,748
Borrowings	-	280,408	785,139	-	616,898	1,682,445
Negative fair value derivatives						
Held for trading	110,945	25,517	273,782	-	-	410,244
Held as fair value hedges	-	-	40,034	-	-	40,034
Held as cash flow hedges	-	9,331	21,586	-	-	30,917
Other liabilities	5,051,997	-	-	-	-	5,051,997
Total	147,761,298	1,596,133	3,934,719	89,232	763,491	154,144,873
Commitments and contingencies	57,458,258	1,024,673	4,800,473	917,318	6,206,174	70,406,896
Credit exposure (stated at credit equivalent amounts)						
Assets	166,861,789	3,982,581	5,136,114	5,078,729	587,760	181,646,973
Commitments and contingencies	27,101,134	486,385	2,301,949	594,552	2,625,079	33,109,099
Derivatives	623,485	245,584	309,565	-	29,295	1,207,929
Total credit exposure	194,586,408	4,714,550	7,747,628	5,673,281	3,242,134	215,964,001

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

2018 SAR'000	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non-performing loans	3,321,969	-	5,282	-	-	3,327,251
Provision for credit losses	4,745,371	-	5,241	-	-	4,750,612

2017 SAR'000	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non-performing loans	1,893,534	-	-	-	-	1,893,534
Provision for credit losses	3,556,133	-	-	-	-	3,556,133

ii) Credit quality analysis

a.The following table sets out information about the credit quality of financial assets measured at amortized cost, and FVOCI. The amounts in the table represent gross carrying amounts, unless specifically disclosed as net.

	2018				
SAR' 000	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Purchased credit impaired**	**Total**
Due from bank and other financial institutions, net	12,041,294	-	-	-	**12,041,294**
Debt investment securities at amortized cost, net	21,162,689	-	-	-	**21,162,689**
Debt investment securities at FVOCI, net	11,428,410	214,046	-	-	**11,642,456**
Loans and advances to customers at amortized cost					
Strong	15,195,292	187,991	-	-	**15,383,283**
Good	44,387,339	1,767,356	8,715	-	**46,163,410**
Satisfactory	14,472,142	10,048,293	34,103	-	**24,554,538**
Unrated	20,766,857	721,644	463,899	62,365	**22,014,765**
Special Mention	-	3,417,329	215,995	-	**3,633,324**
Non-performing	-	-	3,325,781	1,470	**3,327,251**
Total	**94,821,630**	**16,142,613**	**4,048,493**	**63,835**	**115,076,571**
Commitments and contingencies	**62,311,456**	**8,304,422**	**940,352**	-	**71,556,230**

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SAR' 000	2017			
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Loans and advances to customers at amortized cost				
Strong	-	-	13,071,772	13,071,772
Good	-	8,244,886	46,512,304	54,757,190
Satisfactory	2,068,417	11,253,881	29,853,387	43,175,685
Special Mention	-	-	3,247,353	3,247,353
Past due	164,424	2,054,157	2,198,105	4,416,686
Non-performing	5,623	105,065	1,782,846	1,893,534
Total	2,238,464	21,657,989	96,665,767	120,562,220

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

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

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

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

b. Amounts arising from ECL – Significant increase in credit risk

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

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

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

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

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the probability of default and applying experienced credit judgment. Credit risk grades are

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

i) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Generating the PD term structure includes:

- Computation of central tendency and shift in assigned rating grade PDs, such that the rating grades reflect the current economic scenario implied portfolio PDs
- Macroeconomic adjustments of portfolio Central Tendency (CT)

Historical data of portfolio default rates is used to arrive at 1-year forward looking central tendency (CT) for the portfolio and a link between forward looking macroeconomic parameters and 1-year forward-looking CTs are established. The derived macroeconomic adjusted CT is then used to calibrate PIT PDs for each rating grade.

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ii) 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 recognized against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days for Corporate and Retail Exposures and more than 7 days for Treasury investment.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) 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 derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

When the terms of the financial assets are modified that does not result into De-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognised in statement of income for Asset Modification.

To measure the Significant Increase in Credit Risk (for financial assets not de-recognized during the course of modification), the Bank will compare the risk 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 i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

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

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

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 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.

iv) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In case for financial institution including Bank and Sovereign past due more 15 working days consider to be in default.

In assessing whether a borrower is in default. The Bank considers indicators that are:

- qualitative- e.g. breaches of covenant ;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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

v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The expected credit losses have been determined using three different, forward-looking scenarios – Baseline, Upturn and Downturn. The ECL for each of the scenario is calculated and weighted by the likelihood of that scenario is occurring.

Based on the economic data and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables that drives the default rates of each portfolio of financial instruments. The baseline scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting and other business activities. The other two scenarios represent more optimistic and more pessimistic outcomes.

Using robust macroeconomic modelling methodology, Bank has identified and documented the key macroeconomic factors that drives the change in default rates of each portfolio of financial instruments. Following macroeconomic data and forecasts published by governmental bodies and monetary authorities like SAMA, IMF, World Bank and OPEC have been utilized by the Bank to incorporate forward looking information into the PD term structure of each of the scenario.

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- Inflation (average consumer prices % change)
- Unemployment Rate
- 3M Maturity SIBOR
- Income Velocity of Money (Non-Oil)
- Inflation (end of period consumer prices % change)
- Debt to GDP ratio
- General government primary net lending/borrowing (% of GDP);
- Money Supply (Million Riyals).

Predicted relationships between the key indicators and default rates of various portfolios of financial assets have been developed based on analyzing historical data over the past 13 years.

vi) Measurement of ECL

Following risk parameters, that are part of the Basel framework, have been used by the Bank to measure the ECL:

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

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

PD is the predicted probability that a pool of obligors will default over the predefined future time horizon. For each portfolio of financial instruments, PDs have been estimated at a certain date using robust statistical models. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Default rates provided by authorized 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, Bank has adjusted the PDs to incorporate the effect of downgrades and upgrades of borrowers over time.

LGD is the amount of the credit that is lost when a borrower defaults. For each portfolio, Bank estimates the LGD parameters using the workout approach based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For mortgage loans secured by retail property, LTV ratios and current value of the property are key parameters in determining LGD. LGD are calculated on a discounted cash flow basis using the contractual interest rate as the discounting factor.

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

- Time horizon over which EAD needs to be estimated
- Projected cash flows till the estimated default point
- Residual maturity

EAD for the amortized loans considers Contractual pay down; Impact of missed payments and subsequent interest accrual between reporting date and default occurrence; Expected drawdown amount on the unutilized 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.

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For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are Treasury Investments, Bank and Non-Banking Financial institutions and money market placements.

c. Provision for credit losses

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

Off balance sheet SAR in '000'	31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	142,642	347,158	260	490,060
Transfer to 12 month ECL	38,580	(38,580)	-	-
Transfer to lifetime ECL not credit impaired	(2,308)	81,677	(79,369)	-
Transfer to lifetime ECL credit impaired	(75)	(29,360)	29,435	-
Net charge / (recoveries) for the year	(147,508)	(123,365)	205,909	(64,964)
Balance as at 31 December	31,331	237,530	156,235	425,096

32. Market risk

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading and non-trading or banking-book.

Market Risk exposures in the trading book are restricted to derivatives 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 the trading book is managed and monitored using Value at Risk (VAR) methodology. Market risk for non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

a) Market risk-trading book

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

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use

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of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

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

The Bank's VAR related information is as follows:

			SAR'000
2018	**Foreign exchange**	**Special commission rate**	**Overall risk**
VAR as at 31December 2018	**109**	**564**	**575**
Average VAR for 2018	**1,104**	**1,174**	**1,778**
Minimum VAR for 2018	**74**	**423**	**424**
Maximum VAR for 2018	**3,949**	**2,850**	**4,069**

			SAR'000
2017	Foreign exchange	Special commission rate	Overall risk
VAR as at 31December 2017	567	1,686	1,663
Average VAR for 2017	1,179	6,359	6,461
Minimum VAR for 2017	385	1,202	1,312
Maximum VAR for 2017	1,958	17,846	17,495

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non- trading financial assets and financial liabilities repricing as at 31 December 2018, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI / available for sale financial assets; including the effect of any associated hedges as at 31 December 2018 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represent only those exposures that directly impact OCI of the Bank.

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		2018					SAR' 000
Currency	**Increase in basis points**	**Sensitivity of Special Commission Income**	**Sensitivity of Equity**				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+100	561,800	(16,096)	(12,181)	(449,313)	(85,715)	(563,305)
USD	+100	117,541	(7,304)	(15,496)	(150,489)	(197,600)	(370,889)
EUR	+100	(8,379)	-	-	-	-	-
Others	+100	(2,671)	-	-	-	-	-

		2018					SAR' 000
Currency	**decrease in basis points**	**Sensitivity of Special Commission Income**	**Sensitivity of Equity**				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	-100	(577,484)	16,096	12,181	449,313	85,715	563,305
USD	-100	(117,273)	7,304	15,496	150,489	197,600	370,889
EUR	-100	-	-	-	-	-	-
Others	-100	9	-	-	-	-	-

		2017					SAR' 000
Currency	Increase in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+ 100	573,320	(15,645)	(551)	(233,353)	(73,997)	(323,546)
USD	+ 100	47,276	(5,821)	(15,393)	(137,477)	(175,836)	(334,527)
EUR	+ 100	(7,781)	-	-	-	-	-
Others	+ 100	(2,481)	(1,244)	(654)	-	-	(1,898)

		2017					SAR' 000
Currency	decrease in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	- 100	(664,789)	15,645	551	233,353	73,997	323,546
USD	- 100	(33,305)	5,821	15,393	137,477	175,836	334,527
EUR	- 100	-		-	-	-	-
Others	- 100	9	1,244	654	-	-	1,898

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

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2018 SAR'000	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	-	-	-	-	1,542,528	1,542,528
Balances with SAMA	4,811,666	-	-	-	7,609,549	12,421,215
Other balances	-	-	-	-	137,346	137,346
Due from banks and other financial institutions						
Current accounts	-	-	-	-	6,896,890	6,896,890
Money market placements	4,469,391	637,513	37,500	-	-	5,144,404
Investments, net						
FVTPL	368,674	-	20,324	30,135	-	419,133
FVOCI	1,849,851	2,148,283	4,325,726	3,318,595	1,346,179	12,988,634
Amortised cost	4,397,120	1,891,788	12,825,869	2,047,912	-	21,162,689
Positive fair value derivatives						
Held for trading	-	-	-	-	447,857	447,857
Held as fair value hedges	-	-	-	-	76,710	76,710
Held as cash flow hedges	-	-	-	-	37,806	37,806
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Consumer loans	1,867,173	5,300,113	10,392,939	1,879,129	-	19,439,354
Commercial loans and overdrafts	53,927,642	31,563,631	2,843,510	560,656	-	88,895,439
Investment in a joint venture	-	-	-	-	532,597	532,597
Property and equipment, net	-	-	-	-	1,280,670	1,280,670
Other assets	-	-	-	-	1,149,673	1,149,673
Total assets	73,682,683	41,541,328	30,445,868	7,836,427	21,057,805	174,564,111
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	956,730	956,730
Money market deposits	56,503	-	-	-	-	56,503
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,749,725	6,528,182	2,282,603	-	-	39,560,510
Margin	-	-	-	-	1,036,759	1,036,759
Debt securities in issue	5,218	1,494,064	-		-	1,499,282
Borrowings	-	1,695,308	-	-	-	1,695,308
Negative fair value derivatives						
Held for trading		-	-	-	438,091	438,091
Held as fair value hedges		-	-	-	84,558	84,558
Held as cash flow hedges		-	-	-	24,604	24,604
Other liabilities	-	-	-	-	6,839,433	6,839,433
Equity	-	-	-	-	32,463,097	32,463,097
Total liabilities and equity	38,634,523	9,717,554	2,282,603	-	123,929,431	174,564,111
Commission rate sensitivity on assets and liabilities	35,048,160	31,823,774	28,163,265	7,836,427	(102,871,626)	
Commission rate sensitivity on derivative financial instruments	7,947,083	(642,359)	(4,478,219)	(2,826,505)	-	
Total special commission rate sensitivity gap	42,995,243	31,181,415	23,685,046	5,009,922	(102,871,626)	
Cumulative special commission rate sensitivity gap	42,995,243	74,176,658	97,861,704	102,871,626	-	

Notes To The Consolidated Financial Statements

2017 SAR'000	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	-	-	-	-	1,304,487	1,304,487
Balances with SAMA	17,379,275	-	-	-	8,161,763	25,541,038
Other balances	-	-	-	-	28,974	28,974
Due from banks and other financial institutions						
Current accounts	-	-	-	-	6,808,077	6,808,077
Money market placements	6,682,623	-	-	-	-	6,682,623
Investments, net						
Available for sale	3,146,235	5,242,268	4,155,107	2,692,484	1,016,511	16,252,605
Amortised cost	3,104,781	-	6,274,238	1,345,127	-	10,724,146
Positive fair value derivatives						
Held for trading	-	-	-	-	447,908	447,908
Held as fair value hedges	-	-	-	-	42,027	42,027
Held as cash flow hedges	-	-	-	-	42,429	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	50,082	275,175	12,100,664	8,790,981	-	21,216,902
Commercial loans and overdrafts	63,248,889	23,717,020	6,172,514	527,962	-	93,666,385
Investment in a joint venture	-	-	-	-	524,924	524,924
Property and equipment, net	-	-	-	-	1,134,927	1,134,927
Other assets	-	-	-	-	1,075,092	1,075,092
Total assets	95,734,685	29,234,463	28,702,523	13,356,554	20,587,119	187,615,344
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	1,780,975	1,780,975
Money market deposits	1,910,000	-	-	-	-	1,910,000
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,728,263	8,663,365	2,469,345	-	-	43,860,973
Margin	-	-	-	-	971,639	971,639
Debt securities in issue	6,935	2,991,813	-	-	-	2,998,748
Borrowings	-	1,682,445	-	-	-	1,682,445
Negative fair value derivatives						
Held for trading	-	-	-	-	410,244	410,244
Held as fair value hedges	-	-	-	-	40,034	40,034
Held as cash flow hedges	-	-	-	-	30,917	30,917
Other liabilities	-	-	-	-	5,051,997	5,051,997
Equity	-	-	-	-	33,470,471	33,470,471
Total liabilities and equity	41,513,398	13,337,623	2,469,345	-	130,294,978	187,615,344
Commission rate sensitivity on assets and liabilities	54,221,287	15,896,840	26,233,178	13,356,554	(109,707,859)	
Commission rate sensitivity on derivative financial instruments	5,693,909	(1,803,430)	(1,727,979)	(2,162,500)	-	
Total special commission rate sensitivity gap	59,915,196	14,093,410	24,505,199	11,194,054	(109,707,859)	
Cumulative special commission rate sensitivity gap	59,915,196	74,008,606	98,513,805	109,707,859	-	

Notes To The Consolidated Financial Statements

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 Bank does not maintain material non trading open currency positions. Foreign currency exposures that arise in the non-trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 32(a) reflects the Bank's total exposure to currency risk.

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

	2018	2017
	SAR'000	SAR'000
	Long (short)	Long (short)
US Dollar	**779,093**	1,396,961
Euro	**3,173**	(7,695)
Sterling Pounds	**(386)**	(5,756)
Other	**(20,679)**	(65,895)

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as FVOCI / available for sale. A 10 per cent increase or decrease in the value of the bank's FVOCI / available for sale equities at 31 December 2018 would have correspondingly increase or decrease equity by SAR 133.6 million (2017: SAR 136.7 million).

33. Liquidity risk

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

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

Notes To The Consolidated Financial Statements

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

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below sets out Bank's contractual undiscounted financial liabilities.

2018 SAR'000	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	956,730	-	-	-	-	956,730
Money market deposits	56,513	-	-	-	-	56,513
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,816,061	6,629,480	2,478,641	-	-	39,924,182
Margin	88,358	266,315	392,240	289,846	-	1,036,759
Debt securities in issue	12,703	38,109	203,250	1,570,335	-	1,824,397
Borrowings	17,076	1,729,522	-	-	-	1,746,598
Derivatives :						
- Special commission contractual amounts payable (receivable)	(8,762)	(13,057)	(10,267)	16,966	-	(15,120)
Total undiscounted financial liabilities	39,761,756	8,650,369	3,063,864	1,877,147	82,086,159	135,439,295

Notes To The Consolidated Financial Statements

2017 SAR'000	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	1,780,975	-	-	-	-	1,780,975
Money market deposits	1,910,161	-	-	-	-	1,910,161
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,774,761	8,738,880	2,682,084	-	-	44,195,725
Margin	97,873	158,667	490,861	224,238	-	971,639
Debt securities in issue	25,781	77,344	1,656,230	1,778,471	-	3,537,826
Borrowings	11,042	33,127	1,718,762	-	-	1,762,931
Derivatives :						
- Special commission contractual amounts payable (receivable)	(3,492)	(9,684)	(33,304)	(4,689)	-	(51,169)
Total undiscounted financial liabilities	43,465,301	8,998,334	6,514,633	1,998,020	88,538,701	149,514,989

Notes To The Consolidated Financial Statements

b) Maturity analysis of assets and liabilities

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

2018 SAR'000	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	1,542,528	-	-	-	-	1,542,528
Balances with SAMA	4,811,666	-	-	-	7,609,549	12,421,215
Other balances	137,346	-	-	-	-	137,346
Due from banks and other financial institutions						
Current accounts	6,896,890	-	-	-	-	6,896,890
Money market placements	4,469,391	637,513	37,500	-	-	5,144,404
Investments, net						
FVTPL	368,595	-	20,324	30,214	-	419,133
FVOCI	444,133	1,794,746	5,206,333	4,197,243	1,346,179	12,988,634
Amortised cost	154,773	491,867	14,594,053	5,921,996	-	21,162,689
Positive fair value derivatives						
Held for trading	447,857	-	-	-	-	447,857
Held as fair value hedges	76,710	-	-	-	-	76,710
Held as cash flow hedges	37,806	-	-	-	-	37,806
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Consumer loans	122,914	1,756,355	11,213,970	6,346,115	-	19,439,354
Commercial loans and overdrafts	55,344,347	11,286,346	6,845,501	15,419,245	-	88,895,439
Investment in a joint venture	-	-	-	-	532,597	532,597
Property and equipment, net	-	-	-	-	1,280,670	1,280,670
Other assets	202,547	597,884	-	-	349,242	1,149,673
Total assets	77,048,669	16,564,711	37,917,681	31,914,813	11,118,237	174,564,111
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	956,730	-	-	-	-	956,730
Money market deposits	56,503	-	-	-	-	56,503
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,749,725	6,528,182	2,282,603	-	-	39,560,510
Margin	88,358	266,315	392,240	289,846	-	1,036,759
Debt securities in issue	5,218	-	-	1,494,064	-	1,499,282
Borrowings	-	1,695,308	-	-	-	1,695,308
Negative fair value derivatives						
Held for trading	438,091	-	-	-	-	438,091
Held as fair value hedges	84,558	-	-	-	-	84,558
Held as cash flow hedges	24,604	-	-	-	-	24,604
Other liabilities	1,197,224	344,376	1,167,793	13,981	4,116,059	6,839,433
Equity					32,463,097	32,463,097
Total liabilities and equity	41,424,088	8,834,181	3,842,636	1,797,891	118,665,315	174,564,111

Notes To The Consolidated Financial Statements

2017 SAR'000	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	1,304,487	-	-	-	-	1,304,487
Balances with SAMA	17,379,275	-	-	-	8,161,763	25,541,038
Other balances	28,974	-	-	-	-	28,974
Due from banks and other financial institutions						
Current accounts	6,808,077	-	-	-	-	6,808,077
Money market placements	5,912,266	632,845	137,512	-	-	6,682,623
Investments, net						
Available for sale	1,398,652	2,066,457	7,030,538	4,740,449	1,016,509	16,252,605
Amortised cost	77,028	12,171	6,849,959	3,784,988	-	10,724,146
Positive fair value derivatives						
Held for trading	447,908	-	-	-	-	447,908
Held as fair value hedges	42,027	-	-	-	-	42,027
Held as cash flow hedges	42,429	-	-	-	-	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	62,418	419,940	11,358,852	9,375,692	-	21,216,902
Commercial loans and overdrafts	43,697,308	18,509,759	13,378,254	18,081,064	-	93,666,385
Investment in a joint venture	-	-	-	-	524,924	524,924
Property and equipment, net	-	-	-	-	1,134,927	1,134,927
Other assets	211,724	589,042	-	-	274,326	1,075,092
Total assets	79,535,373	22,230,214	38,755,115	35,982,193	11,112,449	187,615,344
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	1,780,975	-	-	-	-	1,780,975
Money market deposits	1,910,000	-	-	-	-	1,910,000
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,728,263	8,663,365	2,469,345	-	-	43,860,973
Margin	97,873	158,667	490,861	224,238	-	971,639
Debt securities in issue	6,935	-	1,495,907	1,495,906	-	2,998,748
Borrowings	-		1,682,445	-	-	1,682,445
Negative fair value derivatives						
Held for trading	410,244	-	-	-	-	410,244
Held as fair value hedges	40,034	-	-	-	-	40,034
Held as cash flow hedges	30,917	-	-	-	-	30,917
Other liabilities	1,443,904	93,182	139,773	15,530	3,359,608	5,051,997
Equity	-	-	-	-	33,470,471	33,470,471
Total liabilities and equity	45,317,345	8,915,214	6,278,331	1,735,674	125,368,780	187,615,344

Notes To The Consolidated Financial Statements

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies are given in note 20(d) of the consolidated financial statements.

34. Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

				Amount not set off in the consolidated statement of financial position		
SAR'000	Gross amount of recognised financial assets	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amounts subjects to enforceable master netting arrangement	Cash collateral received	Net amount
2018						
Due from banks and other financial institutions	97,030,182	(84,988,888)	12,041,294	-	-	12,041,294
2017						
Due from banks and other financial institutions	13,913,257	(422,557)	13,490,700	-	-	13,490,700

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

				Amount not set off in the consolidated statement of financial position		
SAR'000	Gross amount of recognised financial assets	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amounts subjects to enforceable master netting arrangement	Cash collateral received	Net amount
2018						
Derivatives	547,253	-	547,253	-	(103,350)	443,903
2017						
Derivatives	481,195	-	481,195	-	(104,238)	376,957

35. Fair values of financial instruments

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

The fair values of recognised financial instruments are not materially different from their carrying values.

Notes To The Consolidated Financial Statements

Determination of fair value and fair value hierarchy

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

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

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

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

31 December 2018 SAR' 000	**Carrying value**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Derivative financial instruments	562,373	-	562,373	-	562,373
Investments held as FVTPL	419,133	-	419,133	-	419,133
Investments held as FVOCI	12,988,634	1,318,781	11,642,455	27,398	12,988,634
Financial assets not measured at fair value					
Due from banks and other financial institutions	12,041,294	-	12,041,294	-	12,041,294
Investments held at amortised cost	21,162,689	-	21,028,501	-	21,028,501
Loans and advances	110,325,959	-	-	109,316,526	109,316,526
Financial liabilities measured at fair value					
Derivative financial instruments	547,253	-	547,253	-	547,253
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,013,233	-	1,013,233	-	1,013,233
Customers deposits	130,506,505	-	130,624,132	-	130,624,132
Debt securities in issue	1,499,282	-	1,499,282	-	1,499,282
Borrowings	1,695,308	-	1,695,308	-	1,695,308

31 December 2017 SAR' 000	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	532,364	-	532,364	-	532,364
Investments available for sale	16,252,605	1,367,052	14,856,030	29,523	16,252,605
Financial assets not measured at fair value					
Due from banks and other financial institutions	13,490,700	-	13,490,700	-	13,490,700
Investments held at amortised cost	10,724,146	-	10,632,181	-	10,632,181
Loans and advances	117,006,087	-	-	115,751,698	115,751,698
Financial liabilities measured at fair value					
Derivative financial instruments	481,195	-	481,195	-	481,195
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,690,975	-	3,690,975	-	3,690,975
Customers deposits	140,239,513	-	140,371,074	-	140,371,074
Debt securities in issue	2,998,748	-	2,998,748	-	2,998,748
Borrowings	1,682,445	-	1,682,445	-	1,682,445

Notes To The Consolidated Financial Statements

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

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

FVOCI investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net assets value (NAV) as at the reporting date. The movement in Level 3 financial instruments during the year relates to fair value and capital repayment movement only. Loans and advances are classified as Level 3, the fair value of which is determined by discounting future cash flows using risk adjusted expected SIBOR rates.

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

The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is positive SAR 34.1 million (2017: positive SAR 49.2 million).

The values obtained from valuation model may be different from the transaction price of financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, 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 premium used in estimating discounts rates, bond and equity prices and foreign currency exchange rates.

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

36. Related party transactions

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

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

Notes To The Consolidated Financial Statements

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

	2018 SAR'000	2017 SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**3,074,745**	3,623,200
Investments	**265,334**	169,848
Other assets	**239,133**	235,900
Negative fair value derivatives, net	**19,996**	7,461
Due to banks and other financial institutions	**342,457**	823,819
Borrowings	**281,250**	281,250
Commitments and contingencies	**2,571,269**	2,067,824

	2018 SAR'000	2017 SAR'000
Joint venture:		
Investments	**532,597**	524,924
Loans and advances	**275,004**	150,000
Other assets	**4,804**	4,571
Customer deposits	**270,183**	191,435
Other liabilities	**433**	86,866
Commitments and contingencies	**800,925**	1,151,025

Directors, board committees, other major shareholders, key management personnel and their affiliates:

	2018 SAR'000	2017 SAR'000
Loans and advances	**2,853,721**	3,619,695
Customers' deposits	**3,775,635**	5,902,027
Debt securities issued	**385,000**	700,000
Positive fair value derivatives, net	**887**	9,976
Other liabilities	**13,028**	15,327
Commitments and contingencies	**13,734**	59,946

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

Notes To The Consolidated Financial Statements

	2018 SAR'000	2017 SAR'000
Related mutual funds:		
Customers' deposits	90,376	279,853
Loans and advances	126	-

Subsidiaries:	2018 SAR'000	2017 SAR'000
Other assets	34,000	34,000
Related mutual funds:		
- Investments	368,594	380,066
- Other assets	-	724

Transactions with related parties included in the consolidated financial statements are as follows:

	2018 SAR'000	2017 SAR'000
Special commission income	153,623	111,526
Special commission expense	60,990	169,170
Fees and commission income	14,008	16,136
Services charges paid to HSBC group	39,332	42,045
Service charges recovered from a joint venture	22,651	26,251
Profit share paid to a joint venture relating to investment banking activities	9,446	23,906
Acquisition of SABB Takaful	-	117,793
Directors' and board committees' remuneration	5,589	5,014

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

	2018 SAR'000	2017 SAR'000
Short-term employee benefits *	36,843	42,099
Termination benefits	-	3,250
Post-employment benefits	-	2,000
Other long-term benefits	894	372
Share-based payments	5,147	6,281

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

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

Notes To The Consolidated Financial Statements

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2018. The details of these schemes have been separately disclosed in note 25 to these consolidated financial statements.

37. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

SAMA through its circular number 391000029731 Dated 15/03/1439AH (Corresponding 3/12/2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS9, 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.

	2018 SAR'000	2017 SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	**155,438,168**	162,589,324
Operational Risk RWA	**12,434,259**	13,712,152
Market Risk RWA	**1,510,175**	2,278,175
Total RWA	**169,382,602**	178,579,651
Tier I Capital	**33,359,762**	33,344,592
Tier II Capital	**2,700,534**	4,132,367
Total I & II Capital	**36,060,296**	37,476,959
Capital Adequacy Ratio %		
Tier I ratio	**19.69%**	18.67%
Tier I + Tier II ratio	**21.29%**	20.99%

38. Prospective changes in accounting standards

The Bank has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning on or after 1 January 2019 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2019:

Notes To The Consolidated Financial Statements

-Amendments to IAS 19: plan amendment, curtailment or settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period.

-IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

Transition to IFRS 16

The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

For the remaining lease commitments the Bank expects to recognise right-of-use assets of approximately SAR 576 million on 1 January 2019 and lease liabilities of SAR 533 million (after adjustments for prepayments recognised as at 31 December 2018). The Bank expects that net profit for the year 2019 will decrease by approximately SAR 9 million as a result of adopting the new rules.

For other Standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Bank does not anticipate that these will have a material impact on the Bank's consolidated financial statements.

39. Comparative figures

Certain other prior year figures have been reclassified to conform with the current year's presentation.

40. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 2 Jumada Althani 1440H (Corresponding 7 February 2019).

Basel III Pillar 3 Qualitative and Quantitative Disclosures

AS AT 31st DECEMBER 2018

Annual Report التقرير السنوي





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KM1: Key metrics (at consolidated group level) (Figures in SAR 000›s)						
		a	b	c	d	e
		Dec›18	Sep›18	Jun›18	Mar›18	Dec›17
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	33,359,762	34,130,969	34,325,703	33,332,802	33,344,592
1a	Fully loaded ECL accounting model	32,355,002	32,734,608	32,847,203	31,772,164	
2	Tier 1	33,359,762	34,130,969	34,325,703	33,332,802	33,344,592
2a	Fully loaded ECL accounting model Tier 1	32,355,002	32,734,608	32,847,203	31,772,164	
3	Total capital	36,060,296	37,797,494	38,084,779	37,397,153	37,476,959
3a	Fully loaded ECL accounting model total capital	34,256,652	35,244,869	35,381,999	34,544,220	
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	169,382,602	171,398,153	171,032,331	174,085,161	178,579,651
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	%19.69	%19.91	%20.07	%19.15	%18.67
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	%19.10	%19.10	%19.21	%18.25	
6	Tier 1 ratio (%)	%19.69	%19.91	%20.07	%19.15	%18.67
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	%19.10	%19.10	%19.21	%18.25	
7	Total capital ratio (%)	%21.29	%22.05	%22.27	%21.48	%20.99
7a	Fully loaded ECL accounting model total capital ratio (%)	%20.22	%20.56	%20.69	%19.84	
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (%2.5 from 2019) (%)	%1.875	%1.875	%1.875	%1.875	%1.250
9	Countercyclical buffer requirement (%)	%0.071	%0.071	%0.067	%0.066	%0.066
10	Bank G-SIB and/or D-SIB additional requirements (%)	%0.50	%0.50	%0.50	%0.50	%0.50
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	%2.446	%2.446	%2.442	%2.441	%1.816
12	CET1 available after meeting the bank's minimum capital requirements (%)	%17.25	%17.47	%17.63	%16.71	%16.86
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	225,820,012	225,778,359	234,130,688	234,438,694	236,203,263
14	Basel III leverage ratio (%) (row 2 / row 13)	%14.77	%15.12	%14.66	%14.22	%14.12
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	%14.33	%14.50	%14.03	%13.55	
Liquidity Coverage Ratio						
15	Total HQLA	37,612,078	39,040,172	39,494,288	41,844,700	37,863,633
16	Total net cash outflow	13,560,433	17,767,140	23,957,969	23,604,627	21,327,740
17	LCR ratio (%)	%277	%220	%165	%177	%178
Net Stable Funding Ratio						
18	Total available stable funding	127,857,915	129,902,783	131,236,912	128,850,389	130,637,898
19	Total required stable funding	79,381,640	81,511,328	90,448,498	94,428,311	94,023,861
20	NSFR ratio	%161	%159	%145	%136	%139

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OVA: Bank risk management approach

(a) Business model determination and risk profile;

The Saudi British Bank ("SABB") or (the "Bank"), a Saudi Joint Stock Company, was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978G). The Bank's capital is Saudi Riyals (SAR) 15 billion divided into 1.5 billion shares with a nominal value of SAR 10.

The main objectives of the Bank are to provide a complete range of integrated banking products and services to both retail and corporate sectors throughout its departments, business segments and its branch network across the Kingdom of Saudi Arabia (the Kingdom). The Bank has no subsidiaries established or operating outside the Kingdom.

The Bank provides Shariah approved products, which are approved and supervised by an independent Shariah Committee. The Bank also provides to its customers a complete set of conventional banking products and services which include current accounts, savings, time deposits, corporate credit facilities, consumer and mortgage loans, trade receivable and supply chain finance solutions, cash and payments management, treasury and credit cards.

SABB maintains a valuable strategic partnership with the HSBC Group, one of the largest and most geographically diverse banking groups in the world. This strategic partnership provides SABB with a competitive advantage to provide its customers with access to the best local and international service offering in the market. HSBC owns 40% of SABB shares.

The Bank is organised into the following main business segments:

Retail Banking provides services and products to personal and private banking customers including time deposits, current and savings accounts, home finance, consumer loans, and credit cards where it maintains a market leading position in the Kingdom. Retail Banking provides a range of digital solutions so customers can access their finances anytime and anywhere, as well as access to a traditional branch network.

The branch network is based across the Kingdom with 95 retail outlets, and includes 17 exclusive Ladies' sections and 3 lite Branches. The branches are tiered so as to provide a balanced service and sales experience, reflective of the local environment and matching the expectations of customers. As at 31st December 2018 there were 27,492 Point of Sale (PoS) terminals, 910 Automated Teller Machines (ATMs), which includes 80 Cash Deposit Machines (CDMs).

Retail customers are segmented into Premier, Advance and Mass supported by a tiered service approach. Premier and Advance customers are serviced by Relationship Managers who are able to offer individual customers financial management solutions. SABB's focus on higher net worth customers is now represented by the number of dedicated Premier Centres within the Kingdom totalling 18. These exclusive centres provide Premier customers with tailored products and services, as well as addressing their international needs through HSBC's global network.

Further information on Retail Banking is shown in section "Business segment performance highlights" of the Annual Report and Accounts 2018.

Corporate Banking in terms of both operating income and balance sheet SABB is one of the largest commercial banks in the Kingdom. SABB serves its corporate customers through teams of relationship managers based in the Kingdom's main commercial hubs. Through long-term relationships the relationship managers build a detailed understanding of an individual client's financial needs to deliver tailored solutions from SABB's full suite of corporate banking products and services, both conventional and Islamic.

To serve their clients the relationship managers can draw on specialist teams in treasury, liquidity and cash management, trade and receivables finance, investment banking and insurance. In addition to this comprehensive range of local products and services, SABB is also in a unique position to provide access to

global financial markets and services through SABB's partnership with the HSBC Group, Corporate Banking is divided into two segments: Global Banking (GB) and Commercial Banking (CMB).

GB, through a team of relationship managers, serves the needs of leading Saudi companies that are globally managed by SABB; multinational companies operating in the Kingdom but headquartered overseas; and institutional clients such as ministries, government agencies and departments, banks and other financial institutions. Through SABB's strong ties to the HSBC Group and the joint venture, HSBC Saudi Arabia, the GB team is in a unique position to deliver tailored solutions to its clients, both domestically and internationally. Through this unrivalled combination of expertise and resources, GB has been able to support major infrastructure projects in the Kingdom, support and advise Saudi clients with their international expansion and to tap into liquidity through non-Saudi financial institutions by way of Export Credit Agency finance and international bonds and sukuks.

CMB services and supports small, medium and large enterprises both domestic and international in the Kingdom. CMB maintains its long term commitment to small business customers in Saudi Arabia and actively participates in the Kafalah Programme, a government Guarantee programme that encourages banks to lend to small businesses.

Included within the aforementioned full suite of products and services, Corporate Banking includes two product groups of particular note: Global Liquidity & Cash Management (GLCM); and Global Trade & Receivables Finance (GTRF). SABB maintains a leadership position in the market in these two product offerings that lie at the core of corporate customers' treasury activities.
GLCM offers a wide range of integrated digital and electronic business solutions to customers to cater to their payment, receivables and liquidity management needs.

GTRF offers a comprehensive range of core trade products (Imports, Exports & Guarantees) and structured solutions such as Receivable Finance and Supply Chain Finance solutions. GTRF provides efficient and optimal financing structures (both Conventional & Islamic) to clients in support of their trade and working capital optimisation while minimising market risk.

Further information on Corporate Banking is shown in section "Business segment performance highlights" of the Annual Report and Accounts 2018.

Treasury undertakes two functions in SABB. Principally it provides corporate, institutional, retail and private banking customers with access to capital markets, foreign currency and derivative solutions through its Sales and Trading unit. In addition, it manages the liquidity and market risk of the Bank, including the deployment of the Bank's commercial surplus through its investment portfolio, managed by its Balance Sheet Management unit.

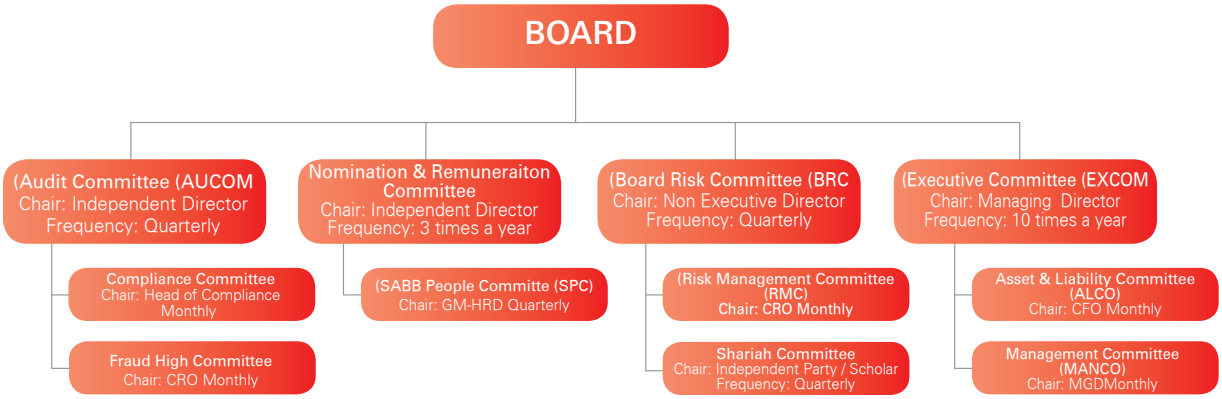
Others segment primarily includes activities of the Bank's investment in its insurance subsidiary, SABB Takaful, its investment banking joint venture, HSBC Saudi Arabia, and equity investments. HSBC Saudi Arabia (HSBC SA) is a leading investment bank in the Kingdom and consistently tops key league tables, leveraging upon the strength of the SABB franchise in the Kingdom and the international capability of HSBC globally.

(b) The risk governance structure;
Managing under a clear risk framework has always been a fundamental governance principle within SABB.

The Board Risk Committee continues to act as the Board designated committee for the review and approval of risk matters. The Committee meets quarterly, with all 3 members, including Non-Executive Directors and Non-Board Members. The committee is assigned to oversee and advise the Board on all high-level risk related matters, and to provide strategic direction for Risk across SABB, including setting the risk vision, deciding priorities and overseeing the execution of major transformational risk initiatives.

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SABB has a robust risk governance framework in place with accountability embedded throughout the bank:



SABB applies a three lines of defence model within which the business are responsible for the risks that form part of their area and must ensure that all key risks are identified, mitigated and monitored through appropriate controls. Risk and Finance form part of the second line of defence and have responsibility for providing assurance, challenge and oversight activities. Internal audit is the third line and provide an independent assurance to senior management and the Board.

The Risk Management function, which manages the overall level of credit, market and operational risk within SABB, is under the direct control of the CRO. The Chief Risk Officer is appointed by, appraised by, and has a reporting line directly to the Board Risk Committee.
The core SABB governance policy manuals covering Corporate Governance, SABB Standards, Risk Management and Credit Policy were reviewed and approved by the Board or its designated committee's during 2018. An annual review of the risk governance framework was completed and approved by the Board Risk Committee which resulted in changes in line with current risk control requirements and priorities.
The risk reporting framework to the Board was maintained including the Risk Appetite Statements, Risk Heatmap and Top and Emerging Risks.

(c) Channels to communicate, decline and enforce the risk culture;
Risk Management is an independent function within SABB managed under the Chief Risk Officer with the overall responsibility of enterprise wide risk management.
Whilst business units have primary responsibility for managing specific risk exposures under the oversight of the Chief Risk Officer, the Board Risk Committee (BRC), the Risk Management Committee and ALCO have primary responsibility for setting SABB's overall risk appetite.
The process of identifying and reporting the health of SABBs businesses and portfolios is undertaken through the use of risk appetite statements, risk heatmaps and top and emerging risk reports. These are compiled and submitted to the relevant risk governance committee where the reports are challenged and action plans agreed.

Composition of the major committees as follows:
The Board of Directors – Generally meets four times a year. It is made up of ten members (the "Directors"), including the Chairman and the Managing Director. The Chairman is required to be a non-executive director and the Managing Director is selected from among the Directors appointed by HSBC Holding BV. Six of the Directors represent SABB's Saudi shareholders and are elected via accumulative voting every three years. SABB's by-laws provide that the other four Directors are to be appointed by HSBC Holding BV. The Board of Directors maintains control over SABB and monitors the executive management of SABB.

The Board Risk Committee – The committee is assigned to oversee and advise the Board on all high-level risk related matters, and to provide strategic direction for Risk across SABB, including setting the risk vision, deciding priorities and overseeing the execution of major transformational risk initiatives. It consists of three to five members, whom should be Non-Executive Directors in addition to board members. The Committee meets on a quarterly basis, and is chaired by one of the non-executive directors whom will be appointed by SABB Board of Directors. The Board Risk Committee is a Board committee and reports directly to the Board.

Executive Committee – Through delegated authority from the Board of Directors, the Executive Committee comprises of five members, and is chaired by the Bank's Managing Director. It is assigned to exercise all of

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the powers, authorities and discretion of the Board in so far as they concern the management and day to day running of SABB in accordance with policies and directions as the Board may from time and time determine. This delegation includes to endorsement of strategic and operating plans, approval of project costs within expenditure limits assigned by the Board, approval of credit facilities and credit matters within credit limits assigned by the Board, review of Business performance reports, monitoring AOP progress, financial reports, competitor bank reports, along with other matters necessary to support the Managing Director, MANCOM and IT Steering Committee.

Audit Committee – The Committee is appointed by the Annual General Meeting, meets on a quarterly basis and consists of three to five members appointed from SABB's non-executive or independent directors and of non-Board members who must comprise a majority of members. The Committee is accountable to the Annual General Meeting and the Board and assists the Board in meeting its responsibilities by a) ensuring an effective system of internal control and compliance b) being responsible for the selection, oversight and remuneration of the external auditors c) meetings its external financial reporting obligations d) any changes in accounting policies and standards that could have a material impact on compliance with accounting standards e) reviewing issues of material concern raised by internal and external auditors f) any other duties as set in the Terms of Reference of the Committee approved by the Board and AGM.

Nomination and Remuneration Committee – The committee consist of three to five members, and meets on half yearly basis or more frequently if required. It is assigned to ensure that, inter alia: the Board members are qualified and independent; that compensation for Board members and employees are in line with the performance criteria taking into consideration the management of risk; evaluate all compensation policies; and that compensation policies and practices are compliant with SAMA guidelines on compensation. The committee is chaired by an independent Board member, with membership of other two independent directors and an independent from outside the Board.
Risk Management Committee (RMC) – This is the senior management designated by the Board to review risk management matters, including reviewing risk appetite and emerging risk and risk policy, the committee meets monthly and is chaired by the Chief Risk Officer. Attending members include senior management, businesses and support functions.

Assets and Liability Committee (ALCO) – The committee is chaired by CFO and meets once a month to discuss balance sheet and its associated risks. The committee consists of members including senior management, businesses and support functions.

(d) The scope and main features of risk measurement systems;
The material risks that may impact SABB's operations are identified and thoroughly assessed and stressed, both qualitatively and quantitatively. It is envisioned that the assessment processes will become more advanced with the development or adoption of industry best practices after being calibrated to parameters that best fit the risks pertinent to SABB's business, regulatory, and economic environment. The risk review cycle is as follows:

- A monthly review of the top and emerging risks is undertaken and challenged through the RMC with a Risk Heatmap maintained and mitigation action plans required for high risk items.
- The risk appetite and risk assessment process is reviewed at least quarterly by ALCO and RMC in consultation with the business functions.
- Risk reports for each risk category are submitted to the BRC quarterly.
- The stress test scenarios and outcomes are updated half yearly based on the revised parameters and reviewed by the RMC and BRC.
- Senior management challenges the risk appetite and risk assessment methodologies through the RMC.
- The BRC challenges and approves the risk appetite and the ICAAP.

Credit risk is the risk of financial loss through the failure of a customer or counterparty to honour their commitments as they fall due. Credit risk arises principally in corporate and personal lending, trade finance, treasury and syndication underwriting. But credit risk also arises from off balance sheet products such as guarantees and derivatives or from SABB's holdings of debt securities.

A strong culture of prudent and responsible lending is a cornerstone of SABB's risk management philosophy. This is attained through effective control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns.

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Credit manuals provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. These policy manuals are reviewed annually by the Risk Management function and endorsed by Chief Risk Officer (CRO) / Corporate Risk Committee (CRC), Risk Management Committee (RMC) for onward approval by the Board Risk Committee in line with the requirements stipulated in the SAMA Rules on Credit Risk Management.

Credit risk assessment is undertaken by the credit approval function which reports to the Managing Director through the CRO; hence ensuring that they have an appropriate degree of independence. The teams are responsible for credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.

The approval process is reviewed annually by the BRC with limit delegations named down from the Board. Within SABB, emphasis is placed on the individual's responsibility for making credit decisions and as such there is a series of delegated approval limits agreed by Board.

A key element in the Bank's credit culture is the proactive management of the portfolio through:

- The regular review of facilities by lending and credit officers, at least annually.
- The operation of an independent special asset management function to handle non performing and problem exposures.
- The central monitoring of credit concentration in certain countries, specialized industries / sectors, products, customers and customer groups with monthly reports to the RMC, Asset and Liability Committee (ALCO) and quarterly to BRC.
- The continual development of improved techniques for measuring and evaluating risk, and for optimizing risk-adjusted return on capital.
- The development and adoption of automated application processing and assessment systems, to enable consistency of decisions and an efficient framework for application processing.
- A structured framework of credit training and accreditation to build risk awareness and credit assessment capabilities.

Personal lending decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.
For defaulted customers, impairment provisions (collective and discounted cash flow basis) are maintained in accordance with established IFRS accounting practices.

SABB operates dedicated special assets and recoveries teams to manage companies in financial distress and non-performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from Legal. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency including the use of external and overseas recovery agencies.

Credit risk consumes the largest proportion of SABB's minimum capital requirement. Within the established principles and parameters SABB ensures that strict capital discipline is maintained through correct pricing and management of credit risks in relation to the regulatory and economic capital requirements.

Market Risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices will reduce SABB's income or the value of its portfolios. Foreign exchange risk (FX) arises from an open position, either overbought (long) or oversold (short), in a foreign currency, creating exposure to a change in the relevant exchange rate.

SABB categorises foreign exchange risk as follows:

- Trading Book FX risk - arises from proprietary currency trading i.e. spot, forwards, futures, swaps and options. Trading exposures are controlled through assigning limits to each currency and aggregate exposure levels as well as through VAR and stress testing measures.
- Banking Book FX risk - arises from a currency mismatch / revaluation between assets and liabilities, including accrued interest and accrued expenses. The mismatch is transferred to Treasury and managed on daily basis through the trading book.

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- Structural FX risk- arises due to two reasons a) relates to net investments in subsidiaries, branches or associated capital undertakings. b) Relates to the non-SAR denominated assets. The currencies where structural FX rise arises are those other than the designated reporting currency of the SABB, which is the Saudi Riyal (SAR).

SABB uses a range of control measures to manage market risk ranging from specific stop loss control limits, to sensitivity analysis limits including the present value of a basis point movement of interest rates, as well as VAR loss limits designed to estimate the potential loss from market movements across a specified time horizon and for a given level of confidence using a historical simulation approach. SABB recognizes the limitations of VAR and compliments its analysis with scenario stress testing to evaluate the impact of more extreme but plausible events or movements in market variables.

Whilst SABB uses both VAR and standard rules to manage market risk, capital requirements are assessed for all positions using the standard rules approaches prescribed by SAMA.
Operational risk governance framework is made up of Operational Risk Policies, Procedures, Management Information to various committees and oversight by the Operational Risk and Internal Control Committee. An operational risk assessment process is undertaken periodically and at least annually by each line of business and support functions with the output challenged through the Operational Risk and Internal Control Committee (ORICC).

The operational risk taxonomy was expanded from the previous 4 major risk categories (people, process, systems, and external) to a more granular 16 key Level 1 risk categories which include major areas that are currently a focus of regulatory/national bodies:

People	Compliance	Business continuity	Tax
Systems	Legal	Accounting	Shariah
Operations	Internal fraud	Physical	Political
Information	External fraud	Fiduciary	Project

A Bank level Operational Risk dashboard is used by Senior Management to highlight the major risks and breaches. Loss trends reports are reviewed monthly by ORICC and RMC with a quarterly update provided to the BRC.
Systems established to record risks and losses by Basel business lines, risk and loss event categories enable business units to manage their action plans and request for management information reports. Duties are segregated to ensure integrity of loss and risk data in the system. Data is captured and approved in the system by the business. The central Operational Risk department coordinates the recording process, reconciles to ensure only operational losses are captured and the data meets both SABB and regulatory guidelines in addition to ensuring the quality of the input data.
SABB continued the consolidation/strengthening of its Operational Risk Management and Governance processes:

- The Risk Governance Framework was reviewed by the BRC.
- Continued focus on the Board approved SIS programme covering adherence to laws and regulations, Treating Customers Fairly, Protecting Customer Information, Preventing Bribery and Corruption and Preventing Financial Crime.
- SABB continued to fully assess the dependencies and business impact analysis related to the Bank's association with the HSBC Group.
- The Three Lines of Defence model was monitored to underpin our approach to strong risk management. The Three Lines of Defence model defines who is responsible to identify, assess, measure, manage, monitor, and mitigate operational risks, encouraging collaboration and enabling efficient coordination of risk and control activities.
- Risk and Control Assessment (RCA) is a component of the Operational Risk (ORIC) Management Framework implemented across SABB. The RCA process is designed to provide business/function with a forward looking view of operational risk to help them proactively determine whether their key operational risks are controlled within acceptable levels.
- The continuation of Second Line of Defence Reviews and establishment of an assurance programme within ORIC was established to ensure implementation of the Bank's ORIC framework within the businesses.

- The ongoing implementation of findings from independent reviews are tracked using the ORIC system to verify timely close of item with updates submitted monthly to RMC with validation undertaken by ORIC and INA.

Capital requirements are assessed using the standardised approach, which applies one of three fixed percentages to an average of the last three financial years gross revenues allocated across eight defined business lines.

(e) Process of risk information reporting provided to the board and senior management;
The Board is constantly informed and updated regarding the risk status of the bank through several reports. Following are the key reports which are considered comprehensive and hence provide Group wide risk assessment on periodic basis.

Monthly Risk Report is submitted to the Risk Management Committee encompassing risks related to the Bank. The report provides a concise overview of all regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, risk adjusted return, liquidity position of the Bank, market risk due to the trading activities, interest are risk in the banking book, major operational risk incidents and mitigating actions, and information security update. Also review risk management matters, including reviewing risk appetite and emerging risk and risk policy.

Quarterly Risk Report is submitted to the Board Risk Committee encompassing risks related to the Bank. The report provides a concise overview of key regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, risk adjusted return, liquidity position of the Bank, market risk due to the trading activities, interest are risk in the banking book, major operational risk incidents and mitigating actions, and information security update.

Risk appetite monitoring of the Bank is an integral part of the monthly reporting to the senior management, which it combines the Bank's business model, governance, and strategic decisions. It holistically integrates the risk limits and performance targets for the Bank and the business groups, and sets the overall risk tolerance boundaries. Additionally, it facilitates the management decisions with various risk targets in order to ensure compliance with regulatory constraints and changing economic conditions.
Stress testing is another key component of the quarterly risk reporting process to the Board and senior management that assesses the potential risk and the resulting impact due to stressed operating scenarios, both macroeconomic or/and idiosyncratic. Stress testing framework at SABB is comprehensive and is reasonably granular, which enables the management and the Board to assess the impact of different scenarios on specific portfolios and sub-portfolios in terms of credit quality, liquidity, and capital adequacy.
Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) are considered as the most comprehensive exercise that conducts the risk assessment of the Bank on forward looking basis, given the business plan and growth aspirations. This provides a complete overview of existing capital adequacy and future capital requirements to the Board and the senior management, which aids the long term capital management process in the Bank.
Moreover, senior management exercises its risk management function through various management committees which require more frequent and more granular reporting on risk exposures.

(f) Qualitative information on stress testing;
SABB undertakes a range of stress test scenarios to assess the risk and impact of different events on profitability or capital requirements, the most significant of which is the macroeconomic scenario which is undertaken annually alongside the ICAAP. In terms of governance, SABB has a Stress Testing Committee chaired by the Chief Risk Officer and comprising members from different businesses and support areas to oversee the development of stress tests within SABB across the various customer segments and risk categories.

SABB has maintained its stress testing framework in line with the Rules on Stress Testing for Banks under Circular reference 60687 BCS 38747 issued by SAMA in November 2011 and with industry best practice. Under SABB's stress methodologies, the inputs to each stress test are based on a combination of analytical inputs and expert panels to review the quantitative data and incorporate qualitative factors. As part of SABB stress testing framework, two integral reports are produced and submitted to SAMA in March (year-end data) and September (mid-year data) including details of the stress test carried out by the bank considering various customer segments and risk categories. At least three stress-testing scenarios are applied to arrive at the

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stressed capital ratios, with a view to ensure that the Bank remains adequately capitalized under stressed conditions during economic down-turns. Adequate stress-testing procedures are in place for Credit, Market (trading book), Interest Rate (Banking book), Liquidity and Operational Risks. Complementary risks are covered under ICAAP and ILAAP.
SABB also runs a series of reverse stress tests to consider scenarios beyond normal business settings to evaluate potential vulnerabilities and assess the mitigation required.

(g) The strategies and processes to manage, hedge and mitigate risks;
The mitigation of credit risk is an important aspect of its effective management and takes many forms.

SABB grants facilities based on the borrower's ability to repay, rather than placing its reliance on credit risk mitigation. SABB nevertheless does hold a range of security to reduce the risk of loss and maximize recovery in case of default. A number of these risk mitigants include but are not limited to shares, real estate etc. and where applicable applied under the Standardised approach in Pillar I.

International and Local Banks Guarantees are referred to Institutional Banking for counterparty and cross border country risk approval.

The granting of facilities and taking of collateral as risk mitigants is governed by defined policies and procedures, as well as the use of bank standard documentation that cater for the offset of credit balances against facilities granted, the control over the integrity and valuation of collateral, and the rights required to enforce and realize security.

A key element in the Bank's credit culture is the proactive management of the portfolio through:
- The regular review of facilities by lending and credit officers, at least annually.
- The operation of an independent special asset management function to handle non-performing and problem exposures.
- The central monitoring of credit concentration in certain countries, specialized industries / sectors, products, customers and customer groups with monthly reports to the RMC, ALCO and quarterly to Board Risk Committee.
- The continual development of improved techniques for measuring and evaluating risk, and for optimizing risk-adjusted return on capital.
- The development and adoption of automated application processing and assessment systems, to enable consistency of decisions and an efficient framework for application processing.
- A structured framework of credit training and accreditation to build risk awareness and credit assessment capabilities.

Personal lending decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.

For defaulted customers, impairment provisions (collective and discounted cash flow basis) are maintained in accordance with established IFRS accounting practices.

The Bank has implemented an interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with an aim to keep the interest rate risks within limits. The Bank also uses currency swaps to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

SABB operates dedicated special assets and recoveries teams to manage companies in financial distress and non-performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from Legal. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency including the use of external and overseas recovery agencies.

SABB has established a Risk Appetite Statement (RAS) for liquidity and funding risk that is approved by the BRC annually, and reviewed monthly through the Asset Liability Management Committee (ALCO) and RMC, with quarterly reports provided to the BRC.

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SABB recognizes the importance of liquidity management and has in place this Liquidity Contingency Funding Plan (CFP) to provide guidance for Liquidity Crisis Management Team (LCMT) and the Liquidity Management Committee (LMC) on how to approach any potential liquidity event, defining responsibilities and setting out a predetermined plan of action. CFPs are a crucial tool in effective liquidity and funding risk planning.

OV1: Overview of RWA (Figures in SAR 000's)

		a	b	c
		RWA		Minimum capital requirements
		Dec-18	Sep-18	Dec-18
1	Credit risk (excluding counterparty credit risk)	152,008,978	153,101,857	12,160,719
2	Of which: standardised approach (SA)	152,008,978	153,101,857	12,160,719
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	558,211	623,798	44,657
7	Of which: standardised approach for counterparty credit risk	558,211	623,798	44,657
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	92,151	137,723	7,372
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds – look-through approach			
13	Equity investments in funds – mandate-based approach			
14	Equity investments in funds – fall-back approach	210,650	216,538	16,852
15	Settlement risk			
16	Securitisation exposures in banking book			
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	1,510,175	2,083,900	120,814
21	Of which: standardised approach (SA)	1,510,175	2,083,900	120,814
22	Of which: internal model approaches (IMA)			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	12,434,259	12,747,160	994,741
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	2,568,177	2,487,177	205,454
26	Floor adjustment			
27	Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 26)	169,382,601	171,398,153	13,550,609

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Table LIA: Explanations of differences between accounting and regulatory exposure amounts

(a) Explanation of significant differences between the amounts in columns (a) and (b) in LI1;

This section sets out the main reasons why the measurement of regulatory exposures is not directly comparable with the financial information presented in the Annual Report and Accounts 2017.

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 of the Annual Report and Accounts 2017, differs from that used for regulatory purposes as described below.

The Pillar 3 Disclosures 2017 are prepared in accordance with regulatory capital adequacy concepts and rules, while the Annual Report and Accounts 2017 are prepared in accordance with IFRSs. The purpose of the regulatory balance sheet is to provide a point-in-time ('PIT') value of all balance sheet assets. The regulatory exposure value includes an estimation of risk, and is expressed as the amount expected to be outstanding if and when the counterparty defaults.

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at 250% risk weight.

The difference between total assets on the regulatory balance sheet is shown in table 3, and the credit risk and CCR exposure values are shown in table 4. Moreover, regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis.

(b) Explanation of the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2;

On-Balance Sheet

In case of On-Balance Sheet items, currently there are some differences between carrying values and amounts considered for regulatory purposes such as certain provisions, collateral and deconsolidation of insurance entity.

Under IFRS, netting is only permitted if legal right of set-off exists and the cash flows are intended to be settled on a net basis. Under the Basel's regulatory rules, however, netting is applied for capital calculations if there is legal certainty and the positions are managed on a net collateralised basis. As a consequence, we recognise greater netting under the Basel's rules, reflecting the close-out provisions that would take effect in the event of default of a counterparty rather than just those transactions that are actually settled net in the normal course of business.

Fair value is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Off-Balance Sheet & Derivatives

In case of Off-Balance sheet and Derivatives Notional values are populated as total carrying / accounting value whereas credit equivalent amounts (i.e. after applying conversion factors including Add-on adjustments in case of Derivative portfolio are populated under respective regulatory framework.

(c) Valuation methodologies;

Please refer to note no. 2f & 33 of Annual Published Financial Statements

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LI1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories (Figures in SAR 000's)

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
				Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Assets							
1	Cash and balances at central banks	14,101,089	14,101,089	14,101,089				
2	Due from banks and other financial institutions	12,041,294	11,875,302	11,875,302				
3	Positive fair value derivative	562,373	562,373		562,373		562,373	
4	Investments, net	34,570,456	34,323,363	34,323,363				
5	Loans and advances, net	110,325,959	110,325,959	110,325,959				
6	Investment in associates	532,597	532,597	532,597				
7	Property and equipment, net	1,280,670	1,278,643	1,278,643				
8	Other assets	1,149,673	1,013,350	1,013,350				
	Total assets	**174,564,111**	**174,012,676**	**173,450,303**	**562,373**	-	**562,373**	-
	Liabilities							
9	Due to Banks and other financial institutions	1,013,233						1,013,233
10	Customer deposits	130,506,505						130,426,713
11	Negative fair value derivative	547,253						547,253
12	Debt securities in issue	1,499,282						1,499,282
13	Borrowings	1,695,308						1,695,308
14	Other liabilities	6,839,433						6,318,915
	Total liabilities	**142,101,014**	-	-	-	-	-	**141,500,704**

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LI2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (Figures in SAR 000's)

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	174,012,676	173,450,303		562,373	562,373
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation	174,012,676	173,450,303		562,373	562,373
4	Off-balance sheet amounts	122,559,286	43,681,651			
5	Differences in valuations					
6	Differences due to financial collateral on standardised approach		(188,217)			
7	Differences due to consideration of provisions		3,049,430			
8	Differences due to prudential filters					
9	Derivatives	81,206,560			266,566	266,566
10	Exposure amounts considered for regulatory purposes	377,778,522	217,131,954		828,939	828,939

CC1: Composition of regulatory capital (Figures in SAR 000's)

		Components1 of regulatory capital reported by the bank
	Common Equity Tier 1 capital: Instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	15,000,000
2	Retained earnings	7,582,010
3	Accumulated other comprehensive income (and other reserves)	10,777,751
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital isued by subsidiaries and held by third parties (amount allowed in group CET1)	

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6	Common Equity Tier 1 capital before regulatory adjustments	33,359,762
	Common Equity Tier 1 capital: Regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash-flow hedge reserve	
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined-benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
20	Mortgage servicing rights (amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	Total regulatory adjustments to Common equity Tier 1	
29	Common Equity Tier 1 capital (CET1)	33,359,762
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	of which: instruments issued by subsidiaries subject to phase out	

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36	Additional Tier 1 capital before regulatory adjustments	
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	
44	Additional Tier 1 capital (AT1)	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**33,359,762**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	1,500,000
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	1,200,534
51	Tier 2 capital before regulatory adjustments	
	Tier 2 capital: regulatory adjustments	**2,700,534**
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	
58	Tier 2 capital (T2)	2,700,534
59	Total capital (TC = T1 + T2)	36,060,296
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	
60	Total risk weighted assets	169,382,602

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	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	19.69%
62	Tier 1 (as a percentage of risk weighted assets)	19.69%
63	Total capital (as a percentage of risk weighted assets)	21.29%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	
65	of which: capital conservation buffer requirement	
66	of which: bank specific countercyclical buffer requirement	
67	of which: G-SIB buffer requirement	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	
	National minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	n/a
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	n/a
71	National total capital minimum ratio (if different from Basel 3 minimum)	n/a
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	
73	Significant investments in the common stock of financials	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,200,534
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,942,977
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

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CC2: Reconciliation of regulatory capital to balance sheet (Figures in SAR 000's)			
	a	b	c
	Balance sheet as in Published financial statements	Under regulatory scope of consolidation	Reference
Assets			
Cash and balances with SAMA	14,101,089	14,101,089	
Due from banks and other financial institutions	12,041,294	11,875,302	
Positive fair value derivatives	562,373	562,373	
Investments, net	34,570,456	34,323,363	
Loans and advances, net	110,325,959	110,325,959	
of which Stage 1 & 2 provisions	3,049,430	1,200,534	A
Investment in a joint venture and an associate	532,597	532,597	
Property and equipment, net	1,280,670	1,278,643	
Other assets	1,149,673	1,013,350	
Total assets	174,564,111	174,012,676	
Liabilities			
Due to Banks and other financial institutions	1,013,233	1,013,233	
Customer deposits	130,506,505	130,426,713	
Debt securities in issue	1,499,282	1,499,282	
of which Tier 2 capital instruments	1,499,282	1,500,000	B
Borrowings	1,695,308	1,695,308	
Negative fair value derivatives	547,253	547,253	
Other liabilities	6,839,433	6,318,915	
Total liabilities	142,101,014	141,500,704	
Shareholders' equity			
Share capital	15,000,000	15,000,000	
of which amount eligible for CET1	15,000,000	15,000,000	C
of which amount eligible for AT1			
Statutory reserves	10,778,261	10,778,261	D
Other reserves	(3,123)	(509)	E
Retained earnings	5,135,131	6,151,056	F
Proposed dividends	1,430,954	1,430,954	G
Total shareholders' equity	32,341,223	33,359,762	
Non-controlling interest	121,874	(133,318)	
Other (ECL Transitioned amount and Provision stages)		(714,472)	
Total liabilities and shareholders' equity	174,564,111	174,012,676	

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CCA1: Main features of regulatory capital instruments and of other TLAC-eligible instruments		
		a
		Quantitative / qualitative information
1	Issuer	Saudi British Bank (SABB)
2	Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	ISIN No.SA13QVK0GK33
3	Governing law(s) of the instrument	The instrument is governed by the laws of the Kingdom of Saudi Arabia
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	NA
4	Transitional Basel III rules	Tier 2
5	Post-transitional Basel III rules	Eligible
6	Eligible at solo/lgroup/group&solo	Solo
7	Instrument type	Subordinated Sukuk
8	Amount recognied in regulatory capital (Currency in mil, as of most recent reporting date)	SAR 1,500mil
9	Par value of instrument	SAR 1,500mil
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	28th May 2015
12	Perpetual or dated	Dated
13	Original maturity date	28th May 2025
14	Issuer call subject to prior supervisory approval	Yes
15	Option call date, contingent call dates and redemption amount	Call option only available after 5 years or for a regulatory or tax event, 28th May 2020 as the date for redemption, SABB shall be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than sixty (60) days' notice to the Sukukholders
16	Subsequent call dates if applicable	As above
	Coupons / dividends	
17	Fixed or Floating dividend/coupon	Floating
18	Coupon rate and any related index	6 months SIBOR + 130bps
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non cumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Non - convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A

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29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger (s)	Terms of contract of the instrument provide the legal basis for SAMA to trigger write-down (a contractual approach)
32	If write-down, full or partial	Written down fully or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary writedown, description of the write-up mechansim	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated. Senior bondholders are immediately senior to this instrument.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

CCyB1: Geographical distribution of credit exposures used in the countercyclical capital buffer

Geographical breakdown	Countercyclical capital buffer rate	Bank-specific countercyclical capital buffer rate
KSA	0.00%	0.000%
GCC and ME	0.0% to 2.5%	0.032%
North America	0.0% to 2.5%	0.002%
Europe	0.0% to 2.5%	0.009%
South East Asia	0.0% to 2.5%	0.026%
Others	0.0% to 2.5%	0.003%
Total		0.071%

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure (Figures in SAR 000's)

		A
1	Total consolidated assets as per published financial statements	174,564,111
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	611,890
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off balance sheet exposures)	48,781,957
7	Other adjustments	1,862,054
8	Leverage ratio exposure	225,820,012

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LR2: Leverage ratio common disclosure template (Figures in SAR 000's)			
		a	b
		Dec-18	Sep-18
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	176,209,117	176,344,975
2	(Relevant Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	176,209,117	176,344,975
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	217,048	254,150
5	Add-on amounts for Potential Financial Exposure (PFE) associated with all derivatives transactions	611,890	698,074
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	Total derivative exposures (sum of lines 4 to 10)	828,938	952,224
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Credit Conversion Factor (CCR) exposure for Security Financing Transaction (SFT) assets		
15	Agent transaction exposures		
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	122,559,286	119,146,128
18	(Adjustments for conversion to credit equivalent amounts)	(73,777,329)	(70,664,968)
19	Off-balance sheet items (sum of lines 17 and 18)	48,781,957	48,481,160
Capital and total exposures			
20	Tier 1 capital	33,359,762	34,130,969
21	Total exposures (sum of lines 3, 11, 16 and 19)	225,820,012	225,778,359
Leverage ratio			
22	Basel III leverage ratio	14.77%	15.12%

Basel III Pillar 3 Qualitative and Quantitative Disclosures

Table LIQA – Liquidity risk management

Liquidity risk is the risk that Saudi British Bank (SABB) does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk (a particular form of liquidity risk) arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The Bank has an internal Liquidity and Funding Risk Framework, using the external Liquidity Coverage Ratio (LCR) and Net Stable Funding Requirement (NSFR) SAMA regulatory framework as a foundation, but adding extra metrics/limits and overlays to address the risks that the Bank considers are not adequately reflected by the external regulatory framework.

The decision to create an internal framework modelled around the external regulatory framework was driven by the need to ensure that the external and internal frameworks are directionally aligned and to ensure that the Bank's internal funds transfer pricing framework incentivises the business lines to collectively comply with both the external (regulatory) and the internal risk tolerance.

The objective of the LCR is to limit the risks of severe cash outflows owing to an over-reliance on volatile funding sources and certain lending commitments. Under the LCR, SABB is required to hold a minimum level of unencumbered high-quality liquid assets (HQLA) to withstand an acute stress scenario lasting 30 days. The LCR is specifically designed to improve the short-term resilience of SABB against liquidity shocks. By contrast, the NSFR is designed to limit the risks emanating from excessive maturity mismatches over the medium to long term. More specifically, the NSFR requires SABB to fund illiquid assets with a minimum amount of stable liabilities over a horizon of one year.

The LCR and NSFR framework defines customer deposits as "stable", "semi- stable", and "non-stable". Stable and semi stable funds are defined as deposits that are less likely to be actively managed by customers and therefore, more likely to remain with the bank during a period of stress. Equally, non-stable funds are defined as those deposits that are more actively managed by customers and more likely to be withdrawn at the early indication of market stress forming part of the LCR calculations.

As a general policy, SABB seeks to be self-sufficient with regards to funding its own operations from 'stable' deposits. Exceptions are permitted to facilitate the efficient funding of certain short-term treasury requirements and start-up ventures, which do not have access to deposit markets.

SABB uses cashflow stress testing as part of its control processes to assess liquidity risk. The cashflow stress testing process estimates and takes into consideration the potential severe adverse P&L and capital impacts in a liquidity crisis, with a view to assessing the bank's ability to maintain an adequate capital position in such a scenario.

SABB has established Risk Appetite Statements covering liquidity risk that are approved by the Board Risk Committee annually, and reviewed monthly through Asset Liability Management Committee (ALCO) and Risk Management Committee (RMC) with quarterly reports provided to the Board Risk Committee (BRC).

SABB manages and reports balance sheet liquidity against the following key ratios:

- Asset to Deposit Ratio (ADR) – Monitors the extent to which customer advances are covered by customer deposits.
- SAMA Liquid Reserve Requirement – Minimum 20% of deposit liabilities to be held in liquid assets maturing in less than 1 month, treasury bills and government bonds in accordance with Article 7 of the Banking Control Law.
- Liquidity Coverage Ratio (LCR) – Minimum requirement of 100% requiring SABB to hold enough liquid assets which can, if needed, be converted easily into cash in private markets to survive a 30 day stress scenario.
- Net Stable Funding Ratio (NSFR) – Minimum requirement of 100% requiring SABB to hold a minimum amount of stable funding relative to the liquidity profiles of asset activities over one year horizon.

Basel III Pillar 3 Qualitative and Quantitative Disclosures

SABB assesses and manages liquidity risk through clearly defined liquidity policies which form part of a broader Liquidity and Funding framework and funding plan which is reviewed and approved by ALCO and BRC. There is a designated Liquidity Management Committee, which monitors the bank's current and projected liquidity position and proposes changes to ALCO on SABB's liquidity ratio limits, funding strategy and liquidity stress testing scenarios.

The Finance Department prepares a bank-wide liquidity report, which is monitored daily against approved limits and regulatory requirements by Senior Management, along with an 18 months rolling forecast balance sheet on a monthly basis showing expected loan and deposit growth.

SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities.

SABB seeks to maintain a cushion of unencumbered, high quality, liquid assets mainly comprising of deposits with the central bank, cash and unencumbered sovereign debt, that can be liquidated or repoed in times of stressed liquidity. The asset tolerance limit is defined and monitored by ALCO on a monthly basis.
LCR & NSFR are used to stress the liquidity position across a range of maturity bands and through the application of bank specific and market wide scenarios.

Current accounts and savings deposits payable on demand or at short notice form a significant part of SABB's funding and there is considerable focus on maintaining the stability of such deposits. SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities.

A comprehensive Contingency Funding Plan is in place and tested on an annual basis. The plan identifies early indicators of stress conditions and describes actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

SABB has at its disposal a wide range of money market and capital sources to cover the funding needs.

SABB continues to diversify its sources of funds through its debt issuances in both local and international markets in order to source longer term funding for its balance sheet.

The mark to market of the Bank's back to back derivative exposures does not have significant impact on liquidity management.

As per SAMA guidelines, a currency is considered as "significant" if the aggregate liabilities denominated in that currency amounts to five per cent or more of the bank's total liabilities. Only SAR and USD are material currencies and are monitored accordingly.

The main contributors of the LCR of the Bank are unencumbered, high quality liquid assets (HQLAs) and net cash outflows primarily arising from customer deposits.

The 3 month average of the LCR has increased to 277% as at 31st December 2018 from 220% as at 30th September 2018, this was mainly due to an increase in Average cash inflows by SAR 1.4 B, a decrease in Average cash outflows by SAR 2.8 B partially offset by a decrease in Average HQLA by SAR 1.4 B.

The NSFR as at 31st December is 161% comprising of Available Stable Funding (ASF) of SAR 128 B and Required Stable Funding (RSF) of SAR 79 B.

The intra period changes were in line with the banks activities and were well above the minimum requirements.

Basel III Pillar 3 Qualitative and Quantitative Disclosures

LIQ1: Liquidity Coverage Ratio (LCR) (Figures in SAR 000's)			
		a	b
		"Total unweighted value (average)"	"Total weighted value (average)"
High-quality liquid assets			
1	Total high-quality liquid assets (HQLA)		37,612,078
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	"Stable deposits"	-	-
4	Less stable deposits	45,026,466	4,502,647
5	Unsecured wholesale funding, of which:	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	62,872,037	28,147,141
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	166,784	166,784
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	3,620,426	362,043
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	115,910,947	2,785,349
16	TOTAL CASH OUTFLOWS	-	35,963,964
Cash inflows			
17	Secured lending (eg reverse repos)		
18	Inflows from fully performing exposures	37,307,469	22,231,636
19	Other cash inflows	171,895	171,895
20	TOTAL CASH INFLOWS	37,479,364	22,403,531
			Total adjusted value
21	TOTAL HQLA		37,612,078
22	TOTAL NET CASH OUTFLOWS		13,560,433
23	LIQUIDITY COVERAGE RATIO (%)		277%

Basel III Pillar 3 Qualitative and Quantitative Disclosures

LIQ2: Net Stable Funding Ratio(NSFR) (Figures in SAR 000's)						
		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		"No maturity"	< 6 months	"6 months to < 1yr"	≥ 1yr	
Available stable funding (ASF) item						
1	Capital	34,560,296	-	-	7,587,416	42,147,711
2	Regulatory capital	34,560,296	-	-	1,500,000	36,060,296
3	Other capital instruments	-	-	-	6,087,416	6,087,416
4	"Retail deposits and deposits from small business customers:"	43,495,788	12,505,027	507,709	-	50,857,672
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	43,495,788	12,505,027	507,709	-	50,857,672
7	Wholesale funding:	42,078,813	25,142,547	2,483,705	-	34,852,533
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	42,078,813	25,142,547	2,483,705	-	34,852,533
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	6,202,811	-	-	1,888,357	-
12	NSFR derivative liabilities				1,888,357	
13	All other liabilities and equity not included in the above categories	6,202,811	-	-	-	-
14	Total ASF					127,857,915
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					-
16	"Deposits held at other financial institutions for operational purposes"	-	-	-	-	-
17	Performing loans and securities:	3,044,814	75,821,522	5,434,420	72,599,453	75,642,097
18	Performing loans to financial institutions secured by Level 1 HQLA	-	853,080	222,503	21,783,982	1,142,978
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	11,466,281	1,406,916	-	2,119,109
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	3,044,814	62,514,584	3,346,984	41,419,576	63,164,746
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-

Basel III Pillar 3 Qualitative and Quantitative Disclosures

22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	987,576	458,016	9,395,895	9,215,264
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	1,712,047	-	-	1,850,767	3,562,814
27	Physical traded commodities, including gold	-				-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-			-
29	NSFR derivative assets		-			-
30	NSFR derivative liabilities before deduction of variation margin posted		-			-
31	All other assets not included in the above categories	1,712,047			1,850,767	3,562,814
32	Off-balance sheet items		-	-	118,460	176,729
33	Total RSF					79,381,640
34	Net Stable Funding Ratio (%)					161%

Table CRA: General qualitative information about credit risk

(a) How the business model translates into the components of the bank's credit risk profile;

Credit risk represents our largest regulatory capital requirement.

The principal objectives of our credit risk management function are:
- to maintain a strong culture of responsible lending and a robust credit risk policy and control framework;
- to both partner and challenge our businesses in defining, implementing and continually re-evaluating our credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Credit risk, 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 arises from loans and advances, and investment activities. There is also credit risk on credit related commitments, contingencies and derivatives.

The Wholesale Credit and Market Risk, RBWM along with Risk Business Management are the constituent parts of the bank's Risk function that supports the Chief Risk Officer in overseeing credit risks. Their major duties comprise undertaking independent reviews of large and high-risk credit proposals, managing retail credit risk, overseeing large exposure policy, owning our credit policy and credit systems programmes, overseeing portfolio management and reporting on risk matters to senior executive management and to regulators. These credit risk areas work closely with other parts of the Risk function; for example, with Operational Risk on the internal control framework and with Risk Strategy on the risk appetite process. In addition, they work jointly with Risk Strategy and the Finance function on stress testing.

Basel III Pillar 3 Qualitative and Quantitative Disclosures

SABB is a diversified financial services institution operating in Saudi Arabia, with a range of business activities and income streams. SABB offers a wide range of credit products through three core business segments; Commercial Banking (CMB), Global Banking & Markets (GBM) and Retail Banking & Wealth Management (RBWM).

- Commercial Banking caters to the banking requirements of commercial banking customers including the provision of credit facilities, trade and receivables finance, guarantees and other credit products.
- Global Banking and Markets is responsible for the relationship management of top-end Saudi companies that are globally active; multinational companies operating in Saudi Arabia but headquartered overseas; and institutional clients such as ministries, government agencies and departments, banks and other financial institutions, as well as managing the banks treasury activities.
- Retail Banking and Wealth Management caters to the banking requirements of personal and private banking customers including current accounts, personal finance, home finance and credit cards.

(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits;

SABB has established clear standards that should be met by employees, for application across the Bank. This includes a set of Board Risk Committee approved risk appetite statements that reflect the banks appetite for credit risk across different segments, sectors, products and borrower types.

Credit manuals provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. These policy manuals are reviewed annually by the designated Risk Management function and approved by the Board Risk Committee. In line with SAMA Rules on Credit Risk Management.

The Bank manages credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

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

The Bank also 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 business.

Authority to carry out various activities and responsibilities for financial performance are delegated to SABB management within limits set by the Board. Authorities to enter into credit and market risk exposures are delegated within limits to EXCOM and designated senior management and credit managers. The concurrence of the EXCOM is required, however, for credit proposals with specified higher risk characteristics.

The approval process is reviewed annually by the Board Risk Committee with limit delegations cascaded down from the Board. Within SABB, emphasis is placed on the individual's responsibility for making credit decisions and as such there is a series of delegated approval limits agreed by Board.

Personal finance credit decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.

Credit Risk identification and monitoring systems and procedures are in place in SABB to identify, control and report on any emerging risks.

(c) Structure and organisation of the credit risk management and control function;

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

Basel III Pillar 3 Qualitative and Quantitative Disclosures

The Bank has established a number of risk committees from Board level to middle management level in order to ensure that all the risks to which the Bank is exposed in its daily operations are managed effectively.

SABB operates an independent risk management function which provides high-level oversight and management of Credit and Market risk. The credit teams are responsible for credit review, credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.

A dedicated special assets and recoveries teams to manage companies in financial distress and non-performing. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency including the use of external and overseas recovery agencies.

In SABB the administration of credit facilities is performed by an independent credit administration function. This function is responsible for ensuring completeness of documentation in accordance with approved terms and conditions, along with undertaking the operationally management and control of facilities.

(d) Relationships between the credit risk management, risk control, compliance and internal audit functions;

The Board is also responsible for internal control in SABB and for reviewing its effectiveness. The framework of standards, policies and key procedures that the Directors have established is designed to provide effective segregation of duties and internal control within SABB for managing risks within the accepted risk appetite along with the on-going identification, evaluation and management of the significant risks faced by the Bank.

SABB's management is responsible for establishing and maintaining an adequate and effective system of internal control which encompasses the policies, procedures/ processes and information systems as approved by the Board, that facilitate effective and efficient operations. The bank has implemented a 'Three Lines of Defence' model for managing risks facing the Bank.

Business management, as the First Line of Defence, is responsible for defining operating procedures and standards across all areas under their responsibility. Specific business manuals are established by functions covering all material risks including credit, market, liquidity, information security, capital, compliance, model, reputational, strategic and other operational risks. Business management is also responsible for implementing effective monitoring mechanisms to identify, assess, measure, manage, monitor, and mitigate operational risks and prevent deviations or breaches from established policies and regulatory requirements.

The Second Line of Defence comprises various risk management functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud. These functions act as the risk stewards, who set policy and guidelines for managing risks, provide advice to support these policies and test effectiveness of first line processes in adherence to the policy. They also challenge the First Line of Defence to ensure that its risk management activities are working effectively. The second Line of defence operates independently from the operational management in the First Line of Defence.

The Credit function undertake a credit review to ensure that the facilities are in line with the bank's credit policy & procedures, SAMA guidelines and are appropriately structured to ensure end use of funds. They also monitor the financial performance & condition, approval conditions wherever applicable and past dues to identify early warning signs.

As part of the second line, the Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements, particularly the Rules for Opening of Bank Accounts, Anti-Money Laundering and Terrorism Finance Fighting Rules, CMA Rules and Regulations, and other key level international regulatory requirements.

Internal Audit (INA) represents the Third Line of Defence by independently reviewing the design effectiveness and operating efficiency of internal control systems and policies focusing on the areas of greatest risk to the Bank as determined by a risk based grading approach. The Audit Committee supervises Internal Audit and reviews control weaknesses and system deficiencies.

Basel III Pillar 3 Qualitative and Quantitative Disclosures

(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors;

Systems and procedures are in place to identify, control and report on the material risk issues facing SABB. The top level governance committee reports encompass the Risk Appetite Statements, Risk Heat map and Top and Emerging Risks, market risk positions, stress testing, and well as specific reports for sectors or segments. Exposure to current and emerging risks is monitored through the various risk management committees, and the asset and liability committee (ALCO) where the business is challenged by the Chief Risk Officer.

More granular Reports for monitoring and control purposes are provided on periodic basis- monthly, quarterly to Senior Management. The reports cover a full range of material risk issues and trends including, risk exceptions, watch lists, portfolio quality, and concentration risk in term of industries, countries and individual counterparties.

CR1 : Credit Quality Asset (Figures in SAR 000's)

		a	b	c	d
		Gross carrying values of		Allowances / Impairments	Net Value (a+b-c)
		Defaulted Exposures	Non-Defaulted Exposures		
1	Loans	4,112,328	110,964,243	4,750,612	110,325,959
2	Debt Securities		30,792,210	2,729	30,789,481
3	Off-balance sheet exposures	940,352	70,615,878	425,096	71,131,134
4	Total	5,052,681	212,372,331	5,178,437	212,246,575

Defaulted exposure is considered when non-performing loans and past due are over 90 days and impaired.

CR2 Changes in stock of Defaulted Loans and Debt Securities (Figures in SAR 000's)

		a
1	Defaulted loans and debt securities at end of the previous reporting period	2,545,969
2	Loans and debt securities that have defaulted since the last reporting period	1,924,057
3	Returned to non-defaulted status	265,845
4	Amounts written off	91,852
5	Other changes	
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	4,112,328

Basel III Pillar 3 Qualitative and Quantitative Disclosures

Table CRB: Additional disclosure related to the credit quality of assets

(a) The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes;
The scope and definition of past due is when customer fails to meet his payment obligations on time and the amount due is classified as past due. The number of days amount remains past due is counted and termed as the past due period. While an impaired exposure is considered by the bank as a credit obligation that the customer is unlikely to repay without recourse by the bank to actions such as realizing security (if held).

(b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this;
The 90 days past due rule will be generally applied unless the bank has strong evidence that will support different classification. Therefore it is been assessed on case by case basis and those cases past due for 90 days without any solid evidence that account will be regularized soon will be considered for impairment while cases were technically past dues over 90 days and has solid evidence of clear sources of repayment / restructuring, then the case will be documented and approved by proper authority.

(c) Description of methods used for determining impairments;
The Bank has adopted IFRS9 – Financial Instruments from 1 January 2018. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model (ECL). IFRS9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. A corporate default is considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- Obligor is past due more than 90 days on any material credit obligation to the bank, in case of overdrafts, this means 90 consecutive days over agreed limit and in case of revolving facilities and instalment loans, this means 90 days past repayment date.
- Bank considers that the obligor is unlikely to pay its credit obligations to the group in full or on originally agreed repayment terms, without recourse by the bank to action such as realising security (if held).

(e) Breakdown of exposures by geographical areas, industry and residual maturity;

For breakdown please refer to quantitative disclosures B.9.1, B.9.2, B.9.3, respectively:
(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry;
For breakdown please refer to the following tables B.9.4 and B.9.5:

(g) Ageing analysis of accounting past-due exposures;
For breakdown please refer to the following tables B.9.6

Basel III Pillar 3 Qualitative and Quantitative Disclosures

B.9.1 : Geographic Breakdown (Figures in SAR 000's)							
Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Others Countries	Total
Sovereigns and central banks:	34,172,750	760,808	-	-	-	-	34,933,558
SAMA and Saudi Government	34,172,750						34,172,750
Others		760,808					760,808
Multilateral Development Banks (MDBs)	299,773		854,368	591,324		574	1,746,038
Public Sector Entities (PSEs)							
Banks and securities firms	6,669,363	3,289,057	4,949,037	6,405,820	14,265	3,151,422	24,478,964
Corporates	129,694,266	776,114					130,470,380
Retail non-mortgages	12,666,042						12,666,042
Small Business Facilities Enterprises (SBFE's)							
Mortgages	9,498,572						9,498,572
Residential	9,498,572						9,498,572
Commercial							
Securitized assets							
Equity	2,373,450						2,373,450
Others	3,537,940						3,537,940
Total	198,912,155	4,825,979	5,803,405	6,997,144	14,265	3,151,996	219,704,944

Basel III Pillar 3 Qualitative and Quantitative Disclosures

B.9.2 : Industry Sector Breakdown (Figures in SAR 000's)

Portfolios	Industry sector												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:	34,933,558												34,933,558
SAMA and Saudi Government	34,172,750												34,172,750
Others	760,808												760,808
Multilateral Development Banks (MDBs)		1,746,038											1,746,038
Public Sector Entities (PSEs)													
Banks and securities firms		24,478,964											24,478,964
Corporates		7,023,445	837,828	20,016,197	5,214,906	2,263,846	34,691,708	37,146,433	10,484,683	9,378,513		3,412,822	130,470,380
Retail non-mortgages											12,666,042		12,666,042
Small Business Facilities Enterprises													
Mortgages											9,498,572		9,498,572
Residential											9,498,572		9,498,572
Commercial													
Securitized assets													
Equity		2,373,450											2,373,450
Others												3,537,940	3,537,940
Total	34,933,558	35,621,897	837,828	20,016,197	5,214,906	2,263,846	34,691,708	37,146,433	10,484,683	9,378,513	22,164,614	6,950,762	219,704,944

Basel III Pillar 3 Qualitative and Quantitative Disclosures

B.9.3 : Residual Contractual Maturity Breakdown (Figures in SAR 000's)									
Portfolios	Maturity breakdown								
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years *	Total
Sovereigns and central banks:	4,825,440					4,651,277	11,152,199	14,304,643	34,933,558
SAMA and Saudi Government	4,825,440					4,263,260	10,935,712	14,148,339	34,172,750
Others						388,017	216,487	156,304	760,808
Multilateral Development Banks (MDBs)			424,038	430,093	222,989	668,918			1,746,038
Public Sector Entities (PSEs)									
Banks and securities firms	10,687,732	705,613	2,924,799	1,331,806	2,620,977	2,101,411	449,508	3,657,118	24,478,964
Corporates	11,202,095	21,070,431	35,923,067	18,640,156	12,862,107	14,926,264	3,109,288	12,736,970	130,470,380
Retail non-mortgages	6,622	2,190,440	26,350	63,362	257,906	4,263,499	5,662,688	195,174	12,666,042
Small Business Facilities Enterprises (SBFE's)									
Mortgages	4,021	126	670	2,361	5,372	113,834	364,130	9,008,058	9,498,571
Residential	4,021	126	670	2,361	5,372	113,834	364,130	9,008,058	9,498,571
Commercial									
Securitized assets									
Equity								2,373,450	2,373,450
Others								3,537,940	3,537,940
Total	26,725,910	23,966,611	39,298,924	20,467,777	15,969,351	26,725,203	20,737,814	45,813,353	219,704,944

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B.9.4: Impaired exposures, Allowances and Write-offs by industry (Figures in SAR 000's)			
Industry sector	Impaired exposures	Allowances	Write-offs
Government and quasi government			
Banks and other financial institutions			
Agriculture and fishing	1,850	769	
Manufacturing	447,428	249,758	
Mining and quarrying	-	-	
Electricity, water, gas and health services	148,112	82,696	
Building and construction	1,881,880	1,063,521	84,046
Commerce	1,107,092	796,968	
Transportation and communication	81,779	77,966	
Services	206,802	102,466	
Consumer loans and credit cards	293,925	174,071	18,958
Others	883,812	367,096	
Total	5,052,681	2,915,311	103,004
B.9.5 Impaired exposures, Allowances and Write-offs by Geographic (Figures in SAR 000's)			
Geographic area	Impaired Exposures	Allowances	Write-offs
Saudi Arabia	5,006,370	2,910,070	103,004
Other GCC & Middle East	-	-	
Europe	46,311	5,241	
North America			
South East Asia			
Others countries			
Total	5,052,681	2,915,311	103,004

B.9.6 : Ageing analysis of accounting past-due exposures but not impaired (Figures in SAR 000's)	
	Total
From 1 day to 30 days	2,426,587
From 31 Days to 90 days	705,274
From 91 days to 180 days	
Over 180 days	
Total	3,131,861

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Table CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

(a) Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting;
SABB uses netting for computation of counterparty credit risk of regulatory stipulated margining counterparties. In all other cases the bank does not use on- and off-balance sheet netting for capital adequacy reporting. The bank uses deposit / cash as collateral.

(b) Core features of policies and processes for collateral evaluation and management;
The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local equities, real estate and other fixed assets.

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

The bank's approach when granting credit facilities is to evaluate each proposal on its own merits, rather than on availability of collateral. Where credit risk mitigation is available in the form of eligible non-financial collateral or credit derivatives, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying the appropriate "haircut". The value of exposure is adjusted under the financial collateral comprehensive methods.

When valuations are obtained from Banks' approved evaluators, the lowest value is taken thereafter for the purpose of collateral / LTV computation. A refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the bank accepts fixed assets e.g. property as collateral these are adequately insured with the bank as loss payee. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities.
All securities are held under the custody of an independent credit administration function.

(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers);
The bank endeavors to take an appropriate level of security to secure our advances. All borrowing relationships need to identify a secondary source of repayment. The nature of collateral types available to the bank is limited and these collaterals mostly include time, demand and other cash deposits, financial guarantees, equities, real estate and other fixed assets. The security margin is computed accordingly keeping in view the type of collateral held.

CR3 Credit Risk Mitigation techniques – Overview (Figures in SAR 000's)

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	109,822,255	246,500	188,217	257,204	257,204		
2	Debt Securities	30,792,210						
3	Total	140,614,465	246,500	188,217	257,204	257,204		
4	Of Which Defaulted	4,107,799	4,529					

Basel III Pillar 3 Qualitative and Quantitative Disclosures

CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period;

SABB has nominated three SAMA recognized External Credit Assessment Institutions (ECAIs) for this purpose – Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group. We have not nominated any ECAs. There are no changes over the reporting period.

When calculating the risk-weighted value of an exposure using ECAI risk assessments, risk systems identify the customer in question and look up the available ratings in the central database according to the rating selection rules. The systems then apply the prescribed credit quality step mapping to derive from the rating the relevant risk weight.

(b) The asset classes for which each ECAI or ECA is used;

In accordance with the guideline issued by the local Regulator, ECAI risk assessments are used by the Bank as part of the determination of risk weightings for the following classes of exposure:

- Claims on sovereigns and their central banks;
- Claims on Multilateral Development Banks;
- Claims on Banks and Securities Firms; and
- Claims on corporates.

Credit ratings of all exposures are individually determined from the ECAIs and mapped to the exposures assigning a risk weight according to the supervisory tables.

The alignment of alphanumeric scales of each agency to risk buckets is as follows:

Moody's	Standard and Poor's	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
Caa3	CCC-	CCC-
Ca	CC	CC
C	C	C
WR	D	D
	NR	NR

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Claims on sovereigns and their central banks

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

Claims on Banks and Securities Firms (Under Option 2 as required by SAMA)

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight under option 2	20%	50%	50%	100%	150%	50%
Risk weight for short-term claims under Option - 2	20%	20%	20%	50%	150%	20%

Claims on Multilateral Development Banks
0% risk weight for qualifying MDB's as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for option# 2 for banks.

Claims on corporates

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk Weight	20%	50%	100%	150%	100%

All other exposure classes are assigned risk weightings as prescribed in the SAMA's Rulebook.

CR4 Standardised approach – Credit risk exposure and Credit Risk Mitigation (CRM) effects (Figures in SAR 000's)

		a	b	c	d	e	f
		Exposures before	CCF and CRM	Exposure Post	CCF and CRM	RWA and	RWA density
	Exposure Classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	34,933,558		34,967,671	9,001	-	0.0%
2	Non-central government public sector entities						
3	Multilateral development banks	1,745,465	65,625	1,745,465	574	29,835	1.7%
4	Banks	15,700,459	20,722,816	15,923,551	8,779,986	11,116,003	45.0%
5	Securities firms						
6	Corporates	94,382,503	101,639,209	93,940,989	33,642,521	121,946,722	95.6%
7	Regulatory retail portfolios	12,619,963	131,333	12,619,740	-	9,464,805	75.0%

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8	Secured by residential property	9,298,118	-	9,298,118		4,649,059	50.0%
9	Secured by commercial real estate						
10	Equity	2,367,774		2,367,774		4,102,478	173.3%
11	Past-due loans	1,430,900		1,428,153		1,511,449	105.8%
12	Higher-risk categories	937	303		152	227	149.3%
13	Other assets	3,543,616		3,543,616		1,967,228	55.5%
14	Total	176,023,293	122,559,286	175,835,077	42,432,234	154,787,806	70.9%

CR5 Standardised approach – exposures by asset classes and risk weights (Figures in SAR 000's)

Exposure Classes/Risk Weight		a	b	c	d	e	f	g	h	i	j
		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	34,976,672		-				-			34,976,672
2	Non-central government public sector entities (PSEs)										
3	Multilateral development banks (MDBs)	1,596,864		149,175							1,746,039
4	Banks			4,701,077		19,653,347		349,113			24,703,537
5	Securities firms										
6	Corporates			2,848,570		6,715,870		118,019,071			127,583,510
7	Regulatory retail portfolios						12,619,740				12,619,740
8	Secured by residential property					9,298,118					9,298,118
9	Secured by commercial real estate										
10	Equity							1,323,651		1,044,123	2,367,774

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11	Past-due loans							1,261,562	166,591		1,428,153
12	Higher-risk categories								152		152
13	Other assets	1,542,528		123,917				1,871,495		5,676	3,543,616
14	Total	38,116,064		7,822,739		35,667,335	12,619,740	122,824,891	166,743	1,049,799	218,267,311

CCRA: Qualitative disclosure related to counterparty credit risk

(a) Risk management objectives and policies related to counterparty credit risk, including:

Risk management objective is to identify, measure, manage and govern counterparty credit risk aimed at efficiency in SABB's capital utilization through stringent monitoring propensity of counterparty to default.

(b) The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures;

The Standardised Approach for Counterparty Credit Risk (SA-CCR) is used for computing Exposure at Default (EAD). The EAD is converted to Risk Weighted Assets (RWA) by applying RWA percentages based on external ratings. The RWA includes a CVA component added to it. As of 31DEC17 SABB had limited use of Central Counterparty (CCP) exposure where again the EAD is computed using SA-CCR, however here the RWA percentage used for computing RWA is as applicable for recognized CCPs.

(c) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;

The exposures to counterparties are governed by the International Swaps & Derivatives Agreements (ISDA) along with Credit Support Annexe (CSA) to ISDA. With margining becoming compulsory we are signing CSA's to ISDA for margining covered counterparties. Hence netting wherever applicable and collateralization through margining is the primary credit mitigant. Corporate Guarantee or other form of guarantee support is not specific for counterparty credit risk but is stipulated for overall credit risk (that includes counterparty credit risk) if felt desirable for that overall risk profile.

(d) Policies with respect to wrong-way risk exposures;

Product Due Diligence (PDD) and its periodic review takes into consideration various risks of the product including Wrong Way Risk (WWR) before being introduced.

Further SABB's Markets Functional Instruction Manual (FIM) has defined General & Specific WWR. The WWR policy has since been implemented and all related exposures will be monitored on a regular basis.

(e) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade;

SABB is required to and places Variation Margin (VM) in the form of cash, to cover adverse Marked-to-Market (MTM) daily positions in respect of covered counterparties as required by the margining regulations. This placement of collateral (margin) is not dependent on ratings and hence in general a ratings downgrade would not require an increase in collateral placement.

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CCR1 Analysis of counterparty credit risk (CCR) exposure by approach (Figures in SAR 000's)

		a	b	c	d	e	f
		Replacement Cost	Potential Future Exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	217,048	375,051		1.4	828,939	558,211
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	Total					828,939	558,211

CCR2 Credit Valuation Adjustment (CVA) capital charge (Figures in SAR 000's)

		a	b
		EAD post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3xmultiplier)		
2	(ii) Stressed VaR component (including the 3xmultiplier)		
3	All portfolios subject to the Standardised CVA capital charge	828,939	92,151
4	Total subject to the CVA capital charge	828,939	92,151

CCR3 Standardised approach – CCR exposures by regulatory portfolio and risk weights (Figures in SAR 000's)

		a	b	c	d	e	f	g	h	i
	Regulatory portfolio/ Risk weight	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposures
1	Sovereigns and their central banks									
2	Non-central government public sector entities (PSEs)									
3	Multilateral development banks (MDBs)									
4	Banks			27,283	284,644					311,927
5	Securities firms									
6	Corporates			0	2,524		407,022			409,546
7	Regulatory retail portfolios									
8	Other assets									
9	Total			27,283	287,168		407,022			721,474

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CCR5 Composition of Collateral for CCR Exposure (Figures in SAR 000's)							
		a	b	c	d	e	f
		Collateral used in derivative transactions				Collateral used in SFTs	
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash – domestic currency		4,350				
2	Cash–other currencies		64,838	12,000	160,538		
3	Domestic sovereign debt						
4	Other sovereign debt						
5	Government agency debt						
6	Corporate bonds						
7	Equity securities						
8	Other collateral						
9	Total		69,188	12,000	160,538		

CCR8 Exposures to central counterparties (Figures in SAR 000's)					
				a	b
				EAD (post-CRM)	RWA
1	Exposures to QCCPs (total)	107,466	2,149		
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	107,466	2,149		
3	(i) OTC derivatives	107,466	2,149		
4	(ii) Exchange-traded derivatives				
5	(iii) Securities financing transactions				
6	(iv) Netting sets where cross-product netting has been approved				
7	Segregated initial margin				
8	Non-segregated initial margin				
9	Pre-funded default fund contributions				
10	Unfunded default fund contributions				
11	Exposures to non-QCCPs (total)				
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which				
13	(i) OTC derivatives				
14	(ii) Exchange-traded derivatives				
15	(iii) Securities financing transactions				
16	(iv) Netting sets where cross-product netting has been approved				
17	Segregated initial margin				
18	Non-segregated initial margin				
19	Pre-funded default fund contributions				
20	Unfunded default fund contributions				

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Table MRA: Qualitative disclosure requirements related to market risk

(a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges;
Market Risk primary function is to protect revenues against inappropriate position taking, and to identify risks, surprises and protect SABB against significant losses.

Market Risk function provides control over exposures in terms of PVBP, FX Stop loss, MTM limits, VaR, CS01 for both Banking and Trading Book. Market Risk mandates further stipulates Permitted Instruments and Product Maturities. These indicators are being monitored to ensure that the Banks is not over-exposed to adverse market movements. Market Risk monitoring is done on a daily basis and exposure reported to various forums, such as ALCO, RMC and BRC.

(b) Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management;
Bank-wide Trading Authority and Limits (TAL) approved for Market risk are allocated to the Treasurer (Level 1). These TAL are sub-allocated to Desk Heads at Level 2 (examples - Investment & Balance Sheet Management Desk, Trading desk for Foreign Currency Forex, Saudi Riyal, Derivatives & Rates and Sales Desk).

Further sub allocation of TAL is made to individual dealers at Level 3. Dealers need to take "Prior" approval for transactions from Desk Head in order to avoid limit breach. Desk Heads need to take prior approval from Risk for all products outside their Desk limits and for all non-routine transactions prior to dealing in order to avoid limit mandate breaches. The Market Risk Manager Functions independent of Treasury business and reports directly in to Head of Wholesale Credit & Market Risk and through him further up the reporting lines into the Chief Risk Officer, Managing Director, Risk Management Committee and Board Risk Committee.

(c) Scope and nature of risk reporting and/or measurement systems;
The MUREX system is used to monitor market risk limits and exposures. SABB is progressing with implementation in stages of MUREX for management of Treasury products including for full management of credit & market risk on these products. Hence VaR computation and subsequent requirements under the Fundamental Review of Trading Book (FRTB) will be conducted internally at SABB in MUREX when the system is fully implemented. The Murex system reports excesses on-line real time for both counterparty credit risk and market risk.

MR1 - Market Risk under standardised approach (Figures in SAR 000's)		
		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	724,225
2	Equity risk (general and specific)	
3	Foreign exchange risk	785,950
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	**1,510,175**

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Operational

(a) In addition to the general qualitative disclosure requirement (paragraph 824), the approach (as) for operational risk capital assessment for which the bank qualifies;

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Operational risk is relevant to every aspect of our business. It covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, systems failure or external events all fall within the definition of operational risk.

SABB follows the standardised approach in calculating its capital requirements. The business has been segmented according to Basel lines of business to determine the correct risk factors to apply. The capital requirements have been calculated by applying the SAMA designated beta factor on gross income (based on average of last 3 years) for each line of business.

The objective of our operational risk management is to manage and control operational risk in a cost-effective manner and within our risk appetite. The Operational Risk and Internal Control Committee, which reports to RMC, meets monthly to discuss key risk issues and review the effective implementation of the ORMF.

Responsibility for managing operational risk lies with SABB's staff. SABB's Operational Risk Management Framework ('ORMF') is our overarching approach to managing operational risk, the purpose of which is to:

- identify and manage our operational risks in an effective manner;
- remain within the Bank's operational risk appetite, which helps the organisation understand the level of risk it is willing to accept; and
- drive forward-looking risk awareness and assist management focus during 2018.

(b) Description of the advanced measurement approaches for operational risk (AMA), if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach;

AMA not applicable as SABB follows the Standardised Approach

(c) For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk;

AMA not applicable as SABB follows the Standardised Approach

Interest rate risk in the banking book (IRRBB) (Figures in SAR 000's)

(a) Qualitative disclosure requirement of IRRBB;

Interest rate risk in the banking book ('IRRBB') arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated for products where the contractual terms do not determine either the economic duration or the price of the balance, due to embedded customer optionality as an example. For these products, assumptions are used to allow accurate analysis.

The assumption and management of IRRBB can be an important source of profitability and shareholder value for SABB, hence its objective is to protect the balance sheet and earnings from adverse movements arising from various interest rate risk types.

The Board directs and oversees the management of IRRBB activities with the Board Risk Committee (BRC) providing oversight to the Asset and Liability Committee (ALCO), which has overall responsibility for interest rate risk monitoring and management in order to optimize SABB's earnings and net asset values and sets limits.

The Bank manages interest rate risk in the following manner.

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- SABB's risk management mandate includes specific interest rate risk thresholds, along with a specific Risk Appetite Statement, which are approved by BRC on an annual basis.
- PVBP limits are established covering the total bank exposure as well as having sub limits placed on the banking and trading books. Market Risk Management tracks the limits on a daily basis with exceptions referred to senior management.
- Pillar II capital assessments using Economic Value of Equity (EVE) as a basis for capital requirements under Pillar II as part of the Bank's capital adequacy with at least quarterly reporting to ALCO.
- Internal transfer pricing policies are established by Finance and approved by ALCO.
- Funds Transfer Pricing (FTP) maintenance.
- Stress testing is undertaken and reported to ALCO on a quarterly basis covering the standard Basel IRRBB scenarios for EVE and Net Interest Income (NII) sensitivities.
- Additional stress scenarios are undertaken on a quarterly basis which are also included within the SAMA stress testing report based on a mild shock of 100bps, a moderate shock of 200bps and an extreme shock of 470bps (which is the largest 1 year movement seen in USD or SAR interest rates).
- Clear definition of authorized investments, permissible hedging and position taking strategies with Treasury appointed as the execution body.

Balance Sheet Management (BSM) is responsible for the day-to-day execution of the interest rate strategy. BSM is permitted to use derivatives as part of its mandate to manage interest rate risk. Derivative activity is predominantly through the use of vanilla interest rate swaps which are part of cash flow hedging and fair value hedging relationships.

The different types of IRRBB, and the controls that the group uses to quantify and limit its exposures to these risks, can be categorised as follows:

- risk that is transferred to BSM and managed by BSM within a defined risk mandate;
- risk that remains outside BSM because it cannot be hedged. This risk will be captured by our net interest income sensitivity and EVE sensitivity with corresponding limits as part of our risk appetite statement for IRRBB;
- basis risk that is transferred to BSM when it can be hedged.
  Any residual basis risk remaining in the businesses is reported to ALCO; and
- model risks that cannot be captured by net interest income or EVE sensitivity but are controlled by the Bank's stress testing framework.

The component of the interest rate risk in the banking book outside BSM that can be economically neutralised is transfer priced to and managed by BSM. The banking book interest rate risk transferred to BSM is reflected in the Bank's PVBP and non-traded VaR measure where BSM then evaluates the relative risk on the basis of applying PVBP and VaR approaches and managing the resultant risk within approved limits assigned by BRC. BSM activity in this regard is overseen by the Market Risk and Product Control functions.

The price at which interest rate risk is transferred to BSM is determined by the Bank's prevailing interest rate risk transfer pricing curve defined by ALCO, in accordance with the Bank's funds transfer pricing policies. The transfer price seeks to reflect the price at which BSM could neutralise the risk in the market at the point of transfer.

Interest rate risk behaviouralisation

Unlike liquidity risk, which is assessed on the basis of a very severe stress scenario, banking book interest rate risk is assessed and managed according to business-as-usual conditions. In many cases, the contractual profile of banking book assets/liabilities arising from assets/liabilities created outside BSM does not reflect the behavior observed.

Where there is no certainty with regard to interest rate repricing profile, behaviouralisation is used to assess the market interest rate risk of banking book assets/liabilities and this assessed market risk is transferred to BSM, in accordance with the rules governing the transfer of interest rate risk from the global businesses to BSM

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In assessing the banking book interest rate risk outside BSM, interest rate repricing behaviouralisation techniques are used where the interest repricing profile is uncertain.

The behaviouralisation of non-term assets and liabilities is currently for tenors up to 5 years. Behaviouralisation ensures that a true reflection of the net IRRBB risk is reflected and managed by BSM. The behaviouralisation parameters are reviewed periodically to reflect the current market, observed customer behaviour and the availability of hedges with any changes reviewed and approved through the ALCO governance committee.

The maximum tenor to which any individual tranche of a noninterest bearing withdrawable/repayable customer balance or equity can be behaviouralised is 10 years. The maximum weighted average behaviouralised tenor for any portfolio is five years. Interest-bearing managed/administered rate balances are behaviouralised to tenors less than one year, typically three months.

The maximum percentage of any portfolio that can be behaviouralised is 90% with the residual treated as contractual, meaning overnight.

Interest rate behaviouralisation policies are approved at least annually by ALCO.

IRRBB is measured and controlled using the following metrics:
- Present Value Basis Point (PVBP);
- non-traded VaR;
- Net interest income (NII) sensitivity; and
- Economic value of equity (EVE).

These are reported on a regular basis to ALCO.

The PVBP approach is a refined duration method that also takes the present yield curve into account and allows the use of operative limits for maturity bands. The PVBP is the change in the present value for a 1 basis-point change in the corresponding interest rate.

Non-traded VaR excludes the non-traded interest rate risk not transferred to BSM and the non-traded interest rate risk of SABB.

Economic Value of Equity (EVE)
EVE captures the expected impact of changes in interest rates on base case economic value. It captures all non-traded items irrespective of the profit and loss accounting treatment and represents the present value of future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. This represents the current book value of equity plus the present value of future net interest income under a managed run-off scenario. The present value of net interest income under a managed run-off and under any interest rate scenario can therefore be assessed by deducting the book value of equity from the EVE value calculated.

An EVE sensitivity is the extent to which the EVE value will change due to a pre-specified movement in interest rates, where all other economic variables are held constant. The EVE sensitivity represents the sensitivity of discounted net interest income plus the sensitivity of the net present value of any transactions used to hedge the interest income earned on equity. If the EVE sensitivity is adjusted to remove the sensitivity in net present value of any transactions used to hedge the interest income earned on equity, the resulting adjusted EVE sensitivity represents the extent to which, under a managed run-off scenario, discounted net interest income is sensitive to a pre-specified movement in interest rates.

The standard Basel EVE scenarios are used to report EVE. When assessing the sensitivity of EVE to interest rate movements, the timing of principal cash flows can vary but the amount remains constant.
The Bank monitors EVE sensitivity as a percentage of tier 1 capital resources under a managed run-off assumption.

EVE is also used for assessing the economic capital required to support interest rate risk in the banking book ('IRRBB'):
- Where EVE under any scenario is higher than the current balance sheet carrying value of equity, the banking book income stream is positive (i.e. profit) and therefore capital accretive under that scenario and no economic capital for IRRBB is required.

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- Where EVE of any scenario is lower than the current balance sheet carrying value of equity, the banking book income stream is negative (i.e. loss) and therefore capital deductive under that scenario and economic capital for IRRBB should be held against this loss.

Where banking book assets/liabilities are fair valued through profit and loss or where the fair value changes impact capital resources (i.e. available for sale), economic capital for this interest rate sensitivity is additionally assessed using a stressed VaR approach.

Net interest income (NII) sensitivity

A principal part of the Bank's management of market risk in non-trading portfolios is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). This monitoring is undertaken by ALCO.

NII sensitivity captures the expected impact of changes in interest rates on base case projected net interest income.

The Bank applies standard scenarios as per the Basel framework.

Projected net interest income sensitivity figures represent the effect of the pro forma movements in net interest income based on the projected yield curve scenarios and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions which would probably be taken by BSM or in the business units to mitigate the effect of interest rate risk.

In reality, BSM seeks proactively to change the interest rate risk profile to minimise losses and optimise net revenues. The net interest income sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'upshock' scenario. Rates are not assumed to become negative in the 'down-shock' scenario which may, in certain currencies, effectively result in non-parallel shock.

SABB uses interest rate swaps and cross-currency interest rate swaps to manage the interest rate risk. Accounting policy will follow the requirements as per International Accounting Standards (IAS). Under the provisions of IAS 39 the following is the accounting treatment for designated hedges:

Fair Value Hedges
- Fair value changes on hedging derivatives are recognized in income statement
- In the case of the hedged item, the native accounting of the designated asset / liability will change to fair value accounting to the extent of the hedged risk
- Any hedge ineffectiveness is passed on to P&L on a daily basis

Cash Flow Hedges
- Fair value changes on hedging derivatives are recognized in other reserves
- In the case of the hedged item, the native accounting of the designated asset / liability stays unchanged
- Any hedge ineffectiveness is reclassified from reserves to P&L on a monthly basis

Upcoming changes in IFRS will require changes to the accounting policy in the future. As and when SABB adopts the new IFRS, this document will be revised to reflect the changes.

The Bank has applied the Basel standardized framework in calculating the EVE and NII sensitivities as disclosed in Table B below.

The assumptions underpinning these are as detailed in the Basel IRRBB guidelines under Principle 8.
Cash flows for EVE have been discounted using a risk-free rate.

No assumptions on prepayment rates or behavioural optionalities have been applied.
The non-maturing deposits have been slotted with the non-core on an overnight basis and the core element allocated using a simple linear average with the maximum tenor up to the cap as per table 2 in paragraph 115 of the Basel IRRBB guidelines.

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IRRBB1 - Interest rate risk in the banking book (IRRBB) (Figures in SAR 000's)				
In reporting currency	Δ EVE		Δ NII	
Period	T	T-1	T	T-1
Parallel up	(1,077,701)	(1,578,230)	1,211,490	1,133,529
Parallel down	1,245,549	1,669,048	(1,241,762)	(1,164,318)
Steepener	(185,873)	(679,597)		
Flattener	(143,362)	273,354		
Short rate up	(622,998)	(394,707)		
Short rate down	551,431	223,310		
Maximum	(1,077,701)	(1,578,230)	(1,241,762)	(1,164,318)
Period	T		T-1	
Tier 1 Capital	33,359,762		33,359,762	

Table REMA: Remuneration policy

(a) Information relating to the bodies that oversee remuneration;

SABB's remuneration activities are governed mainly by SABB's board of directors, despite the establishment of the Nomination and Remuneration Committee (NRC), the Board of Directors are ultimately responsible for promoting effective governance and sound compensation practices. The Remuneration and Nomination Committee, which is the delegated sub-board committee reporting to the Board of Directors and is independent in taking its decisions, consists of (3-5) independent or non-executive Board members or non-Board members selected by the Board, and such appointments are subject to SAMA no-objection. The NRC TORs are as follow:

1. The Nomination and Remuneration Committee shall act in accordance with the official decisions and instructions issued by the Supervisory Authorities or the directions communicated to the Committee by the Board of Directors.
2. The Committee will undertake all tasks entrust thereto under these rules, and the SABB Directors Selection & Appointment Criteria Policy. The Board of Directors may entrust to the Committee any other tasks as required by the Board and the responsibilities undertaken thereby.
3. Recommend to the Board of Directors the names of persons nominated for the membership of the Board in line with the policies and criteria outlined in the SABB Directors Selection and Appointment Criteria Policy and the pertinent policies and rules in place.
4. To endorse the appointment of Senior Executives in respect of whom a "No-Objection" is required to be obtained from SAMA and to recommend and enforce succession policies for the Board and its committees, and for the Senior Management in coordination with the Bank's HR, and ensure the compliance of the executive management with such policies.
5. To annually review the qualifications and skills required for the membership of the Board and to prepare a description of the capabilities and qualifications required including the time to be devoted by each Board member for the Board business.
6. The Committee shall have in place a record containing details of Board member qualifications and skills in order to identify the additional skills required to activate the board's role to ensure fulfilment of its functions and responsibilities.
7. To review the structure of the Board and make the necessary recommendations in this connection.
8. To identify the weaknesses and strengths of the Board of Directors and make the necessary recommendations for rectification so as to achieve the Bank's interests, including the adoption of an acceptable and effective method for assessment of Board and Committees members.
9. To work with the Board and or Audit Committee to annually verify the independence of independent members and ensure lack of conflict of interests if any Board member holds membership of other companies, and to ascertain the directors adherence to the code of conduct.
10. To draw and review clear policies for the remunerations and nomination of Board members Sub-committee members and Senior Executives as well as all employees (including regular staff, contract

staff and seconded staff) in line with the performance criteria and prevailing domestic practices, taking into consideration the management of pertinent risks and the official directions regarding the fees and remunerations of the Directors of the Board. (Refer Appendix IV: Compensation paid to Board Directors and Sub-committees members)

11. To identify and apply appropriate performance measures and consider the risk adjustments and the award process, and to fix bonus pools based on achieving the bank's strategic objectives and the risk adjusted profits of the Bank for payment of performance bonus and to consider current year and long term performance.
12. To apply appropriate performance (Malus) condition on members who are proven beyond reasonable doubt to be negligent, not exercising proper decision/ controls with respect to operations, credit, risk management, information risk compliance or any other kind resulting in a loss situation and/ or reputation damage to SABB where they will have non-vested shares withheld and SABB reserves the right to clawback previously vested shares.
13. To appoint remuneration Advisors within the budget restraints determined by the Board of Directors, and authorize or obtain any pertinent reports or surveys or information as deemed necessary to assist the Committee in performing its duties.
14. To review and ensure compliance of remuneration policy, and the Corporate Governance practices & framework with the rules and instructions of SAMA in regard to remunerations, financial stability and sound Corporate Governance principles.
15. To work closely with the Bank's Risk Committee and/or Chief Risk Officer in the process of evaluating incentives adopted under remuneration rules.
16. The Committee shall once in a year at least review its performance and legal status and terms of reference to ensure that the Committee is operating with utmost efficiency and to recommend any changes deemed appropriate for the Board approval.
17. The Committee Chairman shall attend the Shareholders General Meeting to respond to any questions raised by shareholders on the Committees activities and scope of work.

The Board of Directors through the NRC shall ensure that an annual compensation review is conducted independently of management and submitted to NRC for review and tracking. This review takes place by an external independent consultants, previously through Mclagan® consultants and subsequently through HayGroup®, where this review assess the Bank's compliance with the SAMA Rules on Compensation Practices and the FSB Principles and Standards. The Board of Directors, NRC and Management takes into account the findings of such a review in deciding compensation related matters and may also, if deemed appropriate, disclose a summary of the same publicly in the Bank's Annual Report.

The scope of SABB's remuneration policy covers the following:

- All employees: Permanent Employees; Fixed Contract Employees; International Assignees; Employees in majority or wholly owned subsidiaries and Agency Outsourced Employees.
- All compensation elements: Basic Salary; allowances; employee benefit programmes; bonus and incentive schemes (short-term and long-term).
- Key determinants of compensation: Career Banding; individual performance, business and corporate performance; risk alignment; compensation & market conditions; and regulatory requirements.
- Approval process: Establishment and amendments of policy; total pay review and incentive payments.
- Reporting processes: Annual reporting disclosures; management information reporting: and regulatory reporting, CMA Private Placement notification.
- Relevant stakeholder's roles and responsibilities: SABB Board of Directors; Nomination & Remuneration Committee (NRC); Human Resource Department (HRD); & SAMA.

Some roles in SABB are considered as material risk taking roles. Those roles are determined based on the following factors where those role holder's awards should be subject to deferral and at what level. Each role is assessed against these factors:

- Is the employee in a role making substantive decisions with regard to the previously listed risks?
- Is the employee in a role that requires (ex officio) that they be a Member or Chairman of a committee making decisions about the listed risk?
- If the risk were to materialize what would the size of the loss in terms of the Bank's profit? (Less than 1% or between 1% and 3% or greater than 3%)
- What is the tenor of the normal risk undertaken by the employee in this role(less than 13 months or

between 13 to 60 months or greater 60 months?)
- What is the primary function of the role (Risk taker or responsible person or financial controller or risk controller or other?)

If the role is assessed to have high risk impact on the bank then it would be subject to bonus deferral based on a four tier model.

Tier One Employees	Responsible Person/or High Material Risk Takers / Controller
Tier Two Employees	Significant Material Risk Takers / Controller
Tier Three Employees	No Significant Material Risk Undertaking or Controlling

(b) Information relating to the design and structure of remuneration processes;

Objectives of the remuneration policy:
- Align the reward practices with the Bank's strategy & values so as to support the successful execution of the strategy in a risk aware manner.
- Make transparent to all stakeholders SABB's compensation principles and processes.
- Ensure internal equity of compensation.
- Cost effective reward solutions.
- Ensure certainty in reward processes.
- Ensure delivery of high quality services to customers through ethical products.
- Offer an attractive employee value proposition to attract, retain and motivate competent and committed employees so as to achieve our strategy of being the "Bank of Choice" by making SABB the Best Place to Work.
- Ensure the financial sustainability of SABB.
- Ensure that pay is determined by the value-adding performance of an individual employee.

The remuneration policy is reviewed once a year at least by NRC or sooner in case required. The latest review took place in 27th of September 2018 and the main highlights of the changes are as follow:
- Added Bulk Deposit Machine (BDM) allowance under Role Specific Allowances which is newly created machine in branches to support cash collection from corporate customers. The allowance amount is as same as the ATM, ITM and CDM custodian amounts however the BDM was added to clarify eligibility of custodians. This is a type of inconvenience allowance given to custodians responsible for maintaining Automated Cash machines.
- SABB Management to grant employees with "good leaver" status pro-rata bonuses whenever applicable (MANCOM Members will be ratified by NRC).
- Guidelines around the shares purchasing to fund the deferral programs to ensure shares purchase price is the same for purchasing and allocation in order to ensure that SABB does not lose or gain from the programme
- NRC to exceptionally approve accelerated vesting of shares for special organisational separation cases such as Government officials appointments, employees exit due to health conditions, employees exit due to out of control matters…etc. based on bank management recommendation
- Added section related to the newly approved Retention Scheme under Long Term Incentive programmes

In order to ensure that risk and compliance employees are remunerated independently of the businesses they oversee, the remuneration policy and internal rewards procedures states the segregation of the allocation of variable pay of all employees engaged in control functions from the overall bank and the size of that pool is not related to the short term profits of the bank.

(c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Including an overview of the key risks, their measurement and how these measures affect remuneration;

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All employee engaged in material risk (listed below 1.1 – 1.18) undertaking or responsible persons or senior financial or Risk Control employee will be subject to bonus deferral conditions, as detailed herein:

Tier	Deferral	Level of Deferral	Vesting Period	Deferral Vehicle**	Level of Vesting
1	Yes	30%	3 Year	Equity	33% in First Year 33% in Second Year 34% in Third Year
2	Yes	20%	3 Year	Equity	33% in First Year 33% in Second Year 34% in Third Year
3	No	0%	N/A	N/A	N/A

Minimum differed amount is capped on 30K and less. If the employees has a differed amount of less than 30K, no deferral will be applied and he/she will receive his total bonus amount in immediate cash. Employees who are not Tier 1 or 2 and have a bonus between 0.75M and 1.85M may be subject to 20% bonus deferral. And for employees who have a bonus more than 1.85M may have a 30% bonus deferral.

The level of deferrals and the applicable tier will be implanted on the following basis

Level of bonus deferral	Percentage of Deferral
Tier One Employees	30%
Tier Two Employees	20%
Tier Three Employees	0%

Performance (Malus) Conditions: If a member is proven beyond reasonable doubt to be negligent, not exercising proper decision/ controls with respect to operations, credit, risk management, information risk compliance or any other kind resulting in a loss situation and/ or reputation damage to SABB, they will have non-vested shares withheld and SABB reserves the right to clawback previously vested shares and/or awards. Clawback can only be applied for the previous 5 years in addition to the current performance year. Based on loss/damage assessment of the incident, the clawback can be exercised on the employee's awards for either one specific year or more up to five years.

Shares purchase: in order to ensure that the share price is the same for purchasing and allocation, SABB shares utilised to fund the deferral program should be purchased within a set period of the average share closing price one week preceding the granting date. It has to be ensured that this set period is not falling within the shares purchase prohibition period as per SAMA guidelines.

Personal Hedging Strategies: SAMA Rules on compensation practices prohibit the use of personal hedging strategies or compensation and liability related insurance to undermine the risk alignment effects embedded in employees' compensation arrangement.

Following are the list of risks undertaken or managed by employees on behalf of the Bank:

1.1 Credit Risk

Credit risk is the risk of financial loss through the failure of a customer or counterparty to honour their commitments as they fall due. Credit risk arises principally in corporate and personal lending, trade finance, treasury and syndication underwriting. It also arises from off balance sheet products such as guarantees and derivatives or from a Bank's holdings of debt securities.

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1.2 Market Risk
Market Risk is defined as the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce a Bank's income or the value of its portfolios.

1.3 Interest Rate Risk in Banking Book (IRRBB)
Interest rate risk in the banking book (IRRBB) is defined as the exposure of the non-trading products of the bank to interest rates. Interest rate risk arises principally from mismatches between the future yield on assets and their funding costs, as a result of changes in interest rates.

1.4 Liquidity Risk
Liquidity risk is the risk that a Bank does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk (a particular form of liquidity risk) arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

1.5 Investment Risk
Investment risk is the risk of an adverse impact on P&L and capital due to an unexpected loss in value of the investment position held by a Bank on a long term basis (non-trading basis). This can arise out of a Bank's investment, private equity or equity investment portfolios.

1.6 Operational Risk
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

1.7 Strategic Risk
Strategic Risk is the risk that the business will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years such as changing economic and political circumstances, customer requirements, demographic trends, regulatory developments or competitor action. Risk may be mitigated by consideration of the potential opportunities and challenges through the strategic planning process.

1.8 Reputational Risk
Reputational risk is the potential negative but unquantifiable current and future impact on profits and capital, which might arise from a changed and adverse perception of a Bank's reputation among its various stakeholders in the various sides of its operations.

1.9 Compliance Risk
Compliance Risk is the risk leading to statutory, legal sanctions, material financial loss, or damage to the reputation of a Bank that may be suffered as a result of the failure to comply with all applicable laws, rules and regulations. The aim of compliance is to protect the reputation and credibility of a bank and protect the interest of shareholders and depositors, and safeguard the institution against legal consequences.

1.10 Structural Foreign Exchange Risk
Structural Foreign Exchange (FX) risk is the potential for adverse movements in the supply of capital and thus capital ratio impact as a result of unexpected movements (US dollar peg break) between SAR and all non-SAR (foreign currency) denominated assets.

1.11 Settlement Risk
Counterparty settlement risk is the risk that a transaction may still fail to be completed during the final settlement or processing of payments or exchange of assets. It is evaluated along with other facilities provided to a counterparty. The main areas where settlement risk can crystallise into cash exposure are Daily Settlement Limits (DSL) and SARIE payment limits.

1.12 Security and Fraud Risk
Security and Fraud Risk (SFR) is defined as the protection of people, property, assets and information by

reducing the risk to the business from terrorism, crime, incidents/disasters and groups hostile to SABB interests.

1.13 Legal Risk

The risk of financial loss, sanction and/or reputational damage resulting from Contractual Risk (the risk that the rights and/or obligations of a Bank within a contractual relationship are defective); Dispute Risk (the risk when involved in or managing potential or actual disputes); Legislative Risk (the risk that a bank fails to adhere to laws of the country's jurisdiction in which it operates); and Non Contractual Rights Risk (the risk that a Bank's assets are not properly owned or are infringed by others or the infringement by a Bank of another party's rights)

1.14 Information Risk

The risk that a breach of confidentiality, integrity or availability results from confidential information being lost, exploited for criminal purposes, or used in a way that would cause reputational damage and/or financial loss to the bank

1.15 Accounting Risk

The risk that financial information is captured incorrectly, miscalculated, omitted or misreported to external users such as investors and regulators or as internal management information.

1.16 People Risk

The risk of deficient employment practices; loss of, or the inability to attract, key personnel; employees inadequately trained or not demonstrating Bank values; workforce disruption; risks related to employment law; or inadequate workplace health and safety.

1.17 Physical Risk

Risks to employees, property or bank critical infrastructure from civil disorder, terrorism or systemically high levels of violent crime (including kidnapping) and extreme climate events.

1.18 Systems Risk

The risk of failure or other deficiency in the automated platforms that support the Bank's daily execution (application systems) and the systems infrastructure on which they reside (data centres, networks and distributed computers).

Forfeiture & Non-forfeiture Provision

1. Forfeiture Provisions

- Resignation
  If an employee voluntary leaves the service of SABB, then all non-vested shares will be forfeit.
- Termination
  If an employee is terminated by SABB on performance or disciplinary basis then all non-vested shares will be forfeit.
- Malus Provision
  If an employee is proven beyond reasonable doubt to be negligent, not exercising proper decision/ controls with respect to operations, credit, risk management, information risk compliance or any other kind resulting in a loss situation and/ or reputation damage to the Bank, they will have non-vested shares with held and the Bank reserves the right to clawback previously vested shares.

2. Non-forfeiture Provisions

- Death in service
  Shares will vest in full and will be released to the deceased's estate.
- Retirement on the grounds of ill-health or disability
  Shares will vest at the normal vesting date on a time apportioned basis, but subject to the malus provision.
- Redundancy (Employee's job is no longer required and no place could be found for the employee)
  Shares will vest at the normal vesting date on a time apportioned basis, but subject to the malus provision.
- Early Retirement
  Subject to Executive Management approval, shares will vest at the normal vesting date on a time apportioned basis, but subject to the malus provision.

- Normal Retirement
  Shares will vest at the normal vesting data on a time apportioned basis, but subject to the malus provision.
- Transfer within HSBC group
  Shares will vest at the normal vesting date on a time apportioned basis.
- Sale of the employing business by SABB
  Shares will vest at the normal vesting date on a time apportioned basis.

(d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration;
The performance of all employees is evaluated in at the Year-end reviews. All employees receive constructive feedback on performance at the Mid-year performance 'check-point'. The performance evaluations of all employees are linked to set targets and measures stated in the Performance Score Card and recorded on-line in SABB's Performance Management System.

Performance is evaluated using the Scorecard methodology. Each employee agrees to certain objectives and is assessed during the year on the progress made on these objectives. Employees are also appraised against their business peers through a Calibration process which is applied to ensure fair and equitable performance evaluation.

Employees are assessed using SABB's On Track / Off Track assessment during the mid-year stage. The assessment provides a common standard for assessing and comparing performance and is used to drive consistency and fairness of performance assessment. The On Track / Off Track assessment has been defined as follows:

On Track:
- Meets or exceeds H1 performance and values-aligned behavioural expectations;
- Likely to receive a 'Good', 'Strong' or 'Top Performer' year-end performance assessment and;
- Likely to receive a 'Role Model' or 'Solid' year-end behavioural assessment.

Off Track:
- Does not meet H1 performance and/or Values- aligned behavioural expectations and;
- Needs to make improvement in order to receive a Good or Strong Year-End Performance Rating.

Employees are assessed against their performance using SABB's 4-point descriptive scale during the year-end. The scale has been defined as follows:

- Top Performer: Always exceeds performance expectations
- Strong Performer: Frequently exceeds performance expectations
- Good Performer: Achieves or mostly achieves performance expectations
- Inconsistent Performer: Does not meet performance expectations

Employees are assessed against their behaviours using SABB's 4-point descriptive scale during the year-end. The scale has been defined as follows:

- Role Model: Exceptional behaviours, significantly above expectations, drives performance above target levels and has a lasting positive impact on SABB and all stakeholders.
- Solid: Strong sustained behaviours that consistently meet and, at times, are above expectations, which drive sustainable business performance for SABB and all stakeholders.
- Acceptable: Behaviours that are satisfactory but may require further development in order to improve contribution and create a more positive impact on stakeholders.
- Weak: Behaviours which may damage our stakeholders and our reputation, create risk and/or undermine business performance.

The performance evaluations for all employees are held in archive for 5 years and are used to establish performance trends over a longer period of time for senior level employees.

The performance management methodology adapted at SABB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance.

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To ensure full objectivity and independence of the Internal Audit function, the performance of the General Manager Internal Audit will be evaluated by the Audit committee in line with SAMA rules on Compensation.

The Bank uses a guided discretionary variable pay determination philosophy, once the bank financial results are produced, Management presents to the NRC a proposed overall variable pay pool which varies based on the bank overall financial performance. Once approved, this pool is segregated into 3 main pools, Business, Control and Infrastructure (Back office) pools. Further down those pools are adjusted based on each stream department results then further down a range is produced for each employee based on individual performance. Line managers then starts the allocation process within the guided ranges which ensures the differentiation between individual's recommendations based on the level of Individual performance. SABB overall pay philosophy is to "Pay for performance" therefore, by the current definition of performance levels explained above "Inconsistent performance" is not awarded by bank policy. In addition, SABB introduced a consequence management policy in 2017 which aims to ensure and overall disciplinary framework is introduced. The policy, in specific misconduct cases, can lead to reduction of variable compensation and will impact some employees in 2017 onwards.

On fixed pay level, SABB aims to differentiate in fixed pay based on performance trend of individuals, where SABB targets to position high performing employees towards market's upper quartile of pay while maintaining the bank overall pay levels at or above market median. Annually, SABB participates in best in class market pay surveys provided by top providers in the region (McLagan and Hay Group) to provide such benchmark data for those annual pay reviews.

(e) Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance;

Explained under section (c)

(f) Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms;

SABB offers 2 main forms of variable remuneration (cash and SABB shares). Where applicable, employees with variable pay is subject to deferral over 3 years, SABB purchase treasury shares with the deferred amounts and maintain the same within an overall bank portfolio managed by HSBC Investment Saudi Arabia. Based on the deferred amount and share price, a number of shares is allocated to each individual and vested over 3 years period of the coming performance years. Share price is determined on the actual price at the time of purchase and might be adjusted at the time of vesting based on the actual market price of SABB share at the time of vesting preventing the bank from any attempt of gain and loss from the share price volatility and linking the individual employee, as a beneficiary, to the long term interest of the bank overall all performance which impacts the share price. At the time of vesting, allocated shares are transferred from the bank portfolio to the employee portfolio where employee has the right to sell or maintain as preferred.

SABB also applies 2 incentive schemes to employees engaged in Retail Banking sales and Retail Banking Collections function. The schemes concentrates on junior employees only and are annually reviewed validated by HR, Business, Risk, Audit and Compliance and approved by NRC.

In 2017, the bank introduced a retention scheme for very specific talented employees introduced to 3 levels of employees. In 2018, the scheme was introduced to 4 levels of employees covering around 400 employees bank wide. The scheme was based on 3 years cliff vesting shares for top executives and 3 years cliff vesting of cash for senior managers. All deferral malus and clawback conditions apply on this scheme as well in addition to the shares purchase mechanism and process.

SABB takes into perspective the business nature, Employee level in addition to the total compensation factors when determining the individual's pay mix, this is validated and determined based on market benchmarking and other elements such as the individual performance and business performance. SABB pay mix ranges between 80/20 fixed to variable for back office and control functions and between 70/30 fixed to variable for Business functions.

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REM1: Remuneration awarded during the financial year (Figures in SAR 000's)				
			a	b
	Remuneration amount		Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	10	73
2		Total fixed remuneration (3 + 5 + 7)	21,516	74,230
3		Of which: cash-based	-	-
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	10	73
10		**Total variable remuneration (11 + 13 + 15) ***	22,824	51,214
11		Of which: cash-based	11,813	39,967
12		Of which: deferred	-	2,175
13		Of which: shares or other share-linked instruments	11,011	11,247
14		Of which: deferred	11,011	11,247
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	Total remuneration (2+10)		44,340	125,443

REM2: Special payments (Figures in SAR 000's)						
Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management						
Other material risk-takers						

REM3: Special payments (Figures in SAR 000's)					
Deferred and retained remuneration	a	b	c	d	e
	Total amount of outstanding deferred remuneration * as beginning of the year	Of which: Total amount of outstanding deferred and retained remuneration	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	**17,709**	**15,584**	-	-	**5,070**
Cash	375	-	-	-	-
Shares	17,334	15,584	-	-	5,070
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	**25,015**	**17,465**	-	-	**7,290**
Cash	4,800	-	-	-	-
Shares	20,215	17,465	-	-	7,290
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	**42,724**	**33,049**	-	-	**12,360**

* includes all outstanding deferrals from previous years

Basel III Pillar 3 Qualitative and Quantitative Disclosures

APPENDIX: TABLES AND TEMPLATES ARE NOT APPLICABLE	
	Tables and templates
Linkages between F.S & RE	PV1 - Prudent valuation adjustments (PVA)
Composition of capital and TLAC	TLAC1 - TLAC composition for G-SIBs (at resolution group level)
	TLAC2 - Material subgroup entity – creditor ranking at legal entity level
	TLAC3 - Resolution entity – creditor ranking at legal entity level
Macroprudential supervisory measures	GSIB1 - Disclosure of G-SIB indicators
	CCyB1 – Geographical distribution of credit exposures used in the countercyclical buffer
Credit risk	CRE - Qualitative disclosures related to IRB models
	CR6 - IRB - Credit risk exposures by portfolio and PD range
	CR7 - IRB - Effect on RWA of credit derivatives used as CRM techniques
	CR8 - RWA flow statements of credit risk exposures under IRB
	CR9 - IRB - Backtesting of probability of default (PD) per portfolio
	CR10 - IRB (specialised lending and equities under the simple risk weight method)
Counterparty credit risk	CCR4 - IRB - CCR exposures by portfolio and PD scale
	CCR6 - Credit derivatives exposures
	CCR7 - RWA flow statements of CCR exposures under the Internal Model Method (IMM)
	CCR8 - Exposures to central counterparties
Securitisation	SECA - Qualitative disclosure requirements related to securitisation exposures
	SEC1 - Securitisation exposures in the banking book
	SEC2 - Securitisation exposures in the trading book
	SEC3 - Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor
	SEC4 - Securitisation exposures in the banking book and associated capital requirements - bank acting as investor
Market risk	MRB - Qualitative disclosures for banks using the IMA
	MRC - The structure of desks for banks using the IMA
	MR2 - RWA flow statements of market risk exposures under IMA (Phase I only)
	MR2 - Market risk IMA per risk type (Phase II only)
	MR3 - IMA values for trading portfolios (Phase I only)
	MR3 - RWA flow statements of market risk exposures under IMA (Phase II only)
	MR4 - Comparison of VaR estimates with gains/losses (Phase I only)

Basel III Qualitative and Quantitative Pillar 3 Disclosures Policy:
To assure compliance with the requirements of the guidance issued by SAMA dated 9 July 2015, SABB has created Basel III Pillar 3 Disclosures Policy which approved by the Board.

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