

**LEADING.
TOGETHER.**

Annual Report 2019



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



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

The integration of SABB and Alawwal Bank is underway. This strategic merger is a milestone in the history of Saudi banking, and for our two institutions. It marks the end of one journey and the beginning of another.

Ms. Lubna S. Olayan
Chair

A joint history of over 120 years

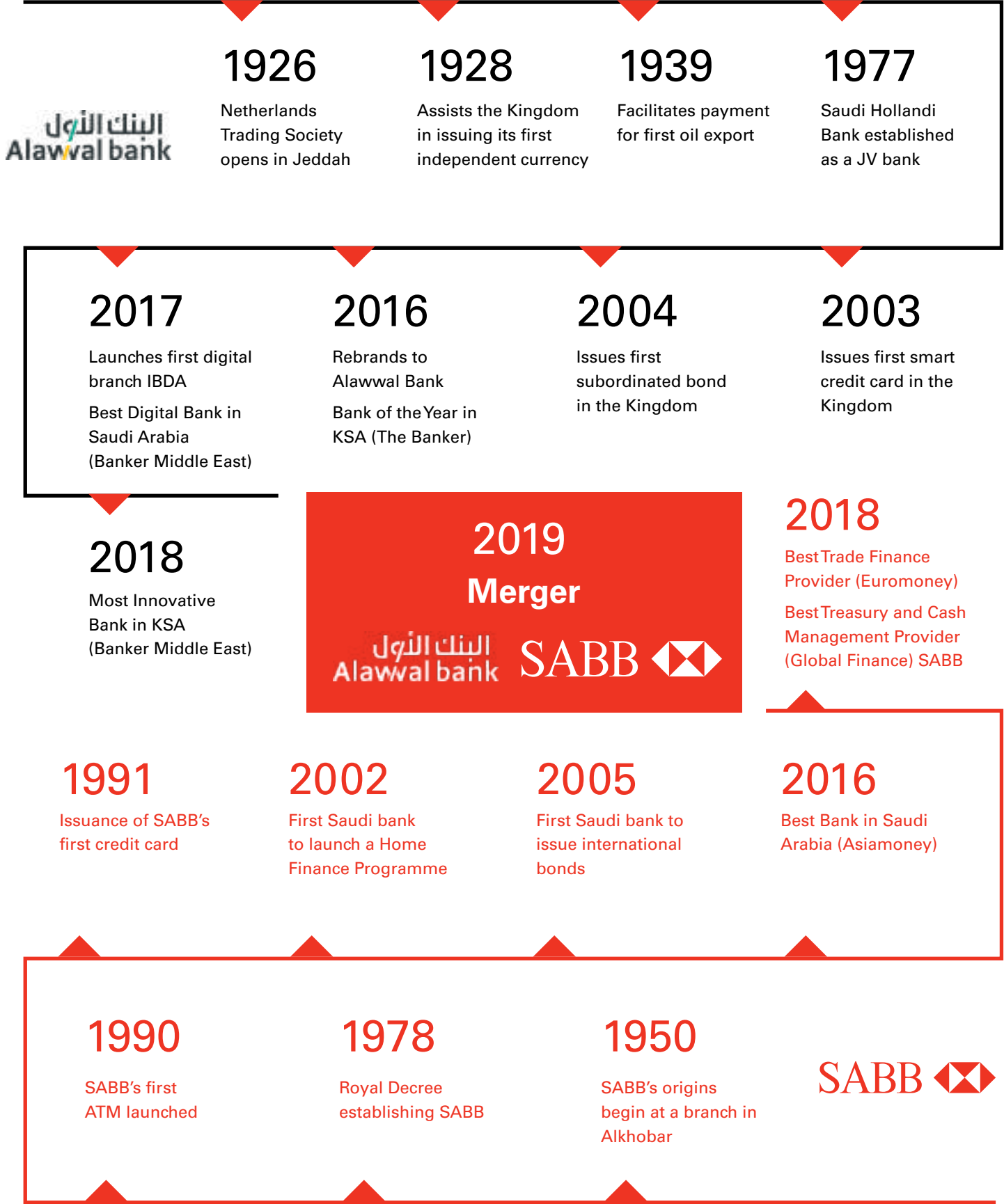


Table of contents

Bank profile

• At a glance	10
• About SABB	12
• Business model	14
• Year in review	16
• Our market	18
• SABB and Vision 2030	20

Strategic report

• Chair's statement	24
• Strategy and KPIs	26
• Managing Director's message	28
• Leading. Together.	30
• Customer experience and digital banking	32
• People and culture	34
• Social responsibility	36
• Chief Financial Officer's review	38
• Operating review	40
• Risk governance	52
• Capital overview	55
• Supporting Micro, Small and Medium-sized Enterprises	56

Governance

• The Board of Directors (the 'Board')	60
• Biographies of the Board members	62
• Executive Management biographies	66
• Changes to the Board during 2019	70
• Board sub-committees	71
• Risk governance	78
• Internal controls	83
• Board of Directors' assurance	86
• Related parties	87
• Shareholders and dividends	88
• SABB General meetings	91
• Directors' and Senior Executives' interests	92
• Remuneration	93
• Legal entity structure	95
• Appointment of external auditors	96
• Statutory payments	97
• Penalties	98

Awards



Best Bank for CE - KSA
International Business
Magazine



Best Service Trade Finance
Euromoney – 3rd consecutive year



Best Bank for Asia - KSA
Asiamoney



Best FX Provider - KSA
Global Finance



Market Leader, Best Service
Euromoney Trade Finance Survey



**Best Bank for Cash
Management - KSA**
International Business Magazine



Best Banking Brand - KSA
Global Brands Magazine



Innovator in Trade Finance
Global Finance

More awards from 2019

**Best Investment Bank
in Saudi Arabia** | Euromoney

**Best Fund Manager
in Saudi Arabia** | Global Investor MENA

**Best Trade Finance Bank
2019 in Saudi Arabia** | Global Trade Review

**Best Commodity
Finance Bank** | Saudi Trade Finance Summit

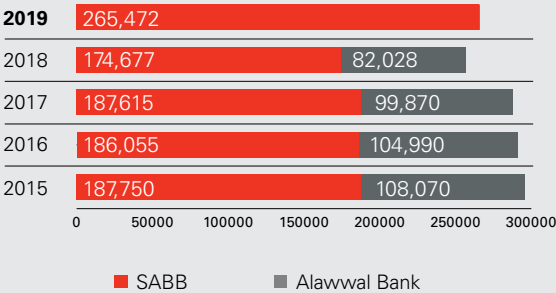


Bank profile

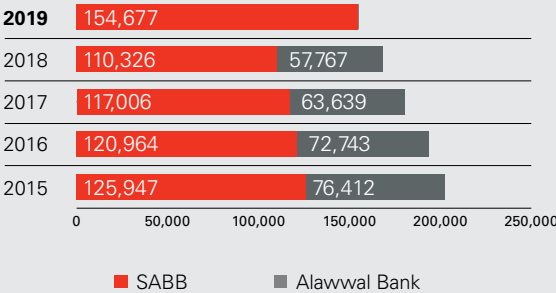
• At a glance	10
• About SABB	12
• Business model	14
• Year in review	16
• Our market	18
• SABB and Vision 2030	20

At a glance

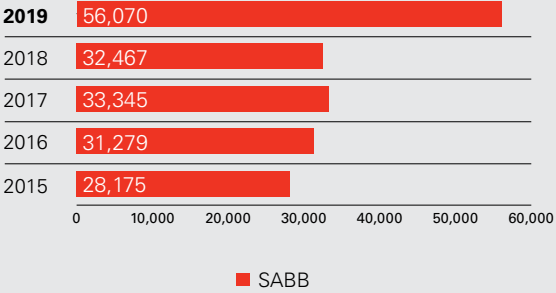
Total assets
(SAR mln)



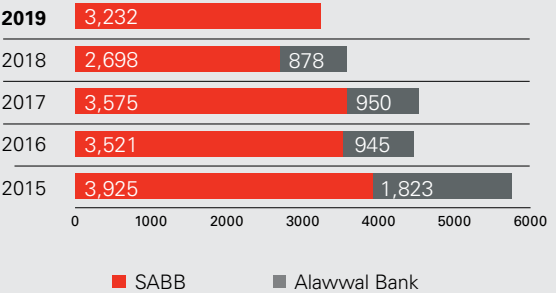
Loans and advances, net
(SAR mln)



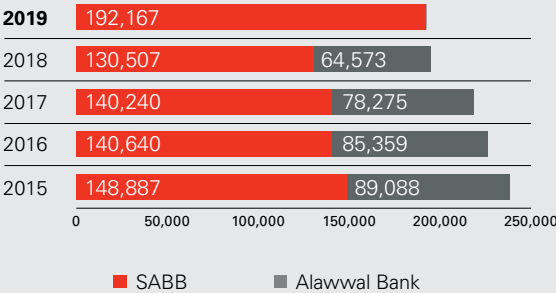
Shareholders' equity
(SAR mln)



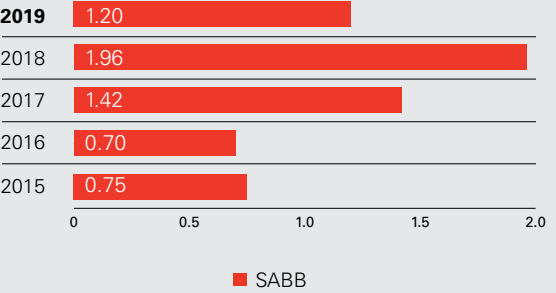
Net income after Zakat and income tax
(SAR mln)



Customer deposits
(SAR mln)



Dividend per share
(SAR)



7.5%

return on
tangible equity
(pro forma basis)

SAR
1.57

EPS

19.43%

capital adequacy ratio

15%

POS market share
(based on value of
transactions)

1.4m

retail customers

11k

corporate and institutional
customers

8.9%

mortgage market share

c.20%

trade market share

12.1%

FX market share
(pro forma basis)

No.1

corporate bank
by revenue

Customer lending by business



Gross loans

RBWM vs.
CIB

49%

shareholding in HSBC SA -
the leading investment
bank in the Kingdom

Institutional strength

In 2019, the world's top 3 credit rating agencies reaffirmed their positive outlook for SABB.

Standard & Poor's	BBB+	Stable outlook
Fitch Ratings	A-	Stable outlook
Moody's Investors Service	A1	Stable outlook

Our vision

We bring a world of financial opportunities to an ambitious Kingdom

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

Our business

Saudi British Bank (‘SABB’ or the ‘Bank’), was established in 1978 as a Saudi Joint Stock Company. Today the Bank has in issue SAR 38.1 billion of share capital and share premium, equating to 2,055 million shares with a nominal value of SAR 10. SABB provides a comprehensive range of banking services to retail, corporate and institutional customers throughout the Kingdom and does not own or operate any subsidiaries outside of Saudi Arabia.

Since its foundation, SABB has maintained its strategic partnership with HSBC Group, one of the world’s largest and most geographically diverse financial services corporations. The partnership has provided SABB with a vital competitive advantage, affording customers access to the best international services available in the Saudi market. HSBC Group currently retains a 29% stake in SABB.

Our merger

In June 2019, the merger was legally completed with SABB and Alawwal Bank, combining to form the Kingdom’s third largest bank by assets as at the merger date. Following regulatory and shareholder approvals, the banks became a single listed company with SAR 54.9 billion of shareholders’ equity. For the remainder of 2019, the two banks continued to operate a normal service, with the full integration of products and services expected to be completed within two years of the legal completion date.

Post integration, SABB will:

- Deliver a best-in-class universal banking business, serving all customer groups in the Kingdom, from individuals to small, mid-market, large and multinational corporations, financial institutions and public sector entities.
- Be the most international bank in the Kingdom, accessing an unrivalled global network through HSBC, offering international opportunities to Saudi corporates and individuals and providing local banking services to international customers active in Saudi Arabia.
- Offer a leading online and mobile digital banking experience.
- Provide the best career and training opportunities for staff in the banking sector.

The merged Bank has cemented its position as a top-tier Saudi financial institution, with total revenue in 2019 amounting to SAR 11.0 billion on a pro-forma basis, more than 1.4 million retail customers and over 11,000 corporate and institutional customers. The combination of the two banks has created a substantial retail and wealth management business, with increased resource to innovate and connect with a young and tech-savvy customer base. SABB continues to be one of the leading corporate banks in the Kingdom and the bank of choice for international customers.

The combined Bank has SAR 265 billion of total assets, SAR 161 billion of customer loans and SAR 192 billion of customer deposits. As at 31 December 2019, the market capitalisation of the Bank was SAR 71 billion.

The combination of SABB and Alawwal has created immense potential for customers and staff. Increased scale and capacity will allow us to support the growing needs of our diverse customer base, while providing unrivalled international connectivity for retail, corporate and institutional clients. Our focus is on our customers, while at the same time completing integration and realising the synergies and growth opportunities the merger provides.

Our businesses

SABB offers Shariah-compliant products which are approved and supervised by an independent Shariah Committee. The Bank also offers the option of a complete set of conventional banking products and services to corporate and institutional customers.

Retail Banking and Wealth Management (RBWM)

A complete set of products and services for personal and private banking customers.

Retail customers are segmented as Premier, Advance and Mass with a tiered service approach and tailor-made solutions.

A range of digital solutions for customers to access finances anytime and anywhere, supported by personalised advice where appropriate.

- 47,000 POS terminals
- 282,000 mobile app downloads
- 136 branches and 15 centres for ladies’ banking
- Apple and Android Pay
- Blockchain-enabled remittances

Corporate and Institutional Banking (CIB)

One of the largest commercial lenders in the Kingdom by balance sheet and operating income.

Corporate and institutional customers served by relationship managers across Saudi Arabia, with access to global markets and services via HSBC Group.

Full suite of conventional and Shariah-compliant corporate banking solutions, catering to a wide range of customers, from SMEs to multinational businesses.

- Lending, saving, liquidity management, payments, cash and electronic payment collections through our Global Liquidity and Cash Management (‘GLCM’) offering
- Trade and receivables finance through our Global Trade and Receivables Finance (‘GTRF’) offering
- A range of other solutions including foreign exchange and interest rate management; insurance, investment banking, custody services, brokerage, and asset management through subsidiaries and strategic associates

Treasury

The Treasury business serves two essential functions for SABB:

- Provides corporate, institutional, retail and private banking customers with access to capital markets, foreign currency and derivative solutions through its Sales and Trading unit.
- Manages the Bank’s liquidity and market risk, including deployment of its commercial surplus through an investment portfolio, managed by the Balance Sheet Management unit.

Business model

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

Creating stakeholder value

STRONG LOCAL FRANCHISE

Scale

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

Diversity

- International network
- Conventional and Shariah-compliant product suite across retail, corporate and treasury segments
- Access for local and global customers

Digital

- Market-leading digital banking capabilities

Resource

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

REALISING SYNERGIES

Cost

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

Revenue

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

Integration

- One-time integration cost in range of 1.5-1.8x annual run-rate cost synergies

Delivery

- Synergies to be fully realised 3 years post legal merger completion

GLOBAL SUPPORT

HSBC Group

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

STAKEHOLDER VALUE CREATION

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

Case study

Client

Saudi Airlines (Saudia)

Industry

Transport and Logistics: Saudia is the national flag carrier for the Kingdom of Saudi Arabia and is one of the leading Middle East carriers, with a fleet of approximately 147 aircraft reaching 95 global destinations.

What did SABB do?

Saudia has been a client of SABB for 18 years. During the course of the relationship SABB has delivered a range of banking solutions including credit and lending, FX, GLCM, GTRF and investment banking services. GLCM and GTRF have been particularly important for the client.

- GLCM tools give Saudia the visibility and control necessary to manage their cash and collections, helping them efficiently manage liquidity on a real-time basis. SABB’s e-banking platforms enable Saudia to automate payment processes, make seamless in-country and overseas payments, and move cash between countries across currencies.
- SABB has given Saudia a dashboard for its global and local cash positions across banks. This is a critical deliverable for a global corporate to optimise its decision making and working capital.
- Through its GTRF offering, SABB has supported and provided the necessary letters of credit and guarantees to secure landing rights at various airports, and for customs authorities around the world, helping Saudia to run an efficient global operation.

Why did Saudia choose SABB?

SABB was chosen because of its long-standing relationship with Saudia as well as its transport and logistics sector expertise. In addition, the close relationship with HSBC Group’s international network allowed the Bank to act as a service provider that could meet both local and global needs. Consequently, SABB was able to deliver operational efficiencies, bank account rationalisation, simplified back-end processing, improved liquidity management and visibility, and better control on local and global operations.

Year in review

BUSINESS AS USUAL

BUSINESS AS USUAL

SABB launched new versions of the mobile banking app for Apple and Android, achieving no.2 and no.1 ratings respectively.

SABB and the King Abdullah University of Science and Technology ('KAUST') kicked-off the third year of the TAQADAM start-up accelerator programme, part of SABB's commitment to supporting entrepreneurship and small business in Saudi Arabia. A total of SAR 3 million in grants was awarded in 2019.

SABB was named 'Saudi Arabia's Best Bank for Asia', for the 2nd consecutive year, at the 2019 Asiamoney Awards. The award recognises the quality of banking services offered to Middle Eastern customers doing business in Asia, and Asian customers doing business in the Middle East.

SABB launched a new Ripple-based cross-border instant remittance service. The service uses Ripple's payment technology and is a part of the Bank's digital transformation journey and an enriched customer experience.

SABB received the 'Mowaamah' silver certificate from the Ministry of Labour and Social Development, for providing a supportive environment for persons with disabilities. SABB is the first bank in Saudi Arabia to earn this certificate.

SABB adopted a fresh approach to encourage Saudi customers to save, introducing a new concept savings account called 'Waafer'. The account encourages customers to save monthly by offering higher returns, without the typical requirement to maintain a minimum balance.

SABB launched MasterCard cross-border remittance services.

SABB became the first bank in the Middle East, North Africa and Turkey ('MENAT') to launch SWIFT gpi for Corporates ('g4c'). The service enables multi-banked corporates to initiate and track payments across banks, directly from their treasury and payment systems.

SABB completed the sale of a 2% stake (1,000,000 shares) in HSBC Saudi Arabia, to HSBC Asia Holdings B.V. Post-transaction, SABB holds a 49% stake in HSBC Saudi Arabia.

SABB partnered with HSBC to open the regional 'C3 Social Impact Accelerator' to Saudi start-ups, the region's flagship accelerator programme offering training and investment opportunities for start-ups making a positive social impact.

SABB and Alawwal Bank joined forces with the Alnahda Society to increase financial literacy among Saudi women.

SABB and HSBC used blockchain technology to finance international trade for the first time in Saudi Arabia and Bahrain, in a transaction for the shipment of homogenised aluminium billets from Aluminium Bahrain to Saudi Arabia's Altaiseer Aluminium Corporation. A Letter of Credit was issued on a blockchain based platform using R3's Corda system.

SABB was named 'Best Foreign Exchange Provider Saudi Arabia 2020', for the second consecutive year, by Global Finance. The award recognises SABB's leadership in the foreign exchange market in the Kingdom and is based on a number of criteria including market share, scope of global coverage, competitive pricing and innovative technologies.

Jan Feb Apr June July Sept Oct Nov Dec

SABB received regulatory approval from the Capital Market Authority ('CMA') for its proposed merger with Alawwal Bank, with Shareholders invited to vote on the merger at an EGM on 15 May 2019.

Following shareholder approval at the EGM, SABB and Alawwal Bank completed their legal merger to become Saudi Arabia's third largest bank by assets. Financial sector leaders gathered at the Saudi stock exchange, Tadawul, to celebrate market opening on the first day of trading for the combined institution.

The target IT architecture was selected and target operating models agreed across the Bank.

SABB launched the first hybrid branch in Abha, offering a business-as-usual service to customers under one branch.

The Bank completed a review of the culture of SABB and Alawwal, and defined the target culture for the combined organisation.

The merger of SABB and Alawwal Bank was awarded 'Domestic Deal of the Year' at the International Financial Law Review Middle East Awards.

Improved guidance was provided on estimated merger cost and revenue synergies.

MERGER

MERGER

Our market

Largest MENA economy: GDP
USD 810 billion

World's largest oil exporter

Government debt to GDP ratio of
c.22%

Tadawul market cap
USD 2.4 trillion

FX reserves
USD 512 billion

Unemployment
12.2%

Stable credit ratings
S&P: A-

Moody's: A1

Fitch: A

As at 30 November 2019

Saudi Arabia: macro narrative

The Kingdom's budget for 2019 was expansionary, and played an important role in non-oil revenue mobilisation. Oil production cuts in 2019 softened GDP growth, but non-oil sector growth increased. With increasing public spending and a correction to revenue growth, the fiscal balance returned to deficit in the second half, but public investment has grown as the implementation of Vision 2030's infrastructure plans come into effect. This is likely to remain a stimulus for growth in 2020.

The government issued USD 18 billion in sovereign bonds in the first half of 2019, along with a USD 12 billion offering by Saudi Aramco, which was among the most oversubscribed issuances ever. Providing support to the development of the domestic debt market, the government also issued longer maturity domestic bonds and permitted secondary market trading of sovereign instruments. Although net FDI flows remained below pre-2014 levels, overseas portfolio investment inflows increased significantly ahead of and after the inclusion of the Saudi capital market in the MSCI and FTSE Russell Emerging Market equity indices.

The Vision 2030 reform programme has played an important role in stimulating growth in a number of areas including development of the financial sector, improving conditions for doing business, enhancing the quality of the labour market and supporting the growth of SMEs, including through bank and non-bank financing schemes.

Saudi Aramco: making history

- 1.5% of shares listed on the Saudi stock exchange, Tadawul
- USD 25.6 billion raised – the largest IPO in history
- USD 1.7 trillion valuation
- HSBC acted as Joint Financial Advisor on the transaction

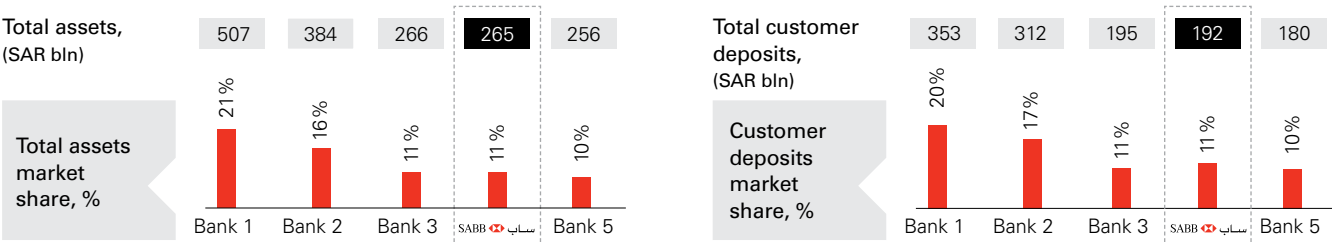
Saudi Arabia will chair the G20 summit for the first time in 2020, boosting the Kingdom's global profile and stimulating progress on structural reforms.

The Saudi banking sector¹

As highlighted in SAMAs 2019 Financial Stability Report, the end of 2018 saw a commerce sector-driven contraction in corporate credit growth, which carried through 2019. Profitability and stability indicators show a highly liquid and well capitalised banking sector that is resilient to external shocks. The industry is more than adequately equipped to cater to increased credit demand as economic growth accelerates.

At year-end, total assets across the Kingdom's banking sector stood at SAR 2.4 trillion, increasing by 8% year-on-year, with customer deposits totalling SAR 1.8 trillion, increasing by 6% from 2018. Following the SABB-Alawwal merger, the market share of total assets for the combined institution stands at 11%, with a share of 11% of all customer deposits across the retail and corporate spectrum.

Top 5 Saudi Banks by total assets and customer deposits.



¹ SAMA Financial Stability Report - June 2019

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

A VIBRANT SOCIETY

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



A THRIVING ECONOMY

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



AN AMBITIOUS NATION

An ambitious nation applies efficiency and responsibility at all levels in order to deliver the Vision, including building an effective, transparent, accountable, enabling and high-performing government



Spotlight on: Financial Sector Development Programme

The Financial Sector Development Programme aims to create a diversified and effective financial sector to support the development of the national economy, diversify its sources of income, and stimulate savings and investment.

The Programme intends to achieve this ambition by enabling financial institutions to support private sector growth, ensuring the formation of an advanced capital market, and promoting and enabling financial planning, while maintaining the stability and solidity of the sector.

Ensure the formation of an advanced capital market

Enable financial institutions to support private sector growth

Promote and enable financial planning

Key themes for SABB

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



Strategic Report

• Chair’s statement	24
• Strategy and KPIs	26
• Managing Director’s message	28
• Leading. Together.	30
• Customer experience and digital banking	32
• People and culture	34
• Social responsibility	36
• Chief Financial Officer’s review	38
• Operating review	40
• Risk governance	52
• Capital overview	55
• Supporting Micro, Small and Medium-sized Enterprises	56

Chair's statement



Ms. Lubna S. Olayan,
Chair

It is my pleasure to introduce SABB's Annual Report for the year ended 31 December 2019 – the first such report since the legal merger of SABB and Alawwal Bank, in a union that has made history in the Saudi banking sector. In June of this year, our two institutions became a single listed entity, forming a leading bank in the Kingdom. I am enthused by the level of commitment and focus amongst the Board and the Management team. We have high aspirations for the future.

Our merger

The SABB-Alawwal merger has brought together two of Saudi Arabia's best established and most trusted financial institutions. We have created a bank that will play an instrumental role in supporting the Vision 2030 economic development programme, with enhanced capabilities and a deeper pool of talent that will enable us to reach new levels of performance. Our objective is simple: to be the best place to bank and the best place to work in Saudi Arabia and, through our unique partnership with the HSBC Banking Group, we have an unrivalled offering that gives our customers access to a

global network. We have established a leading position in a number of key segments of the financial sector and we are progressing well with our plans.

Since Legal Day 1 on 16 June, the Board and Management have embarked on a journey to unite and integrate our two organisations with a common strategy, customer base and set of values. The level of commitment and focus that has been shown by staff at every level of the business has been truly inspirational. With a purpose-built Integration Management Office leading the process, and overseen by the Board, we are making headway in

our mission to cement SABB's place as a top-tier Saudi financial institution, with revenues in excess of SAR 11.0 billion on a pro forma basis, more than a million retail customers, and the Kingdom's largest generator of revenue in the corporate banking sector.

Our operating environment

GDP growth for the Kingdom softened in 2019, due to lacklustre global productivity, coupled with reduced oil output on the back of OPEC production cuts, although these headwinds were to an extent offset by improving non-oil private sector growth. The government's expansionary fiscal

“Our objective is simple: to be the best place to bank and the best place to work in Saudi Arabia and, through our unique partnership with the HSBC Banking Group, we have an unrivalled offering that gives our customers access to a global network.”

budget is doing much to stimulate activity in the private sector, while Vision 2030's Financial Sector Development Programme is helping to deepen the Kingdom's capital markets and encourage financial sector growth. This year, Saudi Arabia will assume the Presidency of the G20 for the first time, which will boost the Kingdom's global profile and further stimulate progress on structural reforms.

Milestone events in 2019 included the USD 25.6 billion IPO of a 1.5% stake in the state jewel Saudi Aramco – the biggest share offer in history – which was heavily oversubscribed and was subsequently increased to USD 29.0 billion. The Saudi equities market was included as a constituent of the MSCI and FTSE Russell Emerging Market indices, attracting significant portfolio flows from the global investment community. Although corporate credit growth was fairly muted for most of the year, and lenders felt pressure from a lower interest rate cycle following a series of Fed rate cuts, the Saudi banking sector remains well-capitalised with healthy liquidity ratios pointing to its readiness to meet increased credit demand.

Governance

The most important statutory event of the year was the Extraordinary General Meeting ('EGM'), at which Shareholders voted to proceed with the legal merger of SABB and Alawwal Bank, which was completed in June.

On 18 December 2019 an Ordinary General Meeting was held to conduct the triennial election of the Board of Directors. The Board comprises 11 members who bring a high calibre of local and international experience, and diversity of perspectives.

The SABB-Alawwal merger has brought together two of Saudi Arabia's best established and most trusted financial institutions.

It has been my pleasure to work with the Board of our combined Bank, having met on five occasions since the legal completion date to discuss key matters such as strategy, culture, branding, talent development, integration, customer experience and risk management. Our Board comprises a group of individuals who bring together a wealth of local and international expertise across a spectrum of industries. In order to achieve best practice in corporate governance, our Board includes five independent members and I am especially proud of its gender diversity.

My personal thanks are due to my fellow Board members, both current and historic, who have carried out their duties with characteristic diligence and professionalism.

Delivering value to Shareholders

SABB has delivered a solid set of returns with an interim dividend of SAR 1,185 million or SAR0.60 per share for Saudi shareholders after deduction of Zakat. SABB has proposed a final dividend distribution of SAR 1,234 million or SAR0.60 per share for Saudi shareholders after deduction of Zakat to be approved at the Annual General Meeting ('AGM'), which represents 6% of share capital. As management continues the process of fully integrating the assets and operations of SABB and Alawwal Bank, we look forward to delivering on the value accretion opportunity of this historic transaction.

With thanks

It remains for me to place on record my heartfelt thanks to our customers, shareholders, management, and our longstanding global partner, HSBC Group, for their continued support. We are equally grateful to Saudi regulators and government agencies for the support they have shown throughout the merger process; and to the government of Saudi Arabia for the ambitious path on which they have set the country. We look ahead to 2020 with optimism and vigour.

Strategy and KPIs

The merger of SABB and Alawwal Bank has set a precedent for the Saudi banking industry. The first of its kind in the local market, it represents a significant opportunity for the combined institution to take advantage of scale and efficiency. The Bank's strategy is designed to do exactly that. Once the integration process is complete, the strategy will see SABB return to top-tier performance on key ratios while directly supporting and benefitting from the Kingdom's Vision 2030 economic transformation programme.

Strategic pillars

We bring a world of financial opportunities to an ambitious Kingdom

Our priorities

1. Best in class universal banking serving all customer groups in the Kingdom
2. Be the most international bank in the Kingdom, accessing an unrivalled global network through HSBC
3. Offer a leading online and mobile digital banking experience
4. Best place to work

How do we do it?

The benefits that the merger brings

- Scaled and positioned for growth
- Improved cost efficiency
- Attractive employer
- Local vision
- International expertise

4 Enablers

Scaled and positioned for growth

Loan portfolio and services shaped and scaled where the growth is



Leverage the HSBC partnership

A unique partnership that connects our customers to a global network



Digital excellence

Innovation and partnership at the heart of our digital offering



Our people

Provide the best career and training opportunities for staff in the banking sector



Integrate and transform
National economic growth agenda: Vision 2030

Returns

1. Increase return on tangible equity (RoTE) and Earnings per share (EPS)
2. Improve cost efficiency ratio (CER)
3. Maintain strong capital and liquidity
4. Maintain dividend payout

Key performance indicators (KPIs)

To ensure the delivery of the Bank's strategic priorities, SABB uses a set of key performance indicators (KPIs), enabling tracking of progress by Management and the Board. The KPIs measure:

- Financial returns, resilience and efficiency.
- Business strengths and competitiveness.

Financial returns, resilience and efficiency	KPI	Description	FY19
These KPIs are used to measure and evaluate how effectively Management are using a company's assets to create profits and make returns to Shareholders	Return on tangible equity (RoTE) (pro forma basis)	Measures how effectively management are using the tangible equity in the Bank to generate profits	7.5%
	Earnings per share (EPS)	Measures how much profit the Bank makes for each share of its stock	SAR 1.57
	Cost efficiency ratio (CER)	Measures how well the Bank is managing its cost base in relation to revenue. It is calculated by dividing costs or operating expenses by revenue	39.2%*
	Common Equity tier 1 (CET1) ratio	Measures the Bank's capital strength. Calculated as CET1 capital divided by risk-weighted assets	18.2%
	Liquidity coverage ratio (LCR)	Measures the sufficiency of a bank's unencumbered high-quality liquid assets ('HQLAs') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario	219.5%
	Dividend per share (DPS)	Dividend paid for each share of the Bank's stock	1.20
Business strengths and competitiveness	Corporate lending market share	The Bank's corporate lending as a proportion of the market	15.3%
	Retail lending market share	The Bank's retail lending as a proportion of the market	6.8%
	FX market share (pro forma basis)	The Bank's FX income as a proportion of the market	12.1%
	Trade market share	The Bank's trade activities as a proportion of the market	c.20%

* Pro forma basis. Excluding merger-related items and expenses that are one-off in nature, SABB underlying CER ratio was 33.5%

SABB also monitors the value generated by its strategic partnership with HSBC.

Our sustainable competitive strengths are enabled by our digital excellence and our people. We aim to be not only the best place to bank with a leading digital offering, but to provide the best career and training opportunities for our people. We use a number of KPIs to track our performance against these, including:

Over 282,000
mobile app downloads

Top 2 app store ratings
(Apple and Android)

91%
Saudisation ratio

20%
female employment ratio

Managing Director's message



Mr. David Dew,
Managing Director

The merger of SABB and Alawwal Bank has created a wealth of opportunity for our customers and staff. With increased scale of operations, balance sheet, capital base and investment capacity we have greatly improved our competitiveness. We are in a position to support key large investment opportunities in the Kingdom, create best-in-class propositions to a more diverse client base, improve operational efficiency and offer unmatched international connectivity to customers through our partnership with HSBC Group. In what has been a milestone year, this Annual Report reflects on our achievements and looks to our future strategy.

Performance overview

Our financial performance during 2019 was robust, despite incurring significant one-off charges related to our merger. Growth has been challenging, as the pressure of a declining interest rate cycle was felt during the latter part of the year. Despite these headwinds, SABB delivered solid returns, with an interim dividend paid and a final dividend proposed, subject to shareholder approval. We have

continued to build up healthy capital reserves following the merger, and are well-positioned for future growth. In the short-term, we may bring forward some integration expenses as we endeavour to achieve full integration on 'Customer Day 1' as soon as possible.

Total assets for 2019 stood at SAR 265.5 billion and we held SAR 192.2 billion of customer deposits and SAR 160.8 billion of gross customer advances. Pro forma net income before Zakat and income tax for 2019 was SAR 3.8 billion, with the bottom-line contribution of Retail Banking and Wealth Management at 35%, Corporate and Institutional Banking at 46% and Treasury at 27%. This diversity in our earnings remains important for ensuring the Bank's resilience to headwinds for specific segments.

Leading. Together.

The union of SABB and Alawwal Bank is an exciting moment, building on the strengths of two well-established Saudi franchises, along with the promise of synergies on both costs and revenues, and the global support that we will continue to enjoy from our

partnership with the HSBC banking group. The theme of this year's Annual Report – 'Leading. Together.' – reflects the strength of the institution we have built, and the path to growth that we are carving for ourselves. The Integration Management Office are working tirelessly to drive our operations towards Customer Day 1, without delay and with minimal disruption. Integration highlights to date include the finalisation of the Bank's integration plan, combining our staff onto a single platform, creating the optimal organisation structure to best serve our customers, the co-location of more than 800 staff, agreeing the target culture of SABB going forward, commencement of the migration of our corporate customers, and the launch of SABB-Alawwal hybrid branches.

Our commitment to 'business-as-usual' operations is as critical as our integration plan. Throughout the integration journey we have emphasised the imperative of maintaining the quality and efficiency of our banking services. Highlights this year include our role as the primary settlement bank and custodian in

Saudi Arabia for the inflow of foreign direct investment, following the latest tranches of the MSCI and FTSE Russell EM index upgrades; while SABB was the first bank in MENA to introduce SWIFT gpi for corporate customers, enabling greater transparency in making and tracking payments. For retail customers, by partnering with global FinTech leaders such as Ripple, we have launched and implemented best-in-class online remittance platforms to offer fast, safe and low-cost payment opportunities. At SABB, 'business-as-usual' hasn't slowed down at all.

SABB and Vision 2030

The Bank's unwavering commitment to the Vision 2030 agenda remains undimmed and has, if anything, been strengthened by our merger. Themes across the development programme resonate directly with our strategy, in

In relation to the Financial Sector Development Programme, our support for advancing the capital markets is demonstrated by our active role in primary and secondary debt and equity markets; we are enabling support to financial institutions for private sector growth through our industry-leading corporate lending business, as well as medium and small sized businesses; and we are promoting financial planning among retail customers through initiatives such as the Waafer saving account.

Strategic pathway

Our task is now to employ the strategic advantages we have created and to make good on our promise to 'bring a world of financial opportunities to an ambitious Kingdom'. In the short-term, management's focus will be on completing the integration process and launching the post-merger roadmap.

will continue to focus on delivering excellence in customer experience, developing our people and maintaining a strong risk management and internal control culture.

Our long-term strategic pillars are directly linked to the national economic growth agenda that is embodied in Vision 2030. Our loan portfolio will be scaled and positioned to focus on the areas where there are growth opportunities, utilising our strategic positioning to compete. We will leverage our partnership with HSBC allowing our customers access to a global pool of expertise and opportunity.

We will continue to digitalise our banking model in both corporate and retail businesses. In contributing to the advancement of local capital markets, SABB will build on its significant share of the FX market, our primary dealership role, our leadership in developing the repo market; as well as our position as a major custodian and asset manager in the local equities market, and a leading debt and equity advisor and financier through our strategic investment and partnership with HSBC Saudi Arabia. The Bank will encourage the growth of a long-term savings culture by promoting active saving among customers, and serving more customers with investable assets; and will support labour participation by attracting Saudi talent, female staff and offering attractive graduate opportunities.

Both management and staff deserve praise for their efforts throughout the year. A great deal has been achieved and there is a great deal more to come. On behalf of all Bank staff, I would like to thank the Board of Directors for their wise and measured counsel, and our customers for the trust that they have placed in us. We will continue to earn that trust in the years ahead.

"The union of SABB and Alawwal Bank is an exciting moment, building on the strengths of two well-established Saudi franchises, along with the promise of synergies on both costs and revenues, and the global support that we will continue to enjoy from our partnership with the HSBC Banking Group."

many cases confirming the priorities that we have set ourselves. The Bank is actively providing solutions for the financing of key projects and initiatives across the Kingdom; and driving employment and development opportunities for Saudi men and women.

We will reinforce our competitive position by maintaining market share in key segments, achieving leadership in both retail and wholesale banking. Meanwhile, financial priorities will be focused on safeguarding profitability through controlling costs and driving revenue opportunities through growth; whilst maintaining a healthy capital and liquidity position. Lastly, we

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

A compelling opportunity

With a larger combined balance sheet, the Bank has enhanced scale to serve its diverse customer base and is positioned to be where the growth is. We will play an instrumental role in supporting the Vision 2030 economic transformation programme, supporting the financing of infrastructure projects, the development of the capital market, the prioritisation of public services and assets, and the creation and build out of new sectors of the economy.

The merger strengthens our position in retail and SME lending, supporting the expansion of long-term savings, improvement in financial literacy, and the increase in home ownership. With its greater scale, the merged Bank will capture new opportunities and existing relationships can be strengthened through

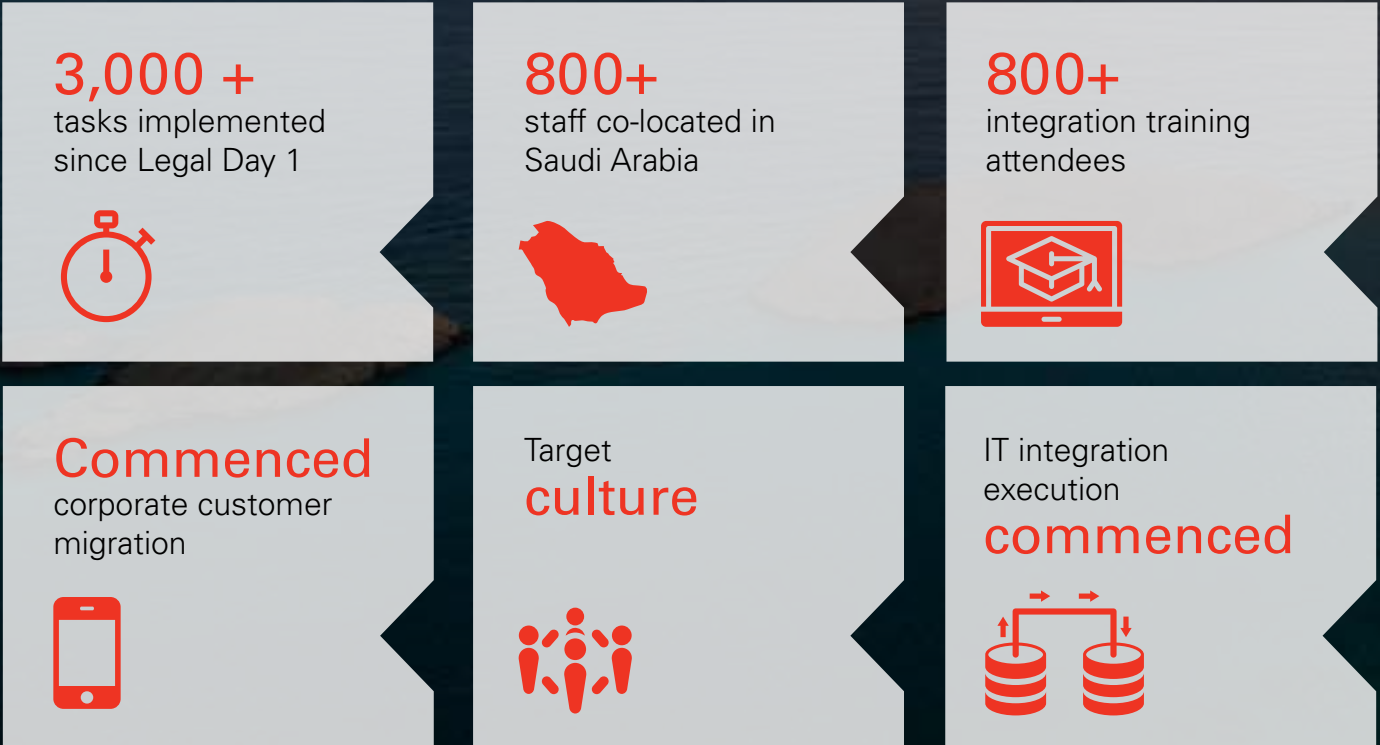
increased cross-selling and an enhanced product offering. The combination also creates efficiency gains to enhance returns.

SABB enjoys a unique position in the sector, from partnership with the HSBC banking group through which we provide our customers with a global network of expertise and opportunity.

The value proposition will bolster and accelerate growth by increased capacity applied to investment priorities, such as digital, and the merged Bank will offer exciting career opportunities to attract and retain talent. Meanwhile, an unwavering commitment to the quality and diligence of the integration process will ensure that business-as-usual operations continue to operate at the highest standards.

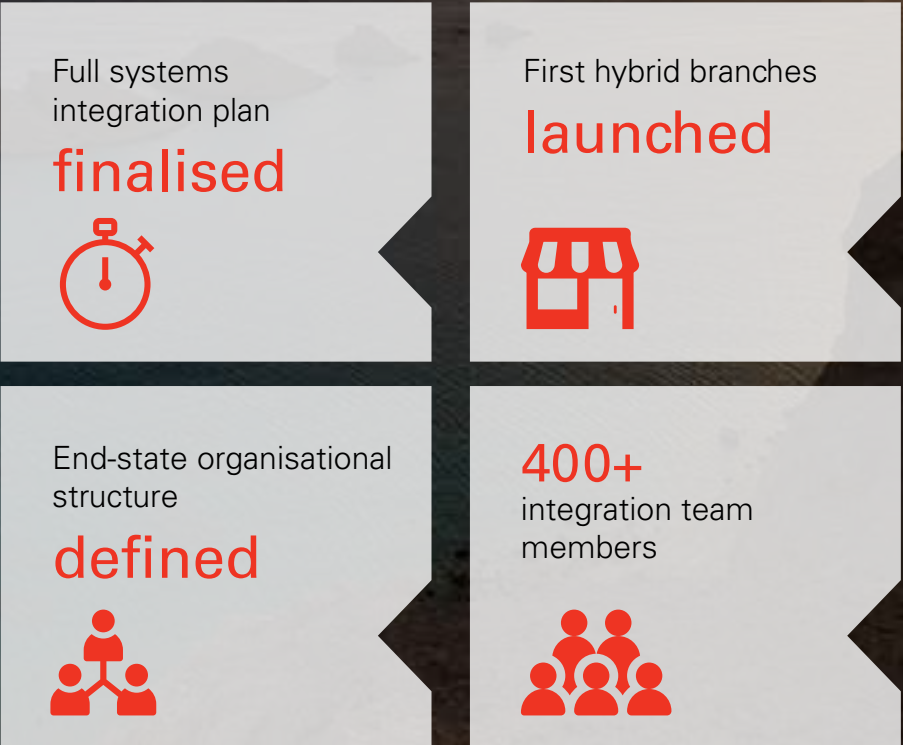
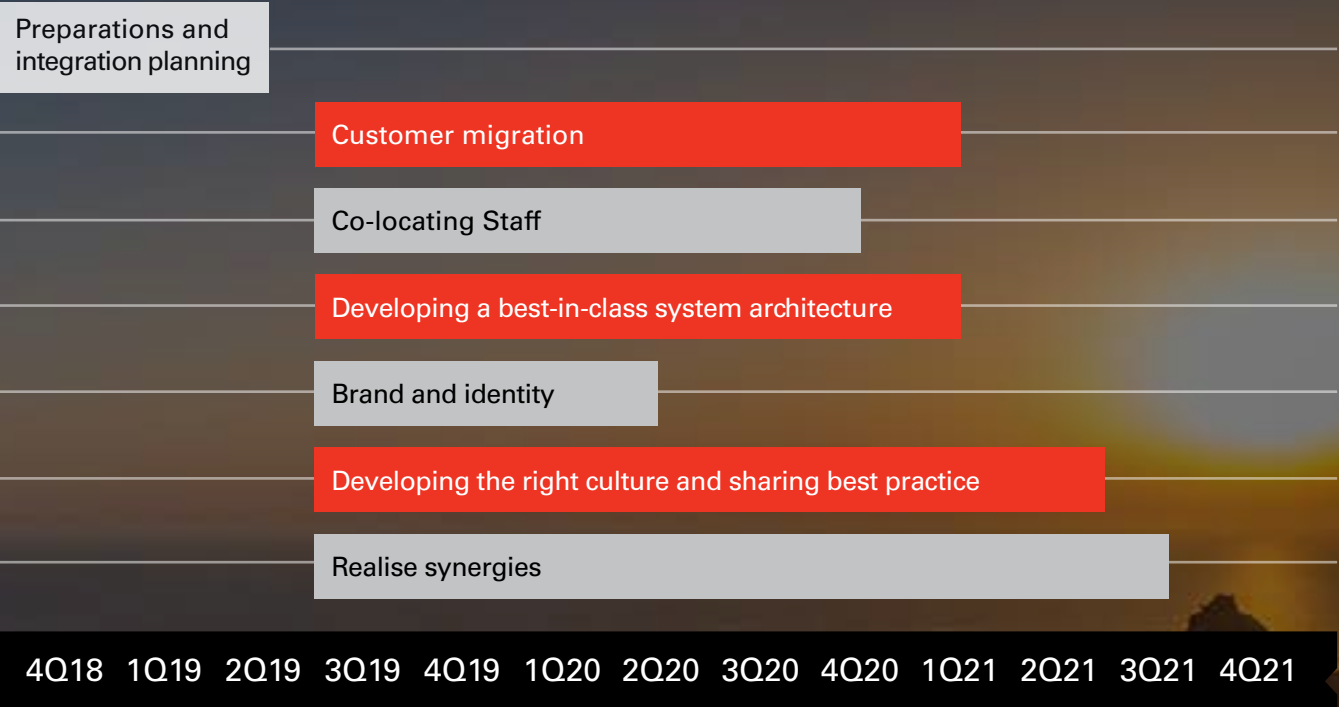
Integration milestones

As at 31 December 2019



Integration plan

Day 1: 16 June 2019



Customer experience and digital banking

Customer experience

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

During 2019, having embarked on our integration journey, we were committed to ensuring that excellent levels of service quality were maintained with minimal interruption to customer journeys.

94 Customer Recommendation Index ('CRI') Score as at 31 December 2019

Voice of the customer ('VOC')

Listening to the market is critical to the success of the SABB's customer experience strategy. During 2019, a new and improved VOC programme was introduced through a series of monthly workshops with customers to better understand market trends and concerns.

Staff training

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

118,500 training hours delivered In 2019

Measuring performance

In 2019, SABB was ranked as the number one bank in the Kingdom based on 94 customers' recommendation index. Other key performance indicators reflected strength in this area:

- Branch customer satisfaction, measured using customer surveys, improved to 90% in 2019 (86% in 2018)
- Average branch waiting time was steady at 7.5 minutes
- Average ATM availability was among the highest in the market at over 97%
- Branch tracker on overall experience returned scores of 93 for Mass, 94 for Advance and 94 for Premier. Scored out of 100, which was an improvement in all categories and compared favourably with the market

Digital banking

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

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

32% customer migration to digital channels FY19 Vs FY18

Customer-facing innovation

During 2019, SABB launched a new and improved mobile banking app, which saw upgrades to both the interface and the supporting infrastructure and allows customers to bank at their convenience. The new mobile app has enjoyed considerable success, having been downloaded over 282,000 times and achieving top two ratings. Together with improved interactive voice response ('IVR') services and the minimisation of online log-in friction, it has continued to support our customers' banking needs, reducing branch visits and over the counter transactions.

Encouraging customers to transition to digital channels also creates monetisation opportunities for the Bank, such as the launch of instant cross-border remittance services in partnership with Fintech companies e.g Ripple and MasterCard.

In 2019, online banking transactions increased by 13% for retail customers, with growth in mobile users of 45%. SABB introduced 'Digital account opening' and a fully online Know Your Customer ('KYC') process. With the launch of these two processes, SABB successfully migrated 67% and 36% respectively of these services from branches to digital. In addition, SABB migrated 59% of eligible transactions to self-service kiosks.

Digital innovation is just as important to SABB within the corporate space and there were a number of notable achievements including utilising blockchain technology to facilitate trade payments – a first for a bank in the Kingdom – and a critical innovative accomplishment, that further strengthens an already leading trade capability.

Digitalising operations

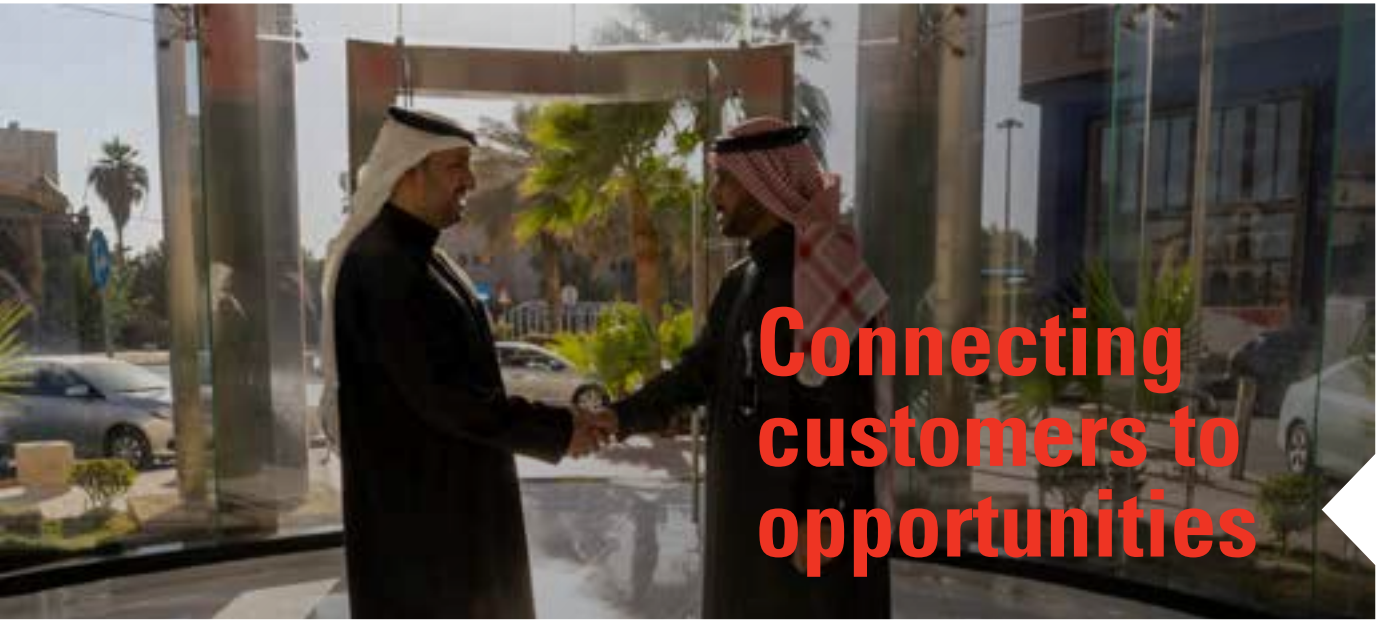
We have continued to invest in technology to improve our banking infrastructure. We have partnered with a wide range of specialised third party FinTech players, to develop innovative new solutions using a range of modern techniques. Examples include the use of digital signatures to rapidly authenticate and process transactions, launching an Enterprise Fraud Management System for tracking and managing AML and fraud cases, and an Enterprise Data Warehouse for consolidating bank-wide data from disparate sources – a vital platform for the SABB-Alawwal integration process.

Committed to security

Cyber security remains a focus for SABB and is a key component of our risk management process, with the Bank ensuring that it has the right level of governance and scrutiny at both senior management and Board level. SABB and other banks operate in an environment with a continuously evolving cyber threat, and we constantly review and invest in capabilities to mitigate potential threats. Cyber security is not just a technical issue but a business priority at the heart of the risk management architecture. All new systems, changes and upgrades are designed and implemented with a focus on cyber security and we continuously monitor for live threats and cyber-attacks. We possess response and recovery plans that have been developed according to international best practice, and we use independent parties to periodically test technology for weaknesses, maintaining dialogue with national authorities to share best practice and use national and international incidents to improve cyber security in Saudi Arabia.

Promoting ingenuity

SABB is proud to play an active role in supporting the local entrepreneurial community. In 2019, the Bank concluded its third year of the TAQADAM incubator programme, in which 30 teams of students and faculty members from Saudi universities participated, with more than SAR 3 million awarded to winners. SABB is an active partner and supporter of FinTech Saudi – the Kingdom's own industry body – with a view to forging long-term relationships with non-bank players that will result in opportunities for collaboration and technology adoption. In 2019, SABB also hosted a 'hackathon', which brought together young talent from eight local universities, and which generated several actionable ideas that were implemented by the Bank.



By combining the shared heritage, talents and experience of both institutions, the merger of SABB and Alawwal Bank has created an exciting new organisation that is fit for the future of Saudi banking.

A component of SABB's vision is to be the best place to work in Saudi Arabia. We will offer a leading standard of development and career opportunity. Our strategy will include a focus on the contribution of Saudi nationals, women and a new generation of talent through various graduate and other trainee programmes.

Culture is the key to SABB's success

In 2019, the Bank conducted a culture perception survey. This was a starting point in understanding the cultural strengths and weaknesses of the combined organisation, and has identified the behaviours, common goals, norms and cultural aspirations of the future institution. This together with fostering an environment that allows our people to feel valued and empowered to share their views, enables us to fulfil our collective potential and guarantee the right outcomes for our customers.

Collectively, we share a common purpose: we bring a world of financial opportunities to an ambitious Kingdom.

We have developed a set of values that will enable us to fulfil our strategy:

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

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

A communication campaign for employees and a series of 'culture change' workshops led by Management began at the start of 2020. These will be sustained throughout the year, embedding the new culture and values across our workforce.

People: at the heart of SABB



SABB's people strategy, 'Best Place to Work', is a mix of values, culture, leadership, rewards – and the Bank's way of working. It is designed to attract the brightest and best, creating an agile culture in a progressive and healthy working environment. The aim is to create a stronger bank using technology to enable its people to fulfil their potential – and develop best-in-class leaders for the future. Each of SABB's employees plays a

critical part in the Bank's commitment to providing outstanding levels of customer experience and service. The Bank is therefore focused on recruiting and retaining the best talent and role models, offering a range of exciting and rewarding career opportunities across segments and roles. SABB provides flexible working arrangements and has made significant investment in its employee engagement activities, creating a sustainable environment for the empowerment of employees.



Developing our Saudi workforce remains a high priority and we maintained our proportion of staff members at 91 %. The diversity of our workforce is equally important, with women representing 20% of the total workforce. Improving opportunities for female employees will enhance our organisational capability and we will look to improve gender participation, notably in senior positions.

Learning and development



The success of our people strategy is contingent on an organisational model that makes the Bank a market leader because it has the capabilities to succeed. We have introduced a series of development programmes designed to support every business segment and function, with a focus on talent retention, learning and succession.

To achieve these goals, SABB utilises its unique partnership with HSBC, enabling employees to access a suite of development courses offered by HSBC Group. International training opportunities and secondments available to SABB employees cover a wealth of areas, including leadership, communication skills, anti-money laundering, IT skills, digital excellence and management essentials, among others.

The 'Tamheer' programme continues to be a key area of cooperation with the Ministry of Labour and Social Development, aiming to raise the skills and experience of educated and talented Saudi youth, by providing them with opportunities for on-the-job training in partnership with distinguished government and private institutions. SABB has already hired a number of Tamheer trainees, who are an invaluable source of talent for the future.

Rewards and recognition

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

A responsible business culture

We have set ourselves challenging strategic objectives and we will deliver on these through a principled, responsible business culture underpinned by our four core values. Our aim is to protect our customers, our communities and other stakeholders connected to the Bank and the wider financial ecosystem.

Risk management

We use a range of tools to manage our financial and non-financial risks. During 2019 we strengthened our approach to risk management, and remain vigilant as we navigate our way through the merger integration journey.

Cyber security

Cyber security remains a focus for SABB and is a key component of our risk management framework. SABB ensures that it has the right level of governance and scrutiny at both senior management and Board level. We continue to invest in this rapidly evolving area, and our approach is in line with global best practice.

Financial crime compliance

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

Anti-bribery and corruption

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

Whistleblowing

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



Leaving a positive imprint on Saudi life and society

Foundation

Our Foundation is the umbrella for the Bank’s charitable, health and educational activities. In partnership with government agencies and charities, the Bank participates in an extensive range of social programmes to improve quality of life for Saudi citizens and communities.

During 2019, SABB opened an Obstetrics and Gynaecology Clinic in association with the Enayah Patient Care charity, maintained our support for the Sanad Children’s Cancer Support Association and was honoured by the Governor of Riyadh, HRH Prince Faisal bin Bandar bin Abdulaziz Al Saud, as a leading supporter of Ensan, the Charity Committee for Orphans Care in Riyadh. For the tenth year running, SABB renewed its sponsorship of employment programmes for those with special needs in collaboration with the Disabled Children’s Association, and received a silver Mowaamah certificate from the Ministry of Labour and Social Development for providing a working environment suitable for individuals with disabilities.

Sustainable living

We are committed to supporting and protecting the environment. The Bank has implemented a range of programmes and initiatives that make a tangible and positive impact. Eco-friendly features and smart recycling techniques are designed and built into our facilities. These include use of recycled building materials, lighting systems linked to timers and motion-sensitive infrared taps. The Bank also has an ongoing programme for reducing paper, plastic, water and power usage. Business travel is kept to a minimum, with video conferencing used for meetings wherever feasible. The Bank actively supports several annual international initiatives including the WWF’s ‘Earth Hour’ in March, and World Environment Day.

560,000

individuals have benefitted from the Riyali scheme

Youth ambition

With 60% of Saudi nationals under the age of 30, we fully appreciate the importance of the Kingdom’s young people to its future prosperity. As a sponsor of the Riyali financial literacy programme, the Bank assists the next generation with financial planning and money management, and increasingly through social media. To date, 560,000 individuals have benefitted from the scheme; with the ambition of achieving two million participants by the end of 2020.

SABB provides specific support for fresh graduates through the SABB Academy. By providing a combination of technical knowledge and ‘soft skills’, the Academy improves individuals’ employability, with many being offered opportunities within the Bank. In 2019, the SABB Academy celebrated the graduation of its fourth cohort of diploma and degree holders.

With the SME sector growing in importance for the Kingdom’s economic and social growth, SABB runs a programme to train and challenge young entrepreneurs, with workshops to improve their skills and knowledge. In 2019, the Bank concluded its third year of the TAQADAM incubator programme, in which 30 teams of students and faculty members from Saudi universities participated, with more than SAR 3 million awarded to winners.

A responsible business culture

The Bank’s culture is the key to achieving its vision. A responsible business culture with the aim of protecting customers, communities and other Stakeholders connected to the Bank and the wider financial ecosystem is an imperative. This includes the Bank’s risk management framework, cyber security controls and strict adherence and commitment to high standards of ethical behaviour. Such a culture also fosters an environment that allows employees to feel valued and empowered to share their views.



Chief Financial Officer's review



Mr Mathew Pearce,
Chief Financial Officer

It was a pivotal and exciting year for SABB. The merger of two of the oldest and most respected banks in the Kingdom has clearly been the highlight. In challenging conditions, we have delivered a solid return for our shareholders with net income before tax of SAR 3.8 billion on a pro forma basis, an interim dividend of SAR 1.2 billion and a proposed full-year dividend of SAR 1.2 billion.

Top-line performance in 2019 was resilient, especially given the decreases in benchmark interest rates, however the bottom-line came under pressure, in part due to significant one-off credit losses and transaction and integration expenses relating to the merger. Our reported results include the proportion of net income from Alawwal Bank from the date of the legal merger onwards and, in order to assist with year-on-year comparisons, we have provided a pro forma statement of income in our Operating review.

For the year ended 31 December 2019, return on tangible equity was 7.5%, but this does not reflect a full year's combined income nor the

efficiency benefits of the merger. This also impacted full year reported earnings per share ('EPS') of SAR 1.57. Our underlying cost efficiency ratio excluding merger and integration related costs and expenses that are one-off in nature was 33.5%, reflective of solid management of expenses. In the future, we can expect improved returns as the cost and revenue advantages of the merger begin to be recognised, which we expect to occur over the next two to three years.

We ended the year with a strong capital position reporting a common equity tier one ratio ('CET1') of 18.2% including the dilutive impact of the merger in the order of 200 bps. Our profitability throughout 2019 provides us with the capacity to maintain interim and final dividend payments to shareholders throughout the year.

SABB's balance sheet remains healthy with gross lending balances of SAR 160.8 billion and deposit balances of SAR 192.2 billion at year-end, while the loan portfolio is well-positioned across key sectors that are likely to benefit from the national economic

growth agenda. We have a sizeable market share, particularly through our Corporate and Institutional Banking business, and continue to see new lending opportunities despite the challenging economic conditions that have restricted short-term net growth opportunities. The Bank has a strong funding base, including 64% of our deposit base in the form of demand deposits. As such, we are positioned for growth in 2020 and beyond.



Operating review

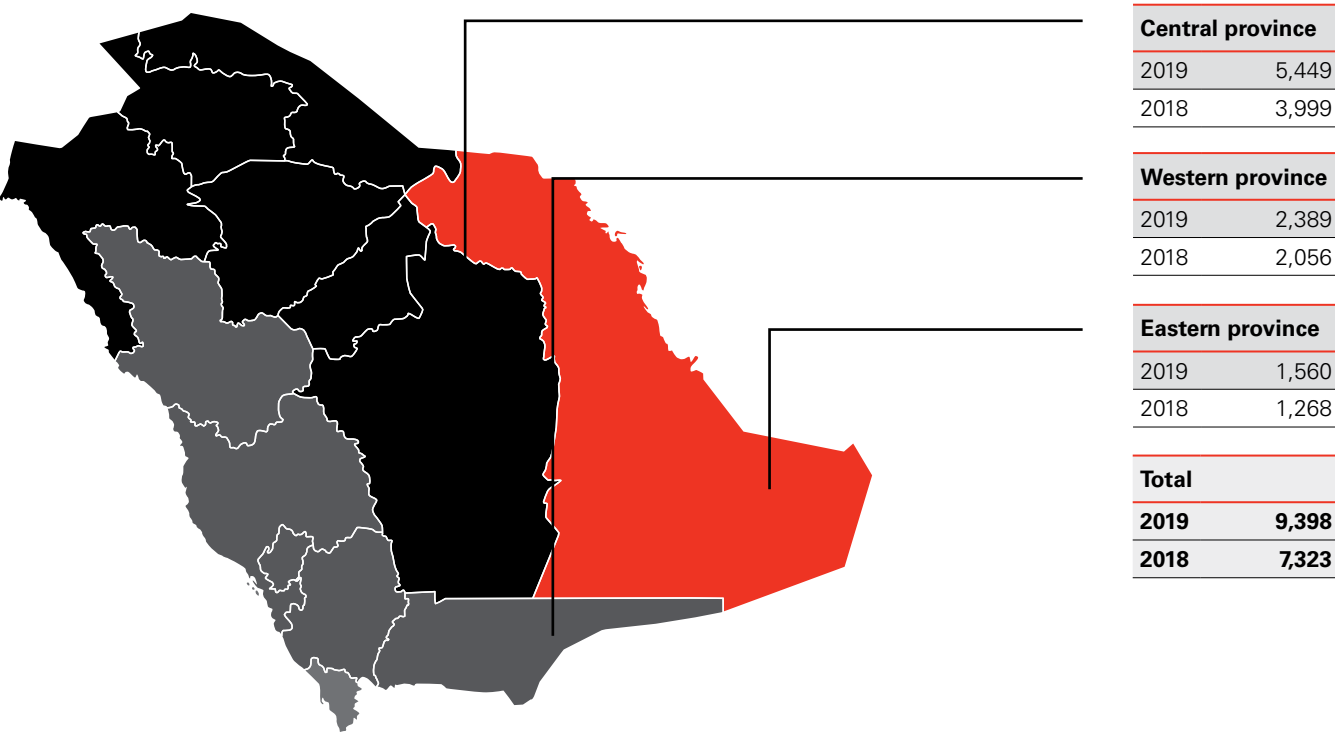
Reported historical financial results

(SAR mln)	2019 ¹	2018	2017	2016	2015
Investments, net	60,484	34,570	26,977	29,273	35,527
Loans and advances, net	154,677	110,326	117,006	120,965	125,947
Customer deposits	192,167	130,507	140,240	140,640	148,887
Total assets	265,472	174,677	187,615	186,056	187,750
Total liabilities	209,312	142,101	154,145	154,777	159,575
Shareholders' equity	56,070	32,467	33,345	31,279	28,175
Net income before Zakat and income tax	3,271	4,929	3,955	3,895	4,331

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

Total operating income ('revenue') by geography

The Bank generates its operating income from activities in the Kingdom of Saudi Arabia and has no branches, material subsidiaries or associates established or operating outside 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.



Bank performance

Reported performance

The graph shows the Bank's net income for 2018 and 2019, on a reported basis, and includes the proportion of net income before Zakat and income tax from Alawwal Bank from the legal date of the merger to 31 December 2019.



SABB's reported net income before Zakat and income tax of SAR 3,271 million was SAR 1,658 million or 34% lower than 2018 from increased expected credit losses (ECL) and higher operating expenses, which were partly offset by higher revenue and increased income from associates. Revenue of SAR 9,398 million was SAR 2,075 million or 28% higher than 2018 and included revenue generated by the acquired Alawwal Bank business post-merger. Operating expenses of SAR 3,649 million were SAR 1,449 million or 66% higher than 2018 and included expenses incurred by the acquired Alawwal Bank business post-merger and SAR 417 million in

merger-related expenses (2018: SAR 22 million). The merger-related expenses are temporary and will cease once the operational integration has completed.

Charges for provisions for expected credit losses of SAR 2,609 million were SAR 2,350 million higher than 2018, mainly as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with Alawwal Bank, and an increase in impairment charges for certain originated troubled corporate loan accounts, notably in the second quarter.

Income statement highlights (SAR mln)	2019	2018
Total operating income ('revenue')	9,398	7,323
Provision for expected credit losses, net	(2,609)	(259)
Total operating expenses	(3,649)	(2,200)
Share in earnings of associates and a joint venture	133	66
Net income before Zakat and income tax	3,271	4,929

Reported results by business segment

(SAR mln)	Retail banking and wealth management	Corporate and institutional banking	Treasury	Other	Total
2019					
Total operating income ('revenue')	3,388	4,697	1,149	164	9,398
Provision for expected credit losses, net	(435)	(2,166)	(9)	-	(2,609)
Total operating expenses	(1,788)	(1,022)	(195)	(644)	(3,649)
Share in earnings of associates and a joint venture	-	-	-	133	133
Net income before Zakat and income tax	1,166	1,508	946	(348)	3,271
2018					
Total operating income ('revenue')	2,623	3,440	1,200	60	7,323
Provision for expected credit losses, net	(191)	(72)	4	-	(259)
Total operating expenses	(1,251)	(761)	(161)	(28)	(2,200)
Share in earnings of associates and a joint venture	-	-	-	66	66
Net income before Zakat and income tax	1,182	2,606	1,043	98	4,929

Reported balance sheet

Balance sheet highlights (SAR bln)	2019	2018
Total assets	265.5	174.7
Net customer advances	154.7	110.3
Customer deposits	192.2	130.5
Average interest earning assets	252.1	178.2

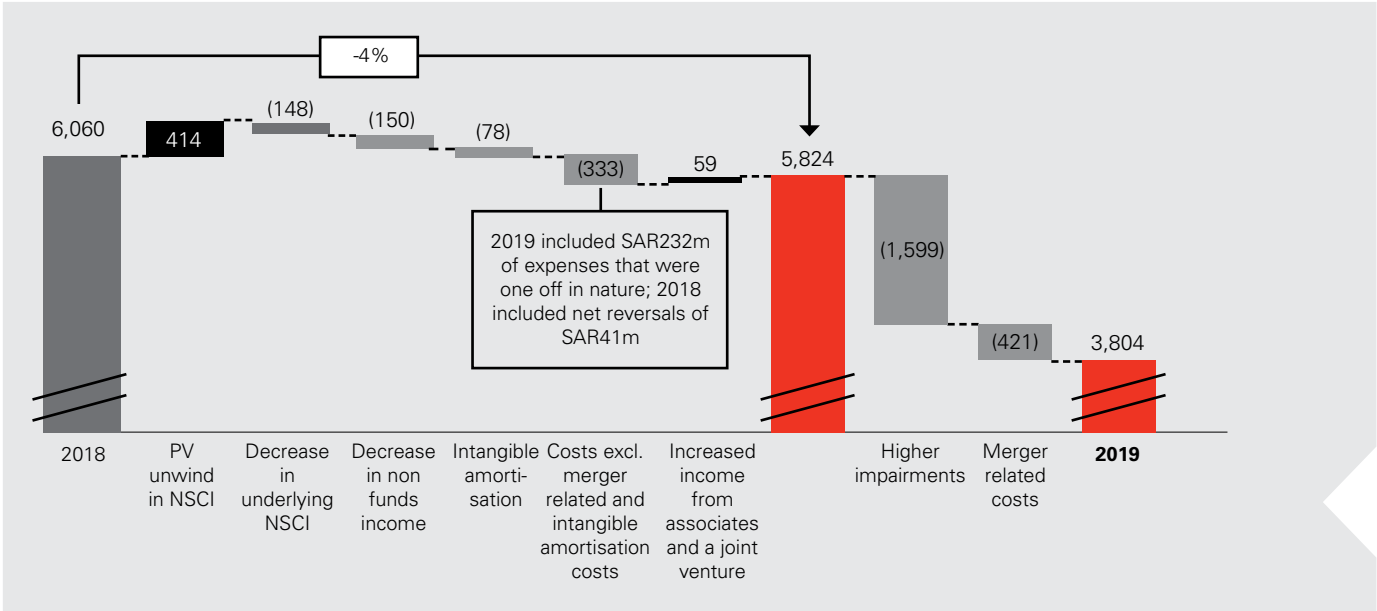
Pro forma performance

The merged Bank’s financial results for the full-year periods 2018 and 2019 have been calculated for illustrative purposes, to enable a better understanding of year-on-year performance of the combined institution. The pro forma

results assume SABB and Alawwval Bank merged on 1 January 2018. Because of its nature, the pro forma financial information addresses a hypothetical situation and therefore does not represent SABB’s actual financial results.

Pro forma income statement highlights (SAR mln)	2019	2018
Total operating income (‘revenue’)	11,003	10,886
Net special commission income	8,598	8,332
Fee and commission income, net	1,530	1,729
Exchange income, net	566	538
Other income	309	288
Provision for expected credit losses, net	(3,020)	(1,421)
Operating expenses	(4,312)	(3,479)
Share in earnings of associates and a joint venture	133	74
Net income before Zakat and income tax	3,804	6,060

Net income before Zakat and income tax: 2019 vs 2018



Net income before Zakat and income tax of SAR 3,804 million was SAR 2,256 million or 37% lower than 2018, mainly from higher ECL and operating expenses. There are several notable items that are included in the table above and are explained further below.

Revenue of SAR 11,003 million was SAR 117 million or 1% higher than 2018 and included SAR 414 million from the unwind of the fair value adjustment (2018: nil).

- Alawwval Bank loan portfolio recognised at fair value on merger date
- The fair value is a discounted amount to the contractual amounts due of the underlying loans
- The discount applied will be unwound over time to the contractual maturity date of the loans
- The unwind will be recognised in NSCI using the effective interest rate (EIR) method
- The amount recognised in the future will be on a declining basis, in line with the EIR method

Excluding the unwind of the fair value adjustment, revenue fell SAR 297 million or 3%, largely from reduced net special commission income reflecting lower lending balances and repricing as a result of the cuts in benchmark interest rates. Net fee income also fell from a reduction in trade fees together with lower loan origination fees and lower net fees from credit cards and merchant acquiring as a result of increased competition and challenging economic activity. Exchange income was 5% higher from increased customer flows.

Operating expenses of SAR 4,312 million were SAR 833 million or 24% higher than 2018 and included SAR 450 million in merger-related expenses, (2018: SAR 29 million), and an amortisation charge of SAR 78 million in the fourth quarter, relating to the intangible assets that were recognised following the merger. The amortisation charge recorded in the fourth quarter represents the year to date impact since the merger completion date. In addition, there were a small number of expenses that are one-off in nature totalling SAR 232 million, including a VAT penalty, provisions for legal cases, an adjustment for employees’ long-term benefit plan, and operating losses. Excluding the aforementioned items, underlying operating expenses increased SAR 27 million or 1%.

Charges for provisions for expected credit losses of SAR 3,020 million were SAR 1,599 million higher than 2018 as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with Alawwval Bank, and an increase in impairment charges for certain originated troubled corporate loan accounts, notably in the second quarter.

Pro forma balance sheet

Total assets of SAR 265.5 billion increased by 3%. Gross customer advances of SAR 160.8 billion fell SAR 16.0 billion or 9% compared with 2018. Customer lending declined in both the retail and corporate portfolios. However, SABB has experienced more promising signs of growth in the second half of 2019 and has maintained its market share in corporate lending, the larger component of the loan book. Customer lending balances in 2019 also included the impact of the adjustments made through the accounting for the merger. Customer deposits of SAR 192.2 billion decreased SAR 2.9 billion or 1% compared with 2018. Overall funding remains strong. SABB was able to begin optimising its funding base post-merger which led to a decline in funding as expensive surplus deposits matured. SABB’s demand deposit ratio remained healthy at 64% (2018: 56%).

Pro forma balance sheet highlights (SAR bln)	2019	2018
Total assets	265.5	256.7
Gross customer advances	160.8	176.7
Customer advances, net	154.7	168.1
Customer deposits	192.2	195.1
Average interest earning assets	251.8	260.4

The integration journey

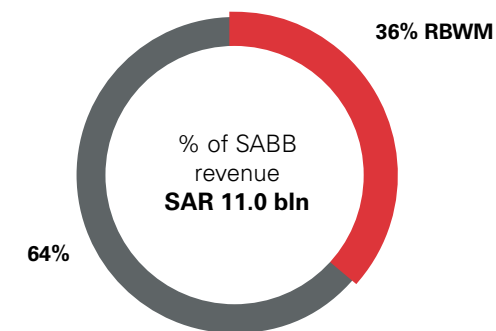
The merger of SABB and Alawwval Bank reached legal completion in 2019, uniting the legacies and resources of two of the oldest banks in the Kingdom. The greater scale, enhanced market leadership and more efficient operating platform will reinforce SABB’s position as a leading financial institution in the Kingdom, enabling it to support Vision 2030 and take advantage of the opportunities presented by the national economic growth agenda.

The integration of the two banks is progressing well, with Board and senior management focused on delivering a successful integration while continuing to create value by helping customers achieve their financial goals. Regulatory approvals for the merger were issued in the first half of 2019 and the statutory merger took place on 16 June. An Integration Management Office was established, with 18 work-streams created, and partnerships built with top-tier consultants for project management, IT, HR and other critical areas.

The Board has approved a road-map, developed together with SABB’s consultant advisors, to achieve Customer Day 1 (‘CD1’), the point in time when all data from the Alawwval Bank systems will be transferred onto SABB’s IT systems, and integration will be complete. The Bank has already migrated certain Corporate customers from Alawwval Bank, harmonised retail customer pricing, combined the organisational structures into a single entity, aligned internal policies, co-located staff, moved all staff data onto a single platform and engaged with business partners to produce a detailed IT integration plan, including a resource plan to ensure sufficient support throughout execution. Following a detailed review of the cultures of the two banks in the third quarter, the target culture for the combined organisation has been defined and the Bank has started the roll out to all employees.

Reported merger-related integration and transaction costs were SAR 147 million during the quarter, and SAR 417 million for 2019, reflecting fees paid to third parties for legal, valuation and transaction services as well as costs of in-house staff and third party consultants working on the merger.

Retail Banking and Wealth Management (RBWM)



Performance highlights (pro forma, SAR mln)	2019	2018
Total operating income ('revenue')	3,999	3,897
Provision for expected credit losses, net	(526)	(344)
Operating expenses	(2,157)	(2,014)
Net income before Zakat and income tax	1,316	1,539

Operating highlights

The SABB-Alawwal Bank merger created the fourth largest retail banking franchise in the Kingdom, with a scale that opens up opportunities and adds value to customers. The merger enables the Bank to bring together the skills, knowledge and best practice of two different organisations and provide an improved service offering to customers. SABB ended the year with robust market share positions across a number of key performance indicators.

Over 282,000
mobile app downloads

Growth in credit appetite during 2019 was dominated by mortgage demand with the market growing rapidly year-on-year. SABB's mortgage market share fell, despite a healthy level of new sales volume, given the well-seasoned nature of the portfolio, the Bank's customer segmentation and risk appetite.

RBWM continued to invest in its digital capability and offering, launching a new and improved mobile app which was downloaded over 282,000 times and achieved top rankings in both the Apple and Android app stores. Enhancements were made to the internet banking platform which now offers over 120 services. Customers' mobile payment offering was improved through the launch of 'Apple Pay' and 'mada Pay'. End-to-end digital customer journeys were also introduced with the launch of Digital Account Opening and a completely online Know Your Customer ('KYC') review process – the first bank in the Kingdom to have launched a digital KYC service. SABB also launched its 'Umlaty' card, a multi-currency card that enables new to bank customers to open an account digitally and receive their debit card without the need to visit the branch.

Snapshot: best-in-class e-remittances

SABB has partnered on remittances with Ripple and MasterCard enabling the launch of cross-border instant remittance services for customers sending money home in Pakistani rupees, Indian rupees and Philippine pesos. This payment technology is an important part of the Bank's journey towards digital transformation and an enriched customer experience.

The Bank also launched new e-remittance solutions across key remittance corridors, enabling real-time overseas transactions at a lower cost to customers, by partnering with leading FinTech and payment organisations. SABB is now offering these solutions across five key corridors, with plans to expand further.

Financial performance

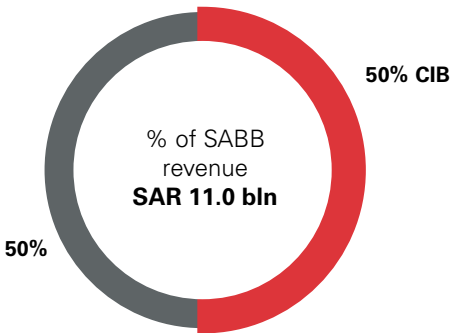
Net income of SAR 1,316 million before Zakat and income tax was 14% lower than the previous year, driven by higher impairments as a result of one-off expected credit losses and increased operating expenses.

Revenue of SAR 3,999 million was 3% higher and included SAR 116 million from the unwind of the fair value adjustment. Excluding this impact, revenue was broadly flat with lower average lending balances, notably relating to personal lending and to a lesser degree in mortgages. Revenue also fell from repricing, reflecting the cuts in benchmark interest rates during 2019 and increased competition.

Net customer lending of SAR 36.8 billion fell by 8%, due mainly to a reduction in personal lending balances; mortgage balances also fell but to a lesser extent. Customer deposits of SAR 81.6 billion increased 1%, with the proportion of demand deposits at 78%, a notable strength of the retail franchise.



Corporate and Institutional Banking (CIB)



Performance highlights (pro forma, SAR mln)	2019	2018
Total operating income ('revenue')	5,525	5,341
Provision for expected credit losses, net	(2,472)	(1,086)
Operating expenses	(1,291)	(1,168)
Net income before Zakat and income tax	1,763	3,087

Operating highlights

The SABB-Alawwal Bank merger has created one of the largest corporate banks in the Kingdom, ranked first by corporate revenue and with c.15% of corporate lending market share. Its unique position as the leading international bank in Saudi Arabia, bolstered by a strong partnership with HSBC Group, enables SABB’s customers to access services and opportunities globally, and allows global corporates to access the Kingdom.

No.1 Corporate Bank by revenue

Corporate credit growth was muted for most of the year and trade activity suffered from challenges in the macro environment, although the second half saw increased activity. SABB is well-positioned to support customers’ needs, from large multinationals to small and medium-sized enterprises. Meanwhile, Vision 2030 has brought a number of significant opportunities, which the Bank’s larger scale makes it well-equipped to support. Government investment in a series of mega-projects will be of particular importance, requiring unprecedented public and private-sector funding; and bringing with them opportunities for corporate and institutional lending.

The GLCM product suite offers solutions catering to the cash management needs of customers. This year, GLCM introduced ‘SWIFT gpi for Corporates’, which provides customers with transparency in making and tracking payments across multiple banks – making SABB the first bank in the MENA region to provide such a service. GLCM launched the first ‘virtual’ one-time-use payment card for corporates, in partnership with Amex, and was one of the first banks in the Kingdom to use a Blockchain-based

platform to provide a frictionless experience to send money globally.

c.20% Trade Finance Market Share in 2019

The GTRF service, which accounts for up to 20% of Saudi trade finance market share, delivered the region’s first ever Blockchain-based open account transaction to enhance the performance of trade finance business operations. GTRF has strengthened its ability to meet rapidly evolving customer demands and harness technology, redesigning core platforms and partnering with best-in-class technology providers. In 2019, SABB was named ‘Best Trade Finance Bank in Saudi Arabia’ by Global Finance for the tenth consecutive year.

Snapshot: Bolero trade finance platform

SABB has employed the Bolero platform to support its trade finance operations. The technology helps GTRF customers to reduce costs, risks and inefficiencies. The secure end-to-end service digitises trade processes and transactions, providing greater visibility, transparency and control, and making it safer and faster for customers to conduct trade.

Financial performance

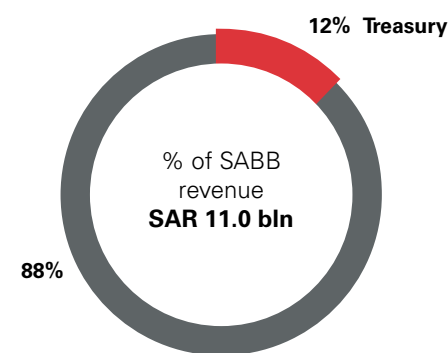
Net income of SAR 1,763 million before Zakat and income tax was 43% lower than the previous year, driven by higher impairments as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with Alawwal Bank, and an increase in impairment charges for certain originated troubled corporate loan accounts, notably in the second quarter. In addition, costs increased, partly offset by increased revenue.

Revenue of SAR 5,525 million was 3% higher and included SAR 296 million from the unwind of the fair value adjustment. Excluding this impact, revenue fell 2% as 2019 saw lower average term lending balances partly offset by increased trade-related lending balances. Margins also reduced in the term lending portfolio from increased competition in 2019, as a result of the muted growth seen during the year. Trade margins were more resilient, showing a marginal improvement during 2019.

Net customer lending of SAR 117.9 billion fell 8% and included the impact of the adjustments made through the accounting for the merger and the increased competition for customer assets. Trade balances were more resilient with an increase in balances during 2019. SABB has experienced more promising signs of growth in overall corporate lending in the second half of 2019 and has broadly maintained its market share in corporate lending throughout. Customer deposits of SAR 104.4 billion fell 1%, driven by lower time deposits as SABB began to optimise the funding base of the merged Bank.



Treasury



Performance highlights (pro forma, SAR mln)	2019	2018
Total operating income ('revenue')	1,281	1,600
Provision for expected credit losses, net	(27)	9
Operating expenses	(232)	(223)
Net income before Zakat and income tax	1,022	1,386

Operating highlights

Throughout 2019 and in preparation for the merger, the treasury business has maintained a heavy emphasis on planning and execution for combining SABB and Alawwal Bank’s Treasury functions under a single market-risk mandate, while reorganising the team for maximum efficiency. The integration process is being delivered successfully, with Treasury continuing to perform its role of managing the Bank’s liquidity and market risk within regulatory limits. Our approach to liquidity risk management remains a competitive advantage and enables the Bank to maintain a healthy balance sheet that supports customer borrowing needs.

At the heart of Treasury’s strategy is its support for SABB’s role in the development of the Saudi capital market, as per the Vision 2030 agenda. This is achieved by SABB’s role as a Primary Dealer, and the development of a repo market, while at the same time partnering with the Bank’s business segments to develop a focused and attractive proposition for customers.

SAR 59 bln

FX flows captured following
MSCI and FTSE Russel inclusions

Following the Kingdom’s MSCI and FTSE Russell Emerging Market indices inclusion and rebalancing events, SABB consolidated its leadership position by providing liquidity and FX services to offshore investors, accounting for significant market share in FX flows directly related to the index inclusions. The Bank has maintained its leading market position, ranking third among all local banks for foreign exchange and trading income and being named ‘Best FX

Provider Saudi Arabia’ by Global Finance for the second consecutive year.

Treasury continues to deepen and widen its range of products and services, from simple FX trading to derivatives across asset classes – including Islamic; as well as an innovative digital platform for customers to execute their own trades. The business is continuously focused on providing stable and inexpensive funding to facilitate the Bank’s lending activities, while developing talent and ensuring the successful and timely delivery of its integration plan.

Financial performance

Net income before Zakat and income tax of SAR 1,022 million was 26% lower than the previous year, primarily from lower revenue.

Revenue of SAR 1,281 million was 20% lower than 2018 primarily from lower trading income. In addition, there was a reduction of SAR 145 million from lower net special commission income although this is offset in the Other Business segment as a result of an allocation of intersegment revenue. These factors were partly offset by higher fair value gains on our investment portfolio.



Other

Performance highlights (pro forma, SAR mln)	2019	2018
Total operating income ('revenue')	198	48
Provision for expected credit losses, net	5	-
Operating expenses	(633)	(74)
Share in earnings of associates and a joint venture	133	74
Net income before Zakat and income tax	(297)	48

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

HSBC Saudi Arabia ('HSBC SA')

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

During 2019, HSBC SA maintained its market-leading investment banking advisory franchise executing a number of landmark transactions in the Kingdom not least acting as the financial advisor and underwriter of Saudi Aramco's initial public offering ('IPO') which was the largest IPO globally.

HSBC SA also maintained its number one Debt Capital Markets (DCM) position for a record ninth year in a row supporting its clients in various bond and sukuk issuances, including Savola's SAR 1 billion seven year Sukuk issuance

and exchange offer, and Saudi Real Estate Refinance Company's SAR 750 million Sukuk. In aggregate, HSBC SA acted as joint lead manager and bookrunner on an aggregate primary bond supply of more than USD 23 billion.

HSBC SA's expertise in project export finance supported several key deals and projects in the Kingdom during 2019 in particular supporting the government's privatisation initiative, and HSBC SA continues to be one of the leading asset managers in the Kingdom.

SABB Takaful

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

During 2019, SABB Takaful has continued to build and develop its Family Takaful and General Takaful lines of business. The merger of SABB and Alawwal Bank has resulted in increased premiums and total cover in 2019. A realigned and refreshed strategy for the reinsurance business, will result in greater capacity to capture the increased market potential in 2020.



Risk governance

For a detailed evaluation of Risk Management at SABB, see pages 78-82.

The nature of banking as a business has the evaluation, management and acceptance of risk at its heart. SABB takes a proactive approach to managing risk and operates with a conservative risk appetite. The Bank has a focus on borrowing through a stable and diverse funding base, and lending responsibly ensuring that risk management and treating customers fairly are at the heart of its strategy.

SABB has a consistently strong risk culture across the organisation, which is embedded throughout business units, enablement and control functions. Ultimate accountability belongs to the Board which exercises active governance

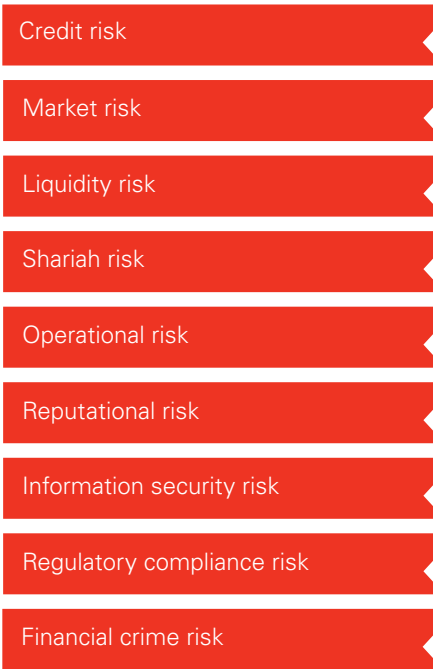
through its sub-committees. Clear communication and a structured risk training programme is provided to all employees. The Bank operates to the principle that all Staff are responsible for identifying and managing risk within the scope of their role, whilst providing effective oversight by control functions and internal audit, as defined by the 3 lines of defence model. Adherence to risk management is a key performance indicator applied in the performance management of all Executive Management and Staff across the organisations. A strict policy of consequence management is applied where failures occur.

Three lines of defence model



SABB’s culture and approach to risk belongs to a Bank-wide framework that is overseen by the Chief Risk Officer, who is a member of the Executive Management team. The Risk function is wholly independent from business units and other banking functions, providing an independent challenge and oversight on decision-making.

The Bank has identified a number of risk categories, where the risk appetite is established annually and approved by the Board Risk Committee.



The risk appetite is established annually and approved by the Board Risk Committee. A complete definition of all risk types can be found on pages 78-82 in the Governance Report.

SABB’s principal risk categories are reviewed further over the next few pages.

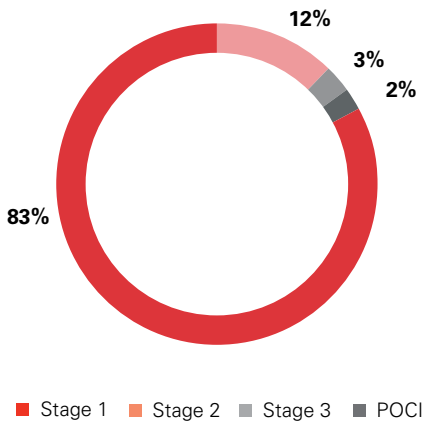
Credit risk

Credit Risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit Risk arises from the Bank’s direct lending operations, its issuance of guarantees, bonds and like instruments, trade finance activities and its investment and trading activities.

Gross loans and advances of SAR 160.8 billion increased SAR 46 billion on a reported basis and fell SAR 16 billion on a pro forma basis.

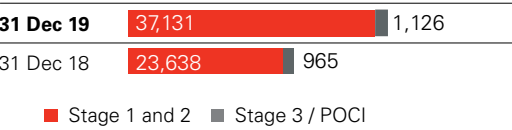
Expected credit losses and other credit impairment charges for 2019, on a pro forma basis, was SAR 3,020 million and included one-off charges related to the merger with Alawwal Bank.

Customer lending by stage:

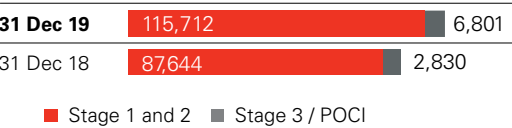


Below, we provide a summary of our exposure to credit risk for customer lending.

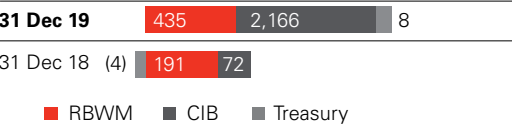
RBWM gross loans over time (SARmln)



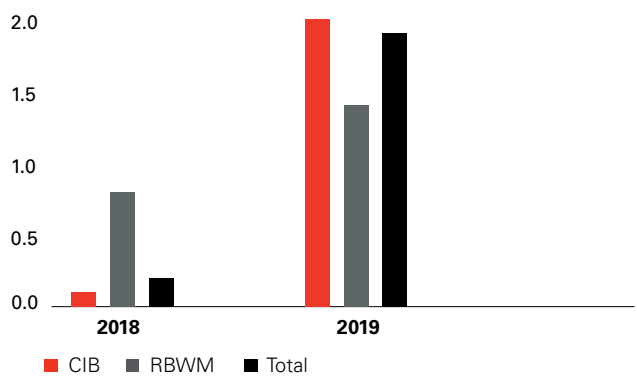
CIB gross loans over time (SARmln)



Reported provision for expected credit losses, net (SARmln)



Reported provision for expected credit losses, net as a % of gross loans over time, bps



Days past due as at 31 December 2019
(Ageing analysis of past due not impaired) (SAR mln)

1 day to 30 days		4,973
31 days to 90 days		823
91 days to 180 days		157
Over 180 days		317

Market risk

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

- Trading portfolios
- Non-trading portfolios

SABB uses a range of control measures to manage market risk ranging from specific stop loss control limits, sensitivity analysis, Value at Risk ('VaR') and stress testing. Sensitivity analysis measures the impact of individual market factor movements on specific financial instruments or portfolios, including interest rates and foreign exchange rates, such as the effect of a one basis point change in yield. VaR is a technique for estimating 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. Stress testing is another key component of the quarterly risk management process assessing the potential risk and the resulting impact from stressed operating scenarios, both macroeconomic and idiosyncratic.

Liquidity risk

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at excessive cost. Funding risk is the risk that funding used to fund assets is not sustainable over time.

The Bank deploys a range of measures to monitor and manage its liquidity risk. Of particular importance are the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR').

The LCR is a measure used to assess the sufficiency of a bank's unencumbered high-quality liquid assets ('HQLAs') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. A ratio of 100% indicates that the HQLAs fully meet the stressed scenario. HQLAs consist of cash or assets that can be converted into cash at little or no loss of value. SABB's LCR as at 31 December 2019 was 219.5% (31 December 2018: 277.4%).

The Bank assesses whether it has sufficient stable funding through the NSFR which measures stable funding relative to required stable funding. NSFR reflects a bank's long-term funding profile and is designed to complement the LCR.

SAR mln	2019	2018
High quality liquid assets	63,844	37,612
Liquidity coverage ratio	219.5%	277.4%
Net stable funding ratio	143.2%	161.1%

Stress testing is another component of the risk management process where the Internal Liquidity Adequacy Assessment Process, ('ILAAP') is a comprehensive exercise that conducts the risk assessment of the Bank on a forward looking basis, and provides a complete overview of future liquidity requirements.

Shariah risk

Shariah risk is the risk of financial loss, regulatory sanction and/or reputational damage to SABB as a result of a 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 Shariah-compliant products; or of a direction of the Shariah Committee being disputed by another body.

Shariah rules are open to different interpretations; hence, there are potential risks that a SABB product can be interpreted as non-compliant by another Shariah body. To mitigate this, SABB has ensured that its Shariah Committee members are of high standing. Further, SABB has a dedicated Shariah Affairs team specialising in Shariah-compliant issues and conducts periodic reviews across the Bank to assess compliance with policies and guidelines. Training and awareness seminars are undertaken on Islamic banking principles as well as product specific processing requirements. Finally, SABB has a Technology platform that facilitates compliance with Shariah requirements to further reduce the risk of operational error or oversight.

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 at the Risk Management Committee and Operational Risk sub-committee with periodic updates to the Board Risk Committee.

Capital overview

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

of regulatory capital are monitored regularly by the Bank's senior management.

SABB's assessment of capital adequacy is aligned to its assessment of risks, including credit, liquidity, shariah and other operational risks as detailed on page 53 within the Risk overview.

Capital ratio

	31 Dec 2019 %	31 Dec 2018 %
Common equity tier 1 ratio	18.20%	19.69%
Tier 1 ratio	18.20%	19.69%
Total capital ratio	19.43%	21.29%

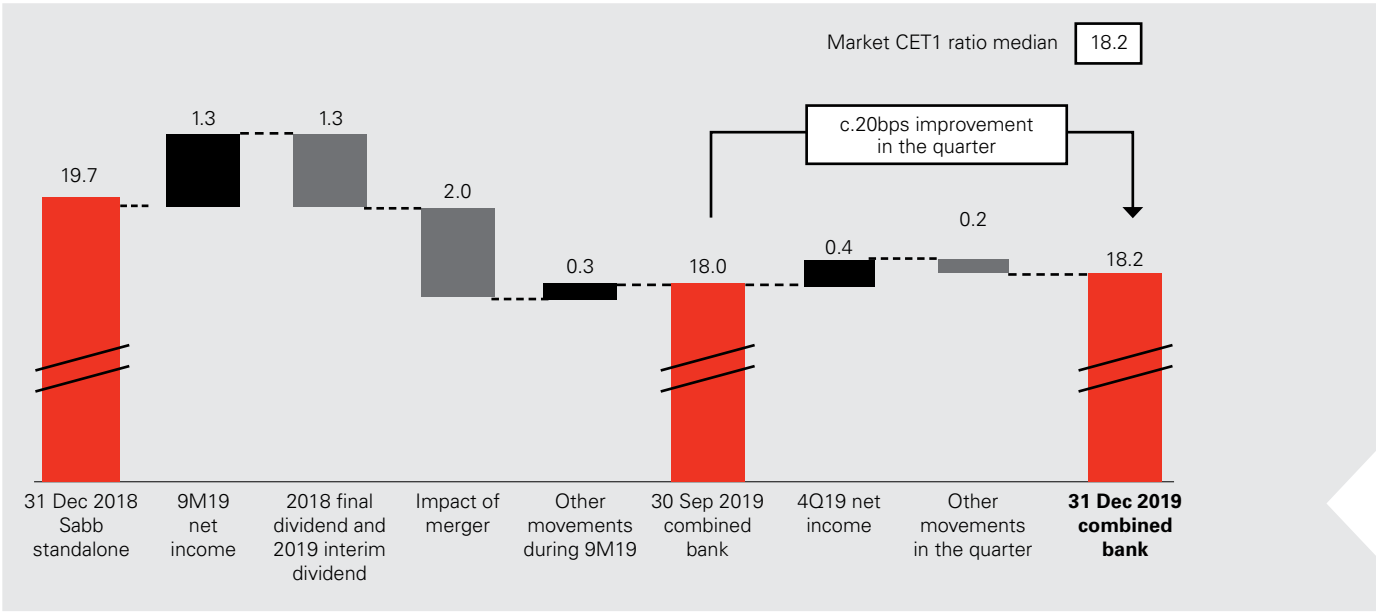
Capital

SAR mln	31 Dec 2019	31 Dec 2018
Common equity tier 1 capital	41,642	33,360
Additional tier 1 capital	-	-
Tier 2 capital	2,819	2,701
Total regulatory capital	44,462	36,060

RWA

SAR mln	31 Dec 2019	31 Dec 2018
Credit risk	207,721	155,438
Market risk	1,830	1,510
Operational risk	19,266	12,434
Total RWAs	228,816	169,383

Core Tier 1 ratio: 31 December 2019 vs. 30 September 2019 vs. 31 December 2018



Supporting Micro, Small and Medium-sized Enterprises

A key strand of the Kingdom’s Vision 2030 economic transformation plan aims to increase the contribution of micro, small and medium-sized enterprises (‘MSMEs’) to the economy, and to bring their contribution in line with the more advanced economies globally. The Vision looks to encourage the development of this sector, removing obstacles and to create an engine for future progress. SABB is suitably placed to support this given its universal banking strengths.

Over 20,700

MSME customers

SABB currently has 20,700 active MSME customers that are managed through the Bank’s three main regional hubs in Riyadh, Jeddah and Alkhobar, as well as through a number of other cities across the Kingdom. The Bank also provides services to a number of larger companies that support the downstream MSME supply chain. SABB offers Shariah-compliant as well as conventional banking products.

Corporate segments	Annual sales turnover
Business banking mass-micro	Below SAR 3 mln
Business banking mass-small	Between SAR 3 mln to 40 mln
Business banking upper (medium)	Between SAR 40 mln to 200 mln

SABB approach

Customer experience

A dedicated relationship manager (‘RM’) supports each customer in assessing their banking needs and to provide banking solutions. In order to maintain the high standards that are expected from SABB’s service, the Bank has continued to invest in training and development for all RMs together with investment in our customer relationship tools giving RMs a holistic view of the customers they serve.

5 days training

for all staff supporting the MSME sector

Digital banking

The Bank’s MSME customer base has access to a range of digital banking services and SABB continuously encourages the adoption of these, including internet banking, interactive teller machines, PoS terminals and electronic payment gateway solutions. SABB is developing an advanced internet and telephone banking platform for MSMEs, as well as developing a digital on-boarding and account opening tool – a complete end to end online customer journey.

Trade finance solutions

SABB is the number one bank for trade in the Kingdom. The Bank’s strengths in this arena allow it to provide market leading services and options with genuine knowledge and expertise. SABB provides comprehensive receivables and supply chain finance products that are fully Shariah-compliant, enabling customers to effectively and efficiently manage their cashflows and funding costs.

Entrepreneurial development and training

SABB runs a programme to train and challenge young entrepreneurs in collaboration with the King Abdullah University of Science and Technology. In 2019, the Bank concluded its third year of the TAQADAM incubator programme, in which 30 teams of students and faculty members from Saudi universities participated, with more than SAR 3 million awarded to winners.

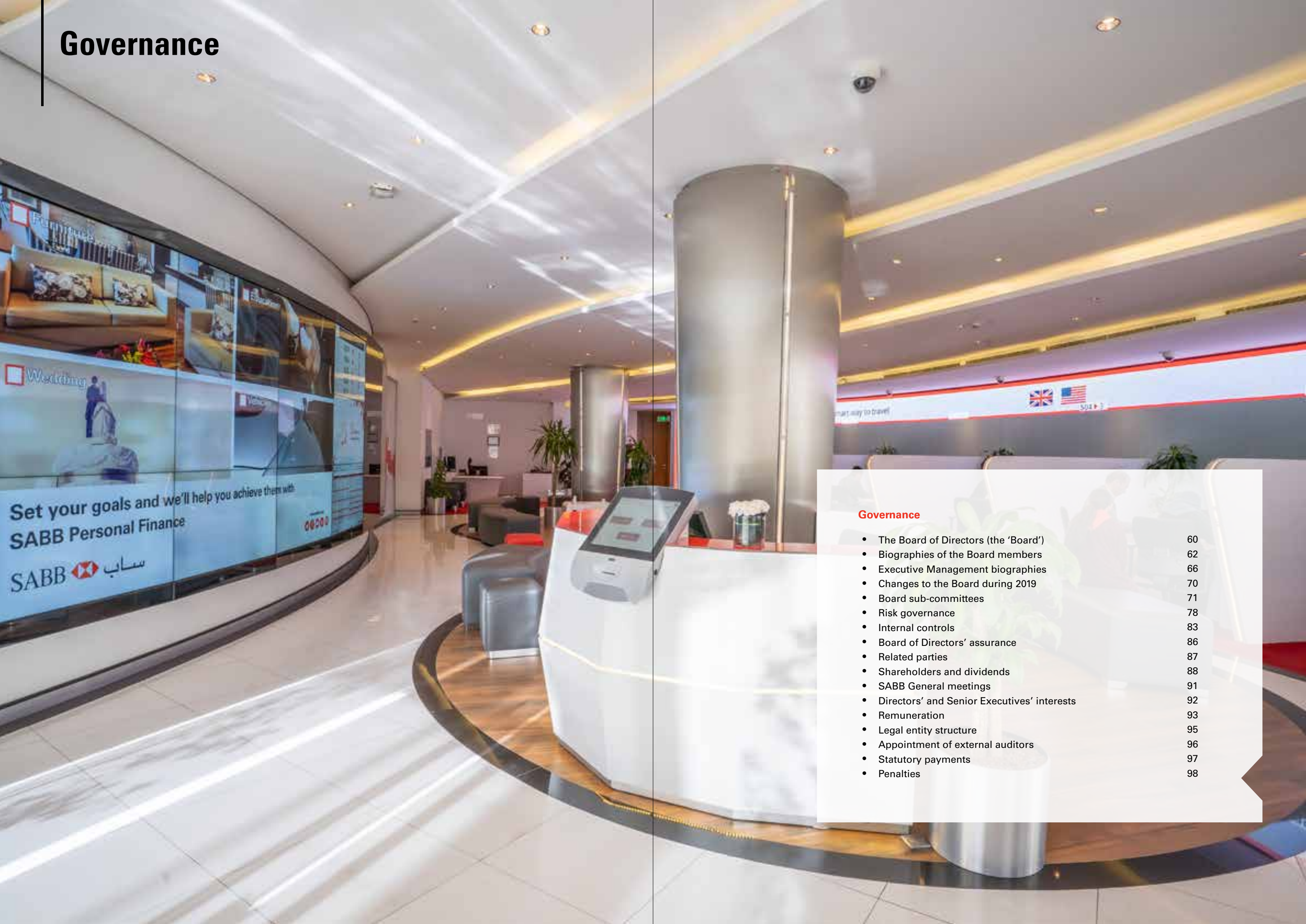
MSMEs Financing Conference for 2019 was held during April in Riyadh supported by the Kafalah Programme and the World Bank Group. The event focused on the importance of financial support to MSMEs, and building a solid economic position without the dependence on the oil and gas sectors. SABB was a key sponsor for the event and was awarded ‘The best bank in financing the tourism sector, a key sector for MSMEs.

Consult and Coach for Cause (C3) is a social enterprise empowering entrepreneurs in the Middle East. SABB sponsored the inaugural event of C3 in Saudi Arabia in November 2019, partnering with Monsha’at.

Loans and off-balance positions with MSME customers

December 2019	SAR mln			
	Micro	Small	Medium	Total
Loans to MSMEs	38,451	884,472	4,697,471	5,620,393
Off balance sheet positions to MSMEs	59,042	671,698	3,981,371	4,712,112
Loans to MSMEs as a percentage of total SABB loans	0.02%	0.55%	2.92%	3.50%
Off balance sheet positions to MSMEs as a percentage of total SABB off balance sheet positions	0.05%	0.59%	3.51%	4.16%
Number of credit facilities	260	2,112	7,083	9,455
Number of customers with credit facilities	141	515	615	1,271
Number of credit facilities guaranteed by Kafalah programme	60	404	340	804
Amount of credit facilities guaranteed by Kafalah programme	18,771	133,483	212,033	364,286

December 2018				
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



Governance

• The Board of Directors (the 'Board')	60
• Biographies of the Board members	62
• Executive Management biographies	66
• Changes to the Board during 2019	70
• Board sub-committees	71
• Risk governance	78
• Internal controls	83
• Board of Directors' assurance	86
• Related parties	87
• Shareholders and dividends	88
• SABB General meetings	91
• Directors' and Senior Executives' interests	92
• Remuneration	93
• Legal entity structure	95
• Appointment of external auditors	96
• Statutory payments	97
• Penalties	98

The Board of Directors (the ‘Board’)

Led by the Chair, the Board sets the Bank’s strategy and risk appetite with the aim of achieving sustainable value to Shareholders and promote a culture of openness and debate. The Board also approves the capital and operating plans for achieving the strategic direction on the recommendation of the Executive Management (‘MANCOM’). The Board, as at 16 June 2019, consisted of 11 members who bring together a wealth of local and international experience across a spectrum of industries.

Eight of the eleven Directors are appointed by the Ordinary General Meeting (‘OGM’) for three years, by way of election pursuant to the accumulative voting method (the “Elected Directors”) and the remaining three are appointed by the shareholder HSBC Holdings B.V. (the “Appointed Directors”). All Directors may be reappointed for new terms.

Chair

Ms. Lubna S. Olayan was appointed the Chair of SABB as a non-executive Chair on 16 June 2019 following the merger of SABB with Alawwal Bank.

Executive Directors

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

Non-Executive Directors and Independent Directors

Excluding the Chair and the MGD, the Board as at 31 December 2019 consisted of four Non-Executive Directors who are not deemed to be independent. The remaining five directors are all independent Directors. The Board is responsible for the Bank’s strategy and risk appetite. The Board reviews the performance of Management in meeting the Bank’s strategic targets and monitors the Bank’s risk appetite and profile.

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

Board responsibilities

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

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

Composition of the Board as at 31 December 2019

Ms. Lubna S. Olayan ¹	Non-executive Chair
Eng. Khalid Abdullah Al-Molhem ²	Independent Vice-Chair
Mr. Ahmed Farid Al-Aulaqi ¹	Independent Member
Ms. Maria Ramos ¹	Independent Member
Mr. Martin Edward Powell ³	Independent Member
Mr. Mohammed Omran Al-Omran	Independent Member
Mr. Sulaiman Abdulqader Al-Muhaideb ⁴	Non-Executive Member
Mr. Saad Abdulmohsen Al-Fadly	Non-Executive Member
Mr. David Dew	Executive Member
Mr. Samir Assaf	Non-Executive Member
Mr. Stephen Moss	Non-Executive Member

¹ The directorship of Ms. Lubna S. Olayan, Mr. Ahmed Farid Al-Aulaqi and Ms. Maria Ramos started on 16 June 2019.
² Eng. Khalid Abdullah Al-Molhem’s term as Vice-Chair position ended as of 31 December 2019 and remains as a Non-Executive Director
³ The directorship of Mr. Martin Edward Powell started on 15 July 2019
⁴ The directorship of all the board members ended on 31 December 2019 and were re-elected for new term on 1 January 2020, except for Mr. Sulaiman Abdulqader Al-Muhaideb

Corporate governance best practice

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

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

- Disclosure
- Conflicts of interest
- Criteria for the selection of Directors
- Relationship with Stakeholders
- Related parties’ transaction guidelines
- Remuneration and compensation for Board Directors, Board sub-committees and Executive Management
- Corporate governance document

Diversity

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

Training programmes and development

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

Biographies of the Board members as at 31 December 2019



Ms. Lubna S. Olayan
Non-Executive Chair

Current position

Board member of:

- Olayan Financing Company (Saudi Arabia)
- Saudi Arabian Mining Company (Listed/ Saudi Arabia)
- Schlumberger Company (Saudi Arabia)
- Olayan Holding Company (Saudi Arabia)
- Nova Water Company (Saudi Arabia)
- The Coca-Cola Company (Saudi Arabia)

Former position

Senior position:

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

Board member of:

- Vice Chairman of Alawwal Bank (Listed/Saudi Arabia)

Qualifications

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

Experience

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



Eng. Khalid Abdullah Al-Molhem
Independent Vice-Chair

Current position

Board member of:

- Saudi White Cement Company (Saudi Arabia)
- King Abdullah Economic City Company (Emaar) (Listed / Saudi Arabia)
- Aseer Trading, Tourism and Manufacturing Company (Listed / Saudi Arabia)

Former position

Senior position:

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

Board member of:

- United Electronics Company (Extra) (Listed/ Saudi Arabia)
- Knowledge Economic City Company (Listed/ Saudi Arabia)
- King Abdullah Port Rabigh (Saudi Arabia)
- HSBC Middle East Ltd (United Arab Emirates)

Qualifications

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

Experience

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. Ahmed Farid Al-Aulaqi
Independent Director

Current position

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

Former position

Senior position:

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

Board member of:

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

Qualifications

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

Experience

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



Ms. Maria Ramos
Independent Director

Current position

Board member of:

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

Former position

Senior position:

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

Board member of:

- Transnet Limited (South Africa)
- Sanlam Limited (Listed/ South Africa)
- Remgro Limited (Listed/ South Africa)
- SABMiller (Listed/United Kingdom)

Qualifications

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

Experience

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



Mr. Martin Edward Powell
Independent Director

Current position

- None

Former position

Senior position:

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

Board member of:

- Alawwal Bank (Listed / Saudi Arabia)

Qualifications

- ACIB - The Chartered Institute of Bankers

Experience

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



Mr. Mohammed Omran Al-Omran
Independent Director

Current position

Board member of:

- Saudi Orix Leasing Company (Saudi Arabia)
- Tarabot Investment & Development Company (Saudi Arabia)

Former position

Board member of:

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

Qualifications

- Bachelor of Science in Civil Engineering from King Saud University, Riyadh
- Master in Construction Management from the University of South California, USA

Experience

Experience in the business and investment sectors

Biographies of the Board members as at 31 December 2019 (continued)



Mr. Sulaiman Abdulqader Al-Muhaideb
Non-Executive Director

Current position

Board member of:

- Al Muhaideb Group (Saudi Arabia)
- Savola Group Company (Listed / Saudi Arabia)
- ACWA Power International Company (Saudi Arabia)
- Tasnee Company (Listed / Saudi Arabia)
- Almarai Company (Listed / Saudi Arabia)
- Rafal Company (Saudi Arabia)
- ACWA Holding Company (Saudi Arabia)
- Vision Invest Company (Saudi Arabia)

Former position

Board member of:

- Middle East Paper Company (Listed/Saudi Arabia)
- Al Oula Real Estate Company (Saudi Arabia)
- Thabat Construction Company Limited (Saudi Arabia)

Qualifications

- None

Experience

Experience in the management and financial fields



Mr. Saad Abdulmohsen Al-Fadly
Non-Executive Director
(Representing GOSI)

Current position

Senior Position:

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

Board member of:

- National Medical Care Company (Listed / Saudi Arabia)
- Almarai Company (Listed / Saudi Arabia)
- GEMS Company (Saudi Arabia)

Former position

Senior position:

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

Qualifications

- Bachelor of Science in Accounting, King Saud University, Riyadh
- Master degree in Financial Economics, Boston University, USA

Experience

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



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

Current position

Senior Position:

- Managing Director of SABB

Board member of:

- HSBC Bank Middle East Limited (United Arab Emirates)
- HSBC Saudi Arabia Limited

Former position

Senior position:

- Deputy Managing Director and Chief Operating Officer of SABB
- Deputy Chief Executive of HSBC Amanah and Chief of Administration, Global Banking and Markets, Middle East HSBC (MENA)

Qualifications

- Master in Economics from Cambridge University, UK.
- Associate of the Institute of Bankers

Experience

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



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

Current position

Senior Position:

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

Board member of:

- HSBC France (Listed / France)
- HSBC Trinkhaus and Burkhardt AG (Listed / Germany)

Former position

Board member of:

- HSBC Egypt (Egypt)
- HSBC Asset Management Limited (United Kingdom)
- Global Financial Markets Association (United States of America)

Qualifications

- Master in Economics from USJ, Lebanon
- Master in Economics and International Finance from La Sorbonne University, France
- Bachelor in Finance from L'Institut d'Etudes Politiques, France

Experience

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



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

Current position

Senior Position:

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

Board member of:

- Serai Limited (United Kingdom)
- HSBC Asset Management Limited (United Kingdom)
- HSBC Middle East Holdings (Netherlands)

Former position

Board member of:

- HSBC Bank Canada (Canada)
- HSBC Asia Holdings B.V (Netherlands)

Qualifications

- Qualified chartered accountant and member of the Institute of Chartered Accountants in England and Wales

Experience

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

Executive Management biographies

as at 31 December 2019



Mr. David Dew

Current position

- Executive Director and Managing Director of SABB.

Board member of:

- HSBC Bank Middle East Limited (United Arab Emirates)
- HSBC Saudi Arabia Limited

Former position

Senior position:

- Deputy Managing Director and Chief Operating Officer of SABB
- Deputy Chief Executive of HSBC Amanah and Chief of Administration, Global Banking and Markets, Middle East HSBC (MENA)

Qualifications

- Master in Economics from Cambridge University, UK.
- Associate of the Institute of Bankers

Experience

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



Mr. Naif Al Abdulkareem

Current position

- Deputy Managing Director Retail Banking and Wealth Management

Former position

- General Manager Branches and Wealth Management, SABB

Qualifications

- Master in Business Administration

Experience

Joined SABB in January 2012 as Head of Private Banking followed by his appointment as Head of Branches and Wealth Management. He has more than 17 years of experience in banking where he worked previously for ANB, Riyad Bank, and NCB in various roles in Retail and Commercial Banking fields



Mr. Majed Najm

Current position

- Deputy Managing Director Corporate and Institutional Banking

Former position

- Chief Executive Officer and Board member of HSBC Saudi Arabia

Qualifications

- Bachelor of Science in Management

Experience

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



Mr. Mohammed Abdullatif Al-Shaikh

Current position

- Deputy Managing Director Treasury

Former position

- General Manager Treasury, Alawwal Bank

Qualifications

- Bachelor of Science in Finance

Experience

Joined Alawwal in 2012 as General Manager Treasury. Prior to joining Alawwal, he held various treasury roles at Samba since 1994, with extensive experience across functions.



Ms. Maha Al Sudairi

Current position

- Chief Compliance Officer

Former position

- Chief Compliance and Governance Officer, Alawwal Bank

Qualifications

- MSc International Finance (Honors) from Kingston University, United Kingdom
- BA English Translation from King Saud University, Saudi Arabia

Experience

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



Mr. Faisal Jadu

Current position

- Chief Human Resources Officer

Former position

- Head of Performance, Reward and Organisational Development, SABB

Qualifications

- Bachelor in Management Information System

Experience

Joined SABB in 2011 and has held several leadership positions heading multiple functions in Human Resources contributing to the successful implementation of the people strategy. Has more than 12 years of experience in the banking industry

Executive Management biographies
as at 31 December 2019 (continued)



Ms. Faten Abalkhail

Current position

- Company Secretary

Former position

- Head of Planning & Control, Strategy Department & Finance Department, Alawwal Bank

Qualifications

- Diploma degree in Computer Sciences/Programming & Information Systems
- Bachelor in Home Economics Nutrition

Experience

Over 19 years of banking experience with in-depth knowledge in planning, governance of strategic initiatives execution and process. Held various posts in Business, Operations and Control functions including Treasury, Retail, Strategy and Finance groups



Mr. Richard Hinchley

Current position

- Chief Risk Officer

Former position

- Chief Risk Officer, HSBC Saudi Arabia

Qualifications

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

Experience

A seasoned and experienced Risk professional with 26 years of executive experience in HSBC, including 15 years at Senior Management levels, across the UK, USA, South America, Asia and Middle East



Mr. Mathew Pearce

Current position

- Chief Financial Officer

Former position

- Chief Financial Officer, HSBC Japan

Qualifications

- Chartered Accountant with Institute of Chartered Accountants in England and Wales
- BSc (Hons) degree in Business Studies and Japanese, Cardiff University, UK

Experience

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



Changes to the Board during 2019

Appointment, retirement and re-election of Directors

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

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

On 15 December 2016, the General Assembly of the Bank elected the Board of Directors for a term of three years, starting from 1 January 2017 to 31 December 2019. On 16 June 2019 SABB merged with Alawwal Bank and in line with the merger agreement, there were subsequent changes to the members of the Board. Mr. Khaled S. Olayan (former Chairman of SABB) and George Elhedery (Non-Executive Director and HSBC Holdings B.V. representative) resigned their directorships on 15 June 2019. On 16 June 2019, the Board appointed Ms. Lubna S. Olayan, Ms. Maria Ramos and Mr. Ahmad Farid Al-Aulaqi to the Board. On 15 July 2019, the Board appointed Mr. Martin Edward Powell.

On 18 December 2019, SABB held an OGM to conduct the triennial election of the Board. Mr. Stuart T Gulliver was elected (directorship commenced as of 01 January 2020) and Mr. Sulaiman Abdulqader Al-Muhaideb has not nominated himself for the directorship, which took effect as at 31 December 2019.

Board meetings

During 2019, the Board held five meetings. The following table shows details of those meetings and the respective attendance.

	Meeting dates				
	1 Apr 2019	16 Jun 2019	31 Jul 2019	30 Sep 2019	18 Dec 2019
Ms. Lubna S. Olayan ¹	-	✓	✓	✓	✓
Mr. Khaled S. Olayan ²	✓	-	-	-	-
Eng. Khalid Abdullah Al-Molhem	✓	✓	✓	✓	✓
Mr. Sulaiman Abdulqader Al-Muhaideb ³	✓	✓	✓	✓	✓
Mr. Mohammed Omran Al-Omran	✓	✓	✓	✓	✓
Mr. Saad Abdulmohsen Al-Fadly	✓	✓	-	✓	✓
Mr. Ahmed Farid Al-Aulaqi ¹	-	✓	✓	✓	✓
Ms. Maria Ramos ¹	-	✓	✓	✓	✓
Mr. David Dew	✓	✓	✓	✓	✓
Mr. Samir Assaf	✓	✓	✓	✓	✓
Mr. Stephen Moss	✓	✓	✓	✓	✓
Mr. Martin Edward Powell ⁴	-	-	✓	✓	✓
Mr. George Elhedery ²	-	-	-	-	-

¹The directorship of Ms. Lubna S. Olayan, Mr. Ahmed Farid Al-Aulaqi and Ms. Maria Ramos started on 16 June 2019

²The directorship of Mr. Khaled S. Olayan and Mr. Georges Elhedery ended on 15 June 2019

³The directorship of Mr. Sulaiman Abdulqader Al-Muhaideb ended on 31 December 2019

⁴The directorship of Mr. Martin Edward Powell started on 15 July 2019

Board sub-committees

The Board has established four sub-committees:

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

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

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

Detailed roles and responsibilities for each committee are produced.

Terms of reference

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

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

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

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

Board and sub-committee attendance during 2019

	Independent	Board	EXCOM	AUCOM	NRC	BRC
Number of meetings held		5	10	5	3	6
Chair						
Ms. Lubna S. Olayan ¹	-	4/4	4/4	-	-	-
Mr. Khaled Suliman Olayan ²	-	1/1	4/4	-	1/1	-
Vice-chair						
Eng. Khalid Abdullah Al-Molhem ³	✓	5/5	10/10	5/5	-	-
Executive Director						
Mr. David Dew	-	5/5	10/10	-	-	-
Non-Executive Directors						
Mr. Ahmed Farid Al-Aulaqi ¹	✓	4/4	4/4	-	-	-
Ms. Maria Ramos ¹	✓	4/4	-	-	2/2	-
Mr. Martin Edward Powell ⁴	✓	3/3	-	-	-	-
Mr. Mohammed Omran Al-Omran	✓	5/5	10/10	-	3/3	-
Mr. Sulaiman Abdulqader Al-Muhaideb	-	5/5	-	-	-	-
Mr. Stephen Moss	-	5/5	-	-	-	-
Mr. Samir Assaf	-	5/5	-	-	3/3	-
Mr. George Elhedery ²	-	0/1	-	-	-	1/1
Mr. Saad Abdulmohsen Al-Fadly	-	4/5	-	-	-	6/6
Other Board sub-committee members						
Mr. Talal Ahmed Al-Zamil	N/A	N/A	-	4/5	-	-
Mr. Khalid Saleh Alk Subayel	N/A	N/A	-	5/5	-	-
Mr. Saad Saleh Al Sabti	N/A	N/A	-	5/5	-	-
Mr. James Madsen	N/A	N/A	-	5/5	-	6/6
Mr. Saad Saleh Al-Azwari	N/A	N/A	-	-	3/3	-
Ms. Christine Lynch	N/A	N/A	-	-	-	4/5

¹The directorship of Ms. Lubna S. Olayan, Mr. Ahmed Al-Aulaqi and Ms. Maria Ramos started on 16 June 2019
²The directorship of Mr. Khaled S. Olayan (Chairman until 15 June 2019) and Mr. Georges Elhedery ended on 15 June 2019
³Eng. Khalid Abdullah Al Molhem’s position as Vice-Chair ended on 31 December 2019
⁴The directorship of Mr. Martin Edward Powell started on 15 July 2019

Executive Committee (‘EXCOM’)

Members

- Mr. David Dew (Chair)
- Ms. Lubna S. Olayan (appointed 15 September 2019)
- Mr. Khaled S. Olayan (resigned 15 June 2019)
- Eng. Khalid Abdullah Al-Molhem
- Mr. Mohammed Omran Al-Omran
- Mr. Ahmed Farid Al-Aulaqi (appointed 15 September 2019)

Roles and responsibilities

The principal objective of the Committee is to assist the MGD, within the scope determined by the Board to deal with matters referred by the MGD or by the Board. 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 six times during the year.

The committee consists of three to five members with MGD as the Chair and at least two of the other members selected from the Board of Directors.

During 2019, the members of EXCOM changed with the resignation of Mr. Khaled S. Olayan from the committee on 15 June 2019 and the appointments of Ms. Lubna S. Olayan and Mr. Ahmed Farid Al-Aulaqi to the Committe on 15 September 2019.

EXCOM meetings during 2019						
	Mr. David Dew	Ms. Lubna S. Olayan	Mr. Khaled S. Olayan	Eng. Khalid Al-Molhem	Mr. Mohammed Omran Al-Omran	Mr. Ahmed Farid Al-Aulaqi
29 January	✓	-	✓	✓	✓	-
25 February	✓	-	✓	✓	✓	-
25 March	✓	-	✓	✓	✓	-
28 April	✓	-	✓	✓	✓	-
25 June	✓	-	-	✓	✓	-
30 July	✓	-	-	✓	✓	-
25 September	✓	✓	-	✓	✓	✓
28 October	✓	✓	-	✓	✓	✓
26 November	✓	✓	-	✓	✓	✓
15 December	✓	✓	-	✓	✓	✓

In 2019, the Committee held 10 meetings. The table above shows details of those meetings and the record of attendance of members during the year.

Audit Committee (‘AUCOM’)

Members

- Eng. Khalid Abdullah Al-Molhem (Chair)
- Mr. Talal Ahmed Al-Zamil (Non-Board member)
- Mr. Khalid Saleh Al Subayel (Non-Board member)
- Mr. Saad Saleh Al Sabti (Non-Board member)
- Mr. James Madsen (Non-Board member)

Roles and responsibilities

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

On 15 December 2016, The General Assembly of the Bank convened and appointed the Audit Committee members for a term of three years which commenced from 1 January 2017 to 31 December 2019. The General Assembly of the Bank convened on 25 April 2017 and appointed Eng. Khalid Abdullah Al-Molhem as an Audit Committee member.

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.

AUCOM meets at least four times and year and in 2019, held five meetings. The following table shows details of those meetings and the record of attendance of members during the year.

AUCOM meetings during 2019					
	Eng. Khalid Al Molhem	Mr. Talal Ahmed Al-Zamil	Mr. Khalid Saleh Al-Subayel	Mr. Saad Saleh Al-Sabti	Mr. James Madsen
26 February	✓	✓	✓	✓	✓
24 April	✓	✓	✓	✓	✓
30 July	✓	-	✓	✓	✓
27 October	✓	✓	✓	✓	✓
15 December	✓	✓	✓	✓	✓

Nomination and Remuneration Committee (‘NRC’)

Members

- Mr. Mohammed Omran Al-Omran (Chair)
- Mr. Samir Assaf
- Mr. Saad Saleh Al-Azwari (Non-Board member)
- Ms. Maria Ramos (appointed 15 September 2019)
- Mr. Khaled S. Olayan (resigned 15 June 2019)

Roles and responsibilities

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

During 2019, the members of NRC changed following the resignation of Mr. Khaled S. Olayan from the Board and NRC on 15 June 2019 and the appointment of Ms. Maria Ramos to the Committee on 15 September 2019.

In line with the corporate governance requirements and best practice, the terms of reference of the Committee were revised and approved by the AGM on 28 March 2018.

NRC meets at least twice a year and in 2019, the committee held three meetings. The following table shows details of those meetings and the record of attendance of members during the year.

NRC meetings during 2019					
	Mr. Mohammed Al Omran Al-Omran	Mr. Samir Assaf	Mr. Saad Saleh Al-Azwari	Ms. Maria Ramos	Mr. Khaled S. Olayan
1 April	✓	✓	✓	-	✓
30 September	✓	✓	✓	✓	-
18 December	✓	✓	✓	✓	-

Board Risk Committee (‘BRC’)

Members

- Mr. Saad Abdulmohsen Al-Fadly (Chair)
- Mr. James Madsen (Non-Board member)
- Ms. Christine Lynch (Non-Board member)
- Mr. George Elhedery (resigned 23 July 2019)

Roles and responsibilities

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

The Committee consists of three to five Non-Executive Directors or Non-Board members and reports directly to the Board. It meets at least four times a year.

During 2019, the members of the Committee changed following the resignation of Mr. George Elhedery on 23 July 2019, and the appointment of Ms. Christine Lynch as a Non-Board member on 15 July 2019.

In 2019, the Committee held six meetings. The below table shows details of those meetings and the record of attendance of members during the year.

BRC meetings during 2019				
	Mr. Saad A. Al-Fadly	Mr. James Madsen	Ms. Christine Lynch	Mr. George Elhedery
27 February	✓	✓	-	✓
23 July	✓	✓	✓	-
21 August	✓	✓	✓	-
24 October	✓	✓	✓	-
4 December	✓	✓	-	-
16 December	✓	✓	✓	-

Profile of Board sub-committee members (Non-Board members)

<p>Mr. Talal Ahmed Al-Zamil AUCOM member</p> <p>Current position</p> <p>General Manager - The Middle East Battery Company</p> <p>Board member of:</p> <ul style="list-style-type: none">Electrical Industries CompanySaudi Marketing Company <p>Committee memberships:</p> <ul style="list-style-type: none">Member of the Industrial Committee of the Chamber of Commerce and Industry, Eastern ProvinceMember of the National Industrial Committee <p>Former position</p> <ul style="list-style-type: none">Saudi Industrial Development Fund – Team Leader in Credit DepartmentMember of the Municipal Council of the Eastern Region <p>Board member of:</p> <ul style="list-style-type: none">Saudi Fransi CapitalSaudi Steel Pipe Company <p>Qualifications</p> <ul style="list-style-type: none">Bachelor of Mechanical Engineering - King Fahd University of Petroleum and MineralsMBA - King Fahd University of Petroleum and Minerals <p>Experience Extensive experience of over 25 years in management, financial analysis and credit</p>	<p>Mr. Khalid Saleh Al Subayel AUCOM member</p> <p>Current position</p> <ul style="list-style-type: none">NAS Holding - Audit Committee Member <p>Former position</p> <ul style="list-style-type: none">Saudi Arabian Monetary Authority - Director of the Banking Inspection DepartmentThe Mediterranean and Gulf Insurance and Reinsurance - Audit Committee Member <p>Qualifications</p> <ul style="list-style-type: none">Bachelor’s Degree in Literature from King Saud University in Riyadh.Master Degree in Accounting from University of Illinois at US, ChicagoBanking Diploma from IPA, Riyadh <p>Experience 26 years of experience in a number of leadership positions in the Saudi Arabian Monetary Authority (SAMA)</p>	<p>Mr. Saad Saleh Al-Sabti AUCOM member</p> <p>Current position</p> <ul style="list-style-type: none">Protiviti – Executive PartnerMember of Shura CouncilPartner in Alsabti Ecovis Company <p>Former position</p> <ul style="list-style-type: none">AL Sabti and Bannaga – RSM Managing PartnerAlfaisaliah Group – Chief Internal AuditorSaudi Venture Capital - Audit Committee Member <p>Qualifications</p> <ul style="list-style-type: none">Bachelor’s Degree in Accounting from King Saud University, Riyadh.Master Degree in Accounting from Welch University, USAProfessional certificates including CPA, IIA, and SOCPA <p>Experience Experience in the financial and accounting sector, especially in the internal audit field</p>	<p>Mr. James Madsen AUCOM and BRC member</p> <p>Current position</p> <p>Board member of: none</p> <p>Former position</p> <ul style="list-style-type: none">Head of HSBC’s Internal Audit Department in the Middle East and North Africa <p>Qualifications</p> <ul style="list-style-type: none">BA, Economics and Social Studies, Manchester University, UK <p>Experience Extensive managerial, financial and accounting experience in the banking and financial sector</p>	<p>Mr. Saad Saleh Al-Azwari NRC member</p> <p>Current position</p> <p>Board member of:</p> <ul style="list-style-type: none">Middle East Specialised Cables Company (MESCC)Saudi Advance Industrial coAlsalam Aerospace Industry co <p>Former position</p> <ul style="list-style-type: none">Chief Executive Officer NAS Private AviationChief Executive Officer Saudi Printing and Packaging CompanyChief Operating Officer Obeikan Investment Group <p>Qualifications</p> <ul style="list-style-type: none">BS in Engineering and Quality Control from KWU, USA.MBA from Hull University, UK <p>Experience Experience of 19 years in leading positions in the human resources sector</p>	<p>Ms. Christine Lynch BRC Member</p> <p>Current position</p> <p>Board member of:</p> <ul style="list-style-type: none">HSBC Bank Oman SAOG <p>Former position</p> <p>Board member of:</p> <ul style="list-style-type: none">HSBC Trust Company AGFondation de prevoyance des entites suisses du Groupe HSBC <p>Qualifications</p> <ul style="list-style-type: none">BA Modern Languages and European Studies from University of Bath, UKBSs Financial Services from University of Manchester Institute of Science and Technology, UK <p>Experience Experience of over 20 years in leading positions in the Risk Management sector</p>
--	--	---	---	---	---

Risk governance

SABB has a consistently strong risk culture across the organisation, which is embedded throughout business units, enablement and control functions. Ultimate accountability belongs to the Board which exercises active governance through its Board sub-committees. Clear communication and a structured risk training programme is provided to all employees. The Bank operates to the principle that all staff are responsible for identifying and managing risk within the scope of their role, whilst providing effective oversight by control functions and internal audit, as defined by the 3 lines of defence model. Adherence to risk management is a key performance indicator applied in the performance management of all Executive Management and Staff across the organisations. A strict policy of consequence management is applied where failures occur.

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

Three Lines of defence

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

The Risk Management Committee (‘RMC’) and the Asset and Liability Committee (‘ALCO’) are two critical risk governance committees that support the BRC and EXCOM respectively in setting the Bank’s overall risk appetite. The RMC review risk appetite, emerging risks and risk policy and is chaired by the Chief Risk Officer. ALCO reviews the risks associated with the Bank’s balance sheet including asset and liability management, and liquidity and funding. Both RMC and ALCO meet on a monthly basis and the BRC and EXCOM provide oversight of these committees respectively on a quarterly basis, reviewing key performance metrics within the risk appetite statements, discussing emerging risk matters, and incorporating learnings from international best practice.

Enterprise-wide risk management tools

Risk appetite

SABB’s risk appetite is documented and defines our desired risk profile and tolerances within which risk should be managed. The risk appetite covers risks which we actively accept and engage in, such as credit, market, operational, liquidity and funding, and regulatory risks.

As mentioned earlier, risk appetite statements (‘RAS’) have been developed for all key risk categories and business areas which document the respective risk appetite and limits.

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

Risk map

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

Stress testing

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

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

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

Principal risk types

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

Risk type	Definition and management
Market risk	Market risk is the risk that movements in market factors, including foreign exchange rates, special commission rates, credit spreads and equity prices, will reduce our income or the value of our portfolios. Exposure to market risk is separated into two portfolios:
	<ul style="list-style-type: none">Trading portfolios - comprise positions arising from market making and warehousing of customer-derived positions.Non-trading portfolios - comprise positions that primarily arise from the special commission rate management of our retail and commercial banking assets and liabilities and financial investments designated as 'Held to collect and sell' and 'Held to collect'.
	Market risk is monitored and measured using limits and metrics approved by the BRC. The exposure and limits are monitored by an independent risk function. SABB uses a range of control measures to manage market risk ranging from specific stop loss control limits, sensitivity analysis, stress testing and Value at Risk ('VaR').
Liquidity risk	Liquidity risk is the risk that SABB does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.
	To support adherence to the RAS on an ongoing basis, SABB has established a range of key monitoring metrics, including but not limited to the Liquidity Coverage Ratio and the Net Stable Funds Ratio. All metrics are closely monitored against RAS limits in the ALCO and RMC and reported to the BRC.
	SABB conducts cash flow stress testing for liquidity and funding risk. The stress test takes into consideration a number of market wide and idiosyncratic scenarios and time periods, to assess the Bank's ability to continue to operate effectively in support of its customers throughout the stress period and beyond. The stress tests are conducted semi-annually.
	The Bank has established a mechanism for charging the cost of liquidity within the organisation to support the management of the balance sheet structure for liquidity and funding risk purposes.
Shariah risk	SABB maintains a Liquidity Contingency Funding Plan ('CFP') to provide guidance for the senior management who constitute its Liquidity Crisis Management Team ('LCMT') during a period of liquidity stress. The CFP establishes early warning monitoring metrics to forewarn Management of an impending stress, sets out responsibilities, and describes the approach Management may take during various stages of severity of a crisis. The CFP is updated and subject to scenario testing at least annually.
	Shariah risk is the risk of financial loss, regulatory sanction and/or reputational damage to SABB as a result of either a failure to comply with the directions, guidelines and conditions issued by SABB's Shariah Committees in respect of the development, execution, delivery and marketing of Islamic Products, or of a direction of the Shariah Committee being disputed by another body.
	Shariah rules are open to different interpretations; hence, there are potential risks that a SABB product can be interpreted as non-compliant by another Shariah body. To mitigate this, SABB has ensured that its Shariah Committee members are of high standing. Further, SABB has a dedicated Shariah Affairs team specialising in 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 facilitates compliance with Shariah requirements to further reduce the risk of operational error or oversight.
	Shariah risk is identified as a distinct risk in the Bank's risk heat map, at business unit level and at the Shariah Affairs level. Status is monitored through the appropriate governance committees.
	The Head of Islamic Financial Services reports directly to the Chief Risk Officer to oversee the development and independent control of Shariah products and services. IFS maintains a strong interaction with the Shariah Committee with respect to all Shariah related Affairs. The Shariah Committee reports directly to the SABB Board Risk Committee.

Risk type	Definition and management
Operational risk	Operational risk is the risk to achieving the Bank's strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events.
	The risk appetite for Operational Risk is established annually and approved by the Board. This is reviewed at the Operational Risk Committee and the RMC with quarterly updates to the BRC.
	In order to ensure continuous assessment of adequacy of control over operational risks, risk and control assessments are made and the controls identified periodically are tested by Control Owners and Business Risk Control Managers. Issues identified are entered in the Risk Repository System and the resolution of issues are monitored and followed up by Management and the status communicated to and monitored by governance committees.
	In addition, issues identified in other reviews including internal audit, external audit and regulatory authorities are also communicated and followed up by the governance committees.
Reputational risk	Amongst a number of types of operation risk, the protection of the Bank's technology infrastructure and our customers' data are key emerging risk as more and more of banking is digitalised.
	As part of its core business processes, SABB handles various types of customer information and data relating to its customers. Handling of information and data includes its storage, processing and transmission. The Bank has established an Information Security Risk unit reporting to the Chief Risk Officer. This unit provides assurance that the Bank's network is secure and is in compliance with Information Security Policies by undertaking monitoring of information flows, data risk management and access management over SABB's core systems.
	Cybersecurity risk is the probability of exposure or loss resulting from a cyber-attack or data breach on SABB. We continue to strengthen our cyber-control framework and improve our resilience and cybersecurity capabilities, including threat detection and analysis, access control, payment systems controls, data protection, network controls and back-up and recovery. Cyber risk is a priority area for the Bank and is routinely reported at both the RMC and BRC to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity programme.
	Reputational risk is the failure to meet Stakeholder expectations as a result of any event, behaviour, action or inaction, either by SABB itself, its employees or those with whom it is associated, that may cause Stakeholders to form a negative view of SABB.
	Reputational risk relates to Stakeholders' perceptions, whether based on fact or otherwise. As Stakeholders' expectations are constantly changing, reputational risk is dynamic. Therefore, SABB's approach to reputational risk management must be upheld at all times and across all businesses and functions. SABB has built a strong image and reputation within the Saudi market, and maintains an unwavering commitment to operate, and be seen to be operating, to the highest standards set for itself.
	The reputation of SABB is critical to its success. Any financial services organisation stands or falls by its reputation and the customers' confidence in it, and the reputation can be severely damaged by non-compliance with relevant regulations or by inappropriate actions or comments to the media or in the public domain. The maintenance of customer confidence is a prime objective of management and can be achieved through a strong and healthy financial position and by exhibiting successful risk Management.
	SABB has zero tolerance for knowingly engaging in any business or activity where foreseeable reputational risk and/or damage has not been considered and/or mitigated. SABB tolerates a limited degree of reputational risk arising from activities where the risk has been carefully considered and/or mitigated and determined to fall below the risk threshold.

Risk type	Definition and management
Regulatory Compliance and Financial Crime Compliance (‘FCC’) risks	Compliance risk is the risk leading to statutory, legal sanctions, material financial loss, or damage to the reputation of SABB that may be suffered as a result of failure to comply with all applicable laws, rules and regulations. The aim of compliance is to protect the reputation and credibility of SABB and protect the interest of Shareholders and depositors, and safeguard the institution against legal and regulatory consequences.
	Compliance is a specialised activity with a great degree of complexity managing the risks of financial crime and regulatory compliance capturing Sanctions, Money Laundering, Terrorist Financing, Fraud, and Anti-Bribery and Corruption. SABB has continued to make significant investments in people and compliance infrastructure including monitoring systems, internal reporting tools and training in order to better control the compliance risks across the organisation.
	All identified risks and breaches to local regulations are reported to the Management and Board committees along with corrective actions.

Compliance with local regulatory and international standards

SABB implements a strict transaction monitoring programme capturing a number of instructions made by SAMA as well as international best practices. The Anti-Money Laundering Counter Terrorist Financing (‘AML-CTF’) programme has been highly effective in achieving its strategic objectives to enhance SABB’s defence against financial crime activities.

Since Saudi Arabia gained membership of the Financial Action Task Force (FATF), 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, 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 and Corruption. All Staff in high risk roles are given tailored-training on an annual basis in the field of AML, Sanctions and Compliance. Within SABB International Standards programme, Anti-Financial Crime, Anti-Bribery and Corruption and awareness of sanctions and fraud are key pillars, and the Bank has launched a number of related training programmes.

Internal controls

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

Regulatory compliance

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

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

During 2019, AUCOM reviewed various reports on the adequacy of internal controls and systems including the financial statements and risk reports. The Committee reviews the minutes of the various Management committees, for example, Risk Management Committee, and Compliance Committee. Committee discussions and decisions are documented in the meetings’ minutes and matters requiring attention are escalated to the Board.

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

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

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

Annual review of the effectiveness of internal control procedures

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

SABB’s Management is responsible for implementing and reviewing the effectiveness of the Bank’s internal control framework as approved by the Board. All employees are responsible for identifying and managing risk within the scope of their role as part of the ‘Three Lines of 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. The risk management process is fully integrated with strategic planning, the annual operating plan and the capital planning cycle. Results are communicated for the information of the Directors by means of periodic reports provided to the AUCOM and BRC members.

Summary of key internal controls

Control	Description
SABB standards	SABB has established clear standards that should be met by employees, departments and the Bank as a whole. Functional, operating and financial reporting standards are established for application across the whole of SABB.
Policies and Procedure framework	SABB has a strong policies and procedures framework governed by the ‘Procedures of SABB Manuals’. SABB Standards Manuals set out the core principles within which SABB must operate. Functional Instructions Manuals (FIMs) articulate the key policies related to all major activities of the Bank besides standalone policies on the key regulations. All policies are approved by the Board and are subject to periodic review to ensure they adequately cover the Bank and its operating environment including alignment with regulation and the international best practices.
Delegation of authority within limits set by the Board	Authority to carry out various activities and responsibilities for financial performance against plan are delegated to SABB Management within limits set by the Board. Delegation of authority from the Board to individuals requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of a system of controls appropriate to the business. Authorities to enter into credit and market risk exposures are delegated with limits to line management. Outside of these limits, including for credit proposals with specified higher risk characteristics, the concurrence of the Executive Committee is required. Credit and market risks are measured and aggregated for review and management of risk concentrations. The appointment of Executives to the most senior positions within SABB requires the approval of the Board and concurrence from SAMA.
Risk identification and monitoring	Systems and procedures are in place in SABB to identify, monitor, control and report on the major risks including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability, compliance, other operational risks and any emerging risks. Exposure to these risks is monitored by various management Governance Committees. These include: the Asset and Liability Committee, the Risk Management Committee, the Compliance Committee, Fraud High Committee, IT Steering Committee, Customer Experience Steering Committee, the Audit Tracker Committee and their various sub-committees.
Governance Committees	The effectiveness, membership and terms of reference are reviewed annually and minutes of meetings are submitted to the Board sub-committees, and through these sub-committees to the Board.
Risk and Control Assessment (‘RCA’)	All significant operational risks, together with the associated controls are identified through a RCA process conducted by risk owners with input from subject matter experts in the second line of defence. The design and operating effectiveness of controls is tested at several levels including by dedicated Business Risk and Control Managers (within the first line of defence), the relevant risk stewards (second line of defence) and by Internal Audit (the third line of defence) to provide reasonable assurance to the Management about the adequacy of the controls.
Financial reporting	SABB’s financial reporting process for preparing the consolidated Annual Report and Accounts 2019 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 operations, market conditions and practices	Processes are in place to identify new risks arising from changes in market conditions and practices and customer behaviour. During the second half of 2019 in particular, attention was naturally focused on the merger with Alawwal Bank and the integration process.

Control	Description
Merger with Alawwal Bank, governance of integration process	Preparation for the integration of SABB and Alawwal Bank entities commenced in October 2018 with the creation of a dedicated Integration Management Office (IMO) and 18 distinct business/functional work streams spanning the two organisations. Such work streams were jointly resourced and initially tasked with creating integration plans for actions prior to and at the legal completion date which occurred on 16 June 2019. Subsequently, plans for integration from the legal completion date were prepared to ensure that full integration takes place. An important milestone still to be achieved is the integration of all technology systems when all customers will have a common experience engaging with the merged Bank. This is due to take place within two years of the legal completion date.
	Integration risks exist in many forms, e.g, the disruption to normal operations as a consequence of conflicting priorities, execution risk in terms of changes to policy and process, technology risk in terms of system migration, information security risk in the form of data migration, etc. SABB manages these risks through a formal governance process which extends from the Board, through the Executive Management to dedicated working groups. For all critical work-streams, SABB has engaged experienced consultant firms to ensure delivery is of high quality, with best practices learnt from similar integration incorporations. The Board and Management also get comfort from a quality assurance process at each key step. Constant monitoring, communication, and action-oriented responses to help ensure risks are well managed and in a timely manner. Recognising the importance of this objective and the need to ensure it is delivered to a high standard, the Board has allocated a dedicated budget for integration which is subject to ongoing monitoring. The realisation of economic synergies from the merger is a key component of the strategic rationale behind the merger decision. The Board has set synergy targets to Executive Management and the delivery to target is supported by an independent and experienced consultant firm.
	Annual operating plans
Governance arrangements	Governance arrangements are in place to provide oversight of, and advice to the Board on, material risk related matters. These are effected through the Board sub-committees as well as Management sub-committees which oversee the effectiveness of risk management and report to the Board sub-committees.
Internal Audit	Internal Audit (INA) represents the Third line of defence and monitors the effectiveness of the internal control framework across the whole of SABB focusing on the areas of greatest risk to the Bank as determined by a risk-based audit approach. INA accomplishes this by independently reviewing the design and operating effectiveness of internal control systems and policies established by first and second line functions to ensure that the Bank is operating within its stated risk appetite and in compliance with the regulatory framework. The Chief Internal Auditor (CIA) reports to AUCOM on all audit related matters. The SABB Internal Audit Activity Charter sets out the accountability, independence, responsibility and authority of the INA function, while the SABB Audit Instruction Manual 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 2019, 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 2019 confirmed that systems and procedures for the ongoing identification, evaluation and management of significant risks faced by SABB were in place throughout the year. These procedures enabled SABB to discharge its obligations under the rules and regulations issued by SAMA and the standards established by the Board.

Board 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.

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

Related parties

Transactions with related parties and the information relating to any business or contract to which the Bank is a party and in which there is or there was an interest of one of the Board members, Senior Executives or any person related to any of them, are disclosed below and in note 37 of the 2019 audited consolidated financial statements.

No.	Related party	Name of the party with direct or indirect interest or major shareholding	SABB (SAR)	Alawwal Bank (SAR)	Duration of the business	Nature of the business and contract
1.	Al-Bustan Company Limited	Ms. Lubna S. Olayan (Chair)	109,918	1,761,847	Annual	Staff housing
2.	Schindler Olayan Elevator Company	Ms. Lubna S. Olayan (Chair)	47,639	61,670	Annual	Elevator maintenance
3.	Arabian Business Machines Company	Ms. Lubna S. Olayan (Chair)	29,999	82,060	Annual	X-Ray machine maintenance
4.	Saudi Xerox Agencies Company	Ms. Lubna S. Olayan (Chair)	4,572,039	3,209,161	Annual	Printer services and maintenance
5.	General Organisation for Social Insurance (GOSI)	Saad Abdulmohsen Al-Fadly (Representing GOSI)	39,375	78,750	Annual	Data supply
6.	Olayan Real Estate Company	Ms. Lubna S. Olayan (Chair)	792,000	-	Annual	Branches site rental

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

Shareholders and 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:

- Amounts for payment of Zakat payable by Saudi Shareholders and tax payable by the non-Saudi Shareholders, 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.
- 25% of the net income is transferred to statutory reserves until this reserve equals at least the paid up share capital of the Bank.
- 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 Shareholders.
- Undistributed net income is carried forward as retained earnings or transferred to statutory reserve.

The Extraordinary General Meeting of the Bank, which was held on 1 April 2019, approved the Board recommendation for the distribution of cash dividends (net of Zakat and income tax) to Shareholders for the second half of 2018 amounting to SAR 1,431 million in addition to the interim dividend of SAR 1,266 million (net of Zakat and income tax) for Shareholders, which had been previously distributed for the first half of the fiscal year 2018. Accordingly, total dividends paid for the financial year ended 31 December 2018 amounted to SAR 2,697 million (net of Zakat and income tax) at the rate of SAR 1.96 per share for Saudi Shareholders net of Zakat (representing 19.6% of the nominal value of each share).

An interim dividend (net of Zakat and income tax) of SAR 1,185 million was approved on 5 August 2019 for payment to Shareholders.

With regard to the distributable profits proposed for the second half of the year ended 31 December 2019, the Bank announced on 1 January 2020 that the Board has recommended to the General Meeting of the Bank the distribution of cash dividends (net of Zakat and income tax) of SAR 1,234 million for payment to Shareholders.

Accordingly, total dividends paid or proposed for the financial year ended 31 December 2019 amount to SAR 2,419 million (net of Zakat and income tax).

The Board has recommended the distribution of profits as follows:

	SAR 000
Retained earnings as at 31 December 2018	5,135,131
Shareholder’s net income for the year 2019 after Zakat and income tax	2,830,320
Effect of restatements	125,795
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	13,172
Transferred to statutory reserves	(707,580)
Interim dividend paid, net of Zakat and income tax	(1,185,320)
Final dividend proposed, net of Zakat and income tax	(1,234,454)
Retained earnings as at 31 December 2019	4,977,064

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 Shareholders of the Bank of any of their rights to dividends.

Notification relating to substantial shareholdings

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

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

Name of Stakeholder	No. of shares		Change	
	1 Jan 2019	31 Dec 2019	Shares	%
HSBC Holdings B.V	600.000.000	600,000,000	-	-
Olayan Saudi Investment Company Ltd.	254,352,582	374,936,698	120,584,116	47
General Organisation for Social Insurance (GOSI)	146,125,438	109,012,330	(37,113,108)	(25)
Abdulqader Al-Muhaideb and Sons Company*	75,013,539	75,013,539	-	-

* After the merger agreement with Alawwal Bank, Abdulqader Al-Muhaideb and Sons Company is no longer one of the major Shareholders of the Bank since 16 June 2019.

Rights of the Shareholders

In line with the relevant regulations, and as a general rule, the Bank ensures that the Shareholders have the ability to exercise their rights completely, including their right to give feedback about the Bank and its performance. The Board as per practice entertained questions and comments from Shareholders during the General meetings held in 2019 or through the Share Registry unit.

Bank requests for Shareholders’ register

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

	Date	Reason
1.	01 January 19	Annual Report 2018
2.	11 February 19	Update of Shareholder Records
3.	11 March 19	Update of Shareholder Records
4.	03 April 19	Distribution of Dividend
5.	15 April 19	Update of Shareholder Records
6.	07 May 19	Update of Shareholder Records
7.	16 June 19	Update of Shareholder Records
8.	23 June 19	Update of Shareholder Records
9.	02 July 19	Update of Shareholder Records
10.	08 July 19	Distribution of Dividend
11.	17 July 19	Update of Shareholder Records
12.	21 August 19	Distribution of Dividend
13.	27 August 19	Update of Shareholder Records
14.	02 September 19	Update of Shareholder Records
15.	11 September 19	Update of Shareholder Records
16.	30 September 19	Update of Shareholder Records
17.	06 October 19	Update of Shareholder Records
18.	14 October 19	Update of Shareholder Records
19.	14 November 19	Update of Shareholder Records
20.	27 November 19	Update of Shareholder Records
21.	08 December 19	Update of Shareholder Records
22.	31 December 19	Annual Report 2019

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

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

SABB General Meetings

During 2019, SABB held three General Meetings as follows:

Ordinary General Meeting 1 April 2019

In line with the regulatory guidelines, SABB held an Ordinary General Meeting on 1 April 2019 at SABB Head Office with the required quorum and attendance of 77.6% of Shareholders.

Extraordinary General Meeting 15 May 2019 (Merger with Alawwal Bank)

In line with the regulatory guidelines, SABB held an Extraordinary General Meeting on 15 May 2019 at SABB Head Office with the required quorum and attendance of 78.5% of Shareholders.

Ordinary General Meeting 18 December 2019 (Board Election)

In line with the regulatory guidelines, SABB held an Ordinary General Meeting on 18 December 2019 at SABB Head Office with the required quorum and attendance of 80.59% of Shareholders.

The resolutions of all the meetings are publicly available on the Saudi Stock Exchange (Tadawul) website (www.tadawul.com.sa).

General Meeting Board attendance

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

	1 Apr 2019	15 May 2019	18 Dec 2019
Ms. Lubna S. Olayan ¹	-	-	✓
Eng. Khalid Abdullah Al-Molhem ²	✓	✓	✓
Mr. Ahmed Farid Al-Aulaqi ¹	-	-	-
Ms. Maria Ramos ¹	-	✓	✓
Mr. Martin Edward Powell ³	-	-	✓
Mr. Mohammed Omran Al-Omran	✓	✓	✓
Mr. Sulaiman Abdulqader Al-Muhaideb ⁴	✓	✓	✓
Mr. Saad Abdulmohsen Al-Fadly	-	✓	-
Mr. David Dew	✓	✓	✓
Mr. Samir Assaf	✓	-	-
Mr. Stephen Moss	✓	✓	✓
Mr. George Elhedry ⁴	-	-	-
Mr. Khaled Suliman Olayan ⁴	✓	✓	-

¹The directorship of Ms. Lubna S. Olayan, Mr. Ahmed Al-Aulaqi and Ms. Maria Ramos started on 16 June 2019

²Eng. Khalid Abdullah Al-Molhem's position as Vice-Chair ended as of 31 December 2019 and remains as a Non-Executive Director

³The directorship of Mr. Martin Edward Powell started on 15 July 2019

⁴The directorship of Mr. Khaled S. Olayan and Mr. Georges Elhedery ended on 15 June 2019

⁵The directorship of Mr. Sulaiman Abdulqader Al-Muhaideb ended on 31 December 2019

Directors’ and Senior Executives’ interests

Directors’ interests (including relatives)

Name of Stakeholder	No. of shares		Change	
	1 Jan 2019	31 Dec 2019	Shares	%
Ms. Lubna S. Olayan ¹	-	29,563	29,563	100
Eng. Khaled Abdullah Al-Molhem	53,119	53,119	-	-
Mr. Sulaiman Abdulqader Al-Muhaideb	123,739	123,739	-	-
Mr. Mohammed Omran Al-Omran	14,060,540	14,060,540	-	-
Mr. Saad Abdulmohsen Al-Fadly	-	-	-	-
Mr. David Dew	-	-	-	-
Mr. Samir Assaf	-	-	-	-
Ms. Maria Ramos ¹	-	-	-	-
Mr. Ahmed Farid Al Aulaqi ¹	-	1,677	1,677	100
Mr. Martin Edward Powell ²	-	-	-	-
Mr. Stephen Moss	-	-	-	-
Mr. Khaled Suliman Olayan ³	7,500	7,500	-	-
Mr. Georges Elhedery ³	-	-	-	-

¹The Directorship of Ms. Lubna S. Olayan (Chair), Mr. Ahmed Farid Al-Aulaqi and Ms. Maria Ramos started on 16 June 2019.
²The Directorship of Mr. Martin Edward Powell started on 15 July 2019.
³The Directorship of Mr. Khaled S. Olayan and Mr. Georges Elhedery (Representing HSBC Group) with the Bank ended on 15 June 2019.

Senior Executives’ interests (including relatives)

Name of Stakeholder	No. of shares		Change	
	1 Jan 2019	31 Dec 2019	Shares	%
Mr. David Dew	-	-	-	-
Mr. Mathew Pearce	-	-	-	-
Ms. Faten Abdullah Abalkhail ¹	-	4,440	4,440	100
Mr. Majed A Alghanemi ²	-	-	-	-
Mr. Majed Najm ³	100,912	124,236	23,324	23
Mr. Mohammed Alshaikh ¹	-	161,657	161,657	100
Mr. Naif Alabdulkareem ¹	59,893	90,349	30,456	51
Mr. Nabeel Ali Shoaib ⁴	46,831	64,909	18,078	39
Mr. Robin Jones ⁵	-	-	-	-
Mr. Soren Nikolajsen ⁶	-	-	-	-

¹Faten Abalkhalil, Naif Alabdulkareem and Mohammed Alshaikh were appointed on 16 June 2019
²Majed A Alghanemi was appointed on 16 June 2019, and resigned after appointment by royal decree as Vice minister of Labour and Social Development for Social Development on 31 August 2019
³Majed Najm was appointed on 1 April 2019
⁴Nabeel Ali Shoaib retired on 30 September 2019
⁵Robin Jones resigned on 30 June 2019
⁶Soren Nikolajsen was appointed on 16 June 2019 and resigned on 31 December 2019

Remuneration

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

Directors’ fees for their membership of the Board and participation in the Banks’ operations, during 2019 amounted to SAR 4,113,836 including SAR 550,000 in attendance fees at Board meetings and Board sub-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 2019, none of the Board or sub-committee members have assumed any work in a technical or advisory role, and therefore they did not obtain any consideration or special benefits in this respect.

The table to the right shows details of remuneration paid to Board and sub-committee members and Senior Executives of the Bank during the year.

	Non-Executive Board members	Independent Board members	Top six Senior Executives (including CEO ³ and CFO	Senior Executive appointments where SAMA ‘no objection’ is required
Salaries and remuneration	2,085	2,029	7,957	27,956
Allowances	-	-	3,830	12,522
Annual and periodic bonuses ¹	-	-	15,900	41,135
Incentive schemes	-	-	-	-
Other remuneration or benefits in kind paid monthly or annually ²	-	-	1,189	20,586

¹Includes both cash and deferred bonus
²Includes end of service benefit for resigned Senior Executives, education benefit and accommodation rent
³The CEO is also an Executive Director

Committee remuneration

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

	Fixed remuneration	Allowance for attending Board meetings	Total
EXCOM members	650	120	770
AUCOM members	300	60	360
NRC members	293	85	378
BRC members	177	160	337
Special committee for merger project	-	60	60

Arrangements for Directors’ or Senior Executives’ waiver of salaries or remuneration
The Bank is not aware of information on any arrangements or agreements for the waiver by any Director of the Board or any Senior Executive of any salaries, awards or remuneration.

Staff benefits and schemes

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

According to the Labour Law of The Kingdom of Saudi Arabia and SABB’s internal policies, employee end of service benefits become due for payment at the end of an employee’s period of service. The end of service benefits outstanding at the end of 2019 amount to SAR 745 million.

SABB also operates three share based schemes for certain employees. These schemes reflect the number of committed shares for performance years 2016, 2017 and 2018 as of 31 December 2019 with a total market value of SAR 87 million. Under the terms of these schemes, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions. The cost of the 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.

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

	2019	2018
1 January	1,063,521	1,142,854
Addition through business combination	1,887,445	-
Forfeited	-	(66,915)
Exercised or expired	(796,850)	(470,281)
Granted during the year	358,026	457,863
31 December	2,512,142	1,063,521

The weighted average price of shares granted during the year was SAR 36.1 (2018: SAR 31.1)

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

No. of treasury stocks	Market value (SAR)	Date of holding	Detail of uses
2,689,541	93,327,073	31 Dec 2019	The Bank acquires its own shares in connection with the actual grant of shares to the key management in future. Until such time as the beneficial ownership of such shares in the Bank passes to the employees, the unallocated / non-vested shares are treated as treasury shares to be used to fund future employee long term incentive plans.

Legal entity structure

Company name	Relationship	Ownership interest	Business activity	Share capital	Country of incorporation
SABB Insurance Agency	Subsidiary	100%	Insurance agency	SAR 500,000	Saudi Arabia
Arabian Real Estate Company Limited	Subsidiary	100%	Engaged in the purchase, sale and lease of land and real estate for investment purposes	SAR 1,000,000	Saudi Arabia
SABB Real Estate Company Limited	Subsidiary	100%	Registration of real estate	SAR 500,000	Saudi Arabia
SABB Markets Limited	Subsidiary	100%	Engaged in derivatives trading and repo activities	USD 50,000	Cayman Island
SABB Takaful	Subsidiary	65%	Engaged in Shariah-compliant insurance activities and offer family and general Takaful products	SAR 340,000,000	Saudi Arabia
Alawwval Invest ¹	Subsidiary	100%	Engaged in investment services and asset management activities	SAR 400,000,000	Saudi Arabia
Alawwval Real Estate Company ¹	Subsidiary	100%	Registration of real estate assets under its name on behalf of SABB	SAR 500,000	Saudi Arabia
Alawwval Insurance Agency Company ¹	Subsidiary	100%	Insurance agency	SAR 500,000	Saudi Arabia
Alawwval Financial Markets Limited ¹	Subsidiary	100%	Engaged in derivatives trading and repo activities	USD 50,000	Cayman Island
Wataniya Insurance Company ¹	Associate	20%	Engaged in Shariah-compliant insurance activities and to offer family and general Takaful products	SAR 200,000,000	Saudi Arabia
HSBC Saudi Arabia ²	Associate	49%	Engaged in investment banking, advisory services and asset management activities	SAR 500,000,000	Saudi Arabia
Saudi Kayan Assets Leasing Company	Special purpose vehicle	50%	SABB has participated in the three structured entities for the purpose of effecting syndicated loan transactions in the Kingdom of Saudi Arabia and securing collateral rights over specific assets of the borrowers of those facilities under Islamic financing structures	SAR 500,000	Saudi Arabia
Rabigh Asset Leasing Company	Special purpose vehicle	50%		SAR 500,000	Saudi Arabia
Yanbu Asset Leasing Company ³	Special purpose vehicle	100%		SAR 500,000	Saudi Arabia

Note: The Bank assures there is no debt securities in issue for any of these subsidiaries.

¹Became a subsidiary or an associate of SABB as a result of SABB's merger with Alawwval Bank on 16 June 2019.
²During the year, SABB sold 1,000,000 shares in the share capital of HSBC Saudi Arabia ('HSBC SA') to HSBC Asia Holdings B.V., representing 2% of the issued share capital of HSBC SA, for a total value of SAR 36,000,000. As a result of completing the Transaction, SABB has become the owner of 49% of the shares of HSBC SA and HSBC Asia Holdings B.V. has become the owner of 51% of the shares of HSBC SA. Upon completion of the Transaction, SABB and HSBC Asia Holdings B.V. also entered into an amended Shareholders' agreement in respect of their ownership in HSBC SA (the 'Shareholders' Agreement'). The amendments made to the Shareholders Agreement mainly related to the governance and management of HSBC SA (including the board composition) and reflected the change in ownership resulting from the Transaction, as a result of which SABB no longer shares joint control and governance rights over HSBC SA with HSBC. SABB's share in earnings of associates includes its share in the earnings of HSBC SA and Wataniya Insurance Company.
³SABB's ownership increased to a 100% (2018: 50%) in Yanbu Asset Leasing Company post the merger with Alawwval Bank.

Appointment of external auditors

The Extraordinary General Meeting of the Bank held on 1 April 2019, endorsed the selection of both KPMG Al Fozan and Partners and Ernst and Young as external auditors to audit the Bank’s annual financial statements and review quarterly interim condensed financial statements for the year ended 31 December 2019, in line with recommendations of AUCOM.

Accounting standards

The consolidated financial statements have been prepared in accordance with the applicable accounting standards and other requirements as disclosed in the statement of compliance in note 1.1 of the 2019 audited consolidated financial statements.

Debt securities in issue and other borrowings

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

SAR 000	31 Dec 2019	31 Dec 2018	Change
1,500 million 10 year subordinated Sukuk- 2015	1,500,000	1,500,000	-

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 five years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income rate at 6M SAIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is registered on Stock Exchange (Tadawul).

Syndicated loan

On 19 October 2016, the Bank obtained a floating rate syndicated loan of USD 450 million. This loan was unsecured and matured on 19 October 2019.

Statutory payments

Statutory payments payable by the Bank during 2019 consist of Zakat payable by Saudi Shareholders, tax payable by foreign partners, and the amounts payable to the General Organisation for Social Insurance (GOSI).

	SAR ‘000
Zakat attributable to the Saudi Shareholders for the year 2019	216,809
Zakat paid to GAZT to settle Zakat claims pertaining to previous fiscal years and up to the fiscal year 2017	320,407
Income tax attributable to the share of the non-Saudi Shareholders for the year 2019	223,784
GOSI payments	137,837
Withholding tax	75,497
Other payments	7,161

Penalties

The table below includes penalties imposed by SAMA on SABB during 2019 and 2018:

Subject of violation	2019		2018	
	Number of penalties	Fine (SAR)	Number of penalties	Fine (SAR)
Violation of SAMA's supervisory instructions	16	520,500	4	1,090,000
Violation of the SAMA's instructions for customer protection	2	15,000	-	-
Violation of the SAMA's instructions regarding the level of performance of ATMs and POS	-	-	3	15,000
Violation of SAMA's instructions for due diligence in AML and CTF	1	135,000	-	-
Total	19	670,500	7	1,105,000

Note: On 16 June 2019, SABB merged with Alawwal Bank. Penalties reported before this date are based on the pre-merger SABB entity and as such are not directly comparable to the penalties reported after that date.

The table below includes penalties imposed by SAMA on Alawwal Bank prior to the merger on 16 June 2019:

Subject of violation	1 Jan 2019 to 15 Jun 2019		2018	
	Number of penalties	Fine (SAR)	Number of penalties	Fine (SAR)
Violation of SAMA's supervisory instructions	2	235,500	7	355,000
Violation of the SAMA's instructions for customer protection	1	5,000	3	20,000
Violation of the SAMA's due diligence instructions	-	-	1	5,000
Violation of SAMA's instructions for due diligence in AML and CTF	1	1,200,000	1	215,000
Total	4	1,440,500	12	595,000

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

Penalties imposed by other regulatory authorities

Reason for penalty	Authority	Amount (SAR)	Measures undertaken to remedy and avoid the penalties exposed
Registration in GOSI	GOSI	551	Various corrective and preventive measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with GOSI requirements.
Non-compliance with municipality instructions	Different municipalities	837,000	Various corrective and preventive measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Total		837,551	

