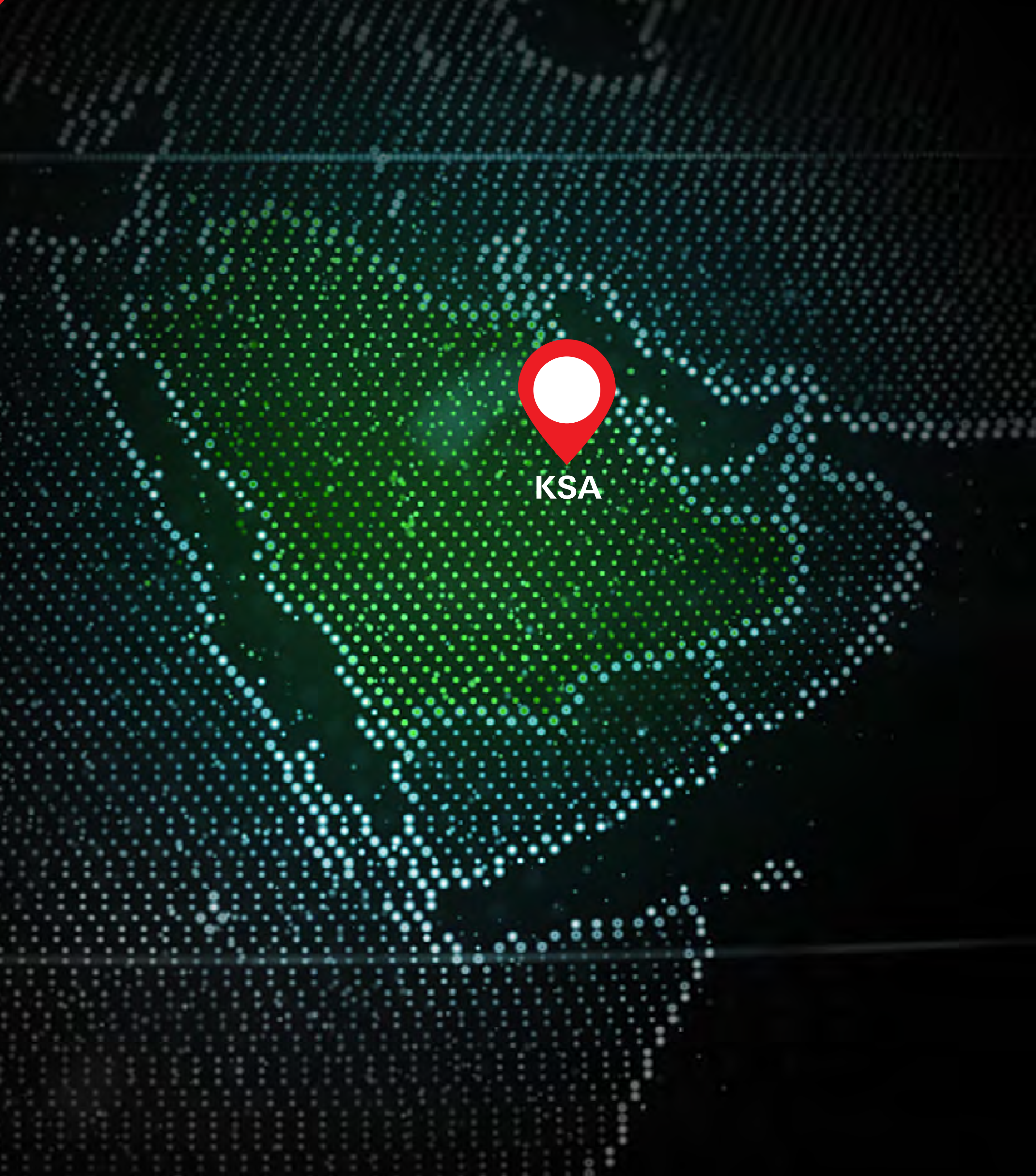
DEMONSTRATING **RESILIENCE.** DELIVERING **GROWTH.**

ANNUAL REPORT
2021

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

About
SABB



Our vision

To bring a world of financial opportunities to an ambitious Kingdom

We enjoy a unique position as the leading international bank in the Kingdom of Saudi Arabia. We give our customers the highest quality service and an unmatchable 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 HSBC Group, one of the world's leading financial institutions, positions us as a preferred banking partner. 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, 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 29.1 bln 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.

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 31% stake in SABB.

Our merger with Alawwal Bank

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

The merger was a compelling opportunity to create an institution with enhanced scale and balance sheet strength to support and play an instrumental role in 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 merged Bank has cemented its position as a top-tier Saudi financial institution, with total revenue in 2021 amounting to SAR 7.9 bln, more than 1.3 million retail customers and over 23k corporate and institutional customers. The combination of the two banks has created a substantial retail and wealth management business, with increased resources 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.

More than

1.3 MILLION

retail customers

SABB has SAR 272.4 bln of total assets, SAR 174.3 bln of gross customer loans and SAR 186.8 bln of customer deposits. As at 31 December 2021, the market capitalisation of the Bank was SAR 67.8 bln.

A JOINT HISTORY OF OVER 160 YEARS

البنك الأول
Alawwal bank

1926
Netherlands Trading Society opens in Jeddah

1928
Assists the Kingdom in issuing its first independent currency

1939
Facilitates payment for first oil export

1977
Saudi Hollandi Bank established as a JV bank

2017
Launches first digital branch IBDA

Best Digital Bank in Saudi Arabia
(Banker Middle East)

2016
Rebrands to Alawwal Bank

Bank of the Year in KSA
(The Banker)

2004
Issues first subordinated bond in the Kingdom

2003
Issues first smart credit card in the Kingdom

2018
Most Innovative Bank in KSA
(Banker Middle East)

2019
Merger
البنك الأول
Alawwal bank SABB

2018
Best Trade Finance Provider (Euromoney)

Best Treasury and Cash Management Provider (Global Finance) SABB

1991
Issuance of SABB's first credit card

2002
First Saudi bank to launch a Home Finance Programme

2005
First Saudi bank to issue international bonds

2016
Best Bank in Saudi Arabia (Asiamoney)

1990
SABB's first ATM launched

1978
Royal Decree establishing SABB

1950
SABB's origins begin at a branch of BBME in Alkhobar

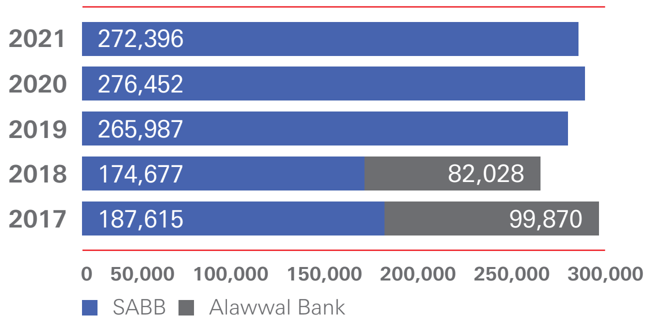
SABB


SABB
ساب
البنك الأول
Alawwal bank

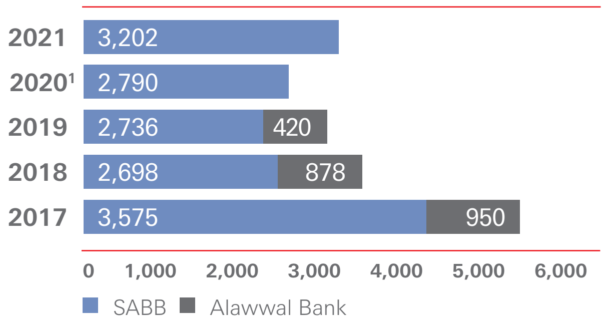
At a glance

Demonstrating Resilience. Delivering Growth.

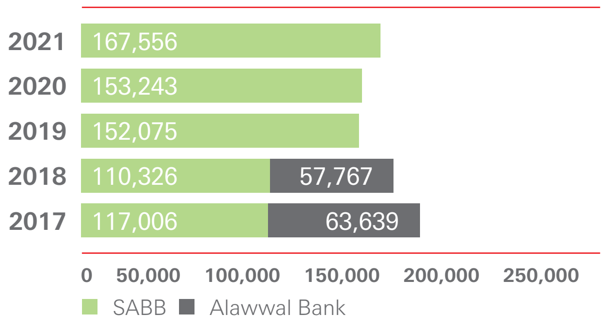
Total assets (SAR mln)



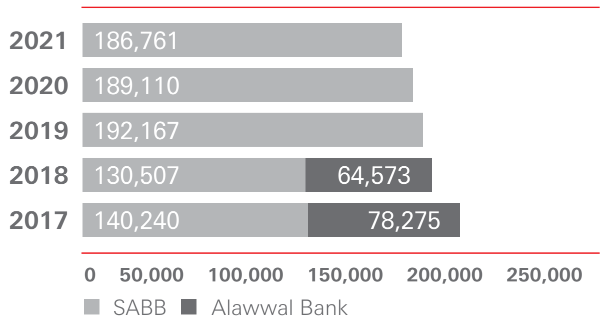
Net income after Zakat and income tax (SAR mln)



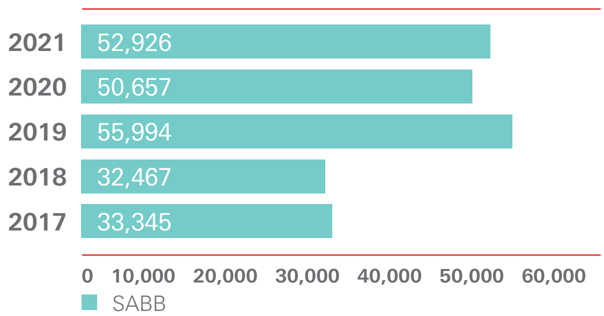
Loans and advances, net (SAR mln)



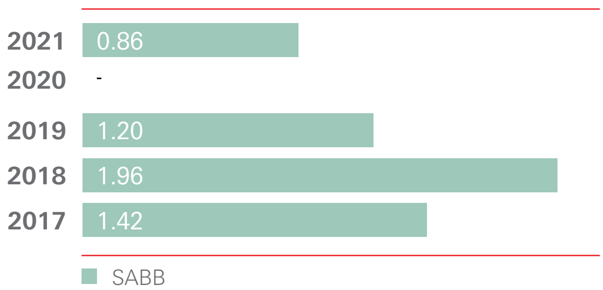
Customer deposits (SAR mln)



Shareholders' equity (SAR mln)



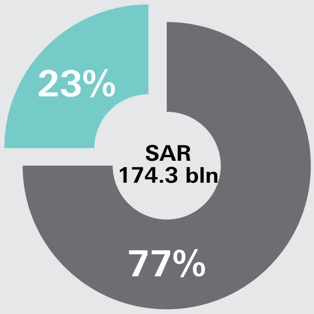
Dividend per share (SAR)



1. Excludes goodwill impairment and associated tax impact

Customer lending **by business**

Gross loans
RBWM vs. **CIB**

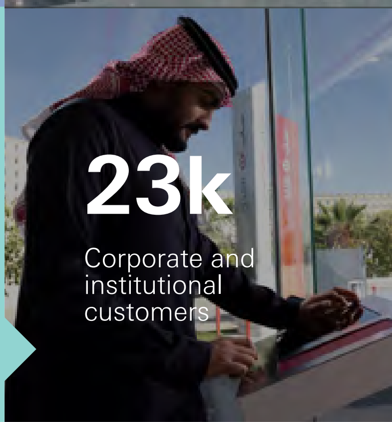


8.0%
Underlying return on tangible equity

SAR 1.56
EPS

SAR 7.9 bln
2021 revenue

1.3 mln
Retail customers



23k
Corporate and institutional customers

5%
Mortgage market share

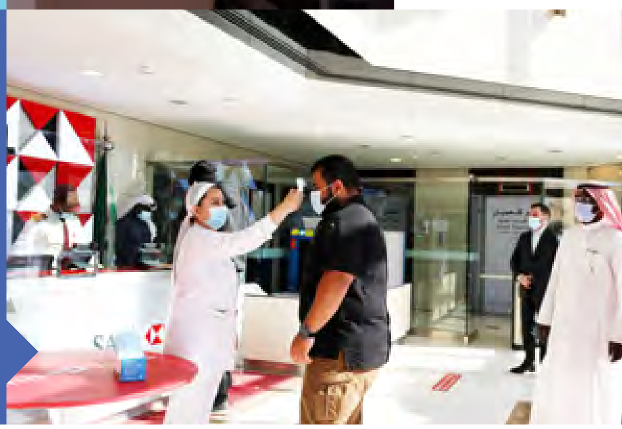
c.20%
Trade market share

13%
corporate lending market share

SAR 174 bln
of gross customer loans

19.29%
CET 1 ratio

49%
Shareholding in HSBC SA - the leading investment bank in the Kingdom



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2021 awards

Global Finance
Best Private Bank in KSA
Best Trade Finance Provider
Best Bank in KSA
Best Consumer Digital Bank
Best SME Bank in KSA

World Economic Magazine
Best Commercial Bank

The Asian Banker
Best Cash Management Bank in KSA

Euromoney Cash Management Survey
Market Leader and Best Service

Global Trade Review
Best Trade Finance Bank in Saudi Arabia

Ripple's Swell
Blockchain Innovation Award – Network Accelerator

Mastercard
Global Excellence Award – Best-in-class e-Comms Acquirer

The Digital Banker
Best Bank for Trade Finance in KSA

Global Finance Sustainable Finance Awards
Outstanding Leadership in Sustainable Project Finance

Global Business Outlook
Best Customer Service Bank

Asiamoney
Best Bank in KSA

Euromoney
Best Bank in KSA

Euromoney Trade Finance Survey
Market Leader
Best Service

Bank profile

Demonstrating resilience. Delivering growth.

SABB demonstrated strength and resilience to deliver on its promises, and returned to profitable growth during the year, despite a challenging operating environment characterised by increased competition and the continued impact of the COVID-19 pandemic on our market.

1

Final phase of integration with Alawwal Bank successfully completed

2

2025 Strategy launched

3

The start of a SAR 1.5 bln investment phase in technology and people kicks off

Early in 2021, the final phase of our integration with Alawwal Bank was successfully completed – the culmination of an exciting journey to create the enhanced scale and balance sheet strength to support and play an instrumental role in the Saudi Vision 2030 economic transformation programme – achieving our synergy target while emerging with a stronger brand and market position.

Accelerating through the year, we delivered a robust financial performance with traction across our Corporate, Retail and Treasury businesses, with continued lending growth, a reduction in non-performing loans and strong net income generation, all supported by robust levels of capital, liquidity and a strong funding base.

Building on this strong foundation and solid momentum, the launch of our '2025 Strategy' has set us on a new growth journey, complemented by progressive improvements in customer experience and operational performance through the launch of our new digital strategy.

ESG remains a central pillar of our present and our future; this year we became the first Saudi institution to make a green deposit, established an ESG-compliant fund through HSBC Saudi Arabia, acted as the lead project financing arranger for the Red Sea giga-project, and were awarded 'The Leading Bank in Financing Sustainable Projects in the Middle East' from Global Finance Magazine.

Leveraging the experience and leadership of our Board and Executive Management, and bolstered by our unique relationship with HSBC international, we move forward with clarity, confidence and ambition to create sustainable value for our diverse stakeholders, support the national growth agenda, and bring a world of financial opportunity to an ambitious Kingdom.

4

Returned to profitability and demonstrated consistent growth

5

First Saudi institution to make a green deposit

6

'The Leading Bank in Financing Sustainable Projects in the Middle East'

Global Finance Magazine

Year in review

FEBRUARY

- SABB were platinum sponsors of the Global Trade Review MENA conference, which is widely recognised as the most comprehensive and well established trade finance gathering in the Middle East.

MARCH

- SABB and Alawwal Bank's historic integration was completed, with all products and services combined for all customers on 'Customer Day 1'.
- KAUST hosted the TAQADAM start up accelerator showcase in partnership with SABB.
- Euromoney named SABB the "Best Trade Finance Service Provider" and "Market Leader" in Saudi Arabia.
- SABB partnered with Saudi fintech 'Geidea' to launch 'Tap on Phone'.
- SABB became the first bank in the Kingdom to introduce an instant, digital international money transfer service.

APRIL

- SABB started its annual programme 'SABB Ramadan Basket' for this year, in collaboration with 12 charities, to distribute food baskets to families in need around the Kingdom.
- SABB participated in the Red Sea Development Company's first ever Riyal-denominated Green Finance credit facility with a SAR 14 bln loan.

NOVEMBER

- SABB went live with an instant, cross-border transfer service for the US corridor through the Blockchain payment technology powered by Ripple.
- SABB launched the Technology Sector Financing Programme, designed to finance MSMEs in the Information Technology sector, in cooperation with the National Technology Development Programme and the Kafalah Programme.
- SABB launched a Shariah Compliant Supply Chain Finance Solution to increase financing to the SME sector and meet customers' needs, in line with Vision 2030.

DECEMBER

- SABB was named 'Saudi Arabia's Best Customer Service Bank' 2021 from Global Business Outlook.

MAY

- SABB welcomes Tony Cripps, a seasoned banker from the HSBC Group, as the Bank's new Managing Director, and launches its new 5-year strategic plan.
- Alawwal Invest (AI) entered into an agreement with HSBC Saudi Arabia related to the transfer of HSBC's asset management and retail businesses to AI.

JUNE

- SABB won the 'Saudi Arabia's Best Bank 2021' award by Global Finance Magazine for the second year in a row.
- SABB signed a cooperation agreement with Takamol Business Services. The agreement aims to enhance SABB's digital strategy by digitising training programmes offered by the SABB Academy.

JULY

- SABB sponsored a major sustainable investment forum organised by the Saudi British Joint Business Council (SBJBC) in London, with discussions focused on exploring the best ways to support the transition to a more sustainable economy, and how the UK and KSA can constructively collaborate towards their sustainability goals ahead of COP 26.

OCTOBER

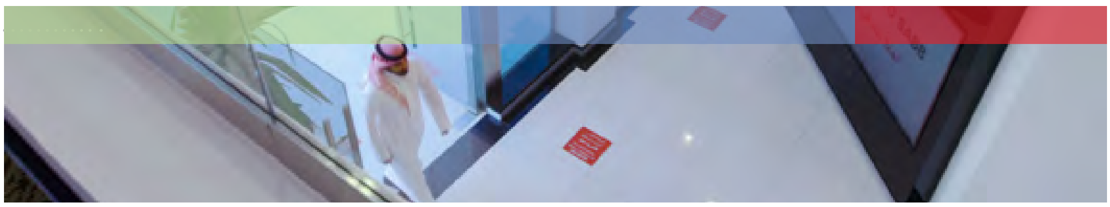
- Saudi Arabian Airlines (SAUDIA) announced the launch of the revamped SABB-ALFURSAN Mastercard Platinum co-branded credit card in partnership with SABB.
- SABB became the first Saudi Arabian institution to present a green deposit, where SABB deposited funds to HSBC to be used to finance green initiatives.
- SABB signed an MoU with the Green Horizons Environmental Association to jointly achieve the objectives of the Saudi Green Initiative.
- SABB sets up a focussed Digital Office to lead the Digital transformation.

SEPTEMBER

- SABB and the Saudi Food Bank (Eta'am) entered into a joint cooperation agreement to establish and operate the first central catering kitchen in the city of Riyadh, to provide ready-made meals for beneficiaries of social security families, orphans and people with special needs.
- SABB was named 'The Leading Bank in Financing Sustainable Projects in the Middle East' and 'Best Consumer Digital Bank' by Global Finance.

AUGUST

- SABB won the 'Best Developed Financing Provider' in the Sakani Housing Programme.
- SABB was named the 'Best Bank in Saudi Arabia' for 2021 by Euromoney.



SABB and Vision 2030

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.

KEY THEMES FOR SABB

- Support the development of new sectors (e.g. entertainment, tourism, technology) and the 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.


SABB

Investment case

FIVE REASONS TO INVEST IN SABB:

1. Leading international bank in the Kingdom

Our institution has developed into the leading international bank in the Kingdom through a deep understanding of the needs of our customers and a bespoke product suite that delivers intrinsic value. Our unique partnership with HSBC Group enables us to bring international connectivity to our customer base and aligns our approach with global best practice. We are the 'go-to' bank for inbound and outbound multinational corporates and institutions operating into or from Saudi Arabia, and the number one bank in the Kingdom for trade.

2. Increased scale to support Vision 2030 growth aspirations

The Kingdom is navigating its path through undoubtedly its biggest economic transformation programme, bringing a wealth of opportunity to every family and enterprise domestically, but also playing to international opportunities. SABB, following its merger with Alawwal Bank, created a top tier banking institution. Through its robust balance sheet and market-leading suite of products, the Bank possesses the scale and capability to support such an ambitious programme.

3. Financial strength

Historically, we have delivered top tier financial performance from a strong balance sheet, robust funding and liquidity dynamics, and a solid capital position. Following the merger with Alawwal Bank, we

have taken the necessary steps to protect our balance sheet and conservatively manage the provisioning of our portfolio. We are in a position of strength to meet the demands of our customers.

4. Positioned for growth

The last two years has been focussed on integrating SABB and Alawwal banks. Our Strategy 2025 is growth focussed and supported by a drive to digitise the banking platform and customer experience. Our growth agenda aims to build on our strengths in our corporate franchise and provide a more enhanced retail provision to support the growing needs of our retail customers. Our long-term strategy coupled with a core set of finance fundamentals and a robust economy positions us well for growth.

5. We are safe, sustainable and dependable

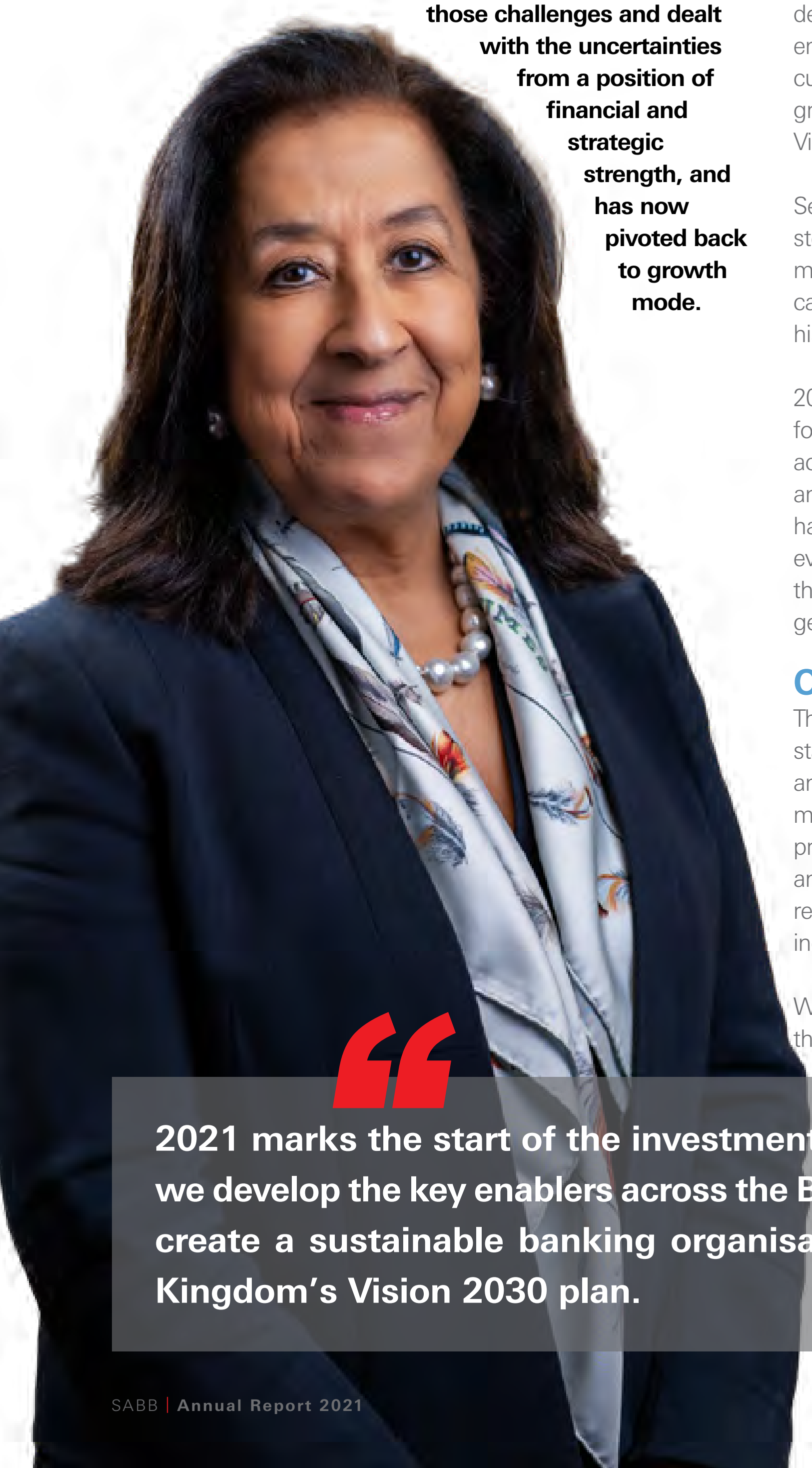
A robust approach to corporate governance is a key strength for any organisation and SABB ensures it adopts best practices in this field to create value for all the Bank's Stakeholders. The Board sets the Bank's strategy and risk appetite with the aim of achieving sustainable value and promoting a culture of openness and debate.

Our Board brings a successful balance of international banking best practices, together with local, commercial and institutional insight and experience. Our business decisions are made in the interests of all concerned Stakeholders and we will always act responsibly and in a sustainable manner.

Strategic report

Board Chair's statement

It is my pleasure to introduce the SABB Annual Report for the year ended 31 December 2021. It is difficult to summarise the past year, a year during which we had to deal with the additional challenges and uncertainties posed by the global COVID-19 pandemic and the related starts and stops of the global economy. However, the tests of dealing with the challenges and uncertainties of 2021 demonstrated the resilience of the Saudi economy, and in particular the banking sector, including SABB. SABB took on those challenges and dealt with the uncertainties from a position of financial and strategic strength, and has now pivoted back to growth mode.



Demonstrating resilience. Delivering growth.

Two key events during 2021 laid the foundation and charted the path to achieving our strategic goals:

Firstly, during March we concluded the final elements of the integration of SABB and Alawwal banks. The importance of the transaction – the first banking merger transaction in the Kingdom – had an impact beyond SABB's borders. Therefore, our energies and efforts were heavily focused on ensuring the right outcome, which was the culmination of over three years of hard work and effort from dedicated individuals across the organisation and beyond. SABB emerged a stronger entity with a single IT system, a single shared culture and a stronger balance sheet, better enabling us to meet the growing needs of our customers and demands of the Kingdom's Vision 2030 transformation programme.

Secondly, we committed to our long-term strategic goals and the steps we will take to achieve them. Our strategic plan was put in motion, with an underlying strategy at its core that paves the way to capitalise on the positions of strength we have enjoyed in our rich history.

2021 marked the start of the investment phase of our strategic plan, focused on developing the key enablers across the bank to help accelerate performance, creating a sustainable banking organisation, and supporting the aims of the Kingdom's Vision 2030 plan. And we have already begun to reap the benefits of that investment, as evidenced by a resilient performance that grew our loan portfolio for the fifth consecutive quarter, improved our asset quality and generated growth in capital.

Our operating environment

The COVID-19 pandemic continued to impact our customers and stakeholders throughout 2021, although the Kingdom's thoughtful and measured programme of support has helped us to weather much of the uncertainty, including the successful vaccination programme and the monetary and fiscal help provided to businesses and individuals. Throughout 2021 demand for mortgage lending remained strong and the sentiment for corporate credit became increasingly more confident.

With energy prices strengthening in the second half of the year and the consensus for increases in benchmark interest rates being

> **"2021 marks the start of the investment phase of our strategic plan where we develop the key enablers across the Bank to help accelerate performance, create a sustainable banking organisation, and support the aims of the Kingdom's Vision 2030 plan.**

brought forward, in part to remedy growing inflation, challenges remain but the outlook for the banking sector looks robust.

The Saudi government's budget for 2022 was endorsed by the Council of Ministers in December. The budget expects GDP growth of 7%, compared with 3% in 2021, supported by increases in oil revenues. Programmes such as the newly announced National Investment Strategy which will be driven by Shareek, a programme that looks to build partnerships between the public sector and private listed entities, will be key catalysts for the next stage in the evolution of the Saudi economy.

The Kingdom's commitments to sustainability also culminated in setting a target of net zero emissions by 2060. The desire of the Kingdom to be at the forefront of transitioning to a more sustainable existence is perfectly congruent with SABB's ambitions and it is exciting to participate in and support this journey.

Performance against our strategic objectives

Our long-term strategic goals aim to reinforce SABB's position as a leading bank in the Kingdom, and as a provider of great services to customers and attractive returns to our investors.

As noted above, 2021 marked the start of the investment phase and it was pleasing to see solid progress in developing some of the key enablers for our longer-term goals, from setting up an in-house digital office to developing a fuller suite of mortgage products and enhancing our online mortgage offering. While doing that, we also seized the opportunity to participate in some key landmark transactions, including acting as one of the lead arrangers on the SAR 14 bln financing to fund the Red Sea Development project. It was also pleasing to see strong loan origination across all our key product areas, some of which was driven by the investments made although we expect more to come from these investments during 2022.

As you can see, if one word were to sum up our strategy, it is 'growth.' And while we are very pleased to have seen the early signs of growth in 2021 resulting from our investments, we expect even greater growth in 2022.

Sustainable financial performance

Delivering sustainable financial performance is a key feature of our strategy. SABB's financial performance during 2021 includes a return to profitability, continued loan growth with improvements in efficiency and asset quality. We generated SAR 3.9 bln of net income before zakat and income tax for the year and SAR 7.9 bln of revenue. Our financial results are robust proof-points of our resilience and progress made in 2021.

SABB has proposed a final dividend of SAR 0.36 per share for the second half of the year, bringing the total dividend relating to 2021 to SAR 1.8 bln in total.

Importance of ESG

With ESG woven into both our strategy and the long-term transformation goals of Vision 2030, during the year we focused on formulating our ESG strategy. This initiative marks a critical transition for SABB and our customers, because we believe that a firm commitment to ESG, in both word and action, is absolutely necessary to achieve sustainable growth.

Operationally during 2021, SABB made positive contributions to this area by making the first ever 'green' deposit and working with our HSBC partners to provide our customers with the opportunity to invest in ESG-compliant funds. The genuineness of our commitment and success of our efforts were recognized when we were deemed to be 'The Leading Bank in Financing Sustainable Projects in the Middle East' by Global Finance Magazine, the award demonstrating SABB's growing strengths in this area.

Right-sizing our governance and management structure

We are proud of the calibre and broad experience of both our board and senior management team. In February, our previous Managing Director David Dew took the decision to retire after 11 years as Managing Director. The Board is extremely grateful to David for his contribution and commitment to SABB's journey. Tony Cripps joined the Board and succeeded David as Managing Director, and I am extremely excited about the future of the bank under Tony's leadership. Tony brings a wealth of experience, having worked in a number of growth-oriented geographies during his time at HSBC. Mathew Pearce also ended his tenure as Chief Financial Officer, and we welcomed Lama Ghazzaoui, a much seasoned Saudi CFO, to SABB.

I am especially grateful for the diligence and professionalism of my Board colleagues. They each devoted much time and effort to meeting regularly and discussing key matters, such as integration, strategy, risk management, culture, talent and customer experience, all while dealing with the continued challenges brought by the pandemic.

I also extend a sincere note of gratitude to our staff at all levels, who are the driving force behind the accomplishments of the bank during 2021. Both the Board and senior management are very proud of, and grateful for, their devotion, empathy, resilience, expertise and professionalism in these continued challenging and unprecedented times.

And, finally, I extend our gratitude for the guidance and support of the Saudi government, especially our regulators at SAMA and the CMA.

Mrs. Lubna S Olayan
Board Chair

Managing Director's message

My remit for SABB is simple – execute on the long-term growth-focused strategy and enable SABB to regain its positions of strength that it previously enjoyed throughout its rich and diverse history. Delivering our strategic goals will also strengthen SABB's sustainability, ensuring we remain relevant for our customers far off into the future.

One Bank – completion of Customer Day 1

We completed Customer Day 1, the point of time at which we are a single fully-integrated bank in March. This was completed before my tenure commenced however, I would like to express my congratulations to the SABB family for achieving this milestone, within agreed timescales and costs. Since Customer Day 1, we have continued to review our processes and systems in order to investigate and achieve further efficiencies, and it is particularly pleasing to announce that we have increased our cost synergies to c. SAR 0.7 bln or 20% of the combined pre-merger cost bases of SABB and Alawwal banks. Total cumulative integration costs were SAR 1.1 bln. Both these metrics are ahead of our original guidance. The Bank is now stronger and with increased capacity to serve our customers and clients.

Strategic overview

Our strategy is clear and straightforward: build on our positions of strength and participate more in areas of growth connected to the Kingdom's Vision 2030 plans. SABB possesses a number of strengths and competitive advantages that sets us apart from our peers. We are the number one international bank in the Kingdom – we provide our customers with access to a global banking ecosystem through our partnership with HSBC. We possess strengths in corporate and trade-related banking services, and also provide a diverse retail banking operation with a wealth-focused agenda.

"Saudi British Bank has a clear vision – to 'Bring a world of financial opportunity to an ambitious Kingdom.' As the Kingdom grows, we will be there to support that growth and have the means and expertise to grasp the opportunities ahead, and help our customers and clients realise their ambitions.

During 2021, as we completed the final stages of the integration, we began our investment phase. This is the start of an extended programme of investment where we will look to invest over SAR 1.5 bln to modernise and transform our IT infrastructure, develop new capabilities and skillsets among our employees, and digitise our processes and operations enabling an end-to-end digital customer experience. The rewards for this investment will begin to materialise during 2022, although we would expect the bulk of the return to be after 2022.

Joining SABB in May of this year, I've been struck by the energy that I've witnessed across the Bank from transitioning from 'integration-mode' straight into 'growth-mode' and I am excited for the future.

2021 performance

Looking back on 2021 in its entirety, both before my joining and after, the sheer volume of accomplishments that SABB has made is astounding. Our corporate business has grown sustainably over the year with lending increasing 9%, and despite the heightened liquidity levels during the year leading to increased levels of repayments, our corporate business used their strong relationships, products and services to support our customers whilst growing the balance sheet. With our large corporate and multinational strengths, we were successful in winning one of the key Red Sea Development Company mandates earlier in the year, which will be the first Riyal denominated green loan in the Kingdom.

Our retail business accelerated its involvement in the mortgage industry by enhancing our online sales capability and developing a fuller suite of REDF mortgages. This was the first step in the investment phase for the retail business. It was very pleasing to see the near doubling of mortgage originations during 2021, despite the full suite not being available during the year. We remain very optimistic that we can accelerate mortgage growth further in 2022, given the investment made during the past year.

Our financial performance was incredibly resilient despite the continued uncertainty driven by the global pandemic and competitive pressures. We returned to profit in 2021, compared with 2020, generating SAR 7.9 bln of revenue and SAR 3.9 bln of net income before Zakat and income tax. Gross lending increased for the fifth consecutive quarter closing 2021 with SAR 174.3 bln of lending and we finished the year with SAR 186.8 bln of customer deposits and an 82% demand deposit ratio. Capital, funding and liquidity metrics remain strong and we have the capacity to support future growth.

Our people

It was a great honour to be asked to lead SABB on the next stage of its journey. I am hugely grateful to my predecessor David Dew for a smooth transition – David was a great ambassador for SABB for over 11 years as Managing Director and we wish him well for his retirement.

As mentioned earlier, I am greatly excited about our Bank's prospects as we look to accelerate our growth, and my thanks go to the Board, Executive Management and all SABB employees for the energy and vigour that I have witnessed in abundance since I started in May – there is no doubt in my mind that this energy will translate into success for the Bank for years to come.

Mr. Tony Cripps
Managing Director

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.

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

STRONG LOCAL FRANCHISE

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

Diversity
- International network
- Conventional and Islamic product suite across retail[1], 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
- Integration cost in range of 1.5-1.8x annual run-rate cost synergies

Delivery
- Synergies to be fully realised three years post-integration completion

GLOBAL SUPPORT

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

[1] SABB offers only Shariah compliant products to its retails customers.

Strategy
2025

Strategy 2025

In May, the Bank announced its longer-term strategy and the steps that will be taken in order for SABB to regain some of the key business and financial positions that it enjoyed prior to the merger. The first step of this was to conclude the integration which was successfully completed during March as we passed our ‘Customer Day 1’.

The strategy looks to build further on our traditional focuses and areas of strength, but also looks to expand in those target areas which complement the Vision 2030 plan.

VISION We bring a world of financial opportunities to an ambitious Kingdom

- Best-in-class universal banking serving all customer groups in the Kingdom
- Be the leading international bank in the Kingdom, accessing an unrivalled global network through HSBC
- Offer a leading online and mobile digital banking experience
- The best place to work

THE STEPS WE WILL TAKE

Build on our core strengths

- Bank of choice for Large Corporates
- Reinforce leadership in Trade and Payments
- Maintain leadership in Wealth
- Reinforce our position in Cards

Maximise our participation in key growth areas

- Fastest growing Mid-Corporate business
- Digital SME focus
- Mortgage expansion through REDF

Transform the organisation

- Lead in digital innovation and evolve the IT architecture
- Transforming HR and developing the right talent
- Revamp operating model through automation and digitisation

Our people

Digital excellence

Leverage our HSBC partnership

Be where the growth is

RETURNS

- Increase Return on Tangible Equity (RoTE) and Earnings per Share (EPS)
- Improve Cost to Income ratio (CER)
- Maintain strong Capital and Liquidity
- Maintain Dividend payout

2021 is the first year of an ambitious five-year plan that will see SABB regain some of the key financial and business positions it enjoyed prior to its merger with Alawwal Bank. It is the year where we laid the foundations for future success and kicked off an investment programme that starts the journey of fully digitising the Bank.

Customer Day 1

Following the integration of the corporate business in late 2020, the Bank completed its customer integration of the retail business in March which was referred to as 'Customer Day 1'. Following this, SABB is a single bank, with one branch network, one IT system, one website and one shared culture.

SAR 0.7 bln of annualised cost synergies

SAR 0.2 bln of revenue synergies

Investment

The investment phase kicked off in earnest at the middle of the year, creating an inhouse Digital Office and we made tangible progress in digitizing key customer journeys and developing critical retail products.

SAR 1.5 bln of committed investment for the next five years

Loan growth

Growth in customer loans continued throughout 2021 and we ended the year with a fifth consecutive quarter of growth. Corporate loans grew 9% despite repayments being a general sectoral theme and retail loans grew 7% supported by strong mortgage originations. The start of 2022 will also see the fruits of the investments made in a variety of digital retail products, and we expect our retail growth to accelerate further, helping the Bank in achieving its 2025 aim of having a 70:30 corporate to retail split in its loan book.

9% YoY growth in customer loans

Cost management and efficiency

Robust cost management has been a core discipline at SABB, and throughout the integration, the cumulative costs associated with joining the banks together have been at the lower end of the guidance range. Underlying expenses fell 3% in 2021 despite a ramp up towards the end of the year, as we commenced the investment stage of our strategy. The impact of annualised synergies has generally offset increased expenditure and inflationary pressures. Despite our strong record on cost management, underlying CER ratio increased to 45% and this was more reflective of the challenging revenue environment.

Underlying costs fell 3%

Returns

2021 saw a return to profit following the impairment of goodwill in 2020; underlying 2021 net income were up 11%. Revenue fell 11% in 2021 mainly because of lower net special commission income following the reductions in benchmark rates in 2020 and the ever-present competition, but it was positive to see a stabilisation in margins in the second half of the year and we look more optimistically to 2022 with the prospect of increasing rates.

Underlying profits up 11% YoY

Capital and liquidity

Our 2021 capital, liquidity and funding positions have remained strong.

CET 1 of 19.29%

Digital strategy

OUR AMBITION

To create the best digital Banking experience in the Kingdom for our customers.

Intuitive, personalised service

Simple digital journeys

Fast to market innovations

Bank of choice for fintechs

ENABLERS

Strategy and Innovation

Build an ecosystem of innovation to capitalise on the best available technology and fintech partnerships.

Agile Delivery

2 to 3 x faster to market through agile ways of working.

Data insights

Better understand customer behaviour to improve strategy and service.

Digital transformation

Create a holistic, efficient and customer centric digital payments strategy bank-wide.

Digital payment

Ensure roadmap of activity leads to a best in class digital banking experience.

Digital customer experience

Use benchmarking tools and standard design principles to create effortless, intuitive digital journeys.

Drives revenue growth

Reduces costs

Enhances customer experience

2021

Start of a bolder, more ambitions program of digital transformation. Setting a bank-wide digital strategy and roadmap that aligns with SABB's 5 year plan.

While continuing to innovate services, we also created the important groundwork to accelerate future transformation:

- Upgrading our technical platforms where necessary
- Created a new expert Digital Office function and dedicated transformation teams
- Introduced benchmarking against global best practice for user experience
- Launched digital design toolkit to mirror HSBC best practice for digital journeys
- Set a framework to enable agile working for faster to market, more customer centric services
- Introduced 'Data Insights as a Service' and data collaboration with HSBC Group.

BEST DIGITAL BANK AWARD 2021 GLOBAL FINANCE

Ripple's Swell
Blockchain Innovation Award – Network Accelerator

The Digital Banker
Best Bank for Trade Finance in KSA

2022

With key foundations laid to support our transformation, we will develop a more mature and complete digital ecosystem, while at the same time creating gaps between us and our competitors

A sustainable ecosystem where innovation can flourish:

- Open banking platform
- Build / partner / invest fintech strategy
- Innovation hub where staff and fintechs can fast-track solutions

Our focus:

- The introduction of end to end digital journeys for accessing key services, as well as onboarding new customers.
- Accelerated program of automating processes to create new levels of consistency and efficiency for customers and staff.
- Broadening data insights to better understand customer behaviour and trends, leading to increased satisfaction, better segmentation and sales.
- This year will see the bank optimise competitiveness across the proposition as a whole.

Snap shot on open banking and fintech

SABB Open banking platform

Open banking will be a catalyst for fintech led innovation and an unmissable opportunity to expand our services, grow revenue and improve customer experience.

Work is underway to develop SABB's own open banking platform. This will allow us to partner and co-develop with fintechs, enabling us to play an active role in the Kingdom's ambitions to innovate financial services.

Innovation Hub

A dedicated space will be created in our new headquarters, enabling fintechs and bank staff to work together and develop ideas into new solutions for our customers.

Digital venture fund

We plan to help incubate and develop fintech capability. This will involve acquiring solutions developed outside of the bank and investing in a portfolio of fintech partners that meet a strict criteria.

83%
digital penetration

1.2 mln
mobile app downloads

Pioneering solutions such as blockchain-based trade solution Contour

Customer experience

Our customer experience goals are at the heart of our digital strategy and critical in delivering our overall bank-wide strategic aims. We have a solid record for excellent service and best-in-class customer experience and our digital strategy looks to build on these foundations and take banking to the next level.

Customer Day 1

One of the big achievements for 2021 was the finalisation of the integration, but throughout this process the Customer Experience team aligned best practice processes, policies and procedures from SABB and Alawwal Banks in order to create a harmonised experience. The switchover for Alawwal Bank customers on Customer Day 1 was smooth, with no impact on customer services. The effects of the global COVID-19 pandemic continued to impact on our customers' lives as we completed our integration, but we transitioned services swiftly to online and digital channels where possible, in order to maintain our high service levels.

Voice of customer ('VOC')

Listening to the market is vital to the success of SABB's customer experience strategy. We continue to develop our VOC programme which covers a broad range of customer surveys and opinions, including specific transactions to specific complaints. With respect to the latter, detailed analysis allows us to identify the relevant Stakeholders, the triggers for the relevant issue and suggested solutions. It is a critical part of the feedback loop to ultimately improve our products and services, and provide the action plans for businesses and support functions to deliver on improvements and capture a holistic view of performance. Given the push to digital channels in part driven by COVID-19, the VOC survey for our main digital channels, such as SABB.net and our mobile app, was enhanced during 2021 and we continually flex the surveys in order to gain a greater understanding of our customers' experiences. In addition, the Customer Experience team digitalised the customers' complaints journey through SABBNet and SABBMobile for a vastly improved customer experience.

94 Retail Customer Recommendation Index ('CRI') score
at 31 December 2021

Performance

At the end of 2021, our retail business was given a CRI score of 94 and the corporate business a score of 91 – both market leading scores. We also won the award for Saudi Arabia's 'Best Customer Service Bank 2021' from Global Business Outlook – testament to the investment the Bank is making in delivering the best customer experience.

Cybersecurity

Cybersecurity remains a focus for SABB and is a key component of our risk management process. The Bank ensures that it has the right level of governance and scrutiny at senior management and Board levels. SABB and other banks operate in an environment with a continuously evolving cyber threat, and we constantly review and invest in capabilities to mitigate risk.

Other key performance indicators were:

- Average branch waiting time was 6.5 minutes in 2021
- Average ATM availability was among the highest in the market at over 98.28%
- Our registered complaints of 3.10 per 1,000 are lower than the industry average of 7 per 1,000
- Branch tracker on overall experience returned scores of 87 for Mass, 85 for Advance, 90 for Premier and an overall score of 91 out of 100. This maintained a trend of strong performance from 2019 and compared favourably with the market


ساب
SABB
ساب
SABB

Market overview

Real GDP growth[1]:
2.9%

World's
largest
oil exporter

Government debt to GDP ratio of[2]
c. 30.2%

Tadawul market cap
USD 2.57 tln

FX reserves
USD 445 billion

Unemployment[3]
6.6%

Population:
34.81 million

GDP Per Capita:
USD 20,110

The Saudi Arabian economy

Despite the uncertainty brought about by the COVID-19 pandemic in 2020, Saudi Arabia's economy and financial sector have shown considerable resilience. As the pandemic continued to impact people, businesses, and countries around the world in 2021, with the macroeconomic outlook and recovery remaining uncertain, the Kingdom's economy, financial sector and assets market responded positively to the ongoing developments and took significant steps towards a full recovery.

In Q2 2021, real GDP in Saudi Arabia returned to growth for the first time since the beginning of the COVID-19 pandemic, driven primarily by a 10.1% in non-oil activities. For the full year, the economy registered 2.9% real GDP growth while government revenue in 2021 totalled SAR 930 bln.

Due to an increase in the global oil prices, Q3 saw the Kingdom's oil revenue increase by 60% on a yearly basis, while Value Added Tax (VAT) of 15% was a key contributor to non-oil revenue. A fiscal surplus of SAR 6.7 bln was registered for the year, while the Ministry of Finance (MoF) predicted the fiscal deficit to reach SAR 85 bln by year-end.

Though the year has seen a resumption of economic activities following easing of COVID-19 related restrictions, the pandemic continues to impact businesses. Cautionary measures have been put in place in the Kingdom to prevent the spread of new variants, including travel bans on certain high risk countries, while the Kingdom-wide vaccination drive seeks to protect the population.

The Saudi banking sector

In 2020, the Saudi leadership and authorities were proactive in putting various preventative and strategic measures in place to mitigate the impact of the pandemic on the economy. This gave way to the Kingdom's stable micro financial position, supported by a resilient banking sector reflecting durability and a strong ability to withstand economic shocks. The banking sector continues to remain a well-capitalised sector amid the uncertain economic environment.

Throughout the pandemic, the banking sector provided financial support by means of its new and increased lending to businesses and households. The sector did face slight deterioration in credit quality, but strong pre-pandemic capital and liquidity positions paired with support from the Saudi Central Bank (SAMA) provided a robust base during the economic downturn.

The year ahead

The Kingdom's 2022 budget supports the implementation of the 2030 Vision Realisation Programmes. This includes focus on increasing non-oil GDP to achieve sustainable economic growth, enhancing the role of the private sector, and stimulating investments in promising industries such as manufacturing, financial services, tourism, and entertainment.

After an expected fiscal deficit of 2.7% of GDP in 2021, the Kingdom estimates a surplus of SAR 90 bln, 2.5% of GDP, for 2022, in line with plans to restrict public spending, despite an increase in oil prices. Moreover, in recent economic forecasts, policymakers estimate that the inflation rate will be 2.6% in 2022, but then fall to 2.3% in the following year, while unemployment is expected to drop to 3.5% next year.

1 December 2021

2 September 2021; forecast

3 September 2021; forecast

Chief Financial
Officer's review

Following a challenging year in 2020, SABB has delivered a robust set of financials for 2021 with a return to profit and strong progress across a number of financial indicators. Gross customer lending grew 9% and asset quality continued to make its steady improvement. We extracted further synergies having now achieved SAR 0.7 bln of annualised synergies ahead of original expectations. Progress has been solid, and we are optimistic that we can build on these foundations.

We reported net income before Zakat and income tax of SAR 3.9 bln in 2021 which compared with a loss in 2020 of SAR 4.3 bln. We generated SAR 7.9 bln of revenue during the year of which SAR 5.7 bln was net special commission income, and we incurred SAR 3.7 bln of expenses. We completed our integration in the first half of the year, and with this came some additional integration related expenses of SAR 0.1 bln in the year, however the cumulative investment made via integration expenses of SAR 1.1 bln has been to generate over SAR 0.7 bln of annualised synergies – it is pleasing to have delivered cost synergies and savings at the upper end of our guidance having delivered c. 20% of the combined SABB and Alawwal 2017 cost base.

Excluding merger-related costs in 2021 and 2020, together with the goodwill impairment in 2020, in order to give a more comparable view of performance, underlying net income before Zakat and income tax of SAR 4.0 bln was SAR 0.4 bln higher than 2020 mainly from lower expected credit losses and costs, partly offset by lower revenue.

Revenue fell compared with 2020, due to the effect of the lower benchmark interest rates that occurred at the start of 2020 and the increasing competitive environment in the sector. With our corporate focused loan book, that is largely on a floating rate, we are generally sensitive to movements in benchmark rates, resulting in lower net special commission income during 2021. Non-funds income performed with resilience and was 10% higher compared with 2020 from increased trading and exchange income from improving customer flows, together with disposals from our investments portfolio. Net fee income fell 7% although this was in part driven by a remapping of certain revenue-related expenses. Trade fee income remained

> **"Excluding merger related costs in 2021 and 2020, together with the goodwill impairment in 2020, in order to give a more comparable view of performance, underlying net income before Zakat and income tax of SAR 4.0 bln was SAR 0.4 bln higher than 2020 mainly from lower expected credit losses and costs, partly offset by lower revenue.**

resilient throughout the year which drives approximately half of our fee income.

Costs excluding integration-related expenses were SAR 0.1 bln lower compared with 2020 continuing the strong trajectory from the last few years. We incurred SAR 0.1 bln of integration expenses during 2021 and some of this occurred post Customer Day 1 as we continued to drill into our cost base seeking further opportunities for rationalisation. We are firmly into our investment cycle in order to deliver on our strategy, and with this also comes tighter control of our cost base as we approve business cases and monitor the productivity of our investments.

Expected credit losses of SAR 0.5 bln were SAR 1.2 bln lower than 2020. The 2021 charge represents a cost of risk of 27 bps which is at the lower end of our through-the-cycle guidance, and reflects the early action taken following the merger and also our conservative approach to risk. Asset quality metrics continued their improvement throughout 2021 in line with our expectations, with an NPL ratio on SABB originated loans of 2.4% and a total NPL ratio including purchased or originated credit impaired loans of 4.6%.

Our balance sheet remains healthy, with gross lending balances of SAR 174.3 bln and deposit balances of SAR 186.8 bln at the end of the year. Loan growth has accelerated in 2021 with 9% growth in the year with progress made across both corporate and retail portfolios. Participation in the Kingdom's landmark giga-projects and a swift increase in mortgage originations was welcome, and we remain optimistic on growth into 2022 with a healthy pipeline.

We ended the year with a strong capital position reporting a common equity tier 1 ratio of 19.29% and a total capital ratio of 21.84%. The Bank has a stable and low cost funding base, with 82% of our deposit base in the form of demand deposits.

Looking back on the year, it is great to see the return to consistent loan growth, revenue stabilisation and a return to profitability, a marked improvement in asset quality metrics, and exceeding our delivery of cost synergies. Clearly the low rate environment has had its impact on our revenue, but the current consensus on global benchmark interest rate expectations for 2022 should hopefully start the process of normalisation in both rates and our revenue base. A resilient set of financials and a more positive outlook means we are very optimistic for the future.

Mrs. Lama Ghazzaoui
Chief Financial Officer

Operating review

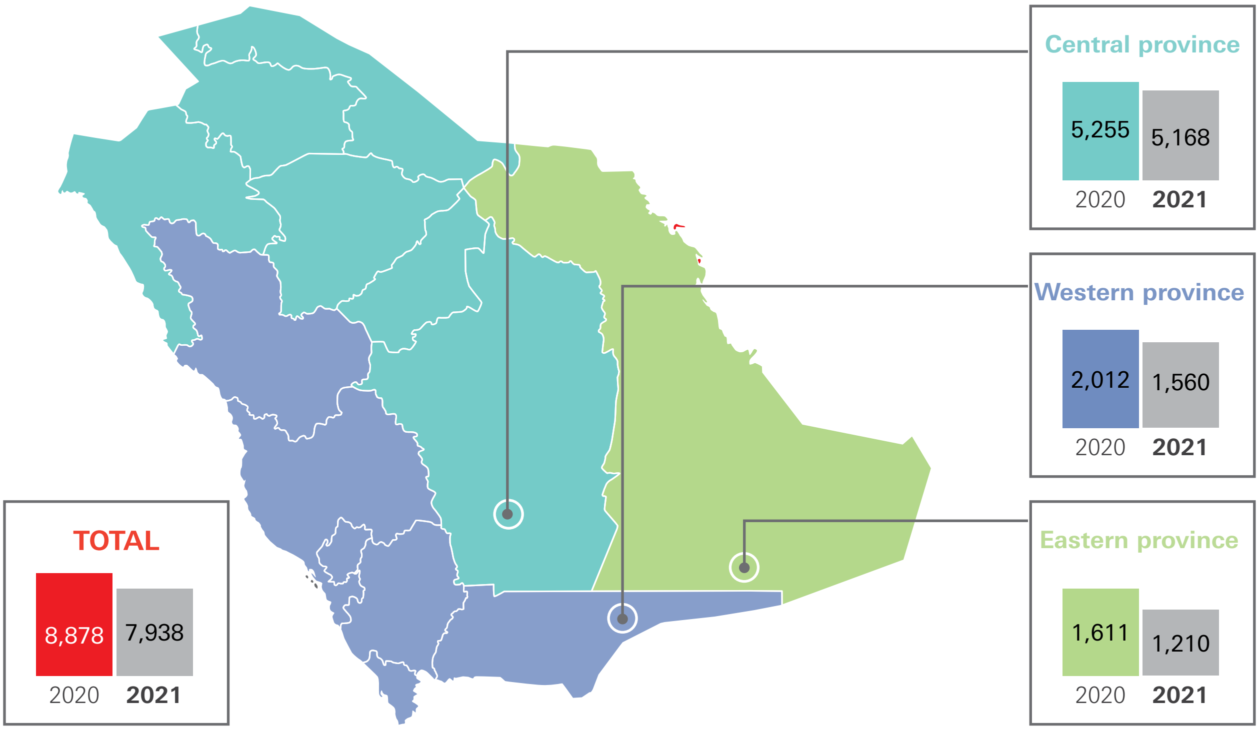
Reported historical financial results

(SAR mln)	2021	2020	2019[1]	2018	2017
Investments, net	64,904	60,831	60,484	34,570	26,977
Loans and advances, net	167,556	153,243	152,075	110,326	117,006
Customer deposits	186,761	189,110	192,167	130,507	140,240
Total assets	272,396	276,452	265,987	174,677	187,615
Total liabilities	219,368	225,690	209,903	142,101	154,145
Shareholders' equity	52,926	50,657	55,994	32,467	33,345
Net income before Zakat and income tax	**3,903**	**(4,302)**	**3,195**	**4,929**	**3,955**

[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 of the Kingdom. The following diagram shows the distribution of operating income in accordance with the geographical classification of the Kingdom's regions.



Reported performance

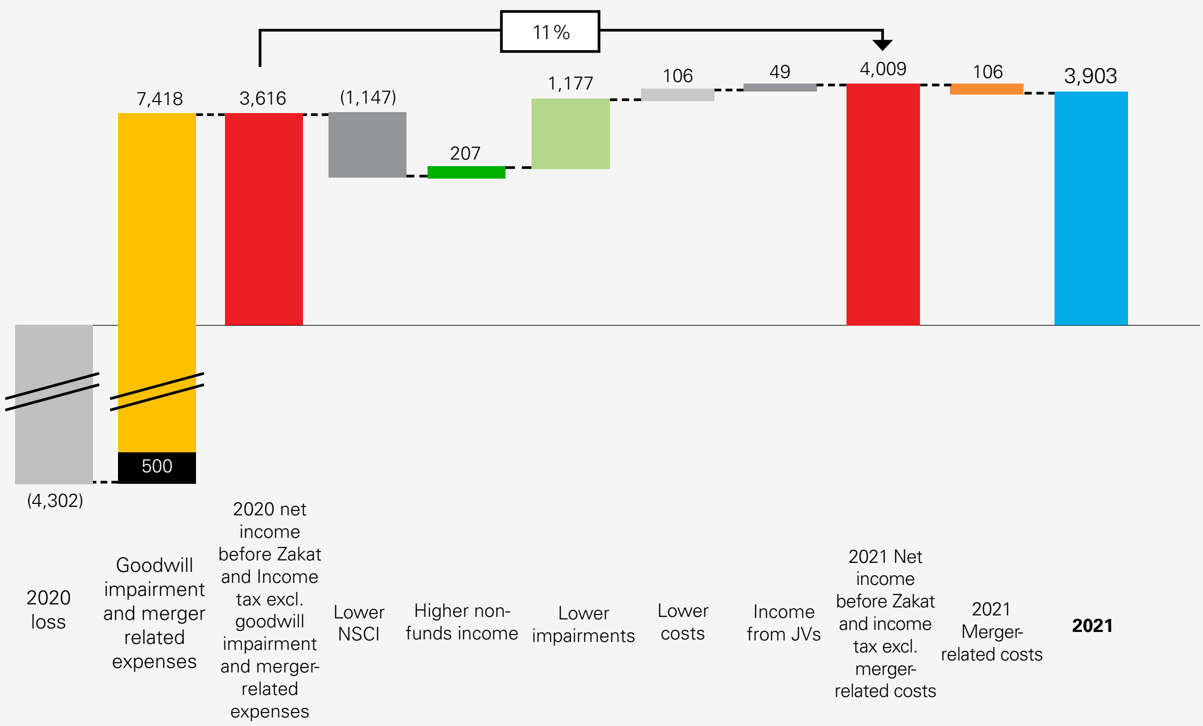
SABB reported a profit before tax of SAR 3,903 mln for 2021 which compared with a loss of SAR 4,302 mln in 2020. The prior year included a goodwill impairment of SAR 7,418 mln, relating to the goodwill created following the merger with Alawwal Bank. This was a non-cash item and an accounting charge. Further information on this can be found on page 43. Excluding this charge and merger-related expenses from both years, net income before Zakat and income tax for 2021 of SAR 4,009 mln was SAR 393 mln or 11% higher from lower expected credit losses and operating expenses partly offset by a fall in revenue.

- Revenue of SAR 7,938 million was SAR 940 million or 11% lower than 2020 from lower net special commission income mainly from repricing as a result of the cuts in benchmark interest rates in early 2020. Non-funds income was higher by SAR 208 mln mainly from gains on sale of investments, releases, and higher exchange income from increased flows.

- Operating expenses of SAR 3,713 million fell SAR 500 million and this was mainly driven by a fall in merger-related expenses (2021: SAR 106 million, 2020: SAR 500 million); costs excluding merger-related expenses fell 3% reflecting the impact of synergies and robust cost management partly offsetting inflationary pressures and increase in VAT
- Expected credit losses of SAR 454 million fell SAR 1,177 million or 72% mainly from lower charges in our corporate business and net recoveries in our retail business

Income statement highlights (SAR mln)	2021	2020
Total operating income ('revenue')	7,938	8,878
Provision for expected credit losses, net	(454)	(1,631)
Goodwill impairment	-	(7,418)
Total operating expenses	(3,713)	(4,213)
Share in earnings of associates	131	82
Net income before Zakat and income tax	**3,903**	**(4,302)**
Notable items:		
Merger related expenses included in Total operating expenses	(106)	(500)
Goodwill impairment	-	(7,418)
Net income before Zakat and Income tax excluding goodwill impairment and merger related expenses	**4,009**	**3,616**

Net income before Zakat and income tax: 2021 vs. 2020



Operating review (continued)

Reported results by business segment

	RBWM	CIB	Treasury	Other	Total
2021					
Total operating income ('revenue')	2,672	3,382	1,863	21	7,938
Provision for expected credit losses, net	497	(956)	5		(454)
Goodwill impairment	-	-	-	-	-
Total operating expenses	(1,840)	(1,525)	(191)	(156)	(3,713)
Share in earnings of associates	-	-	-	131	131
Net income before Zakat and income tax	**1,330**	**901**	**1,676**	**(4)**	**3,903**

	RBWM	CIB	Treasury	Other	Total
2020					
Total operating income ('revenue')	3,162	4,033	1,674	9	8,878
Provision for expected credit losses, net	(239)	(1,376)	(16)	-	(1,631)
Goodwill impairment	-	(7,418)	-	-	(7,418)
Total operating expenses	(2,099)	(1,248)	(179)	(686)	(4,213)
Share in earnings of associates	-	-	-	82	82
Net income before Zakat and income tax	**825**	**(6,010)**	**1,478**	**(595)**	**(4,302)**

Balance Sheet

Total assets of SAR 272.4 billion decreased 1% mainly from a reduction in cash and balances held with SAMA. Gross customer advances of SAR 174.3 billion increased SAR 13.9 billion or 9% compared with 2020. Customer lending increased in our corporate portfolio by SAR 11.0 billion and SAR 2.8 billion in our retail portfolio.

Growth was sustained throughout the year across a broad range of sectors. Mortgage originations also gathered pace as we developed our mortgage offering with originations nearly doubling in 2021, although due to our older more seasoned portfolio, originations have not yet translated into net growth.

Despite a marginal decrease in customer deposits which reduced SAR 2.3 billion or 1% to SAR 186.8 billion, our non-interest bearing deposits increased 11% with a closing demand deposit ratio of 82% (2020: 71%). Overall funding remains strong and we continued to optimise our funding base as expensive surplus deposits matured.

Balance sheet highlights (SAR bln)	2021	2020
Total assets	272.4	276.5
Gross customer advances	174.3	160.4
Customer deposits	186.8	189.1
Demand deposits	152.9	134.2
Average interest earning assets	270.2	260.1

Customer Day 1

At the start of the year, we concluded 'Customer Day 1' - the integration of SABB and Alawwal banks - bringing together the IT systems, branches, websites and moving forward with a shared culture and ambition. Achieving this status was an example of leadership and great collaboration, led by the Integration Management Office working together with our three main businesses and the many functions at SABB including Finance, IT, HR and other critical areas, and top-tier consultants for project management.

We continued to look for opportunities to optimise the Bank and we incurred SAR 0.1 bln of merger-related expenses in 2021 bringing the cumulative expenditure on merger related activities to SAR 1.1 bln. This investment has driven SAR 0.7 bln of annualised synergies which puts us at the top end of our 15 to 20% synergy guidance (of the combined 2017 SABB and Alawwal Bank's cost base).

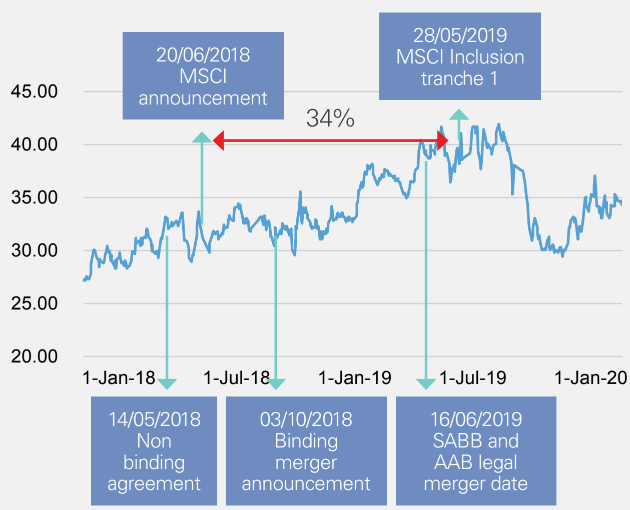
This also puts us at the lower end of our integration expense guidance of 1.5x to 1.8x annualised cost synergies.

Cost synergies were achieved from a wide range of sources including optimising our operating model, real estate footprint and reducing third party procurement expenditure. We also achieved SAR 0.2 bln of revenue synergies mainly from optimising the funding base.

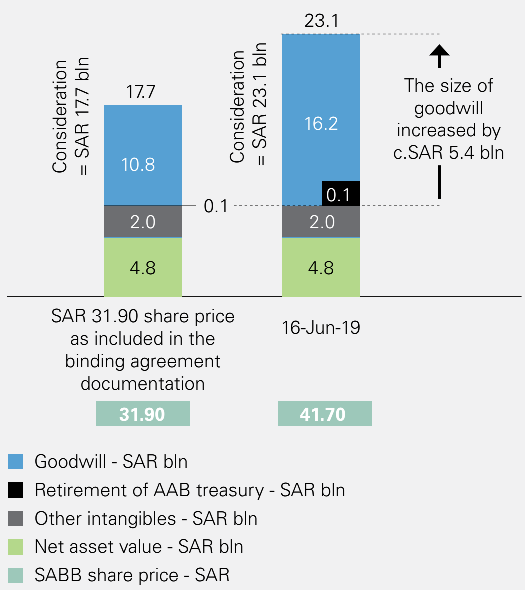
Goodwill impairment in 2020

- SABB recorded a goodwill impairment of SAR 7,418 mln in the second quarter of 2020 relating to the goodwill created following the merger with Alawwal Bank. The need to impair was driven by two factors:
  - The temporary inflation of the Bank's share price at the time of the merger caused by Saudi Arabia's inclusion in the MSCI Emerging Market Index
  - The unprecedented and unexpected emergence of the COVID-19 pandemic and its impact on the economy has contributed to the outcome of the impairment assessment's expectation of future returns

SABB SHARE PRICE LEADING UP TO THE LEGAL MERGER

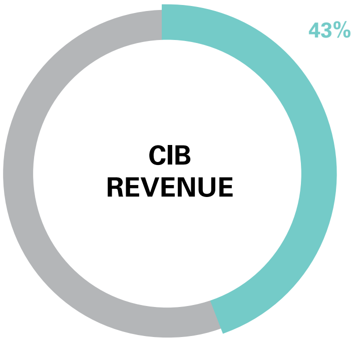


SHARE PRICE IS THE MAIN DRIVER OF THE SIZE OF THE RECORDED GOODWILL



Operating review (continued)

Corporate and Institutional Banking



Performance highlights (SAR mln)	2021	2020
Total operating income ('revenue')	3,382	4,033
Provision for expected credit losses, net	(956)	(1,376)
Goodwill impairment	-	(7,418)
Operating expenses	(1,525)	(1,248)
Net income / (loss) before Zakat and income tax	**901**	**(6,010)**
Gross loans	133,639	122,617
Customer deposits	105,401	100,171

Operating highlights

The corporate and institutional business supports over 23k customers across a wide range of sectors, providing core corporate banking and trade finance services. The Bank enjoys 13% market share with respect to corporate loans and is the leading international trade bank in the Kingdom, with c.20% of trade market share.

Much of the integration efforts for the corporate business had been completed in late 2020 but the business focused on achieving their synergy targets, attentions turned to early action on delivering the corporate strategy and maintaining the clip on loan growth that we successfully delivered towards the end of 2020. The business grew the loan book by 9% in 2021 with wins in some of the key transformational projects in the Kingdom including a mandate as one of the lead arrangers for financing on the Red Sea Development project – which was designated a green loan – the first of its kind in the Kingdom. Growth was across a wide number of sectors.

The challenging impacts of COVID-19 continued to be felt by our customers during the year, but we maintained our support, in particular through Saudi Central Bank's Private Financing Support Programme ('PSFSP'), which continued to provide support to small and medium-sized enterprises through payment deferrals.

- Our two unique business offerings, Global Liquidity and Cash Management ('GLCM') and Global Trade and Receivables Finance ('GTRF') provide our customers with a differentiated service, and both made significant progress during 2021 in developing new technologies and helping our customers drive forward their businesses.

- GLCM's strategic initiatives included partnering with a local fintech Geidea, to launch a soft point-of-sale ('POS') app, that can quickly convert a smartphone into a payment device and developing a structured transit open-loop payment solution for Riyadh Metro, the first of its kind in the MENA region.
- Our GTRF business extended its leading market share position, improving the customer experience through the use of digital channels and launching a variety of new solutions including structured trade products and Shariah compliant trade solutions. GTRF also went live with a blockchain based end-to-end letter of credit process called 'Contour', where all parties involved in a transaction (the buyer, seller, issuing bank and nominated bank) have simultaneous and instant access to identical information on the platform.

Financial performance

Net income of SAR 0.9 bln before Zakat and income tax, compared with a loss in 2020 of SAR 6.0 bln following the goodwill impairment. Excluding the impairment, net income was lower mainly from lower revenue, partly offset by lower expected credit losses.

Revenue of SAR 3.4 bln was 16% lower mainly from repricing following the cuts in benchmark interest rates at the start of 2020 and increased competition.

Gross customer lending of SAR 133.6 bln increased SAR 11.0 bln or 9%. Customer deposits of SAR 105.4 bln increased 5%, and the proportion of demand deposits grew to 81%.

- The Leading Bank in Financing Sustainable Projects in The Middle East for the year 2021 by Global Finance
- Euromoney: Best Cash Management Bank Saudi Arabia 2021
- GTRF named SABB as the "Best Trade Finance Bank in Saudi Arabia"
- SABB won the "Best-in-Class eCommerce Acquirer (MENA)" award by MasterCard
- SABB won the Euromoney award as Market Leader Trade Finance Bank in KSA 2021 and Best Trade Finance Service Bank in KSA

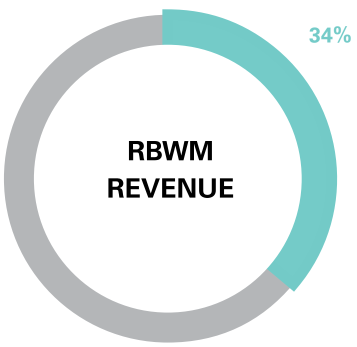
2021 EUROMONEY CASH MANAGEMENT MARKET LEADER

2021 EUROMONEY TRADE FINANCE BEST SERVICE

BEST TRADE FINANCE PROVIDER 2021 GLOBAL FINANCE

Operating review (continued)

Retail Banking and Wealth Management



Performance highlights (SAR mln)	2021	2020
Total operating income ('revenue')	2,672	3,163
Provision for expected credit losses, net	498	(239)
Operating expenses	(1,840)	(2,099)
Net income before Zakat and income tax	**1,330**	**825**
Gross loans	40,620	37,801
Customer deposits	77,676	80,576

Operating highlights

Retail Banking and Wealth Management serves over 1.3 million retail customers and generated in excess of SAR 1.3 bln of net income in 2021 and has a loan portfolio of SAR 40.6 bln and deposits of SAR 77.7 bln.

2021 was an exciting year for the retail business. During March, the business successfully completed its merger activities bringing together all customers onto a single platform on Customer Day 1. An online merger hub was launched in support of this to help Alawwal customers understand potential changes to services, and the benefits of their new improved banking proposition as they transferred over.

Once the merger was complete, the business swiftly moved to investment and growth mode, as the focus turned to growing the loan book, increasing our participation in the mortgage market, and building on our credit card, personal lending and wealth propositions.

Mortgages have been a key strategic focus and we grew our originations by over 80% during 2021, with a closing portfolio of SAR 19.8 bln. Much investment has also been made during the year in developing a fuller suite of mortgage products and features, in order to provide more choice for our customers. During the third quarter we were awarded the 'Best Developed Financing Provider' in the Sakani Housing Program – testament to the progress made during 2021. Our personal lending portfolio also grew 7% with a near 50% growth in originations during 2021.

SABB continues to lead in cards with credit card spend increasing over 24% and new customer acquisition of 54% compared with 2020. Our Wealth-focused segments have also seen robust growth with Premier segment balances growing 26% during 2021, noticeably driven by an increase in local Saudi customers. A key development that will allow SABB customers to access their HSBC accounts from abroad called Global View Global Transfer ('GVGT') is also on track for delivery in 2022, having gained regulatory approval during 2021 – this is a unique service that our more international-focused customers will benefit from, and also once again demonstrates the partnership with HSBC.

SABB also recently transformed its loyalty program, ICSABB, tailoring it to make it more unique, and with a goal to make banking with SABB more rewarding. The new rewards program allows customers to automatically redeem points with multiple retailers using a variety of options including cash-back, hotel stays, flight bookings, mobile top-ups and a range of e-vouchers.

Together with our partner HSBC Saudi Arabia, we launched the HSBC Global Equity Climate Change Fund, allowing SABB customers access to an ESG-focused investment. We also offered a green deposit account that allows retail customers to directly contribute toward the funding of green and sustainable initiatives, in line with the Kingdom's plans to achieve net zero emissions. Both of the these were firsts for the Kingdom and demonstrate our leading position on ESG.

80% growth in mortgage originations

Best Developed Financing Provider' in the Sakani Housing Programme for the third quarter

Digital transformation

Digitising the Retail business remains a top priority and the business made some key strides in this area. During the year, we developed a digital journey for mortgage pre-approvals, to support our online mortgage sales capability, and our digital transformation will continue as we

look to create digital journeys for a complete end-to-end mortgage service.

SABB was also the first bank in the Kingdom to launch the 'Sarie' Instant Payment Service ('IPS'), a national payment transfer programme allowing customers to instantly transfer funds throughout the year, irrespective of weekends and public holidays. Our international remittance business also accelerated helped by leveraging innovative technologies with fintech partners to migrate to digital channels. As a result, our market share in international remittances has grown to 11.5% underpinned by an enhanced customer experience.

Our mobile app also continues to enjoy strong ratings in the various app stores and was downloaded over 1.2 million times. All of this has led to growing our digital penetration to 83%, up from 73% in 2020. SABB closed the year with a number of awards and nominations including Global Finance Magazine's award for 'Best Consumer Digital Bank in KSA'.

83% digital penetration

1.2 million app downloads

Financial performance

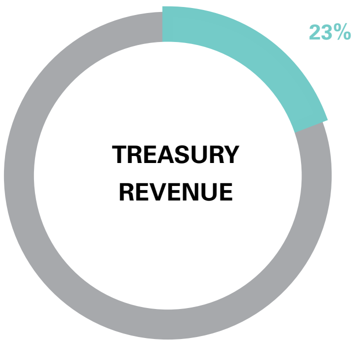
Net income of SAR 1.3 bln before Zakat and income tax was SAR 0.5 bln or 61.2% higher than the previous year, mainly driven by a net release of expected credit losses partly offset by a fall in revenue.

Revenue of SAR 2.7 bln was 16% lower and reflecting the effect of re-pricing at lower rates in part due to the heightened competition.

Gross customer lending of SAR 40.6 bln increased SAR 2.8 bln or 7%, as a result of our strategic focus across mortgages, credit cards and personal lending. Customer deposits of SAR 77 bln fell 4%, although non-interest bearing deposits or demand deposits grew to SAR 67.2 bln or 86% of total retail deposits, a notable strength of the retail franchise.

Operating review (continued)

Treasury



Performance highlights (SAR mln)	2021	2020
Total operating income ('revenue')	1,863	1,674
Provision for expected credit losses, net	5	16
Operating expenses	(191)	(179)
Net income before Zakat and income tax	**1,676**	**1,478**

Operating highlights

Towards the closing stages of 2020, we had substantially integrated the Treasury businesses from SABB and Alawwal Bank into a harmonised unit. Treasury enjoys a breadth of products and services, from simple FX trading to derivatives across asset classes, including Islamic solutions.

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, through the development of the repo market, and also supporting the growth of the local corporate bond market, together with our investment banking associate HSBC Saudi Arabia.

In line with the Bank's ambition to lead within the field of ESG, SABB made a number of achievements including the investment in green bonds, and supporting our customers in the hedging of green loans. SABB also became the first institution in the Kingdom to initiate a green deposit to our affiliate HSBC, where the funds will be deployed for environmental focused projects. The arrangement once again emphasises the long standing partnership with HSBC and our unique position to expand our offering and provide best-in-class solutions for our customers and the Kingdom.

The Bank has maintained its leadership position with foreign exchange and trading income. The foreign exchange proposition was also supported by the launching of our FX digitisation programme, in order to provide a more enhanced FX proposition through an end-to-end digital journey.

The Treasury business launched a series of new products including a range of interest rate derivatives, structured investment and hedging products that include a wider range of asset classes together with a broader range of commodity hedging products.

Financial performance

Our treasury business continues to deliver strong financials.

Net income before Zakat and income tax of SAR1.7 bln was 13% higher than the previous year mainly from increased revenue. Revenue of SAR1.9 bln was 11% higher than 2020 through active management of our investment portfolio together with increased sales and trading activity.

Other

Performance highlights (SAR mln)	2021	2020
Total operating income ('revenue')	21	9
Provision for expected credit losses, net	-	-
Operating expenses	(156)	(686)
Share in earnings of associates	131	82
Net loss before income before Zakat and income tax	**(4)**	**(595)**

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

HSBC Saudi Arabia (HSBC SA)

HSBC SA provides 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.

Alawwal Invest

Alawwal Invest is a leading provider of Investment management solutions to private and institutional clients in Saudi Arabia. As a wholly owned subsidiary of SABB, Alawwal Invest aims to provide its clients with a seamless experience across both the core banking and wealth management propositions, as well as access to local or international brokerage platforms, and a comprehensive range of world class investment opportunities.

During the year we announced the transfer of HSBC Saudi Arabia's Asset Management, Retail Brokerage and Retail Margin Lending businesses to Alawwal Invest. The transfer enables SABB to strategically widen its service offering to its customers, creating long-term value by providing access to one of Saudi Arabia's leading wealth and asset management platforms. The transfer is due to conclude during 2022.

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.

Wataniya

In December, SABB completed the sale of its stake in Wataniya to Private Wealth Investment Holding Co.

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 utilization 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 82 within the Risk governance.

Capital ratio

	31 Dec 2021	31 Dec 2020
Common equity tier 1 ratio	19.29	18.96
Tier 1 ratio	19.29	18.96
Total capital ratio	21.84	21.82

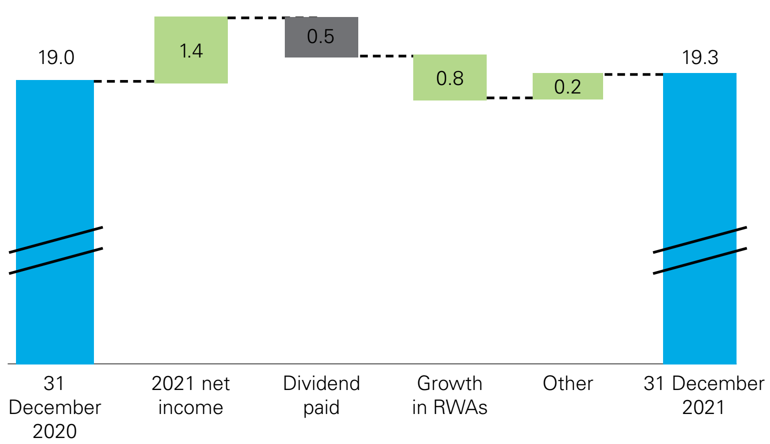
Capital

SAR mln	31 Dec 2021	31 Dec 2020
Common equity tier 1 capital	44,264	41,775
Additional tier 1 capital	-	-
Tier 2 capital	5,851	6,303
Total regulatory capital	50,114	48,078

RWA

SAR mln	31 Dec 2021	31 Dec 2020
Credit risk	209,202	199,268
Operational risk	18,021	19,065
Market risk	2,193	1,988
Total RWAs	229,416	220,321

CORE TIER 1 RATIO: 31 DECEMBER 2021 VS. 31 DECEMBER 2020



Supporting Micro, Small and Medium-sized Enterprises

The Kingdom's Vision 2030 strategy sets out a target to increase the contribution of Micro, Small and Medium Enterprises ('MSME') to the economy. In support of the Kingdom's strategy, SABB is proud to support over 20,000 active MSME customers throughout the Kingdom.

MSME segment definitions

SABB defines its MSME segments as follows.

Corporate Segments	Annual Sales Turnover
Micro	Below SAR 3 mln
Small	Between SAR 3 mln to 40 mln
Medium	Between SAR 40 mln to 200 mln

SABB has seven Business Banking Centres to serve MSME clients, including presence in Riyadh, Jeddah, Alkhobar and Dammam. They provide a wide range of solutions, including shariah-compliant products. A dedicated relationship manager ('RM') is assigned to each customer to assess their banking needs and provide solutions to meet their requirements.

Monshaat

Established in 2016, Monshaat, the General Authority for Small and Medium Enterprises, works on supporting, developing and nurturing the MSME sector. SABB continued to be supportive of a number of Monshaat initiatives and signed an agreement to help develop a new financing gateway, that enables MSME customers to gain access to financing opportunities, and signed a memorandum of understanding to further improve our collaboration.

The Kafalah programme, which is now included under the Monshaat series of initiatives, aims to provide financing to MSMEs that is secured with a guarantee from Kafalah. All Kafalah programme financing applications are handled by dedicated RMs within specialised teams.

The renewal agreement has been signed with Monshaat in 2021 to accelerate our involvement.

2021 initiatives

SABB has been awarded as the Best SME Bank in KSA – 2021 by the Global Finance.

SABB offers a comprehensive Shariah-compliant receivables and supply chain finance products to help MSMEs manage their cash flows efficiently.

Our market leading corporate service, enables SABB to bring best-in-class digital solutions to its MSME customer base. During 2021, SABB has improved customer experience by migrating over-the-counter transactions towards digital channels, including online banking, cash deposit machines, and point-of-sale ('POS) terminals. Saddad and other national payment gateway solutions are also used.

We continue striving to provide our customers with the latest technology to enhance their experience and ease of doing business.

Financing programmes

SABB is committed to the development of the MSME sector in line with government initiatives, particularly that of Vision 2030. Accordingly, SABB has launched several propositions for MSMEs in the form of POS Cash Flow Finance, Staff Salaries Finance, Dental Clinics Funding, Aramco Contractors and Suppliers, Hajj & Umrah Services Operators. Moreover, SABB lead the market in launching a specific financing program for the Technology sector as well as others.

National Technology Development Program (NTDP)

We launched this new financing proposition to support MSME customer operating in the technology sector. This will assist in the country vision to be a key player in this sector. This initiative will be based on the NTDP Financing initiative launched by Ministry of Communication and Information Technology, MCIT and backed by Kafalah.

Tourism Development Fund (TDF)

A collaboration agreement was signed to support MSMEs customers within this promising segment. Since the country is looking to expand number of tourists visiting the kingdom, this sector is expected to expand singingly. Hence, with collaboration with the fund with are looking to expand the support.

Real Estate Development Fund (REDF)

An agreement was signed with REDF to provide financing to Real Estate developers (including MSME) against REDF guarantee.

SAMA supporting programmes

SAMA maintained the following two programs to support customers potentially facing difficulties arising from the COVID-19 pandemic.

- SAMA DPP, the program aim was to reduce the potential impact of the reduction in the cash flows that MSMEs may encounter as a result of the pandemic. This program allows the deferrals of all O/S instalments plus accrued profit through seven consecutive phases starting 14th of March 2020 till the 31st of March 2022.
- 2) Secured lending program, the program aim was to subsidized MSME funding for a maximum period of 36 months. This program has been extended till the end of March 2022.

Loans and off-balance positions to MSME customers

	SAR '000			
December 2021	**Micro**	**Small**	**Medium**	**Total**
Loans to MSMEs	1,119,037	1,788,848	4,204,429	**7,112,314**
Off Balance Sheet positions to MSMEs	832,115	1,038,129	4,536,208	**6,406,452**
Loans to MSMEs as a percentage of Total SABB Loans	0.64%	1.03%	2.41%	**4.08%**
Off Balance Sheet positions to MSMEs as a percentage of total SABB off balance sheet positions	0.91%	1.14%	4.99%	**7.04%**
Number of credit facilities	956	1,915	4,994	**7,865**
Number of customers with credit facilities	370	465	457	**1,292**
Number of credit facilities guaranteed by Kafalah programme	45	865	1,111	**2,021**
Amount of credit facilities guaranteed by Kafalah programme	39,994	249,916	1,081,104	**1,371,014**

	SAR '000			
December 2020	**Micro**	**Small**	**Medium**	**Total**
Loans to MSMEs	834,450	1,790,885	3,707,708	**6,333,043**
Off Balance Sheet positions to MSMEs	460,424	929,249	4,577,266	**5,966,938**
Loans to MSMEs as a percentage of Total SABB Loans	0.52%	1.12%	2.31%	**3.95%**
Off Balance Sheet positions to MSMEs as a percentage of total SABB off balance sheet positions	0.9%	1.4%	7.1%	**9.4%**
Number of credit facilities	1,127	2,377	7,735	**11,239**
Number of customers with credit facilities	109	236	404	**749**
Number of credit facilities guaranteed by Kafalah programme	3	599	1,122	**1,724**
Amount of credit facilities guaranteed by Kafalah programme	1,832	445,718	851,776	**1,299,326**

During the year we have better aligned MSME customers with external definitions. 2020 has been restated to show a like-for-like comparison.


SABB
ساب
ALL OUR PRODUCTS, SERVICES AND OFFERS
IN ONE PLACE
TO MEET YOUR NEEDS
SCAN HERE

Environmental, Social and Governance focus

Building on solid ESG foundations

In 2021, SABB has continued positioning environmental, social and governance (ESG) activities at the heart of its business and operations. Following great results in 2020, the Bank continued to develop its capabilities and offerings in line with its ambitions, committed to integrating ESG into the core of our Strategy 2025 objectives.

SABB established the ESG Working Group (WG), a bank-wide forum comprising senior management representatives from all the Bank's functions and business units. The ESG WG is tasked with progressing ESG activities across the business and measuring the Bank's progress through monthly meetings and active tracking of progress against an agreed plan. The ESG WG identified an ambitious set of ESG-related Key Performance Indicators (KPIs) to track our progress against tangible objectives, reporting on these monthly at the ESG WG meetings.

This suite of ESG KPIs, alongside other important initiatives pertaining to SABB's ESG commitment, have been achieved in 2021 and will be expanded over time as our ambition to lead the market on ESG takes shape. Examples of 2021 achievements include:

Environment and operations

- Reviewed business travel needs, reducing overall travel in line with environmental commitments, making tangible progress
- Increased use of environmentally friendly materials for all Bank project
- Reduced annual energy and water consumption per FTE, as well as paper and plastic consumption in all the Bank's locations
- Established contracts with sustainable practices vendors, and effectively considered and managed ethical risk of procurement
- First Saudi Bank to achieve zero single-use non-recycled plastic bottles across offices, eliminating 2.6 mln plastic water bottles per annum

Sustainable finance

- Issued first green loan in Saudi Arabia, and supported other green projects in line with the Kingdom's efforts towards sustainability
- Launched first Climate Change Equity Fund in Saudi Arabia with our partner HSBC
- Promoted green deposits and investment in green bonds and made the first green treasury deposit with the UAE HSBC subsidiary
- Established the first Shariah compliant ESG focused green deposit opportunity for depositors to contribute excess funds directly to green loans

Diversity and inclusion

- Achieved nearly 40% female ratio in the Bank's Executive Management team (ManCom), the first bank in Saudi Arabia to reach this milestone
- Developed and promoted top female talent in senior management roles, achieving over 13% female ratio in senior management positions in several areas of the business
- Promoted active participation of women in the workplace, with ambitious targets met across businesses and functions

Governance and training

- As part of the external assessment cycle, continued to identify Board and Board sub-committees' governance efficiencies
- Implemented a robust policy to ensure effective management of corporate governance, enabling subsidiaries and associates' business relationships to develop within a robust and controlled framework, meeting obligations to Shareholders, regulators and investors.
- Successfully digitised Board and Board sub-committees meeting packs and implemented digital signatures to ensure improved governance and effectiveness
- Implemented training guidelines for ESG and sustainability bank-wide, including Climate Risk training session for members of the Board and ManCom, with further training to be deployed to staff on a rolling basis in 2022

Community engagement

- Continued the market-leading engagement through established programmes such as Riyali, Digital Academy, Taqadam and Khazna, reaching more of the target audience than ever before

ESG milestones in 2021

Led the establishment of the Saudi banks' **ESG working group** under the guidance of the Saudi Central Bank (SAMA)

First Saudi Bank to achieve **zero single-use non-recycled plastic bottles** across offices

Issued **first green loan** in KSA

Launched **first Climate Change Equity Fund** in KSA

Female ratio

Nearly 40% in the Executive Management team

Over 13% in senior management positions

Implemented **Bank-wide training guidelines** for ESG and Sustainability

Market-leading community engagement through SABB's established programmes

- Supported the Saudi Green Initiative through the planting of 3,000 trees in the Riyadh region

In 2021, as Chair of the Managing Director's Committee (MDC), a forum of all Saudi banks under the guidance of the Saudi Central Bank (SAMA), SABB led the establishment of the Saudi banks' ESG Working Group, with MD/CEO participation from four other banks (Riyad Bank, Bank Albilad, Gulf International Bank, and Banque Saudi Fransi). The WG will discuss, consult and agree on how to best leverage its joint capabilities, working closely with SAMA to ensure a coherent and effective framework for managing its ESG priorities in the Kingdom of Saudi Arabia.

New products and recognition for ESG commitment

Innovative sustainable finance products:

Sustainability linked loans for our corporate customers:
SABB participated as a mandate lead arranger for the Red Sea giga-project financing (contributing SAR 2.9 bln), the first green loan in Saudi Arabia. We also supported the Sudair Solar Power project with SAR 300+ mln financing aligned with the Kingdom' efforts towards sustainability.

Treasury green deposits:
SABB made its first placement of a green deposit in Saudi Arabia with HSBC Middle East counterpart with a total value of AED 25 mln. Moreover, Treasury concluded a green Sukuk with a total value of USD 25 mln.

HSBC Global Equity Climate Change Fund:
in partnership with HSBC Saudi Arabia, SABB were the first to launch in-country access to an ESG focused investment, generating positive environmental benefits and attractive financial returns

Green deposits for retail customers:
SABB was the first bank in Saudi Arabia to offer a Shariah-compliant ESG-focused green deposit, allowing depositors to contribute their excess funds directly toward funding of Green

Recognition for Sustainability

Global Finance Excellence Awards

Leading Bank in Financing Sustainable Projects in the Middle East

Global Finance Sustainable Finance Awards

Outstanding Leadership in Sustainable Project Finance

SABB's future ambition on ESG

As we move towards a comprehensive and ambitious ESG strategy for the Bank, we will look to make more commitments in line with policy, economic and scientific developments. In 2022, we will seek to make ESG commitments in the following core areas:

Products and services

We are committed to expanding our sustainable finance products and services across our client and customer base. This will include the launching of new products alongside developing the tools and processes to measure our sustainable finance activities, in order to drive client engagement and uptake, expand the proposition and set specific targets at a later date.

We will also develop a Sustainable Finance Framework, which will set out our methodology for classifying what financing is considered sustainable. Its purpose will be to support SABB in tracking and disclosing our performance against our sustainable finance commitments. The framework will be based on leading practices and aligned with international principles, to support growth and impact in this area.

People

At the core of our ESG commitment is ensuring that all our Staff receive appropriate and applicable ESG training and development. In 2022, we are developing a comprehensive programme that can be delivered across all levels of the Bank and ensure a common level of knowledge and understanding on ESG and sustainable finance. In addition, we will continue to build on the climate risk awareness training provided to the Board, to ensure Board Members and Executive Management are supported in performing their oversight duties on ESG, and climate change in particular.

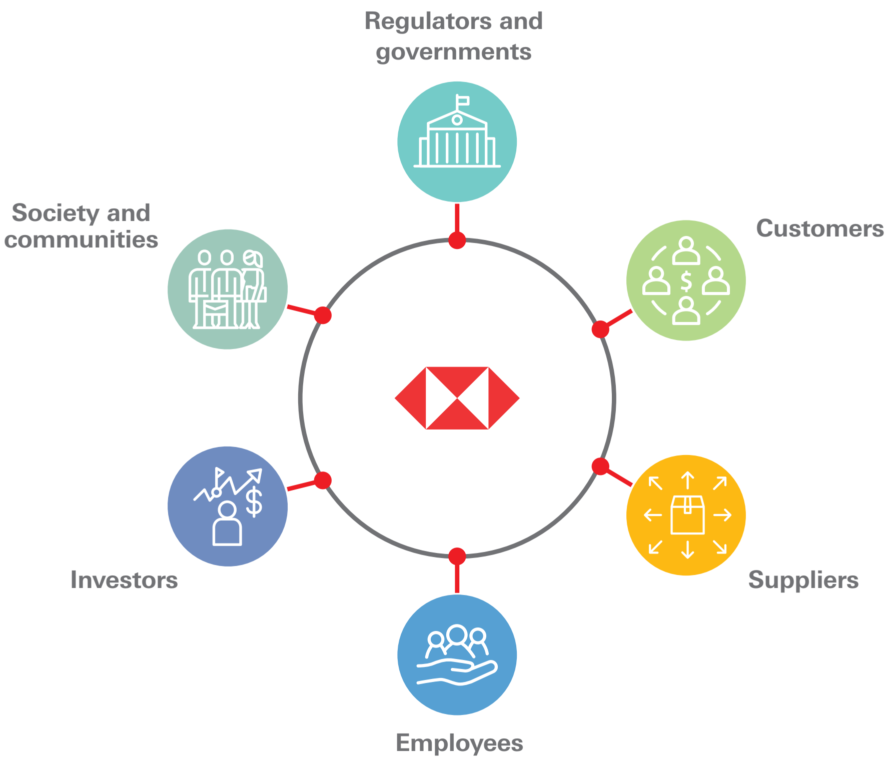
Organisation

A priority in 2022 is to fully integrate ESG into existing governance and risk management frameworks. This process will be undertaken in addition to an inaugural ESG materiality assessment. At the same time, we aim to develop even more ambitious ESG KPIs and targets and use them as a basis for including ESG success measures into the balanced scorecards of the Executive Management team.

Stakeholders

Ensuring that our external Stakeholders are kept informed of SABB's progress on ESG and important non-financial issues, we are committed to putting in place certain actions that will facilitate this, particularly relating to external reporting. In 2022, the Bank will provide a more detailed update on our ESG strategy and priorities. We will also consider preparing for international reporting standards, alongside climate related financial disclosures.

We are also committed to ongoing external engagement, collaboration and leadership on ESG issues and promoting the ESG agenda more broadly. To this end, we will seek to play a leading role in relevant ESG and sustainable finance forums, working groups and key industry initiatives, at both a national and international level.



CORPORATE GOVERNANCE

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 consists of 11 members who bring together a wealth of local and international experience across a spectrum of industries, eight of whom were elected by the Shareholders and three of whom were appointed by HSBC Holding B.V.

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

Board responsibilities

The Board reviews the performance of Management in meeting the Bank's strategic targets and monitors the Bank's risk appetite and profile. 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 supervising the Executive Management.

The Board also reviews and approves strategy, 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.

Moreover, the Board enables Shareholders to exercise their rights to submit their comments and queries, which are discussed, answered and recorded in the minutes of the Annual General Meeting.

Composition of the Board as at 31 December 2021

Mrs. Lubna Suliman Olayan	Non-Executive Chair
Mr. Saad Abdulmohsen Al-Fadly	Non-Executive Vice Chair
Eng. Khalid Abdullah Al-Molhelm	Non-Executive
Eng. Mohammed Omran Al-Omran	Non-Executive
Mr. Samir Assaf	Non-Executive
Mr. David Dew[1]	Executive
Mr. Tony Cripps[2]	Executive
Mr. Stephen Moss	Non-Executive
Mr. Ahmed Farid Al-Aulaqi	Independent
Mr. Sulaiman AlGwaiz[3]	Independent
Mr. Martin Powell	Independent
Mr. Stuart Gulliver	Independent

[1]Mr. David Dew retired, effective 23 May 2021
[2]Mr. Tony Cripps was appointed as Managing Director, Chief Executive and as a Board Member, effective 23 May 2021.
[3]Mr. Sulaiman AlGwaiz was appointed as an independent member of the Board of Directors for the existing term, effective 1 November 2021.

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 Central Bank ('SAMA'), as well as local and international best practice. SABB's corporate governance charter includes statements on the following areas:

- General policy of SABB corporate governance document
- Shareholders rights and general assembly
- Disclosure policies and procedures
- Formation of the Board and sub-committees
- Principal responsibilities of the Board committees
- Board sub-committees
- Bank's policy regulating relationships with Stakeholders

Diversity

Diversity is another key strand to both local and international governance best practice. SABB is particularly proud of the diversity within its Board and Executive Management. The Board includes 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. In addition, the diversity in experience of the Board is further complemented by gender diversity including the first female Board Chair of a listed company in Saudi Arabia, as well as a number of the Bank's Executive Management being female, which is a reflection of the Bank's vision.

Training and development

Training and development is provided for each Board Director, with the support of the Company Secretary. All Directors develop and refresh their skills through periodic interaction with Executive Management across the Bank. Moreover, in line with the SABB governance charter, the Board of Directors and the Committee members are required to attend an induction programme with the Bank when they are appointed.

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 in-house and external training on a wide range of subjects, including Climate Risk and Key Trends on the Management of Compliance and Anti-Money Laundering training.

Biographies of Board Members
As at 31 December 2021

Mrs. Lubna Suliman Olayan
Non-Executive Chair

Current position

Board member of:
- Olayan Financing Company (Saudi Arabia)
- Olayan Holding Company (Saudi Arabia)
- Health Water Bottling Company (Saudi Arabia)
- The Coca-Cola Company (Saudi Arabia

Former position

Board member of:
- Schlumberger Company (Saudi Arabia)
- King Abdullah University of Science and Technology (KAUST)
- Saudi Arabian Mining Company (Listed/Saudi Arabia)
- Alawwal Bank (Saudi Arabia)

Qualifications
- Honourary PhD in Law from Trinity College, Dublin, Ireland
- Master of Business Administration (MBA) from Indiana University, USA
- Bachelor of Science from Cornell University, USA

Experience
- Over 36 years of experience in investment, banking, and business management

Mr. Saad Abdulmohsen Al-Fadly
Non-Executive Vice Chair

Current position

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

Board member of:
- National Medical Care Company (Listed/Saudi Arabia)
- Al Marai Company (Listed/Saudi Arabia)
- GEMS Company (Saudi Arabia)
- Ma'arif Education and Training Company (Saudi Arabia)

Former position

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

Qualifications
- Bachelor of Science in Accounting from King Saud University, KSA
- Master of Financial Economics from Boston University, USA

Experience
- Experience in investment management and banking services at a number of financial and regulatory institutions, for more than 21 years

Eng. Khalid Abdullah Al-Molhem
Non-Executive Director

Current position

Board member of:
- Ittefaq Steel Company (Saudi Arabia)
- Kidana Company
- Riyadh Cement 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)
- King Abdullah Economic City Company (Emaar) (Listed/Saudi Arabia)
- Aseer Trading, Tourism and Manufacturing Company (Listed/Saudi Arabia)

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

Experience
- Experience in the business of banks and companies and has taken the lead in the privatisation of a number of major Saudi companies

Mr. Ahmed Al-Aulaqi
Independent Director

Current position

Board member of:
- Chairman and President of Lakemore and a member of the firm's Board of Directors

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

Former position

Senior position:
- Treasurer for NCB London
- 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 SNB Capital Company (Listed/Saudi Arabia)

Board member of:
- Alawwal Bank (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 of Business Administration from King Abdulaziz University, KSA

Experience
- Over 31 years of experience in business management, banking, treasury, capital markets, investment services and brokerage

Mr. Sulaiman Abdulrahman AlGwaiz
Independent Director

Current position

Board member of:
- Etihad Etisalat Co (Mobile) (Listed/ Saudi Arabia)
- Saudi Arabian Mining Co (Listed/ Saudi Arabia)
- Saudi Industrial Investments Co. (Listed/Saudi Arabia)
- Munajem Foods Co. (Listed/Saudi Arabia)

Former position

Senior position:
- Governor of the General Social Insurance Corporation ('GOSI') (Government entity/Saudi Arabia)
- Deputy CEO of Riyadh Bank (Listed/ Saudi Arabia)
- Trading Division Head, Corporate Bank of Samba Financial Group (Listed/Saudi Arabia)

Board member of:
- National Company for Glass Industries (ZOUJAJ) (Listed/Saudi Arabia)
- National Industries Company (NIC) (Listed/Saudi Arabia)
- Banque Saudi Fransi (Listed/Saudi Arabia)
- Ajil Financial Services (Saudi Arabia)
- Hassanah Investment Co (Saudi Arabia)

Qualifications
- Bachelor of Business Management from the University of Portland, USA

Experience
- Extensive experience in the areas of banking operations, finance, credit and general business management.

Mr. Martin Edward Powell
Independent Director

Former position

Senior position:
- Senior Executive roles at the 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 - Associate Chartered Institute of Bankers

Experience
- Over 41 years of senior management expertise in banking, financial services, and risk management

Biographies of Board Members

As at 31 December 2021 (continued)

Eng. Mohammed Omran Al-Omran
Non-Executive Director

Current position

Senior position:
- General Manager of Omran Mohammad Al-Omran and Partners Company (Saudi Arabia)

Board member of:
- YANAL Finance Company (Saudi Arabia)
- Tarabot Investment & Development Company (Saudi Arabia)
- Tourism Development Fund (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, KSA
- Master of Construction Management from the University of South California, USA

Experience
- Experience in the business and investment sectors

Mr. Stuart Gulliver
Independent Director

Current position

Board member of:
- Saudi Aramco
- Hong Kong Airport Authority (Hong Kong)
- Jardine Matheson Holdings Limited (Hong Kong)

Former position

Senior position:
- Executive Director and Group Chief Executive of HSBC Holdings plc (Listed/United Kingdom)
- Chairman of The Hong Kong and Shanghai Banking Corporation Limited

Qualifications
- Master of Law from Oxford University, UK

Experience
- More than 38 years' experience in international banking. Assumed many executive roles at HSBC Group, the last being Group Chief Executive Officer of HSBC Holdings plc

Mr. David Dew[1]
Executive Director

Board member of:
- HSBC Bank Middle East Limited (United Arab Emirates)

Former position

Board member of:
- Managing Director and Board member of SABB (Listed/Saudi Arabia)
- HSBC Saudi Arabia Limited (Saudi Arabia)

Senior position:
- Deputy Managing Director and Chief Operating Officer of SABB (Listed/ Saudi Arabia)
- Deputy Chief Executive of HSBC Amanah and Chief of Administration, Global Banking and Markets, Middle East HSBC (MENA)

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

Experience
- Management and financial experience gained during his over 41 years career with HSBC, in various regions and roles

1 Mr David Dew retired effective 23rd May

Mr. Tony Cripps
Executive Director

Current position

Senior position:
- Managing Director and Board member of SABB (Listed/Saudi Arabia)

Board member of:
- HSBC Saudi Arabia Limited (Saudi Arabia)

Former position

Senior position:
- Group General Manager and Chief Executive Officer of HSBC Singapore
- Chief Executive Officer of HSBC Australia

Qualifications
- AFMA Australia (Financial Markets)
- SFE Australia (Accreditation Future Traders License)

Experience
- More than 37 years' experience in international banking. Assumed many executive roles at HSBC Group

Mr. Samir Assaf
Non-Executive Director

Current position

Senior position:
- Senior Advisor, HSBC Group Plc (united kingdom)
- Senior Advisor, General Atlantic (global)

Board member of:
- BeyondNetZero (a General Atlantic venture) (United States of America)
- Chairman of the Boards of HSBC Middle East Ltd and HSBC Middle East Holdings
- Montaigne London (United Kingdom)
- Alfanar Charity Arm (United Kingdom)

Former position

Board member of:
- HSBC Group Plc (United Kingdom)
- HSBC Continental Europe
- HSBC Egypt (Egypt)
- HSBC Asset Management Limited (United Kingdom)
- Global Financial Markets Association (United States of America)
- HSBC Trinkhaus & Burkhardt AG (Listed/Germany)

Qualifications
- Master of Economics from USJ, Lebanon
- Master of Economics and International Finance from La Sorbonne University, France
- Bachelor of 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

Current position

Senior position:
- Group Managing Director, Regional Chief Executive Officer for, MENAT and HSBC (Listed/United Kingdom)

Board member of:
- HSBC Middle East Holdings B.V (Netherlands)
- HSBC Bank Middle East Limited (UAE)
- HSBC Saudi Arabia (Saudi Arabia)
- HSBC Egypt (Egypt)
- Dubai International Chamber (UAE)
- Advisory Board member of the Hong Kong Red Cross (Hong Kong)

Former position

Senior position:
- Group Managing Director, Regional Chief Executive for Europe, MENAT, LATAM and HSBC (Listed/United Kingdom)
- Group Managing Director, Group Chief of Staff, HSBC (Listed/United Kingdom)

Board member of:
- HSBC Latin America Holdings Limited (United Kingdom)
- HSBC Bank Canada (Canada)
- HSBC Bank plc (United Kingdom)
- HSBC Asia Holdings B.V (United Kingdom)
- Serai Limited (United Kingdom)
- HSBC Asset Management Limited (United Kingdom)

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

Experience
- More than 29 years' financial and managerial experience gained from various leadership roles at HSBC Group.

Biographies of Executive Management
As at 31 December 2021

Mr. Tony Cripps
Executive Director

Current position
- Managing Director and Board Member of SABB

Board Member of:
- HSBC Saudi Arabia Limited (Saudi Arabia)

Former position
Senior Position:
- Chief Executive Officer of HSBC Singapore, the leading international bank in Singapore supporting retail, business, corporate and institutional banking customers through its network of local branches and offices.

Qualifications
- AFMA Australia (Financial Markets)
- SFE Australia (Accreditation Future Traders License)

Experience
- More than 37 years' experience in international banking. Assumed many executive roles at HSBC Group

Mr. Majed Kamal Najm

Current position
- Deputy Managing Director of 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 & HSBC Group in 1992. 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. Bashaar Al-Qunaibet

Current position
- Deputy Managing Director of Retail Banking and Wealth Management

Former position
- Chief Human Resources Officer, SABB
- General Manager Branches and Sales, SABB Bank

Qualifications
- Bachelor of Business Administration

Experience
- Over 22 years management and financial experience gained working in the Saudi banking sector, including roles at SABB, Alawwal Bank and NCB, and also as Business Development Director at SAMA's SADAD Payment System.

Mr. Mohammed Abdullatif Al-Shaikh

Current position
- Deputy Managing Director of Treasury

Former position
- General Manager Treasury, Alawwal Bank

Qualifications
- Bachelor of Science in Finance

Experience
- Joined Alawwal in 2012 as a General Manager Treasury. Prior to joining Alawwal, he held various treasury roles at Samba Financial Group, with extensive experience across functions and was a member of the Group's Executive Management Committee

Mrs. Maha Al-Sudairi

Current position
- Chief Risk Officer

Former position
- Chief Compliance and Governance Officer, Alawwal Bank

Qualifications
- Master of International Finance (Honours) from Kingston University, UK
- Bachelor of Arts in English Translation from King Saud University, Saudi Arabia

Experience
- Over 11 years of experience in the Saudi banking Industry, compliance and corporate governance, acquired through formal training locally and abroad

Dr. Nawaf Al-Husseini

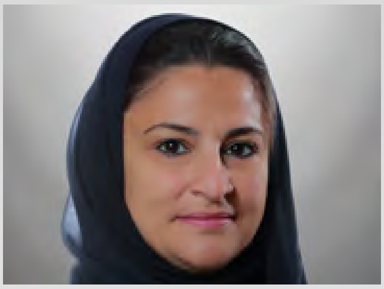
Current position
- Chief Human Resources Officer

Former position
- General Manager Human Resources, The Saudi Investment Bank
- Head of Human Resources, Arab National Bank
- General Manager Human Resources, Alawwal Bank

Qualifications
- PhD in Business Administration – Human Resources Management from Temple University – Fox School of Business and Management
- Master of Business Administration from San Francisco State University, USA
- Bachelor of Business Administration from King Saud University, KSA

Experience
- Seasoned Human Resources professional with rich leadership experience spanning several Saudi banks and the International Monetary Fund (IMF), with consulting and academic experience.

Biographies of Executive Management
As at 31December 2021 (continued)



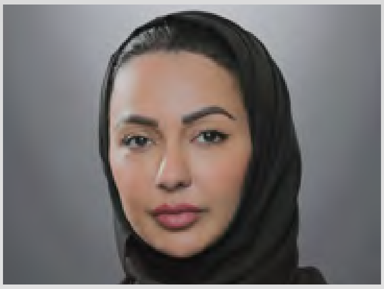
Mrs. Lama Ghazzaoui

Current position
- Chief Financial Officer

Former position
- Chief Financial Officer, NCB

Qualifications
- Certified Public Accountant (CPA) - State of Colorado,USA
- Bachelor of Science in Accounting, UK

Experience
- Over 18 years of experience in banking. Joined SABB in March 2021 as CFO, coming from Saudi National Bank where she served as CFO from 2013. Has wide experience in many banking, finance, and accounting related areas, as well as previous experience in external auditing.



Mrs. Ghada Al-Jarbou

Current position
- Chief Operating Officer

Former position
- General Manager of Global Liquidity and Cash Management, SABB

Qualifications
- Master of Business Administration from University of Bath, UK
- Bachelor of Computer Science from Kind Saud University, KSA

Experience
- Over 23 years of experience in banking. Joined SABB in 1998 and worked in different departments; IT, HR, Retail Banking, and Corporate Banking.

Mrs. Faten Abalkhail

Current position
- Company Secretary

Former position
- Integration Management Office / Head of Planning and Control, Strategy Department and Finance Department, Alawwal Bank

Qualifications
- Bachelor of Home Economics and Nutrition
- Diploma in Computer Sciences/ Programming and Information Systems

Experience
- Over 22 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. Musaifer Alosaimi

Current position
- Chief Information Officer

Former position
- Head of Information Technology Development, SABB

Qualifications
- Diploma in Computer Engineering.

Experience
- Over 27 years of experience in banking and technology. Started career with Saudi Arabian Monitoring Authority and worked for them for more than 10 years. Joined SABB in 2005, and progressed through different roles in the Information Technology department.

Mr. Ali Alqahtani

Current position
- Chief Compliance Officer

Former position
- Deputy Chief Compliance Officer and Head of Financial Crime Compliance, SABB

Qualifications
- Bachelor of Law from Saudi Electronic University, Saudi Arabia
- Certified AML Specialist from Association of Certified Anti-Money Laundering Specialists, USA

Experience
- Over 20 years of experience in the Saudi banking system, across financial crime compliance – anti-money laundering, sanctions and countering terrorist financing

Mr. Abdulhamid Alharbi

Current position
- Chief Internal Auditor

Former position
- Head of Special Assets, Special Asset Management, SABB

Qualifications
- Bachelor of Business Management, Heritage College, USA

Experience
- Over 29 years of experience in banking. Joined SABB in 1992 and worked in different departments; INA, Credit, Corporate and Commercial Banking and Special Asset Management.

Biographies of Executive Management As at 31December 2021 (continued)

Mrs. Mashael Mazyad Alshebaiky

Current position

- Chief Legal Officer

Former position

- Legal Advisor, Abuhimed AlSheikh and Alhagbani in cooperation with Clifford chance LLP

Qualifications

- Master of Laws (LLM), Duke University, North Carolina, USA
- Bachelor of Arts in Law, Prince Sultan University, KSA

Experience

- Over 9 years of experience in the field of legal consultancy gained in her work at various financial institutions, which gave her the necessary professional skills in the fields of advisory and legal work.

Mr. Khalid Abdullah Ismail

Current position

- Chief Credit Officer

Former position

- General Manager Special Asset Management, SABB

Qualifications

- Bachelor of Business Management, Accounting, Boston College, USA

Experience

- Over 15 years of experience in the banking sector and various financial institutions. He has deep knowledge and management experience in corporate banking relationship management, private asset management, business development and production.

Mr. Faris Fehied Alshareef

Current position

- Chief Strategy Officer

Former position

- Head of Management Information Planning and Analysis, SABB

Qualifications

- Bachelor of Accounting, King Fahad University of Petroleum and Minerals

Experience

- Joined SABB in 2018 as a Head of Management Information Planning and Analysis. He is a senior financial professional with over 10 years in various finance leadership roles (external audit, financial planning and analysis, commercial finance and exposed to various boards of directors and senior governance bodies such as Bahri Board of Directors (as well as PIF, Aramco, Ministry of Finance, CEO of Saudi Airlines and others).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Changes to the Board during 2021

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.

The Ordinary General Assembly meeting on 18 December 2019 approved the election of the Board of Directors for a term of three years, started from 1 January 2020 until 31 December 2022.

SABB's Managing Director ('MGD'), David Dew retired on 23 May 2021. He was replaced by Mr. Tony Cripps, a representative of HSBC Holdings B.V.

In addition, the Board appointed Mr. Sulaiman AlGwaiz as an independent Director to fill the place on the Board after the resignation of Mrs. Maria Ramos. This appointment will be ratified at the first General Assembly meeting.

Board meetings

During 2021, the Board held seven meetings. The following table shows details of those meetings and the respected attendance.

	Meeting dates						
	18 Mar 2021	31 Mar 2021	30 Apr 2021	14 Jul 2021	20 Sep 2021	29 Nov 2021	15 Dec 2021
Mrs. Lubna Suliman Olayan	✓	✓	✓	✓	✓	✓	✓
Mr. Saad Abdulmohsen Al-Fadly	-	✓	✓	✓	✓	✓	✓
Eng. Mohammed Omran Al-Omran	✓	✓	✓	✓	✓	✓	✓
Eng. Khalid Abdullah Al-Molhem	✓	✓	✓	✓	✓	-	✓
Mr. Stephen Moss	✓	✓	✓	✓	✓	-	✓
Mr. Samir Assaf	-	✓	✓	✓	✓	✓	✓
Mr. Martin Edward Powell	✓	✓	✓	✓	✓	✓	✓
Mr. Stuart Gulliver	✓	✓	✓	✓	✓	✓	✓
Mr. Ahmed Farid Al-Aulaqi	✓	✓	✓	✓	✓	✓	✓
Mr. David Dew[1]	✓	✓	✓	-	-	-	-
Mr. Tony Cripps	-	-	-	✓	✓	✓	✓
Mr. Sulaiman A. AlGwaiz[2]	-	-	-	-	-	✓	✓

[1] **David Dew retired on 23 May 2021 and was replaced by Tony Cripps**
[2] **Sulaiman A. AlGwaiz was appointed on 1 November 2021**

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 Law. SABB's Board has endorsed the terms of reference of all Board sub-committees, while the meeting of the General Assembly has approved the 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's Corporate Governance Document, the SABB Board of Directors annually conducts a self-assessment of its performance as well as of the performance of its members and sub-committees.

For this year, SABB assigned an independent external agency, to conduct a full assessment of the Board, Board sub-committees and Board Directors. The evaluation was in line with CMA and SAMA corporate governance standards, norms of corporate governance in the region and international best practices.

Board sub-committees (continued)

Board and sub-committee attendance during 2021

	Independent	Board	EXCOM	AUCOM	NRC	BRC
Number of meetings held	-	7	13	8	5	4
Chair						
Mrs. Lubna Suliman Olayan	-	7/7	13/13	-	-	-
Vice Chair						
Mr. Saad Abdulmohsen Al-Fadly	-	6/7	-	-	5/5	-
Executive Director						
Mr. Tony Cripps	-	4/7	6/13	-	-	
Mr. David Dew[1]	-	3/7	7/13	-	-	-
Non-Executive Directors						
Eng. Khalid Abdullah Al-Molhelm		6/7	13/13	-	-	-
Mr. Ahmed Al-Aulaqi	✓	7/7	12/13	-	5/5	-
Mr. Sulaiman A. AlGwaiz[2]	✓	2/7	-	-	-	-
Mr. Martin Edward Powell	✓	7/7	-	8/8	-	4/4
Eng. Mohammed Omran Al-Omran	-	7/7	13/13	-	-	-
Mr. Stephen Moss	-	6/7	-	-	-	4/4
Mr. Samir Assaf	-	6/7	-	-	5/5	-
Mr. Stuart Gulliver	✓	7/7	-	8/8	-	4/4
Other Board sub-committee members						
Mr. Andrew Jackson	-	-	-	8/8	-	-
Mr. Khalid Saleh Al-Subayel	-	-	-	7/8	-	-
Mr. Saad Saleh Al-Sabti	-	-	-	8/8	-	-
Mr. Abdulhameed Almuhaidib	-	-	-	-	-	4/4
Mrs. Christine Lynch	-	-	-	-	-	4/4

[1]David Dew retired on 23 May 2021 and replaced by Tony Cripps.
[2]Suliman A. AlGwaiz was appointed on 1 November 2021.

Executive Committee (‘EXCOM’)

Members

- Mrs. Lubna Suliman Olayan (Chair - Non-Executive)
- Mr. Tony Cripps (Executive Director)
- Eng. Khalid Abdullah Al-Molhelm (Non-Executive Director)
- Eng. Mohammed Omran Al-Omran (Non-Executive Director)
- Mr. Ahmed Farid Al-Aulaqi (Independent Director)

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. 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.

In line with the corporate governance requirements and best practice, the terms of reference of the Committee were revised and approved by the Board on 20 September 2021.

In 2021, the Committee held 13 meetings. The table below shows details of those meetings and the record of attendance of members during the year.

EXCOM meetings during 2021

	Mrs. Lubna Olayan[1]	Eng. Al-Molhelm	Eng. Al-Omran	Mr. Al-Aulaqi	Mr. Tony Cripps[2]	Mr. David Dew[3]
24 Jan	✓	✓	✓	-	-	✓
23 Feb	✓	✓	✓	✓	-	✓
29 Mar	✓	✓	✓	✓	-	✓
9 Apr	✓	✓	✓	✓	-	✓
14 Apr	✓	✓	✓	✓	-	✓
27 Apr	✓	✓	✓	✓	-	✓
20 May	✓	✓	✓	✓	-	✓
13 Jul	✓	✓	✓	✓	✓	-
24 Aug	✓	✓	✓	✓	✓	-
19 Sep	✓	✓	✓	✓	✓	-
25 Oct	✓	✓	✓	✓	✓	-
22 Nov	✓	✓	✓	✓	✓	-
14 Dec	✓	✓	✓	✓	✓	-

[1] Mrs. Lubna Olayan was appointed as Chair of ExCom on 10 June 2021.

[2] Mr. Tony Cripps was appointed as a member of ExCom on 10 June 2021.

[3] Mr. David Dew retired on 23 May 2021.

Audit Committee ('AUCOM')

Members

- Mr. Martin Edward Powell (Chair - Independent Director)
- Mr. Stuart Gulliver (Independent Director)
- Mr. Andrew Jackson (Non-Board member)
- Mr. Saad Saleh Al-Sabti (Non-Board member)
- Mr. Khalid Saleh Al-Sebayel (Non-Board member)

Roles and responsibilities

The AUCOM monitors the Bank's internal audit function, supervises external auditors, reviews control weaknesses and system deficiencies, supervises the compliance functions 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 the 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 28 January 2020 the Ordinary General Assembly of the Bank convened and approved the formation of the Audit Committee (AUCOM) for a term of three years which commenced on 28 January 2020 to 31 December 2022, and the Shareholders approved the appointment of Mr. Martin Powell, Mr. Saad Al-Sabti and Mr. Khalid Al-Sebayel as Audit Committee members starting from 28 January 2020. The Ordinary General Assembly of the Bank convened on 22 April 2020 and appointed Mr. Stuart Gulliver and Mr. Andrew Jackson as additional members of the Audit Committee with effect from 22 April 2020 until the end of the current committee term 31 December 2022.

Board sub-committees (continued)

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 a year and in 2021, held eight meetings. The following table shows details of those meetings and the record of attendance of members during the year.

AUCOM meetings during 2021

	Mr. Martin Powell	Mr. Stuart Gulliver	Mr. Andrew Jackson	Mr. Saad Al-Sabti	Mr. Khalid Al-Sebayel
21 Feb	✓	✓	✓	✓	✓
30 Mar	✓	✓	✓	✓	✓
25 Apr	✓	✓	✓	✓	✓
12 Jul	✓	✓	✓	✓	✓
2 Aug	✓	✓	✓	✓	✓
21 Sep	✓	✓	✓	✓	✓
25 Oct	✓	✓	✓	✓	✓
13 Dec	✓	✓	✓	✓	-

Nomination and Remuneration Committee ('NRC')

Members

- Mr. Ahmed Al-Aulaqi (Chair - Independent Director)
- Mr. Saad Al-Fadly (Non-Executive Vice Chair)
- Mr. Samir Assaf (Non-Executive Director)

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.

In line with the corporate governance requirements and best practice, the terms of reference of the Committee were revised and approved at the AGM on 22 April 2020.

NRC meets at least twice a year and in 2021, the Committee held five meetings. The following table shows details of those meetings and the record of attendance of members during the year.

NRC meetings during 2021

	Mr. Saad Al-Fadly	Mr. Samir Assaf	Mr. Ahmed Al-Aulaqi
4 Feb	✓	✓	✓
20 Feb	✓	✓	✓
31 Mar	✓	✓	✓
20 Sep	✓	✓	✓
15 Dec	✓	✓	✓

Board Risk Committee ('BRC')

Members

- Mr. Stuart Gulliver (Chair- Independent Director)
- Mr. Martin Powell (Independent Director)
- Mr. Stephen Moss (Non-Executive Director)
- Mrs. Christine Lynch (Non-Board member)
- Mr. Abdulhameed Almuhaidib (Non-Board member)

Roles and responsibilities

The BRC is responsible 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.

In line with the corporate governance requirements and best practice, the terms of reference of the Committee were revised and approved by the Board on 31 March 2021.

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

In 2021, the Committee held four meetings. The following table shows details of those meetings and the record of attendance of members during the year.

BRC meetings during 2021

	Mr. Stuart Gulliver	Mr. Martin Powell	Mrs. Christine Lynch	Mr. Stephen Moss	Mr. Abdulhameed Almuhaidib
30 Mar	✓	✓	✓	✓	✓
12 Jul	✓	✓	✓	✓	✓
21 Sep	✓	✓	✓	✓	✓
13 Dec	✓	✓	✓	✓	✓

Board sub-committees (continued)

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

Mr. Khalid Saleh Al-Subayel
AUCOM member

Current position
- Audit/Compliance and Risk Committee member, Saudi EXIM Bank
- Audit and Risk Committee member, The National Center for Performance Measurement
- Audit Committee Member for NAS Holding
- Audit and Risk Committee member for National Housing Company

Former position
- Director of the Banking Inspection Department for Saudi Central Bank
- Audit Committee member for the Mediterranean & Gulf Insurance & Reinsurance

Qualifications
- Bachelor of Literature from King Saud University, KSA.
- Master of Accounting from University of Illinois, Chicago, US
- Banking Diploma from IPA, KSA
- Professional certificates CPA

Experience
- 27 years of experience in various leadership positions in the Saudi Central Bank (SAMA)

Mr. Saad Saleh Al-Sabti
AUCOM member

Current position
- Audit Committee member in Misk Charity Foundation
- Audit Committee member of Crown prince private affairs.
- Member of Shura Council
- Partner in Alsabti ecovis company for auditing and consulting

Former position
- Protiviti – Executive MP
- Board and Audit Committee member at Riyadh Chamber of Commerce
- RSM Managing Partner for AL Sabti & Bannaga
- Chief Internal Auditor for Alfaisaliah Group
- Audit Committee member for Saudi Venture Capital

Qualifications
- Bachelor of Accounting from King Saud University, KSA.
- Master of Accounting from Walsh College, USA
- Professional certificates including CPA.

Experience
- Experience in the financial and accounting sector, especially in the external and internal audit.

Mr. Andrew Jackson
AUCOM member

Current position
- Chairman Rift Valley Roses Ltd
- Board Member and Chair of the Audit Committee Hemingway's Hospitality Ltd
- Director Lima Labs Ltd
- Chief Executive Officer of Jackson Consultants Ltd

Former position
- CEO for KPMG Gulf Holding (Saudi Arabia, Kuwait, Jordan)
- Member of the Executive Committee and Remuneration Committee for KPMG ELLP (Europe)
- Executive Committee (the highest body of the firm) and Chairman of the Governance Committee for KPMG East Africa

Qualifications
- Bachelor of Computer Science and Accountancy from Manchester University, UK

Experience
- Specialised in the financial sector and has worked in over 40 different countries

Mrs. Christine Lynch
BRC Member

Current position

Board member of:

- HSBC Bank Oman SAOG

Former position

Board member of:

- HSBC Trust Company AG
- Fondation de prevoyance des entites suisses du Groupe HSBC

Qualifications

- Bachelor of Arts in Modern Languages and European Studies from the University of Bath, UK
- Bachelor of Science in Financial Services from the University of Manchester's Institute of Science and Technology, UK

Experience

- Experience of over 25 years in leading positions in the risk management sector

Mr. Abdulhameed Almuhaidib
BRC Member

Current position

- Executive Managing Director for Noor Energy (UAE)
- Foremost Developer of privately owned power and water project (Saudi Arabia and United Arab of Emiratis)
- Board member for HSBC Saudi Arabia (Saudi Arabia)

Former position

- Board member for Shuaa Energy 1 PSC
- Board member of First National Operation & Maintenance Co. (NOMAC)
- Board member of Internal Audit Committee Chairman for Shuqaiq Arabian Water & Electricity Company
- Board member for International Bowarege Co. for Water Desalination Ltd

Qualifications

- Bachelor of Business Administration with major in Finance from the University of Miami, USA
- Master of Business Administration from the Pepperdine University Graziadio School of Business and Management, Malibu, California, USA

Experience

- Business leader with over a decade of progressive experience in projects and corporate management across different business sectors

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, guidance and online risk training 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 the operational and resilience risk function, other risk stewards internal audit, as defined by the three 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 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

First 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.
Second 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.
Third 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's 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 in setting the Bank's overall risk appetite and managing the Bank's activities within it. The RMC reviews 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 at least 10 times a year and the Board sub-committees provide oversight of these committees, reviewing key performance metrics against 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 both risks which we actively accept and engage in as well as risks that are an inevitable function of doing business. Risks covered include credit, market, interest rate, liquidity and funding, operational and resilience risk.

Risk appetite statements ('RAS') are deployed at the Bank level for all key risk categories and at the business level to document appropriate risk appetite and limits for major lines of business.

SABB's risk appetite is reviewed and approved by the Board at least annually. 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.

During the year the Bank has conducted multiple regulatory and internally initiated stress tests to evaluate potential outcomes of the COVID-19 pandemic and other risk factors on key economic indicators and consequently to the Bank's risk profile. The Bank's stress testing shows the Bank is adequately capitalised and sufficiently liquid to weather severe but plausible stress events.

Risk governance (continued)

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 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. 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.
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.
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 - 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').

Principal risk types (continued)

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 is 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 control and manage this risk, the Board of Directors have approved a range of risk appetite and tolerance limits, including but not limited to the Liquidity Coverage Ratio, the Net Stable Funds Ratio, Loan to Deposit Ratio, SAMA Liquidity Ratio as well as a series of concentration limits on the source of funding and its maturity profile. All metrics are closely monitored by the first line of defence risk owners, namely Treasury and the Asset Liability and Capital Management (ALCM) team, together with regular oversight and monitoring by Senior Management (via ALCO) and the Board Risk Committee (BRC). The Bank conducts regular stress testing under a range of severe but plausible scenarios under the framework of its Individual Liquidity Adequacy Assessment Process (ILAAP), providing the Bank with insight into its ability to continue to operate effectively in support of its customers throughout the stress period and beyond. 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. A Liquidity Contingency Funding Plan ('CFP') has also been developed to provide a framework and guidance for both the risk owners and Executive Management in the event of an emerging or actual liquidity crisis. The CFP establishes early warning indicators (EWIs), whose ongoing monitoring forewarns Management of an impending stress, sets out responsibilities, and provides a series of potential mitigating actions that Management may select depending on the nature and severity of the situation. The CFP is reviewed and updated on at least an annual basis and is also subject to ongoing testing to ensure the operational effectiveness of the Bank's mitigating actions.
Shariah risk	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 pronouncements, guidelines and resolutions issued by SABB's Shariah Committee in respect of the development, execution, delivery and marketing of Islamic products, or of an opinion 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 advisory, risk management, and review training and awareness seminars are undertaken on Islamic banking principles, product and 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, both at business and the dedicated Islamic Financial 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 which impact business and risk management. The Shariah Committee reports directly to the Bank's Board.

Risk governance (continued)

Principal risk types (continued)

Operational risk	Operational risk is the risk taken to achieve the Bank's strategy or objectives due to 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 and Resilience Risk Committee and the RMC with quarterly updates to the BRC. To ensure continuous assessment of adequacy of control over operational risks, risk and control assessments are made and the controls identified are tested periodically by Control Owners and Business Risk Control Managers. Issues identified are recorded in the Operational Risk Repository System and the resolution of issues are monitored and followed up by risk and control owners and the status communicated to and monitored at governance committees. In addition, issues identified in other reviews including those conducted by internal audit, external audit and regulatory authorities are also communicated and followed up by the governance committees. Amongst a number of types of operational risk, the protection of the Bank's technology infrastructure and our customers' data is a key focus as more and more 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 compliant 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. The Bank took measures to mitigate the inevitable operational risks arising from this change in working practices and operational risks have been managed to an acceptable level during the year.
Reputational risk	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.

Internal controls

The ultimate responsibility for the system of internal controls resides with the Board. SABB's Internal Control System is designed to manage the risk of failure to achieve the Bank's strategic objectives. SABB's Management has established and maintains 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 that 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 are 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 of information produced.

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

During 2021, AUCOM reviewed various reports on the adequacy of internal controls and systems including the financial statements and risk reports. The AUCOM's discussions and decisions are documented in the meetings' minutes and matters requiring attention are escalated to the Board.

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

AUCOM also reviewed the effectiveness of the system of internal control and procedures for compliance with 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 a 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.

Internal controls (continued)

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	
SABB Principles	SABB Principles overlay all policies and procedures, informing and connecting our purpose, values, strategy and risk management. In other words, why we exist, who we are, what we do and how we deliver.
Policies and procedure framework	SABB has a strong policies and procedures framework governed by the "Procedures of SABB Manuals". 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 and resilience 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, the Fraud High Committee, the IT Steering Committee, the Customer Experience Steering Committee, the Information Security Risk Committee and the Operational and Resilience Risk 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 Risk Stewards (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) to provide reasonable assurance to the Management about the adequacy of the controls.
Financial reporting	SABB's financial reporting process for preparing the Financial Statements as the year ended 31 December 2021 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.
Annual operating plans	Annual operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that SABB is prepared to take in executing its strategy, are prepared at business and functional levels, and set out the key business initiatives and the likely financial effects of those initiatives.
Governance arrange-ments	Governance arrangements are in place to provide oversight of, and advice to the Board on, material risk related matters. These are affected 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 (AIM) 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 2021, 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 2021 confirmed that systems and procedures for the ongoing identification, evaluation and management of significant risks faced by SABB were in place throughout the year and no significant issues have been identified. These procedures enabled SABB to discharge its obligations under the rules and regulations issued by SAMA and the standards established by the Board.

Board 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

Related party transactions

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

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

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

	2021	2020
The HSBC Group:		
Due from banks and other financial institutions	1,135,263	1,819,706
Investments	10,779	111,709
Fair value derivatives, net	3,421	20,812
Due to banks and other financial institutions	575,837	677,738
Commitments and contingencies	4,061,265	3,374,514

	2021	2020
Associates:		
Investments	583,359	619,232
Loans and advances	275,000	1,501
Other assets	47,726	21,923
Customer deposits	461,085	476,738
Other liabilities	-	37
Commitments and contingencies	1,303,655	1,503,428

	2021	2020
Directors, board committees, other major Shareholders, key management personnel and their affiliates:		
Investments	3,769,568	664,344
Loans and advances	15,101,994	5,680,310
Customers' deposits	11,480,071	7,606,791
Positive fair value derivatives, net	72,626	56,962
Debt securities issued	500,000	750,000
Other liabilities	18,148	14,532
Commitments and contingencies	4,756,529	787,214

Related parties (continued)

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

	2021	2020
Related mutual funds:		
Investments	363,510	361,673
Customers' deposits	17,440	47,546
Debt securities issued	212,000	212,000

	2021	2020
Subsidiaries:		
Other assets	34,000	34,000
Related mutual funds:		
Investments	578,649	516,848

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

	2021	2020
Special commission income	254,118	149,269
Special commission expense	59,951	94,684
Fees and commission income	127,408	40,040
General and administrative expenses	73,615	54,708
Service charges paid to HSBC group	30,247	29,906
Service charges recovered from associate	24,320	25,227
Proceeds from sale of non-current assets held for sale	79,895	-
Profit share paid to associate relating to investment banking activities	28,084	24,653
Directors' and board committees' remuneration	5,610	5,943

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

	2021	2020
Short-term employee benefits *	35,062	45,117
Termination benefits	746	3,081
Other long-term benefits	13,800	17,069
Share-based payments	12,944	8,681

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

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

Transactions between the Bank and any Related Party, and any business or contract to which the Bank is a party and in which a Director of the Bank, a Senior Executive or any person related to any of them is or was interested, are disclosed below and in note 35 of the 2021 Audited Consolidated Financial Statements.

No	Related party	Relation to related party	Name of the party with direct or indirect Interest, major shareholding or external Auditor	Value	Nature of business	Agreement Annually/one time
1	Saudi Xerox Agen Co	Board member / Shareholder	Mrs. Lubna Olayan	SAR 3,349,035	Statement print	Annually
2	Schindler Olayan Elevators	Board member	Mrs. Lubna Olayan	SAR 74,516	Elevator maintenance	Annually
3	SIMAH	21.87% owned by SABB	Mr. Bandar G. Ghashyan	SAR 9,175,029	SIMAH Membership agreement	Annually
4	HSBC Bank Middle East Limited (HBME)	Board member	Mr. Stephen Moss Mr. Samir Assaf Mr. Tony Cripps	SAR 13,881,000	PLA (Performance level agreement) HBME Murex (Software)	Annually
5	HSBC Holdings	Board member / major Shareholder	Mr. Stephen Moss Mr. Samir Assaf Mr. Tony Cripps	SAR 22,194,000	Intra Group service agreement for HGHQ	Annually
6	SABB Takaful	65% owned by SABB	Mrs. Maha Al-Sudairi Mr. Bashar Al-Auinabit Mr. Faris F. Al-Shareef Mr. Yasir Al-Barrak	SAR 25,904	Public liability	Annually
7	HSBC Bank plc	Board member	Mr. Stephen Moss Mr. Samir Assaf Mr. Tony Cripps	GBP 562,310	Intra Group service agreement for HSBC UK	Annually
8	HSBC Bank Canada	Board member	Mr. Stephen Moss Mr. Samir Assaf Mr. Tony Cripps	CAD 16,012	Intra Group service agreement for HSBC Canada	Annually
9	HSBC Saudi Arabia Ltd (IBSA)	Board member / 49% owned by SABB	Mr. Ali Al Sabhan Mr. Majed Najm Mr. Mohammed Abdullatif Al Shaikh Mr. Abdulhamid F Al Harbi Mr. Stephen Moss Mr. Samir Assaf Mr. Tony Cripps	SAR 24,320,000	Services agreement	Annually
10	HSBC Saudi Arabia (HBSA SA)	Board Member /49% owned by SABB	Mr. Stephen Moss Mr. Samir Assaf Mr. Tony Cripps Mr. Ali Al Sabhan Mr. Majed Najm Mr. Mohammed Al Shaikh Mr. Abdulhamid Al Harbi	On-going	Funding to Alawwal Invest company to consummate the transfer of the: (i) asset management business; (ii) the retail margin lending business; and (iii) the retail brokerage business, from HSBC SA	One time
11	Tahakom Investments Company	Senior Executive	Mr. Khaild Ismail	SAR 67,065	Customers ID verification (KYC)	Annually
12	ELM	Senior Executive	Mr. Khaild Ismail	SAR 9,942,784	Yakeen & Natheer online services	Annually
13	SANID	20% owned by SABB	Mrs. Jehan Tashkandi	SAR 22,262,566	ATM replenishment agreement	Annually
14	Al Bustan Company	Board member	Mrs. Lubna Olayan	SAR 2,401,931	One ATM and four staff housing rentals	Annually
15	Olayan Real Estate Co.	Board member	Mrs. Lubna Olayan	SAR 792,000	Branch site rentals	Annually
16	Saudi Payments	Senior Executive	Mr. Nawaf Jamal Mohammed Al-Husseini	SAR 750,000	IPS testing onsite professional services	Annually
17	Arabian Business Machines Co.	Board member / Shareholder	Mrs. Lubna Olayan	SAR 242,844	-	One time
18	HSBC Saudi Arabia Ltd (IBSA)	Board Member / 49% Owned by SABB	Mr. Tony Cripps Mr. Stephen Moss Mr.Samir Assaf Mr. Ali Al Sabhan Mr. Majed Najm Mr. Mohammed Abdullatif Al Shaikh Mr. Abdulhamid F Al Harbi	SAR 28,084,118	-	Profit Share

Related parties (continued)

Arrangements for Shareholders' waiver of rights to dividends

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

Notification relating to substantial shareholdings

During the year, the Bank did not receive any notification from Shareholders or relevant persons regarding 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 2021	31 Dec 2021	Shares	%
HSBC Holdings B.V	636,986,300	636,986,300	-	-
Olayan Saudi Investment Company Ltd.	418,026,857	416,365,671	(1,661,186)	-0.40
General Organisation for Social Insurance (GOSI)	109,012,330	131,135,645	22,123,315	20.3

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 through General Meetings and the Share Registry unit.

Bank requests for Shareholders' register

The Bank regularly requests information on the constituents of the Shareholder base from the Tadawul Stock Exchange. The requests are detailed below:

	Date	Reason
1	03 Jan 2021	Update of Shareholder records
2	31 Jan 2021	Update of Shareholder records
3	28 Feb 2021	Update of Shareholder records
4	31 Mar 2021	AGM
5	29 Apr 2021	Update of Shareholder records
6	31 May 2021	Update of Shareholder records
7	30 Jun 2021	Update of Shareholder records
8	29 Jul 2021	Update of Shareholder records
9	29 Jul 2021	Update of Shareholder records
10	09 Aug 2021	Dividend entitlement
11	31 Aug 2021	Update of Shareholder records
12	30 Sep 2021	Update of Shareholder records
13	31 Oct 2021	Update of Shareholder records
14	30 Nov 2021	Update of Shareholder records
15	30 Dec 2021	Update of Shareholder records

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 bylaws 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 2021, SABB held one Extra Ordinary General meeting as follows:

Extraordinary General Meeting 31 March 2021 (Annual General Meeting)
In line with the regulatory guidelines, SABB held an Extraordinary General Meeting on 31 March 2021 via modern technology with the required quorum and attendance of 74.28% of Shareholders.

The resolutions of the meeting are publicly available on the Tadawul stock exchange 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:

	31 March 2021
Mrs. Lubna Suliman Olayan	✓
Mr. Saad Abdulmohsen Al-Fadly	✓
Eng. Khalid Abdullah Al-Molhem	✓
Eng. Mohammed Omran Al-Omran	✓
Mr. Ahmed Al-Aulaqi	✓
Mr. Martin Edward Powell	✓
Mr. David Dew	✓
Mr. Stephen Moss	✓

Directors' and Senior Executives' interests

Directors' interests (including relatives)

Name of Stakeholder	No. of shares		Change	
	1 Jan 2021	31 Dec 2021	Shares	%
Mrs. Lubna Suliman Olayan	43,087	129,515	86,428	200.6
Eng. Khaled Abdullah Al-Molhem	53,119	57,414	4,295	8.1
Eng. Mohammed Omran Al-Omran	52,183,643	52,183,643	-	-
Mr. Saad Abdulmohsen Al-Fadly	-	-	-	-
Mr. David Dew[1]	-	-	-	-
Mr. Samir Assaf	-	-	-	-
Mr. Ahmed Farid Al-Aulaqi	1,677	1,677	-	-
Mr. Martin Edward Powell	-	-	-	-
Mr. Stephen Moss	-	-	-	-
Mr. Stuart Gulliver	-	-	-	-
Mr. Sulaiman Abdulrahman AlGwaiz	1,500	1	-1499	-100.0
Mr. Tony William Cripps	-	-	-	-

[1] Mr. David Dew retired from his position during 2021 with an effective date of 23 May 2021.

Senior Executives' interests (including relatives)

Name of Stakeholder	No. of shares		Change	
	1 Jan 2021	31 Dec 2021	Shares	%
Mr. David Dew[1]	-	-	-	-
Mr. Mathew Pearce	-	-	-	-
Mrs. Faten Abdullah Abalkhail	-	-	-	-
Mr. Majed Najm	124,236	147,084	22,848	18.4
Mr. Mohammed Al-Shaikh	208,705	253,937	45,232	21.7
Mr. Bashaar AlQunaibet	48,927	60,502	11,575	23.7
Mr. Tony William Cripps	-	-	-	-
Mrs. Lama A Ghazzaoui	-	-	-	-
Mrs. Maha Mohammed Al-Sudairi	-	-	-	-
Mr. Faris Fehied Alshareef	-	-	-	-
Mr. Yasser Ali Albarak	32,629	44,378	11,749	36.0

[1] Mr. David Dew retired from his position during 2021 with an effective date of 23 May 2021.

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 the SAMA Circular that sets out the maximum amount of remuneration and compensation and in-kind benefits paid to the Directors and the Board sub-committee members annually including the attendance fee. This is further supported by 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 2021 amounted to SAR 4,713,493 including attendance fees at Board meetings and Board sub-committees and special committees, namely: Executive Committee, Audit Committee, Nomination and Remuneration Committee, Board Risk Committee, Strategy Committee and Integration Committee. The compensation is paid towards the end of the year. During 2021, 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 following table 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**	**Senior executive appointments where SAMA 'no objection' is required**
Salaries and remuneration	2,400	1,408	12,663
Allowances	685	415	4,736
Annual and periodic bonuses[1]	-	-	15,550
Incentive schemes	-	-	-
Other remuneration or benefits in kind paid monthly or annually[2]	-	-	628

[1]Includes both cash and deferred bonus
[2]Includes end of service benefit for resigned Senior Executives, education benefit and accommodation rent

Board Remuneration:

	Fixed remunerations							Variable remunerations								
Name	Specific amount	Allowance for attending Board meetings	Total allowance for attending committee meetings	In-kind benefits	Remunerations for technical, managerial and consultative work	Remunerations of the Chair, Managing Director or Secretary if a	Total (SAR'000s)	Percentage of the profits	Periodic remunerations	Short-term incentive plans	Long-term incentive plans	Granted shares (insert the value)	Total	End-of-service award	Aggregate amount	Expenses allowance
First: Independent Directors																
Mr. Ahmed Farid Al-Aulaqi	450	35	90				575**									
Mr. Sulaiman A. AlGwaiz	58	10	-				68									
Mr. Martin Edward Powell	450	35	85				570*									
Mr. Stuart Gulliver	450	35	125				610*									
Total	**1,408**	**115**	**300**				**1,823**									
Second: Non-Executive Directors																
Mrs. Lubna Suliman Olayan	400	35	115				550*									
Mr. Saad Abdulmohsen Al-Fadly	400	30	55				485									
Eng. Mohammed Omran Al-Omran	400	35	70				505**									
Eng. Khalid Abdullah Al-Molhelm	400	30	115				545**									
Mr. Stephen Moss	400	30	70				500									
Mr. Samir Assaf	400	30	70				500									
Total	**2,400**	**190**	**495**				**3,085**									
Third: Executive Directors																
Mr. Tony Cripps	-	-	-				-									
Mr. David Dew	-	-	-				-									

*Pursuant to the Companies Law, CMA, and SAMA Corporate Governance regulations, which states that the remuneration cap per Director is SAR 500,000 with exceptions mentioned in The Companies Law, Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies and SAMA circulars.

**Remuneration and compensations paid to directors should not exceed SAR 500,000 annually, any payment of any additional due amounts will not be paid.

Remuneration
(continued)

Top five Senior Executives[5] (Including CEO[4] and CFO)

		Fixed remunerations			
	Senior Executives	Salaries	Allowances	In-kind benefits[2]	Total
1	Total (SAR'000s)	12,663	4,736	628	18,027

[1]Includes both cash and deferred bonus
[2]Includes end-of service benefit for resigned Senior Executives, education benefit and accommodation rent
[3]Long-term incentive plans include the Talent Retention Schemes
[4]The CEO is also an Executive Director
[5] Include previous CEO and CFO

Committee remuneration

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

	Fixed remuneration	Allowance for attending Board meetings	Total
EXCOM members	200	255	455
AUCOM members	550	195	745
NRC members	150	75	225
BRC members	450	100	550
Special committee for Project Chess	-	60	60
Special committee for Integration	-	70	70
Special committee for Branding	-	140	140
Special meetings for non-Excom members	-	30	30
Special meeting for non-Branding members	-	25	25

Variable remunerations						End-of-service award	Total remunerations for Board executives, if any[4]	Aggregate
Periodic remunerations[1]	Profits	Short-term incentive plans	Long-term incentive plans[3]	Granted shares (insert the value)	Total			Amount
7,980	-	-	4,800	7,570	20,350	-	13,824	38,377

Remuneration
(continued)

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 2021 amount to SAR 707 mln.

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

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

The Bank has currently two Share Based Equity Plan, under which the grant for the Bonus Deferral Program was made at various dates during 2019, 2020 and 2021 with a maturity period of three years from the respective grant dates and shares vesting is 33%, 33% and 34% for the first, second and third year respectively. As for the LTIP with a maturity of four years of the respective grant date and shares vesting is 30%, 20% and 40%, with remaining as cash rewards. As per the settlement method, the ownership of these shares will pass to the employees at the respective vesting dates, subject to satisfactory completion of the vesting conditions. The movement in the number of shares under Share Based Equity settled Bonus payment plans is as follows:

Movement in the number of shares under the Share Based Equity settled Bonus payment plans

	2021	2020
1 January	1,085,913	1,462,631
Forfeited	(109,698)	(294,009)
Exercised or expired	(485,447)	(819,241)
Granted during the year	4,100,543	736,532
31 December	**4,591,311**	**1,085,319**

The weighted average price of shares granted during the year was SAR 27.8 (2020: SAR 25.3)

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
4,591,311	151,513,263	31 Dec 2021	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 Limited[1]	Subsidiary	100%	Insurance agency for SABB Takaful	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[2]	Subsidiary	100%	Registration of real estate and to hold and manage collateral on behalf of SABB	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
Alawwal Invest	Subsidiary	100%	Engaged in investment services and asset management activities	SAR 400,000,000	Saudi Arabia
Alawwal Real Estate Company	Subsidiary	100%	Registration of real estate assets under its name on behalf of SABB	SAR 500,000	Saudi Arabia
Alawwal Insurance Agency Company[1]	Subsidiary	100%	Insurance agency	SAR 500,000	Saudi Arabia
Wataniya Insurance Company[3]	Associate	20%	Engaged in Shariah compliant insurance activities and offer family and general Takaful products	SAR 200,000,000	Saudi Arabia
HSBC Saudi Arabia	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 affecting 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[1]	Special purpose vehicle	50%		SAR 500,000	Saudi Arabia
Yanbu Asset Leasing Company[1]	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.
[1] **The Company's under process for closure.**
[2] **Company was closed in 2021**
[3] **SABB sold its entire stake in Wataniya to the Private Wealth Investment Holding Co**

Appointment of external auditors

The Extra Ordinary General Meeting of the Bank held on 31 March 2021, endorsed the selection of both Price Waterhouse Cooper PWC & KPMG Professional Services as External Auditors to audit the Bank's Consolidated Financial Statements and review Quarterly Interim Condensed Financial Statements as of the year ended 31 December 2021, in line with recommendations of AUCOM.

Accounting standards

The consolidated financial statements as of and for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ('SOCPA'); and are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's bylaws.

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 '000s	31 Dec 2021	31 Dec 2020	Change
5,000 million 10-year subordinated Sukuk due July 2030	5,000,000	5,000,000	-

The Sukuk was issued by SABB on 2 July 2020 and matures in July 2030. This is a Basel III compliant issuance, whereby the Bank has an option to repay the Sukuk after five years, subject to prior approval of the Saudi Central Bank and the terms and conditions of the agreement.

The Sukuk carries an effective special commission income rate at 6 months SAIBOR plus 195 bps payable semi-annually. The Sukuk is unsecured and is registered on Tadawul.

Syndicated borrowing

There are currently no outstanding syndicated loans.

Statutory payments

Statutory payments payable by the Bank during 2021 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 '000s
Zakat Settlement paid to ZATCA pertaining to previous fiscal years up to 2021	(320,407)
Advance Tax paid to ZATCA pertaining to the year 2021	(64,021)
Corporate Income Tax paid to ZATCA pertaining to the year 2021	(128,041)
Zakat paid to ZATCA pertaining to the year 2021	(119,696)
GOSI payments	(213,597)
Withholding tax	(59,590)
Other payments	(14,145)

Penalties

The table below includes penalties imposed by SAMA on SABB during 2021 and 2020:

	2021		2020	
Subject of violation	**Number of penalties**	**Fine (SAR)**	**Number of penalties**	**Fine (SAR)**
Violation of the SAMA's supervisory instructions	13	1,256,500	19	1,858,000
Violation of the SAMA's instructions for customer protection	2	3,168,800	3	10,890,400
Total	**15**	**4,425,300**	**22**	**12,748,400**

Various corrective and preventative 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
(continued)

Penalties imposed by other regulatory authorities

Reason for penalty	Authority	Amount (SAR)	Measures undertaken to remedy and avoid the penalties imposed
Delay in providing information to ZATCA	ZATCA	20,000	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Registration in GOSI	GOSI	500	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
System unavailability	SADAD	12,403	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Non-conformity with municipality requirements	Municipalities	288,000	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Non-conformity with Civil Defense requirements	Civil Defense	64,000	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Non-payment of Zakat to ZATCA	ZATCA	2,121	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Non-payment of VAT to ZATCA	ZATCA	4,433,315	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Delay in reporting information to ZATCA	ZATCA	3,877	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Licensing	Economic Cities and Special Zones Authority (ECZA)	5,000	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Non-conformity with Civil Defense requirements	Civil Defense	6,000	Various corrective and preventative measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the pertinent regulations.
Delay in reporting of information to ZATCA	ZATCA	9,606	Various corrective and preventative 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		**4,844,822**	

FINANCIAL STATEMENTS

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of The Saudi British Bank (A Saudi Joint Stock Company) ("SABB" or "the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis for opinion

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

Key audit matters

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

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

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

Key audit matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Carrying value of goodwill	
As at 31 December 2021, the Group has a goodwill carrying value of SAR 8.78 billion (2020: SAR 8.78 billion). Management has conducted a goodwill impairment test as at 31 December 2021. We considered the impairment assessment of goodwill as key audit matter because it involves determination of value in use ("VIU"). The VIU calculations are based on future forecasts, which are inherently uncertain, require significant judgment and are subject to the risk of management bias. Aside from profit forecasts, other significant judgments included in the VIU are discount rates and macroeconomic assumptions such as long-term growth rates. Consequently, there is a risk that if the judgments and assumptions underpinning the impairment assessments are inappropriate, then the goodwill balance may be misstated. *Refer to the summary of significant accounting policies note 2K for impairment policy for goodwill; and note 9 which contains the disclosure of goodwill and the impairment testing of goodwill.*	• We obtained an understanding of management's processes for impairment assessment and evaluated the design and implementation of controls. • We assessed whether the segmentation of the cash generating units ("CGUs") reflects our understanding of the business and how it operates. • We reviewed the strategic/operating plan as approved by the Board of Directors, and ensured that forecast information used in the goodwill impairment assessment conducted by management was consistent with this plan. • We involved our specialists and assessed the reasonableness of the VIU calculations and the underlying assumptions, including cash flow projections and discount rates used. • We reviewed the sensitivity of the results of the VIU model to the various key assumptions, such as long term growth rate and discount rate, within a reasonably possible range. • We performed cross-checks against other relevant market information. • We assessed the adequacy of disclosures in the consolidated financial statements.

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

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

Key audit matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Expected credit loss allowance against loans and advances	
As at 31 December 2021, the gross loans and advances of the Group were SAR 174.26 billion (2020: SAR 160.42 billion) against which an expected credit loss ("ECL") allowance of SAR 6.70 billion (2020: SAR 7.17 billion) was maintained. We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgment and this has a material impact on the consolidated financial statements of the Group. Furthermore, the COVID-19 pandemic continues to pose challenges to businesss, thus increasing the levels of judgment and uncertainty needed to determine the ECL under the requirements of IFRS 9 – *Financial Instruments* ("IFRS 9"). The key areas of judgement include: 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Group has applied additional judgments to identify and estimate the likelihood of borrowers that may have experienced SICR notwithstanding the government support programs that resulted in deferral of instalments to certain counterparties. These deferrals were not deemed to have triggered SICR by themselves in isolation of other factors. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including, but not limited to, assessment of financial condition of the counterparty; expected future cash flows; and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages.	• We obtained and updated our understanding of management's assessment of the ECL allowance against loans and advances, including the Group's internal rating model, accounting policy and model methodology, considering any key changes made during the year. • We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9. • We assessed the design and implementation, and tested the operating effectiveness, of the key controls (including relevant IT general and application controls) over: o the ECL model (including governance over the model; its validation during the year; any model updates performed during the year; and approval of the key inputs, assumptions and post model overlays, if any); o the classification of loans and advances into Stages 1, 2 and 3 and timely identification of SICR and the determination of default / individually impaired exposures; o the IT systems and applications supporting the ECL model; and o the data inputs into the ECL model. • For a sample of customers, we assessed: o the internal ratings determined by management based on the Group's internal rating model, and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the continued impacts of the COVID-19 pandemic, and also assessed that these were consistent with the ratings used as inputs in the ECL model;

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against loans and advances (continued)	
3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors, especially relating to the ongoing COVID-19 pandemic, that might not have been captured by the ECL model. The application of these judgments and estimates, particularly in the context of the COVID-19 pandemic, continues to result in heightened estimation uncertainty and the associated audit risk around ECL calculation as at 31 December 2021. *Refer to the significant accounting policy note 2B(v) for the impairment of financial assets; note 1.1(f) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 6 which contains the disclosure of impairment against loans and advances; note 30(ii) for details of credit quality analysis and key assumptions and factors considered in the determination of ECL; and note 37 for impact of the COVID-19 pandemic on ECL.*	○ management's computations for ECL; and ○ for selected loans, we assessed management's asessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any. • We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification, with specific focus on customers operating in sectors most affected by the COVID-19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the relevant Saudi Central Bank ("SAMA") circulars setting out the definition criteria as at 31 December 2021. • We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. • We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic. • We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2021. • Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights. • We assessed the adequacy of disclosures in the consolidated financial statements.

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

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

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Valuation of derivative financial instruments</td></tr>
<tr><td>
The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); currency, special commission rate and equity options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations.
The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flows or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, impact the hedge accounting as well.
We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modelling techniques.
As at 31 December 2021, the positive and negative fair values of derivatives held by the Group amounted to SAR 1.11 billion (2020: SAR 1.96 billion) and SAR 1.51 billion (2020: SAR 2.82 billion) respectively.
Refer to the basis of preparation note 1.1f(ii) to the consolidated financial statements which sets out the critical accounting judgements, estimates and assumptions regarding fair value measurement; the significant accounting policies note 2.D for the accounting policy relating to derivative financial instruments and hedge accounting; and note 11 which discloses the derivative positions as at the reporting date.
</td><td>

We assessed the design and implementation, and tested the operating effectiveness, of the key controls over management's process for valuation of derivatives and hedge accounting, including the testing of relevant automated controls covering the fair valuation process for derivatives.
We selected a sample of derivatives and:

We tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations;
We assessed the appropriateness of the key inputs to the derivative valuation models;
We involved our specialists to assist us to perform independent valuations of the derivatives and compared the result with management's valuation; and
We assessed the hedge effectiveness performed by the Group and corroborated the related hedge accounting.

We assessed the adequacy of disclosures around the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements.

</td></tr>
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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (A Saudi Joint Stock Company) (continued)

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

Other information included in the Group's 2021 Annual Report

The Board of Directors of the Bank ("the Directors") are responsible for the other information. Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

Auditors' responsibilities for the Audit of the Consolidated financial statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2021, and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2021.

PricewaterhouseCoopers

Bader I. Benmohareb
Certified Public Accountant
License Number 471

KPMG Professional Services

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

(20 Rajab 1443)
(21 February 2022)

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTS
LICENSE NO.25
C.R.1010371622

Lic No. 46
KPMG
KPMG Professional Services

The Saudi British Bank

Consolidated statement of financial position

As on 31 December

	Notes	2021 SAR'000	2020 SAR'000 (Restated)
ASSETS			
Cash and balances with SAMA	3	14,909,404	36,449,415
Due from banks and other financial institutions, net	4	5,993,175	5,105,498
Positive fair value of derivatives, net	11	1,109,845	1,961,306
Investments, net	5	64,903,698	60,831,007
Loans and advances, net	6	167,556,478	153,243,078
Investment in associates	7	583,359	619,232
Other assets	10	3,353,086	4,090,172
Property, equipment and right of use assets, net	8	3,246,167	3,169,427
Goodwill and other intangibles	9	10,740,811	10,982,536
Total assets		**272,396,023**	**276,451,671**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	14,663,666	17,620,956
Customers' deposits	13	186,760,612	189,110,140
Negative fair value of derivatives, net	11	1,514,592	2,819,086
Debt securities in issue	14	5,061,533	5,066,610
Other liabilities	15	11,367,103	11,073,139
Total liabilities		**219,367,506**	**225,689,931**
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	20,547,945	20,547,945
Share premium		8,524,882	17,586,986
Statutory reserve	17	20,547,945	11,485,841
Other reserves	18	(29,939)	324,937
Retained earnings		3,335,498	711,063
Total equity attributable to equity holders of the Bank		**52,926,331**	**50,656,772**
Non-controlling interest		102,186	104,968
Total equity		**53,028,517**	**50,761,740**
Total liabilities and equity		**272,396,023**	**276,451,671**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of income

For the year ended 31 December

	Notes	2021 SAR'000	2020 SAR'000 (Restated)
Special commission income	21	6,387,382	7,811,575
Special commission expense	21	(661,450)	(938,869)
Net special commission income		**5,725,932**	**6,872,706**
Fee and commission income	22	2,448,995	2,113,908
Fee and commission expense	22	(1,259,285)	(830,757)
Net fee and commission income		**1,189,710**	**1,283,151**
Exchange income, net		602,516	519,442
Income from FVSI financial instruments	23	163,177	158,205
Dividend income		14,828	25,284
Gains on FVOCI debt instruments, net	18	62,815	31,200
Gains on non-FVSI financial instruments		81,132	-
Other operating income / (losses), net		97,932	(12,022)
Total operating income		**7,938,042**	**8,877,966**
Provision for expected credit losses, net	30(a)	(453,743)	(1,630,931)
Goodwill impairment	9	-	(7,417,776)
Operating expenses:			
Salaries and employee related expenses	24	(1,760,091)	(1,846,897)
Rent and premises related expenses		(62,141)	(58,221)
Depreciation and amortization	8,9	(622,404)	(677,658)
General and administrative expenses		(1,268,366)	(1,630,006)
Total operating expenses		**(3,713,002)**	**(4,212,782)**
Income / (loss) from operating activities		**3,771,297**	**(4,383,523)**
Share in earnings of associates	7	131,429	81,936
Net income / (loss) for the year before Zakat and income tax		**3,902,726**	**(4,301,587)**
Provision for Zakat and income tax - Current	26	(606,323)	(222,325)
(Provision) / reversal for income tax - Deferred	26	(94,758)	356,316
Net income / (loss) for the year after Zakat and income tax		**3,201,645**	**(4,167,596)**
Attributable to:			
Equity holders of the Bank		3,204,427	(4,155,392)
Non-controlling interest	19	(2,782)	(12,204)
Net income / (loss) for the year after Zakat and income tax		**3,201,645**	**(4,167,596)**
Basic and diluted earnings / (losses) per share (in SAR)	25	**1.56**	**(2.02)**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	2021 SAR' 000	2020 SAR' 000 (Restated)
Net income / (loss) for the year after Zakat and income tax		**3,201,645**	**(4,167,596)**
Other comprehensive income for the year			
Items that will not be reclassified to consolidated statement of income in subsequent periods			
Net changes in fair value (FVOCI equity instruments)	18	368,819	(69,349)
Re-measurement of defined benefit liability	28	5,525	(16,160)
Items that will be reclassified to consolidated statement of income in subsequent periods			
Debt instrument at FVOCI:			
Net changes in fair value	18	(39,050)	157,710
Transfer to consolidated statement of income, net	18	(62,815)	(31,200)
Cash flow hedges:			
Net changes in fair value	18	7,940	(4,964)
Transfer to consolidated statement of income, net	18	(18,793)	(1,867)
Total other comprehensive income for the year		261,626	34,170
Total comprehensive income / (loss) for the year		**3,463,271**	**(4,133,426)**
Attributable to:			
Equity holders of the Bank		3,466,053	(4,121,222)
Non-controlling interest		(2,782)	(12,204)
Total		**3,463,271**	**(4,133,426)**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of changes in equity

For the year ended 31 December

	Notes	Share capital SAR'000	Share premium SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Proposed dividends SAR'000	Total SAR'000	Non-controlling interest SAR'000	Total Equity SAR'000
		Attributable to equity holders of the Bank								
2021										
Balance at the beginning of the year as reported		**20,547,945**	**17,586,986**	**11,485,841**	**324,937**	**760,954**	**-**	**50,706,663**	**55,077**	**50,761,740**
Effect of restatements	19	-	-	-	-	(49,891)	-	(49,891)	49,891	-
Restated balance as at 1 January 2021		**20,547,945**	**17,586,986**	**11,485,841**	**324,937**	**711,063**	**-**	**50,656,772**	**104,968**	**50,761,740**
Total comprehensive income for the year										
Net income / (loss) for the year after Zakat and income tax		-	-	-	-	3,204,427	-	3,204,427	(2,782)	3,201,645
Net changes in fair value of cash flow hedges	18	-	-	-	7,940	-	-	7,940	-	7,940
Re-measurement of defined benefit liability	28	-	-	-	5,525	-	-	5,525	-	5,525
Net changes in fair value of FVOCI equity instruments	18	-	-	-	368,819	-	-	368,819	-	368,819
Net changes in fair value of FVOCI debt instruments	18	-	-	-	(39,050)	-	-	(39,050)	-	(39,050)
Transfer to consolidated statement of income	18	-	-	-	(81,608)	-	-	(81,608)	-	(81,608)
					261,626	**3,204,427**	**-**	**3,466,053**	**(2,782)**	**3,463,271**
Purchase of treasury shares		-	-	-	(115,000)	-	-	(115,000)	-	(115,000)
Employee share plan reserve		-	-	-	(6,007)	-	-	(6,007)	-	(6,007)
Transfer of gain on disposal of equity instruments at FVOCI to retained earnings	18	-	-	-	(495,495)	495,495	-	-	-	-
Transfer to statutory reserve	17	-	(9,062,104)	9,062,104	-	-	-	-	-	-
2021 interim dividend, net of Zakat and income tax	16	-	-	-	-	(1,075,487)	-	(1,075,487)	-	(1,075,487)
Balance at the end of the year		**20,547,945**	**8,524,882**	**20,547,945**	**(29,939)**	**3,335,498**	**-**	**52,926,331**	**102,186**	**53,028,517**
2020										
Balance at the beginning of the year as reported – restated		**20,547,945**	**17,586,986**	**11,485,841**	**237,429**	**4,901,004**	**1,234,454**	**55,993,659**	**90,532**	**56,084,191**
Effect of restatements	19	-	-	-	-	(26,640)	-	(26,640)	26,640	-
Restated balance as at 1 January 2020		**20,547,945**	**17,586,986**	**11,485,841**	**237,429**	**4,874,364**	**1,234,454**	**55,967,019**	**117,172**	**56,084,191**
Total comprehensive income for the year										
Net loss for the year after Zakat and income tax		-	-	-	-	(4,155,392)	-	(4,155,392)	(12,204)	(4,167,596)
Net changes in fair value of cash flow hedges	18	-	-	-	(4,964)	-	-	(4,964)	-	(4,964)
Re-measurement of defined benefit liability	28	-	-	-	(16,160)	-	-	(16,160)	-	(16,160)
Net changes in fair value of FVOCI equity instruments	18	-	-	-	(69,349)	-	-	(69,349)	-	(69,349)
Net changes in fair value of FVOCI debt instruments	18	-	-	-	157,710	-	-	157,710	-	157,710
Transfer to consolidated statement of income	18	-	-	-	(33,067)	-	-	(33,067)	-	(33,067)
					34,170	**(4,155,392)**	**-**	**(4,121,222)**	**(12,204)**	**(4,133,426)**
Transfer of gain on disposal of equity instruments at FVOCI to retained earnings	18	-	-	-	(3,625)	3,625	-	-	-	-
Employee share plan reserve		-	-	-	56,963	-	-	56,963	-	56,963
2019 final dividend, net of Zakat and income tax		-	-	-	-	(11,534)	(1,234,454)	(1,245,988)	-	(1,245,988)
Balance at the end of the year		**20,547,945**	**17,586,986**	**11,485,841**	**324,937**	**711,063**	**-**	**50,656,772**	**104,968**	**50,761,740**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

Consolidated statement of cash flows

For the year ended 31 December

	Notes	2021 SAR'000	2020 SAR'000
OPERATING ACTIVITIES			
Net income / (loss) for the year before Zakat and income tax		**3,902,726**	**(4,301,587)**
Adjustments to reconcile net income before Zakat and income tax to net cash (used in) / generated from operating activities:			
Amortisation of premium on investments not held as FVSI investments, net		49,297	44,328
Depreciation and amortization	8 & 9	622,404	677,658
Income from FVSI financial instruments		-	(7,102)
Special commission expense on debt securities in issue		142,352	96,091
Gains on non-FVSI financial instruments		(81,132)	-
Gain on disposal of non-current assets held for sale	7 (a)	(11,760)	-
Income transferred to consolidated statement of income	18	(81,608)	(33,067)
Share in earnings of associates	7	(131,429)	(81,936)
Provision for expected credit losses, net	30 (a)	453,743	1,630,931
Goodwill impairment	9	-	7,417,776
Employee share plan reserve		(6,007)	56,963
		4,858,586	**5,500,055**
Change in operating assets:			
Statutory deposit with SAMA		(379,873)	(741,618)
Due from banks and other financial institutions		(133,179)	(50,128)
Investments held as FVSI		(145,608)	(263,641)
Loans and advances, net		(14,684,575)	(2,669,499)
Other assets and derivatives		1,532,465	(1,592,432)
Change in operating liabilities:			
Due to banks and other financial institutions		(2,957,290)	13,968,269
Customers' deposits		(2,349,528)	(3,053,307)
Other liabilities and derivatives, net		(953,159)	2,712,213
		(15,212,161)	**13,809,912**
Zakat and income tax paid	26	(513,343)	(739,708)
Net cash (used in) / generated from operating activities		**(15,725,504)**	**13,070,204**
INVESTING ACTIVITIES			
Proceeds from sale and maturity of investments not held as FVSI		9,859,005	10,742,404
Purchase of investments not held as FVSI		(13,419,575)	(10,582,837)
Proceeds from sale of non-current assets held for sale	7	79,894	-
Dividend received from investments in associates	7	99,168	122,902
Purchase of property, equipment and intangibles		(563,609)	(607,544)
Proceeds from disposal of property and equipment		106,190	130,490
Net cash used in investing activities		**(3,838,927)**	**(194,585)**
FINANCING ACTIVITIES			
Special commission paid on debt securities in issue		(147,429)	(29,233)
Proceeds from issuance of debt securities in issue, net		-	3,500,000
Payment of lease liabilities		(137,362)	(634,629)
Purchase of treasury shares		(115,000)	-
Dividends paid		(1,200,924)	(1,201,834)
Net cash (used in) / generated from financing activities		**(1,600,715)**	**1,634,304**
Net (decrease) / increase in cash and cash equivalents		**(21,165,146)**	**14,509,923**
Cash and cash equivalents at beginning of the year	27	**29,708,694**	**15,198,771**
Cash and cash equivalents at end of the year	27	**8,543,548**	**29,708,694**
Special commission received during the year		6,238,983	7,815,140
Special commission paid during the year		682,963	1,183,908
Supplemental non cash information			
ROU assets	8	607,260	897,633
Lease liabilities	15	647,888	911,723
Net changes in fair value and transfers to consolidated statement of income		261,626	34,170

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

Notes to the consolidated financial statements

For the year ended 31 December

1. General

The Saudi British Bank ('SABB') is a Saudi joint stock company incorporated in the Kingdom of Saudi Arabia and was established by a Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) by taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 108 branches (31 December 2020: 113 branches) in the Kingdom of Saudi Arabia. The address of SABB's head office is as follows:

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

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

SABB has 100% (31 December 2020: 100%) ownership interest in a subsidiary, SABB Insurance Agency Limited ("SIAL"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007) (the company is currently under liquidation). SABB holds 98% of its interest in SIAL directly and 2% indirect ownership interest through another subsidiary ("Arabian Real Estate Company Limited") incorporated in the Kingdom of Saudi Arabia. SIAL's principal activity is to act as an exclusive insurance agent for SABB Takaful Company ("SABB Takaful") (also a subsidiary company of SABB) within the Kingdom of Saudi Arabia.

SABB has 100% (31 December 2020: 100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited ("ARECO"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB holds 99% of its interest in ARECO directly and 1% indirect ownership interest through another subsidiary ("SABB Insurance Agency") incorporated in the Kingdom of Saudi Arabia. ARECO is engaged in the purchase, sale and lease of land and real estate for investment purposes.

SABB had 100% (31 December 2020: 100%) ownership interest in a subsidiary, SABB Real Estate Company Limited ("SRECO"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014), (the company was liquidated during the year). SABB held 99.8% of its interest in SRECO directly and 0.2% indirect ownership interest through another subsidiary ("Arabian Real Estate Company Limited") incorporated in the Kingdom of Saudi Arabia. SRECO's principal activity was the registration of real estate and to hold and manage collateral on behalf of SABB.

SABB has 100% (31 December 2020: 100%) directly held ownership interest in a subsidiary, SABB Markets Limited ("SABB Markets"), a limited liability company incorporated in the Cayman Islands under commercial registration No 323083 dated 21 Shaban 1438h (17 May 2017). SABB Markets is engaged in derivatives trading and repo activities.

SABB has 65% (31 December 2020: 65%) directly held ownership interest in a subsidiary, SABB Takaful, a joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumada Awal 1428H (6 June 2007). SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and to offer family and general Takaful products to individuals and corporates in the Kingdom of Saudi Arabia. SABB Takaful announced the signing of a non-binding Memorandum of Understanding with Walaa Cooperative Insurance Company on 14 July 2021 corresponding to 04/12/1442H to evaluate a potential merger between the two companies. SABB Takaful will continue to announce any material developments regarding the proposed merger in accordance with the relevant laws and regulations.

SABB has 100% (31 December 2020: 100%) directly held ownership interest in a subsidiary, Alawwal Invest ("AI"), a closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No.1010242378 dated 30 Dhul Hijjah 1428H (9 January 2008). Alawwal Invest was formed and licensed as a capital market institution in accordance with the CMA's Resolution No. 1 39 2007. Alawwal Invest's principal activity is to engage in securities activities regulated by the CMA related to dealing, managing, arranging, advising, and taking custody of securities.

SABB has 100% (31 December 2020: 100%) directly held ownership interest in a subsidiary, Alawwal Real Estate Company ("AREC"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010250772 dated 21 Jumada I 1429H (26 May 2008). AREC's principal activity is the registration of real estate assets under its name which are received by the Bank from its borrowers as collaterals and to hold and manage collateral on behalf of SABB.

SABB has 100% (31 December 2020: 100%) directly held ownership interest in a subsidiary, Alawwal Insurance Agency Company ("AIAC"), a limited liability company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010300250 dated 29 Muharram 1432H (4 January 2011). AIAC's principal activity is to act as an insurance agent for Wataniya Insurance Company (WIC), to sell its insurance products (the company is currently under liquidation).

SABB has 49% (31 December 2020: 49%) directly held ownership interest in HSBC Saudi Arabia an associate, a closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial registration No. 1010221555 dated 27 Jumada Al-Akhirah 1427H (23 July 2006). HSBC Saudi Arabia was formed and licensed as a capital market institution in accordance with the Resolution No. 37-05008 of the CMA dated 05/12/1426H corresponding to 05/01/2006G. HSBC Saudi Arabia's principal activity is to engage in the full range of securities activities regulated by the CMA related to dealing, managing, arranging, advising, and taking custody of securities. HSBC Saudi Arabia is an associate of SABB with HSBC Asia Holdings B.V. a related party and shareholder in SABB. The main activities of HSBC Saudi Arabia are to provide a full range of investment banking services including investment banking advisory, brokerage, debt, and project finance. It also manages mutual funds and discretionary portfolios.

SABB has a 0% (31 December 2020: 20%) directly held ownership interest in an associate, Wataniya Insurance Company ("WIC"), a joint stock company incorporated in the Kingdom of Saudi Arabia formed pursuant to Royal Decree No. M/53 dated Shawwal 21, 1430H (10 October 2009). During third quarter 2021, WIC was re-classified from an associate to an asset classified as held for sale after SABB announced its strategic direction to dispose of its share in WIC. During the fourth quarter 2021, SABB disposed of its entire ownership in WIC. WIC's principal activity was to engage in Shariah compliant insurance activities and to offer family and general Takaful products to individuals and corporates in the Kingdom of Saudi Arabia.

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December

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

- Saudi Kayan Assets Leasing Company.
- Rabigh Asset Leasing Company.
- Yanbu Asset Leasing Company.

SABB directly owns a 50% (31 December 2020: 50%) share in Saudi Kayan Assets Leasing Company and Rabigh Asset Leasing Company (The Company is currently under liquidation) and directly owns a 100% (31 December 2020: 100%) share in Yanbu Asset Leasing Company (the company is currently under liquidation) as a result of SABB's merger with Alawwal Bank (AAB) in June 2019. SABB does not consolidate these entities as it does not have the right to variable returns from its involvement with the entities or ability to affect those returns through its power over the entities excluding Yanbu Asset Leasing Company. The related underlying funding to the relevant borrowers is recorded on SABB's consolidated statement of financial position.

1.1. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared:

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of consolidated financial statements

The Bank presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 32(b).

e) Basis of consolidation

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

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

f) Critical accounting judgements and estimates

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

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

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

ECL methodology

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

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

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

Collateral and other credit enhancements held

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

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

ii. Fair value measurement

The Group measures financial instruments, such as investments and derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 34 to these consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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

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

vi. Determination of control over investees
The control indicators set out in note 1.1 (e) are subject to management's judgements.

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

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

ix. Provisions for liabilities and charges (refer to note 2M)
The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process being followed as per law.

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

2. Significant accounting policies

A. Changes in accounting policies
The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2020. Based on the adoption of new standards and in consideration of the current economic environment, the following accounting policies are applicable effective 1 January, 2021 replacing, amending, or adding to the corresponding accounting policies set out in 2020 annual consolidated financial statements.

New standards, interpretations and amendments adopted by the Group

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

Standard, interpretation, amendments	Description	Effective date
Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform Whilst adoption is not mandatory for September 2021 year ends, earlier application is permitted. Please also refer note 38 to these consolidated financial statements.	Annual periods beginning on or after 1 January 2021
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 June 2020

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December

The Group has early adopted the below standards, interpretation or amendment that has been issued but is not yet effective and do not have a significant impact on the consolidated financial statements of the Group.

Standard, interpretation, amendments	Description	Effective date
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2021
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023.

Accounting standards issued but not yet effective

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

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

Standard, interpretation, amendments	Description	Effective date
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment.	Deferred until accounting periods starting not earlier than 1 January 2024
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023
IFRS 17, 'Insurance contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.
A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts	The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	Annual periods beginning on or after 1 January 2023.

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

B. Financial assets and financial liabilities

i) Initial recognition, measurement and classification of financial assets

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

Amortised Cost (AC):

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

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

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

Fair value through other comprehensive income (FVOCI):
Debt instruments: a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVSI:

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

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

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

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

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

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

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

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

ii) Initial recognition, measurement and classification of financial liabilities

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

iii) Derecognition

a. Financial assets

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

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

In the context of IBOR reform, the Bank's assessment of whether a change to an amortised cost financial instrument is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an SOFR to be treated as a change to a floating interest rate.

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

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in consolidated statement of income on derecognition of such securities.

b. Financial liabilities

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

iv) Modifications of financial assets and financial liabilities

a. Financial assets

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

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December

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

b. Financial liabilities

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

c. Interest rate benchmark reform

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

v) Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are nor credit-impaired.

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

Measurement of ECL

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

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

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

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

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

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

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

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

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

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

Write-off

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

Collateral valuation

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

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

Collateral repossessed

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

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

vi) Financial guarantees and loan commitments

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

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

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

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

C. Trade date accounting

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

D. Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

IBOR reform issued in September 2019 (the Phase 1 amendments)
If a hedging relationship is directly affected by IBOR reform, then the Group applies certain exceptions in the Phase 1 amendments to the general hedge accounting policy. The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument is uncertain.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument or when the hedging relationship is discontinued, the Group ceases to apply the respective Phase 1 amendments.

However, when determining whether a previously designated forecast transaction is no longer expected to occur, the Group continues to assume that the hedged interest rate benchmark cash flows will not be altered as a result of IBOR reform in accordance with the Phase 1 exemption.

The Group has concluded that as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

IBOR reform issued in August 2020 (the Phase 2 amendments)
When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- updating the description of the hedging instrument; or
- updating the description of how the entity will assess hedge effectiveness.

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For the year ended 31 December

The Group amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument;
- the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship. If changes are made in addition to those economically equivalent changes required by IBOR reform described above, then the Group considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

Retrospective effectiveness test: When the phase 1 retrospective effectiveness relief ceases to apply, on a hedge-by-hedge basis, the Group could reset to zero the cumulative fair value changes of the hedged item and hedging instrument for the purposes of the 80–125% 'pass / fail' hedge effectiveness test. However, this does not affect the amounts of hedge ineffectiveness reported in the income statement. During the period, the Group has not reset to zero the cumulative fair value changes of the hedged item and hedging instrument in any of its hedges.

Risk components: The Group is permitted to designate an alternative benchmark rate as a non-contractually specified risk component, even if it is not separately identifiable at the date when it is designated, provided that the Group reasonably expects that it will meet the requirements within 24 months of the first designation and the risk component is reliably measurable. The 24-month period applies separately to each alternative benchmark rate which the Group might designate. During the period, the Group has not designated any risk components of alternative benchmark rates in any hedge relationships during the period.

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

E. Foreign currencies

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

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

F. Offsetting

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

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

G. Revenue/expenses recognition

i. Special commission income and expense

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

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

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

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

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

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

ii. Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

iii. Dividend income

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

iv. Fees and commission income and expenses

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

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

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

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

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

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

v. Income from FVSI financial instruments

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

vi. Day one profit

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

vii) Customer Loyalty Program

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

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

H. Sale and repurchase agreements

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

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in 'Cash and balances with SAMA', 'Due from banks and other financial institutions or 'Loans and advances', as appropriate.

The difference between purchase and resale price is treated as special commission income and amortised over the term of the reverse repo agreement, using the effective yield method.

I. Investment in equity-accounted investees

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

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

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

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

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

J. Property and equipment

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

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

Buildings	33 years
Leasehold improvements	over period of the lease contract
Furniture, equipment, and vehicles	3 to 10 years

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

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

K. Intangible assets

i. Goodwill

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

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Measurement

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

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

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

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

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

ii. Capitalised software

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

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

iii. Other intangibles

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

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

Other intangibles are amortised using the straight-line method over the useful life of the asset, which is estimated to be 10 years for customer relationships – PCCR, 14 years for core deposit intangible – CDI and 5 years for brand. If an indication of impairment arises, the recoverable amount is estimated, and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

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

L. Provisions

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

M. Leases

Right of use asset (RoU) / Lease liabilities

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

Right of use assets

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

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

Lease Liability

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

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

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

N. Cash and cash equivalents

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

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December

O. Assets held in trust or in fiduciary capacity

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

P. End of service benefits

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

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

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

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

Q. Share based payments

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

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

R. Government grant

The Group recognizes a government grant related to income, if there is a reasonable assurance that it will be received, and the Group will comply with the conditions associated with the grant.

The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The government grant is recognised in the consolidated statement of income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts.

S. Zakat and Income tax

Zakat

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

Income tax

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

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

Deferred tax

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

Value Added tax ("VAT")

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

T. Non-current assets classified as held for sale

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

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

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

U. Islamic banking products

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

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For the year ended 31 December

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

(i) Murabaha: is a financing agreement whereby the Group sells to a customer an asset or a commodity, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin and is paid as agreed.

(ii) Istisna'a: is a contract to manufacture goods, assemble or process them, or to build a house or other structure according to exact specifications and a fixed timeline

(iii) Ijarah: is an agreement whereby the Group, acting as a lessor, purchases an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

(iv) Musharaka: is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(v) Tawarruq: is a form of Murabaha transaction where the Group purchases a commodity and sells it to the customer at agreed-upon deferred installment terms. The customer sells the underlying commodity at spot to a third party and uses the proceeds for his financing requirements.

(vi) Mudaraba: is a form of participation in profit where the client provides the capital to the Group or vice versa depending. on the product type. The capital owner is called the Rab Almaal and the worker is Mudharib. The worker duty is to invest the capital in activities that comply with Shariah rules. The income is divided according to the agreement. In the case of loss, "Rab Almaal" has to bear all the losses from his capital and the "Midharib" loses his efforts.

(vii) Promise: is a mandatory commitment by the Group to its client or vice versa to enter into a sale or purchase transaction for the purpose of hedge against fluctuations in rates, index prices, and currency prices.

(viii) Murabaha: deposit is based on commodity Murabaha. The Group acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities. Since the Group purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

(ix) Shariah compliant foreign exchange products: are offered to clients to hedge their existing exposure to foreign currencies. It is based on the concept of Waad (binding promise) where the Group promises to buy/sell a particular amount of foreign currency at an agreed upon price. It may include only one Waad or a combination of Waads.

(x) Shariah compliant rates products: are offered to clients who have exposure to fixed/floating rates and need hedging solutions. The products are designed around the concept of Waad (binding promise) to enter into Murabaha where the profit is based on a rates index or formula. It may include only one Waad or a combination of Waads.

3. Cash and balances with SAMA

	2021	2020
Cash in hand	1,766,585	2,252,471
Statutory deposit	12,063,573	11,683,700
Placements with SAMA	927,961	21,841,129
Other balances	151,285	672,115
Total	**14,909,404**	**36,449,415**

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its deposit liabilities calculated on monthly average balances at the end of reporting period. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents (note 27). Placements with SAMA represents securities purchased under an agreement to re-sell (reverse repo) with SAMA. Balances with SAMA are investment grade.

4. Due from banks and other financial institutions, net

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

	2021	2020
Current accounts	4,961,054	4,889,618
Money market placements	1,034,323	217,842
Provision for expected credit losses	(2,202)	(1,962)
Total	**5,993,175**	**5,105,498**

b) Movement in gross carrying amount

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

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

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Notes to the consolidated financial statements (continued)

For the year ended 31 December

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**4,988,191**	**-**	**-**	**-**	**4,988,191**
Transfer to Stage 1	(821)	821	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	119,269	-	-	-	119,269
Balance as at 31 December 2020	**5,106,639**	**821**	**-**	**-**	**5,107,460**

c) Credit quality analysis

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

	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit Impaired	Total
31 December 2021	5,993,175	-	-	-	5,993,175
31 December 2020	5,105,010	488	-	-	5,105,498

Balances under due from banks and other financial institutions are investment grade.

d) Movement in provision for expected credit losses

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

31 December 2021	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**1,629**	**333**	**-**	**1,962**
Net charge for the year	573	(333)	-	240
Balance as at 31 December 2021	**2,202**	**-**	**-**	**2,202**
31 December 2020	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2020	425	-	-	425
Net charge for the year	1,204	333	-	1,537
Balance as at 31 December 2020	**1,629**	**333**	**-**	**1,962**

5. Investments, net

a) Investment, net securities are classified as follows:

	2021	2020
FVOCI – Debt	18,665,583	12,574,317
FVOCI – Equity	24,382	1,128,916
FVSI	1,383,368	1,237,760
Held at amortised cost, net	44,830,365	45,890,014
Total	**64,903,698**	**60,831,007**

During the year, the Group sold its investment in local listed equity shares due to change in Group's strategy. The Group realised a gain of SAR 495 million on the disposal which was transferred from the FVOCI reserve to retained earnings directly in equity.

b) Movement in gross carrying amount

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

- FVOCI - Debt

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**12,521,450**	**191,134**	**-**	**-**	**12,712,584**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	52,867	(191,134)	-	-	(138,267)
Balance as at 31 December 2020	**12,574,317**	**-**	**-**	**-**	**12,574,317**

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Notes to the consolidated financial statements (continued)

For the year ended 31 December

- Held at amortized cost

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

2020	Non-credit impaired Stage 1	Stage 2	Credit impaired Stage 3	POCI	Total
Balance at 1 January 2020	**45,410,968**	**-**	**-**	**-**	**45,410,968**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	497,051	-	-	-	497,051
Balance as at 31 December 2020	**45,908,019**	**-**	**-**	**-**	**45,908,019**

c) Investments, net by type of securities

	Domestic		International		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Fixed rate securities	49,146,303	43,911,832	1,454,970	1,515,165	50,601,273	45,426,997
Floating rate securities	13,147,024	13,478,653	181,673	427,602	13,328,697	13,906,255
Equities and others	961,182	1,484,126	12,546	13,629	973,728	1,497,755
Total	**63,254,509**	**58,874,611**	**1,649,189**	**1,956,396**	**64,903,698**	**60,831,007**

d) Movement in provision for expected credit losses

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

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

2020	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2020	**7,387**	**-**	**-**	**7,387**
Net charge for the year	10,618	-	-	10,618
Balance as at 31 December 2020	**18,005**	**-**	**-**	**18,005**

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

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

2020	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2020	**3,563**	**115**	**-**	**3,678**
Net charge for the year	4,132	(115)	-	4,017
Balance as at 31 December 2020	**7,695**	**-**	**-**	**7,695**

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

	2021			2020		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	48,109,839	2,491,434	50,601,273	43,199,266	2,227,731	45,426,997
Floating rate securities	8,240,435	5,088,262	13,328,697	8,994,642	4,911,613	13,906,255
Equities and mutual funds	949,346	24,382	973,728	1,472,289	25,466	1,497,755
Investments, net	**57,299,620**	**7,604,078**	**64,903,698**	**53,666,197**	**7,164,810**	**60,831,007**

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For the year ended 31 December

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

	2021	2020
Debt instruments:		
Sukuks	51,010,277	43,330,026
Provision for expected credit losses	(10,729)	(17,459)
	50,999,548	**43,312,567**
Equities and mutual funds	919,337	461,941
Total	**51,918,885**	**43,774,508**

g) The analysis of investments by internal ratings grade

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

- Investment Grade is composed of Strong Credit Quality (AAA to BBB-)
- Non-Investment Grade is composed of: Good, Satisfactory and Special Mention Credit Quality (BB+ to C)

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

31 December 2020	Held at Amortised Cost	FVOCI	FVSI	Total
Investment grade	45,460,368	12,375,975	359,239	58,195,582
Non-investment grade	401,712	1,301,792	-	1,703,504
Un-rated	27,934	25,466	878,521	931,921
Total	**45,890,014**	**13,703,233**	**1,237,760**	**60,831,007**

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

	2021	2020
Government and quasi government	61,043,089	56,391,516
Corporate	1,927,850	1,480,119
Banks and other financial institutions	1,919,154	2,945,616
Others	13,605	13,756
Total	**64,903,698**	**60,831,007**

i) Assets pledged

Securities pledged under repurchase agreements with other banks are government Sukuks. Assets pledged as collateral with other financial institutions for security are as follows:

	2021		2020	
	Assets	Related liabilities	Assets	Related liabilities
FVOCI	562,608	567,906	562,634	567,906
Total	**562,608**	**567,906**	**562,634**	**567,906**

6. Loans and advances, net

a) Loans and advances are comprised of the following:

2021	Credit cards	Other retail lending	Corporate and institutional lending	Total
12 month ECL	2,012,847	35,308,631	101,401,370	138,722,848
Lifetime ECL not credit impaired	123,496	1,939,590	24,786,523	26,849,609
Lifetime ECL credit impaired	43,805	1,023,411	3,846,283	4,913,499
Purchased or originated credit impaired	90	167,734	3,604,937	3,772,761
Total loans and advances, gross	**2,180,238**	**38,439,366**	**133,639,113**	**174,258,717**
Provision for expected credit losses, net	(163,819)	(745,117)	(5,793,303)	(6,702,239)
Loans and advances, net	**2,016,419**	**37,694,249**	**127,845,810**	**167,556,478**
2020	**Credit cards**	**Other retail lending**	**Corporate and institutional lending**	**Total**
12 month ECL	1,941,419	33,209,970	89,805,599	124,956,988
Lifetime ECL not credit impaired	63,171	882,803	24,634,505	25,580,479
Lifetime ECL credit impaired	66,244	1,464,922	4,472,301	6,003,467
Purchased or originated credit impaired	135	172,724	3,704,746	3,877,605
Total loans and advances, gross	**2,070,969**	**35,730,419**	**122,617,151**	**160,418,539**
Provision for expected credit losses, net	(234,704)	(1,358,765)	(5,581,992)	(7,175,461)
Loans and advances, net	**1,836,265**	**34,371,654**	**117,035,159**	**153,243,078**

Lifetime ECL credit impaired includes non-performing loans and advances of SAR 4,210 million (31 December 2020: SAR 5,377 million). It also includes exposures that are now performing but have yet to complete a period of 12 months of performance ('the curing period') to be eligible to be upgraded to a not-impaired category. The financial assets recorded in each stage have the following characteristics:

- 12 month ECL not credit impaired (stage 1): without significant increase in credit risk on which a 12 month allowance for ECL is recognised;
- Lifetime ECL not credit impaired (stage 2): a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- Lifetime ECL credit impaired (stage 3): objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised; and

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For the year ended 31 December

- Purchased or originated credit impaired ('POCI'): purchased or originated at a deep discount that reflects the expected lifetime credit losses at time of purchase or origination. A lifetime ECL is recognised if further credit losses are expected. POCI includes non-performing loans and advances acquired through the merger with AAB that were recorded at fair value as of acquisition date.

b) Movement in gross carrying amount

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

- Credit cards

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**2,326,426**	**74,200**	**67,267**	**1,113**	**2,469,006**
Transfer to Stage 1	8,927	(8,927)	-	-	-
Transfer to Stage 2	(40,050)	40,050	-	-	-
Transfer to Stage 3	(36,823)	(6,506)	43,329	-	-
Net change for the year	(317,061)	(35,646)	78,921	(978)	(274,764)
Write-offs	-	-	(123,273)	-	(123,273)
Balance as at 31 December 2020	**1,941,419**	**63,171**	**66,244**	**135**	**2,070,969**

- Other retail lending

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**33,755,819**	**1,461,519**	**862,131**	**370,131**	**36,449,600**
Transfer to Stage 1	95,390	(88,320)	(7,070)	-	-
Transfer to Stage 2	(182,525)	217,576	(35,051)	-	-
Transfer to Stage 3	(142,950)	(57,473)	200,423	-	-
Net change for the year	(315,764)	(650,499)	735,842	(197,407)	(427,828)
Write-offs	-	-	(291,353)	-	(291,353)
Balance as at 31 December 2020	**33,209,970**	**882,803**	**1,464,922**	**172,724**	**35,730,419**

- Corporate and institutional lending

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**95,746,566**	**15,354,378**	**4,199,973**	**3,858,563**	**119,159,480**
Transfer to Stage 1	84,075	(84,065)	(10)	-	-
Transfer to Stage 2	(892,970)	892,970	-	-	-
Transfer to Stage 3	(255)	(351,690)	351,945	-	-
Net change for the year	(5,131,817)	8,822,912	371,924	(153,817)	3,909,202
Write-offs	-	-	(451,531)	-	(451,531)
Balance as at 31 December 2020	**89,805,599**	**24,634,505**	**4,472,301**	**3,704,746**	**122,617,151**

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c) Movement in provision for expected credit losses

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

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**644,297**	**2,156,103**	**3,142,098**	**60,502**	**6,003,000**
Transfer to Stage 1	38,332	(31,938)	(6,394)	-	-
Transfer to Stage 2	(7,856)	28,552	(20,696)	-	-
Transfer to Stage 3	(5,400)	(35,293)	40,693	-	-
Net re-measurement of loss allowance	173,926	333,554	1,124,194	(7,684)	1,623,990
Write-offs	-	-	(451,529)	-	(451,529)
Balance as at 31 December 2020	**843,299**	**2,450,978**	**3,828,366**	**52,818**	**7,175,461**

- Credit cards

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**175,501**	**53,107**	**47,319**	**-**	**275,927**
Transfer to Stage 1	6,486	(4,062)	(2,424)	-	-
Transfer to Stage 2	(3,280)	5,118	(1,838)	-	-
Transfer to Stage 3	(3,574)	(3,290)	6,864	-	-
Net re-measurement of loss allowance	(24,293)	(11,808)	(5,122)	-	(41,223)
Balance as at 31 December 2020	**150,840**	**39,065**	**44,799**	**-**	**234,704**

- Other retail lending

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**338,890**	**214,286**	**576,169**	**60,502**	**1,189,847**
Transfer to Stage 1	23,338	(19,368)	(3,970)	-	-
Transfer to Stage 2	(2,045)	20,903	(18,858)	-	-
Transfer to Stage 3	(1,817)	(17,449)	19,266	-	-
Net re-measurement of loss allowance	10,716	(34,272)	200,158	(7,684)	168,918
Balance as at 31 December 2020	**369,082**	**164,100**	**772,765**	**52,818**	**1,358,765**

- Corporate and institutional lending

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**129,906**	**1,888,710**	**2,518,610**	**-**	**4,537,226**
Transfer to Stage 1	8,508	(8,508)	-	-	-
Transfer to Stage 2	(2,531)	2,531	-	-	-
Transfer to Stage 3	(9)	(14,554)	14,563	-	-
Net re-measurement of loss allowance	187,503	379,634	929,158	-	1,496,295
Write-offs	-	-	(451,529)	-	(451,529)
Balance as at 31 December 2020	**323,377**	**2,247,813**	**3,010,802**	**-**	**5,581,992**

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

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

2020	Performing	Non-performing	POCI	Provision for expected credit losses	Loans and advances, net
Government and quasi government	2,513,348	-	-	(2,549)	2,510,799
Finance	6,458,727	-	-	(127,259)	6,331,468
Agriculture and fishing	773,792	-	241	(3,283)	770,750
Manufacturing	20,057,230	585,649	744,779	(1,590,568)	19,797,090
Mining and quarrying	3,492,216	-	5,545	(11,618)	3,486,143
Electricity, water, gas, and health services	11,408,706	138,335	437,798	(209,460)	11,775,379
Building and construction	10,289,552	1,474,209	922,083	(1,274,090)	11,411,754
Commerce	36,651,733	1,795,746	1,302,608	(1,915,999)	37,834,088
Transportation and communication	13,077,874	24,912	4,955	(70,301)	13,037,440
Services	7,791,595	211,628	117,311	(336,458)	7,784,076
Credit cards and other retail lending	36,512,236	1,116,293	172,859	(1,593,469)	36,207,919
Others	2,136,572	30,581	169,426	(40,407)	2,296,172
Total	**151,163,581**	**5,377,353**	**3,877,605**	**(7,175,461)**	**153,243,078**

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

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

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Strong	23,415,171	-	-	-	23,415,171
Good	52,094,570	1,550,408	15,012	-	53,659,990
Satisfactory	14,263,176	17,326,944	1,027	-	31,591,147
Unrated	35,151,389	945,974	414,873	-	36,512,236
Special mention	32,682	5,757,153	195,202	-	5,985,037
Non-performing	-	-	5,377,353	3,877,605	9,254,958
Total	**124,956,988**	**25,580,479**	**6,003,467**	**3,877,605**	**160,418,539**

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

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

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

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

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

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

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f) Shariah-compliant loans

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

	2021	2020
Tawaruq	113,013,915	91,174,726
Murabaha	7,684,645	5,565,020
Ijara / others	11,412,338	19,915,008
Total	**132,110,898**	**116,654,754**

g) Collateral

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. This collateral mostly includes time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other fixed assets. The collateral is held against commercial and consumer loans and are managed against relevant exposures at their net realisable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk. As of 31 December 2021, the value of collateral held against those loans and advances amount to SAR 1,258 million (2020: SAR 1,728 million).

7. Investment in associates

		2021	2020
HSBC Saudi Arabia			
Balance at beginning of the year		**542,955**	**585,987**
Share in earnings		139,572	79,870
Dividend received		(99,168)	(122,902)
Balance at end of the year		**583,359**	**542,955**
Wataniya			
Balance at beginning of the year		**76,277**	**74,211**
Share in earnings		(8,143)	2,066
Reclassified to non-current assets held for sale	7 (a)	(68,134)	-
Balance at end of the year		**-**	**76,277**
Total		**583,359**	**619,232**
Non-current assets classified as held for sale	7 (a)	**68,134**	**-**
Disposal proceeds of non-current assets during the year		79,894	-
Gain on disposal of non-current assets		11,760	-
Balance non-current assets classified as held for sale at 31 December 2021		**-**	**-**

7 (a) – Non-current assets classified as held for sale

On 14 July 2021, SABB announced its strategic direction with respect to its holding in WIC which involved a plan to dispose of its 20% shareholding in WIC. The associated assets were consequently reclassified as "Non-Current Assets Classified as Held for Sale" and were disposed of during the fourth quarter of the current year.

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

	Land and buildings	Leasehold improvements and ROU	Equipment, furniture, and vehicles	2021 Total	2020 Total
Cost: as at 1 January	**1,664,315**	**1,842,240**	**856,280**	**4,362,835**	**4,302,387**
Additions / re-measurement	9,202	(143,881)	48,509	(86,170)	192,981
Disposals	(1,624)	(78,874)	(87,948)	(168,446)	(132,533)
As at 31 December	**1,671,893**	**1,619,485**	**816,841**	**4,108,219**	**4,362,835**
Accumulated depreciation as at 1 January	**422,560**	**829,267**	**689,823**	**1,941,650**	**1,643,153**
Charge for the year	18,532	180,630	81,473	280,635	343,934
Disposals	(319)	(76,014)	(60,140)	(136,473)	(45,437)
As at 31 December	**440,773**	**933,883**	**711,156**	**2,085,812**	**1,941,650**
Net book value					
As at 31 December 2021	**1,231,120**	**685,602**	**105,685**	**2,022,407**	
As at 31 December 2020	1,241,755	1,012,973	166,457		2,421,185
Capital work in progress				**1,223,760**	**748,242**
Total				**3,246,167**	**3,169,427**

The movement of ROU is as below:

2021	Cost	Accumulated depreciation	Net book value
ROU			
Balance at beginning of the year	**1,155,102**	**(257,469)**	**897,633**
Additions/ (re-measurement)	(155,164)	-	(155,164)
Disposals	(77,846)	75,647	(2,199)
Depreciation	-	(133,010)	(133,010)
Balance as at 31 December 2021	**922,092**	**(314,832)**	**607,260**

2020	Cost	Accumulated depreciation	Net book value
ROU			
Balance at beginning of the year	**1,217,300**	**(118,493)**	**1,098,807**
Additions/ (re-measurement)	(27,767)	-	(27,767)
Disposals	(34,431)	18,042	(16,389)
Depreciation	-	(157,018)	(157,018)
Balance as at 31 December 2020	**1,155,102**	**(257,469)**	**897,633**

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9. Goodwill and other intangibles

Intangibles are comprised of the following:

	2021	2020
Amounts arising from acquisition of AAB:		
Goodwill	8,778,091	8,778,091
Other intangibles	1,631,407	1,787,484
Goodwill arising from acquisition of SABB Takaful	13,806	13,806
Software	317,507	403,155
Total	**10,740,811**	**10,982,536**

	Goodwill	Software	Customer relationship - PCCR	Core deposit intangible	Brand	2021 Total	2020 Total
Cost							
As at 1 January	**16,209,673**	**791,123**	**71,200**	**1,875,400**	**75,000**	**19,022,396**	**18,751,300**
Additions	-	174,261	-	-	-	174,261	315,365
Disposals / written off	-	(187,044)	-	-	-	(187,044)	(44,269)
As at 31 December	**16,209,673**	**778,340**	**71,200**	**1,875,400**	**75,000**	**19,009,613**	**19,022,396**
Accumulated impairment / amortization							
As at 1 January	**7,417,776**	**387,968**	**10,680**	**200,936**	**22,500**	**8,039,860**	**289,235**
Charge for the year	-	185,692	7,120	133,957	15,000	341,769	333,724
Impairment loss	-	-	-	-	-	-	7,417,776
Disposals / written off	-	(112,827)	-	-	-	(112,827)	(875)
As at 31 December	**7,417,776**	**460,833**	**17,800**	**334,893**	**37,500**	**8,268,802**	**8,039,860**
Net book value							
As at 31 December	**8,791,897**	**317,507**	**53,400**	**1,540,507**	**37,500**	**10,740,811**	
As at 31 December	8,791,897	403,155	60,520	1,674,464	52,500		10,982,536

Impairment testing of goodwill

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

- Retail banking
- Corporate and institutional banking
- Treasury
- Others

Key assumptions used to value-in-use calculation

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

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

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

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

- Discount rate of 9.42%, which is derived using a capital asset pricing model and comparing it with cost of capital rates produced by external sources.
- Long term asset growth rate of 4.0%, derived from economists' forecasts of nominal GDP for KSA, applied to projected periods beyond 2026.
- Long-term profit growth rate of 5.5%, derived from economists' forecasts of nominal GDP for KSA adjusted for expected changes in benchmark interest rates and sector growth rates over time, applied to projected periods beyond 2026.

Key assumptions used in impairment testing for goodwill

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

- interest margins;
- discount rates;
- projected growth rates used to extrapolate cash flows beyond the projection period; and
- current local Gross Domestic Product ('GDP')

Interest margins

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

Discount rates

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

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Projected growth rate, GDP, and local inflation rates

At 31 December 2021, the Goodwill impairment test determined there was no impairment required to any of the CGUs and goodwill is allocated to the following CGUs:

Cash generating units (CGUs)	Goodwill allocated 2021
Retail banking	4,649,572
Corporate and institutional banking	771,772
Treasury	3,356,747
Others	13,806

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

	31 December 2021 Impact on the recoverable amount of CGUs	
Cash generating units (CGUs)	1% increase in discount rate (SAR million)	1% decrease in terminal growth rate (SAR million)
Retail banking	(6,685)	(5,936)
Corporate and institutional banking	(9,944)	(8,796)
Treasury	(4,638)	(4,082)
	31 December 2020 Impact on the recoverable amount of CGUs	
Cash generating units (CGUs)	1% increase in discount rate (SAR million)	1% decrease in terminal growth rate (SAR million)
Retail banking	(3,655)	(3,089)
Corporate and institutional banking	(6,625)	(5,572)
Treasury	(3,138)	(2,625)

10. Other assets

	2021	2020
Accounts receivable	1,570,233	1,432,492
Advance tax	64,021	139,918
Others	1,718,832	2,517,762
Total	**3,353,086**	**4,090,172**

11. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Risk-related adjustments

Bid-offer:

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

Credit valuation adjustment ('CVA'):

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

Debit valuation adjustment ('DVA'):

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

Credit valuation adjustment/debit valuation adjustment methodology:

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

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

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Derivatives held for trading purposes

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

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 30 – financial risk management, note 31 - market risk and note 32 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

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

Hedge effectiveness testing

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

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

Sources of ineffectiveness:

Possible sources of ineffectiveness are as follows:

- difference between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in the discounting between the hedge item and hedge instrument, as cash collateralized interest rate swaps are discounted using Overnight Indexed Swaps discount curves, which are not applied to the fixed rate mortgages;
- hedging derivative with a non-zero fair value at the date of initial designation as a hedging instrument;
- counter party credit risk which impacts the fair value of uncollateralized interest rate swaps but not the hedge items; and;
- the effects of the forthcoming reforms to USD LIBOR, because these might take effect at a different time and have a different impact on the hedged item (the fixed-rate mortgages) and the hedging instrument (the derivatives used to hedge those mortgages).

Cash flow hedges

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

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

	Within 1 year	1-3 years	3-5 years	Over 5 years
2021				
Cash inflows (assets)	45,317	80,022	-	-
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	**45,317**	**80,022**	**-**	**-**
2020				
Cash inflows (assets)	31,286	47,208	1,635	-
Cash out flows (liabilities)	(1,687)	-	-	-
Net cash inflow	**29,599**	**47,208**	**1,635**	**-**

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

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

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

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For the year ended 31 December

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

2020	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	1,172,441	(1,175,729)	38,492,765	1,106,388	5,199,257	20,929,295	11,257,825
Special commission rate options	677,038	(724,737)	16,791,558	476,120	3,097,608	7,967,830	5,250,000
Forward foreign exchange contracts	68,766	(68,162)	1,534,616	1,245,515	289,101	-	-
Currency options	1,852	(1,852)	645,893	153,968	403,480	88,445	-
Currency swaps	15,418	(7,806)	3,825,000	375,000	300,000	3,150,000	-
Derivatives held as fair value hedges:							
Special commission rate swaps	-	(834,505)	10,110,416	93,750	487,500	6,057,125	3,472,041
Derivatives held as cash flow hedges:							
Special commission rate swaps	18,581	(6,295)	90,000	-	-	90,000	-
Currency swaps	7,210	-	1,031,250	-	712,500	318,750	-
Total	**1,961,306**	**(2,819,086)**	**72,521,498**	**3,450,741**	**10,489,446**	**38,601,445**	**19,979,866**
Fair values of netting arrangements	**27,278**	**(1,665,900)**					
Cash collateral, net	**(29,775)**	**1,979,400**					
Fair values after netting	**(2,497)**	**313,500**					

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

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

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For the year ended 31 December

2020	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
			Notional amounts by term to maturity				
Derivatives held for trading:							
Special commission rate swaps	91,934	(19,878)	3,301,225	27,003	916,716	2,357,506	-
Special commission rate options	22,102	(293)	1,977,923	-	469,308	1,508,615	-
Derivatives held as cash flow hedges:							
Currency swaps	227	-	187,500	-	-	187,500	-
Total	**114,263**	**(20,171)**	**5,466,648**	**27,003**	**1,386,024**	**4,053,621**	**-**

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

2021	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of the hedged items:						
Fixed commission rate investments	13,004,457	12,238,311	Fair value	Special commission rate swap	34,794	(457,949)
Floating commission rate investments	90,009	90,000	Cash flow	Special commission rate swap	2,871	-
Fixed commission rate investments	1,079,518	1,068,750	Cash flow	Currency swap	16,008	(9,785)

2020	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of the hedged items:						
Fixed commission rate investments	10,322,413	10,110,416	Fair value	Special commission rate swap	-	(834,505)
Floating commission rate investments	89,999	90,000	Cash flow	Special commission rate swap	18,581	(6,295)
Fixed commission rate investments	1,028,107	1,031,250	Cash flow	Currency swap	7,209	-

The net gain on the hedging instruments for fair value hedges are SAR 411 million (2020: net losses of SAR 424 million). The net gains on the hedged item attributable to the hedged risk are SAR 554 million (2020: SAR 238 million).

Approximately 49.8% (2020: 20%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and out of which 64.4% (2020: 15.7%) of the positive fair value contracts are with a single counterparty at the year end.

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

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

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

12. Due to banks and other financial institutions

	2021	2020
Current accounts	2,207,878	2,559,207
Money market deposits	3,320,892	5,596
Repo with banks	567,906	567,906
Others	8,566,990	14,488,247
Total	**14,663,666**	**17,620,956**

Others represents government grants from SAMA. Also refer note 37.

13. Customers' deposits

	2021	2020
Demand	152,966,149	134,240,503
Time	30,443,041	51,636,767
Savings	2,051,920	1,829,933
Margin and others	1,299,502	1,402,937
Total	**186,760,612**	**189,110,140**

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For the year ended 31 December

The above deposits include the following deposits in foreign currency:

	2021	2020
Demand	16,354,307	12,442,367
Time	4,967,825	4,597,935
Savings	30,614	27,620
Margin and others	234,808	170,582
Total	**21,587,554**	**17,238,504**

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

Shariah-compliant deposits	2021	2020
Demand	101,766,192	79,646,852
Time	18,478,213	32,361,141
Savings	1,911,289	1,410,786
Margin and others	373,053	455,794
Total	**122,528,747**	**113,874,573**

14. Debt securities in issue

SAR 5 Billion 10 year Sukuk – 2020

SABB completed issuance of its SAR 5 billion Tier II Sukuk on 22 July 2020. The Sukuk issuance is under the Group's local Sukuk Programme (the "Local Programme") and is due in 2030, with SABB having an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the Local Programme. The structure of the Sukuk was approved by SABB's Shari'ah committee. The Sukuk is unsecured and was offered by way of private placement in the Kingdom of Saudi Arabia carrying effective special commission income at six months' SAIBOR plus margin of 195 bps payable semi-annually.

15. Other liabilities

	2021	2020
Accounts payable	4,530,176	2,976,103
Drawings payable	1,131,604	1,102,668
Dividends payable	58,549	183,986
End of service benefits (note 28)	706,978	803,426
Provision against loan commitments and financial guarantee contracts (note 20)	734,347	662,565
Lease liabilities	647,888	911,723
Others	3,557,561	4,432,668
Total	**11,367,103**	**11,073,139**

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 2,054,794,522 shares of SAR 10 each (2020: 2,054,794,522 shares of SAR 10 each). The ownership of the SABB's share capital is as follows

	2021	2020
HSBC Holdings B.V	31%	31%
Other shareholders*	69%	69%

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

SABB paid an interim dividend of SAR 1,075 million as approved by the Board of Directors, to the shareholders from the net income of the Group for the first half of 2021. This resulted in a SAR 0.50 per share for Saudi shareholders' net of Zakat (2020: Nil). The income tax of the foreign shareholders was deducted from their share of the dividends.

17. Statutory reserve

During the year ended 31 December 2021, the Group has transferred, after the approval of shareholders at the Extra Ordinary General Assembly's meeting, an amount of SAR 9.1 billion from the Share premium to statutory reserve, bringing the statutory reserve equal to the paid up Share capital of the Group. In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, no further transfer of annual net income is required to Statutory reserve as its balance equals the paid up Share capital of the Group. The statutory reserve is not currently available for distribution.

18. Other reserves

2021	Cash flow hedges	FVOCI	Total
Balance at beginning of the year	**20,516**	**312,048**	**332,564**
Net change in fair value	7,940	329,769	337,709
Transfer to retained earnings	-	(495,495)	(495,495)
Transfer to consolidated statement of income	(18,793)	(62,815)	(81,608)
Sub total	**9,663**	**83,507**	**93,170**
Treasury shares			(211,293)
Employee share plan reserve			82,548
Re-measurement of defined benefit liability			5,636
Sub total			**(123,109)**
Balance as at 31 December 2021			**(29,939)**

2020	Cash flow hedges	FVOCI	Total
Balance at beginning of the year	**27,347**	**258,512**	**285,859**
Net change in fair value	(4,964)	88,361	83,397
Transfer to retained earnings	-	(3,625)	(3,625)
Transfer to consolidated statement of income	(1,867)	(31,200)	(33,067)
Sub total	**20,516**	**312,048**	**332,564**
Treasury shares			(96,293)
Employee share plan reserve			88,555
Re-measurement of defined benefit liability			111
Sub total			**(7,627)**
Balance as at 31 December 2020			**324,937**

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Notes to the consolidated financial statements (continued)

For the year ended 31 December

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 18.8 million (2020: SAR 1.9 million) from consolidated statement of changes in equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Restatement in non-controlling interest

During the year, the Group amended the calculation for non-controlling interest in SABB Takaful

Financial statements impacted	Description	As previously reported 31 December 2020	Effect of restatement	Restated – 31 December 2020
Consolidated statement of financial position	Retained earnings	760,954	(49,891)	711,063
Consolidated statement of financial position	Total equity attributable to Non-controlling interest	55,077	49,891	104,968
Consolidated statement of income	Net loss for the period after Zakat and income tax attributable to Non-controlling interest	(35,455)	23,251	(12,204)
Consolidated statement of income	Net loss for the period after Zakat and income tax attributable to equity holders of the Bank	(4,132,141)	(23,251)	(4,155,392)
Consolidated statement of comprehensive income	Total comprehensive loss attributable to Non-controlling interest	(35,455)	23,251	(12,204)
Consolidated statement of comprehensive income	Total comprehensive loss attributable to equity holders of the Bank	(4,097,971)	(23,251)	(4,121,222)
Consolidated statement of income	Basic and diluted losses per share (in SAR)	(2.01)	(0.01)	(2.02)

Financial statements impacted	Description	As previously reported 31 December 2019	Effect of restatement	Restated – 31 December 2019
Consolidated statement of financial position	Retained earnings	4,901,004	(26,640)	4,874,364
Consolidated statement of financial position	Total equity attributable to Non-controlling interest	90,532	26,640	117,172

20. Commitments and contingencies

a) Legal proceedings

There are no material outstanding legal matters against the Group.

b) Capital commitments

As at 31 December 2021, the Group has capital commitments of SAR 994.5 million (2020: SAR 878.5 million) in respect of land, buildings and equipment purchases.

c) Credit related commitments and contingencies

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

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

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

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

2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Letters of credit	16,198,187	1,071,383	27,597	50,560	17,347,727
Letters of guarantee	60,479,102	8,190,612	1,440,987	1,883,095	71,993,796
Acceptances	1,448,655	338,972	96	-	1,787,723
Irrevocable commitments to extend credit	4,044,096	240,577	-	-	4,284,673
Total	**82,170,040**	**9,841,544**	**1,468,680**	**1,933,655**	**95,413,919**
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Letters of credit	13,908,396	1,247,896	-	92,043	15,248,335
Letters of guarantee	55,770,431	8,546,379	1,219,019	2,176,805	67,712,634
Acceptances	2,316,644	744,637	-	51,765	3,113,046
Irrevocable commitments to extend credit	3,969,165	219,348	-	-	4,188,513
Total	**75,964,636**	**10,758,260**	**1,219,019**	**2,320,613**	**90,262,528**

The un-utilized portion of non-firm commitments, which can be revoked unilaterally at any time by the Group, is SAR 96,572 million (2020: SAR 77,009 million).

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

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For the year ended 31 December

- Letters of credit

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**15,901,096**	**1,492,562**	**6,787**	**162,373**	**17,562,818**
Transfer to Stage 1	465,000	(465,000)	-	-	-
Transfer to Stage 2	(237,127)	237,127	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(2,220,573)	(16,793)	(6,787)	(70,330)	(2,314,483)
Balance as at 31 December 2020	**13,908,396**	**1,247,896**	**-**	**92,043**	**15,248,335**

- Letters of guarantees

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

	Non-credit impaired		Credit impaired		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**74,774,803**	**7,752,440**	**1,558,202**	**2,234,429**	**86,319,874**
Transfer to Stage 1	117,031	(117,031)	-	-	-
Transfer to Stage 2	(3,687,672)	3,687,672	-	-	-
Transfer to Stage 3	(23,566)	(294,843)	318,409	-	-
Net change for the year	(15,410,165)	(2,481,859)	(657,592)	(57,624)	(18,607,240)
Balance as at 31 December 2020	**55,770,431**	**8,546,379**	**1,219,019**	**2,176,805**	**67,712,634**

- Acceptances

	Non-credit impaired		Credit impaired		
2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2021	**2,316,644**	**744,637**	**-**	**51,765**	**3,113,046**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(867,989)	(405,665)	96	(51,765)	(1,325,323)
Balance as at 31 December 2021	**1,448,655**	**338,972**	**96**	**-**	**1,787,723**
	Non-credit impaired		**Credit impaired**		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**2,923,447**	**420,773**	**382**	**33,931**	**3,378,533**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(606,803)	323,864	(382)	17,834	(265,487)
Balance as at 31 December 2020	**2,316,644**	**744,637**	**-**	**51,765**	**3,113,046**

- Irrevocable commitments to extend credit

	Non-credit impaired		Credit impaired		
2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2021	**3,969,165**	**219,348**	**-**	**-**	**4,188,513**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	74,931	21,229	-	-	96,160
Balance as at 31 December 2021	**4,044,096**	**240,577**	**-**	**-**	**4,284,673**
	Non-credit impaired		**Credit impaired**		
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**5,907,107**	**179,584**	**-**	**-**	**6,086,691**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net change for the year	(1,937,942)	39,764	-	-	(1,898,178)
Balance as at 31 December 2020	**3,969,165**	**219,348**	**-**	**-**	**4,188,513**

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

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2021	**38,855**	**136,654**	**487,056**	**-**	**662,565**
Transfer to 12 month ECL	1,747	(1,747)	-		-
Transfer to lifetime ECL not credit impaired	(605)	905	(300)		-
Transfer to lifetime ECL credit impaired	(3)	(1,996)	1,999		-
Net charge for the year	22,061	137,318	(73,711)	1,569	87,237
Write-offs	-	-	(15,455)	-	(15,455)
Balance as at 31 December 2021	**62,055**	**271,134**	**399,589**	**1,569**	**734,347**
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**28,129**	**126,322**	**481,614**	**-**	**636,065**
Transfer to 12 month ECL	1,546	(1,426)	(120)	-	-
Transfer to lifetime ECL not credit impaired	(2,051)	2,051	-	-	-
Transfer to lifetime ECL credit impaired	(350)	(2,002)	2,352	-	-
Net charge for the year	11,581	11,709	3,210	-	26,500
Balance as at 31 December 2020	**38,855**	**136,654**	**487,056**	**-**	**662,565**

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

	2021	2020
Government and quasi government	5,903,981	3,564,876
Corporate	73,221,605	70,926,256
Banks and other financial institutions	16,269,972	15,740,274
Others	18,361	31,122
Total	**95,413,919**	**90,262,528**

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

2021	Stage 1	Stage 2	Stage 3	POCI	Total
Strong	33,302,309	-	-	-	33,302,309
Good	41,615,682	694,142	15,455	-	42,325,279
Satisfactory	7,252,049	6,345,984	22,687	-	13,620,720
Special mention	-	2,801,418	37,508	-	2,838,926
Non-performing	-	-	1,393,030	1,933,655	3,326,685
Total	**82,170,040**	**9,841,544**	**1,468,680**	**1,933,655**	**95,413,919**
2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Strong	27,203,920	85,346	-	-	27,289,266
Good	40,458,248	2,228,411	-	-	42,686,659
Satisfactory	8,241,700	6,063,179	-	-	14,304,879
Special mention	60,768	2,381,324	-	-	2,442,092
Non-performing	-	-	1,219,019	2,320,613	3,539,632
Total	**75,964,636**	**10,758,260**	**1,219,019**	**2,320,613**	**90,262,528**

21.Net special commission income and expense

	2021	2020
Special commission income		
Investments		
FVOCI	205,825	239,219
Held at amortised cost	1,102,683	1,192,701
	1,308,508	**1,431,920**
Due from banks and other financial institutions	85,862	78,073
Loans and advances	4,993,012	6,301,582
Total	**6,387,382**	**7,811,575**
Special commission expense		
Due to banks and other financial institutions	(219,146)	(151,697)
Customers' deposits	(275,176)	(656,711)
Debt securities in issue	(142,352)	(96,091)
Others	(24,776)	(34,370)
Total	**(661,450)**	**(938,869)**
Net special commission income	**5,725,932**	**6,872,706**

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

	2021	2020
Special commission income		
Investments		
FVOCI / Sukuk	141,131	166,079
Held at amortised cost / Sukuk	899,789	718,974
Total	**1,040,920**	**885,053**
Loans and advances		
Tawaruq	2,796,305	3,299,425
Murabaha	285,449	295,498
Others	501,018	1,041,842
Total	**3,582,772**	**4,636,765**
Special commission expense		
Customers' deposits		
Murabaha	(123,314)	**(438,513)**
Others	(18,546)	(9,919)
Total	**(141,860)**	**(448,432)**

22. Net Fees and commission income

	2021	2020
Fee and commission income:		
Fund management fees	36,222	31,965
Trade finance	656,742	674,994
Corporate finance and advisory	103,581	141,039
Card products	1,209,323	859,130
Other banking services	443,127	406,780
Total fee and commission income	**2,448,995**	**2,113,908**

	2021	2020
Fee and commission expense:		
Card products	(1,138,331)	(780,959)
Custodial services	(1,438)	(5,782)
Other banking services	(119,516)	(44,016)
Total fee and commission expense	**(1,259,285)**	**(830,757)**
Net fees and commission income	**1,189,710**	**1,283,151**

23. Income from FVSI financial instruments, net

	2021	2020
Foreign exchange income, net	79,733	87,184
Derivatives	76,216	49,480
Debt securities	6,011	20,370
Others	1,217	1,171
Total	**163,177**	**158,205**

24. Salaries and employee related expenses

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended 31 December 2021 and 31 December 2020, and the forms of such payments.

2021	**Number of employees***	**Fixed compensation**	**Variable compensation paid**		
Category			**Cash**	**Shares**	**Total**
Senior executives requiring SAMA no objection	43	(51,395)	(21,358)	(4,114)	(25,472)
Employees engaged in risk taking activities	740	(471,415)	(94,783)	(13,184)	(107,967)
Employees engaged in control functions	386	(116,780)	(21,077)	(148)	(21,225)
Other employees	3,355	(725,358)	(69,505)	(390)	(69,895)
Outsourced employees	592	(76,038)	(17,177)	-	(17,177)
Total	**5,116**	**(1,440,986)**	**(223,900)**	**(17,836)**	**(241,736)**
Variable compensation accrued in 2021		(249,221)			
Other employee related benefits **		(69,884)			
Total salaries and employee related expenses		**(1,760,091)**			

2020	**Number of employees***	**Fixed compensation**	**Variable compensation paid**		
Category			**Cash**	**Shares**	**Total**
Senior executives requiring SAMA no objection	44	(51,538)	(24,701)	(7,427)	(32,128)
Employees engaged in risk taking activities	699	(348,780)	(87,198)	(11,057)	(98,255)
Employees engaged in control functions	407	(109,301)	(18,949)	(134)	(19,083)
Other employees	3,391	(652,057)	(59,834)	(496)	(60,330)
Outsourced employees	747	(81,196)	(16,194)	-	(16,194)
Total	**5,288**	**(1,242,872)**	**(206,876)**	**(19,114)**	**(225,990)**
Variable compensation accrued in 2020		(308,815)			
Other employee related benefits **		(295,210)			
Total salaries and employee related expenses		**(1,846,897)**			

* Represent all employees who worked for the Group and were compensated during the year 2021 or 2020, whether they are still active or no longer employed by the Group.
** Other employee related benefits include insurance premium paid, GOSI contribution, recruitment expenses and certain other non-recurring employee related costs.

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Senior executives (requiring SAMA no objection):

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

Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

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

Outsourced employees:

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

Compensation disclosure for the annual consolidated financial statements

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

SABB compensation policy

i. Policy objectives

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

ii. Compensation structure

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

iii. Performance management system

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

iv. Risk-adjustment for variable pay schemes

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

v. Bonus deferral

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

vi. Nomination and Remuneration Committee

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

a) Share based bonus payments

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

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

The Group has currently two Share Based Equity Plan, under which the grant for the Bonus Deferral Program was made at various dates during 2019, 2020 and 2021 with a maturity period of three years from the respective grant dates and shares vesting is 33%, 33% and 34% for the first, second and third year respectively. As for the LTIP with a maturity of four years of the respective grant date and shares vesting is 30%, 20% and 40%, with remaining as cash rewards. As per the settlement method, the ownership of these shares will pass to the employees at the respective vesting dates, subject to satisfactory completion of the vesting conditions. The movement in the number of shares under Share Based Equity settled Bonus payment plans is as follows:

	Number of shares	
	2021	**2020**
Beginning of the year	**1,085,913**	**1,462,631**
Forfeited	(109,698)	(294,009)
Exercised / Expired	(485,447)	(819,241)
Granted during the year	4,100,543	736,532
End of the year	**4,591,311**	**1,085,913**

The weighted average price of shares granted during the year was SAR 27.8 (2020: SAR 25.3). Total treasury shares held by the Group as at 31 December 2021 were 4,591,311 shares (2020: 1,850,154 shares).

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

Basic and diluted earnings / (losses) per share for the years ended 31 December 2021 and 2020 are calculated by dividing the net income / (loss) after Zakat and income tax for the years by the weighted average number of shares 2,055 million (2020: 2,055 million) outstanding during the year.

26. Zakat and income tax

The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability. In addition, SABB is subject to pay corporate income tax to reflect the portion of the shareholder base that is non-Saudi. Corporate income tax is calculated at a rate of 20%, applied to the share of taxable income of the non-Saudi shareholders.

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SABB Zakat and tax assessments 2019 & 2020 are still under ZATCA review. SABB tax assessments for the years from 2005 to 2009 & 2014 to 2018 have been finalized. AAB tax assessments for the years from 2007 to 2013 have been finalized. SABB has filed an appeal on the AAB tax assessments for the years from 2005 to 2006 which is currently pending with Tax Violation and Disputes Appellate Committee ("TVDAC").

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

	2021	2020
Opening Zakat and income tax liability	**1,081,340**	**1,598,723**
Charge for the year:		
Provision for Zakat	425,210	126,952
Provision for income tax	181,113	95,373
Payment of Zakat and income tax liability	(513,343)	(739,708)
Closing Zakat and income tax liability	**1,174,320**	**1,081,340**

Deferred tax

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

	2021	2020
Opening deferred tax asset	**487,048**	**130,732**
(Provision) / reversal for deferred tax	(94,758)	356,316
Closing deferred tax asset	**392,290**	**487,048**

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

	2021	2020
Property, equipment, RoU, goodwill and other intangibles	297,098	377,812
Deferred tax asset on provision for expected credit losses	1,427	2,004
Other liabilities	93,765	107,232
Total	**392,290**	**487,048**

27. Cash and cash equivalents

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

	2021	2020
Cash and balances with SAMA excluding the statutory deposit amounting to SAR 12,064 million (2020: SAR 11,684 million) (note 3)	2,845,831	24,765,715
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	5,697,717	4,942,979
Total	**8,543,548**	**29,708,694**

28. Employee benefit obligation

a) General description

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

b) Reconciliation of defined benefit obligation as 31 December.

	2021	2020
Defined benefit obligation at the beginning of the year	**803,426**	**744,767**
Charge for the year:		
Current service cost	73,265	70,535
Past service cost	-	2,001
Interest cost	14,469	23,083
Benefits paid	(178,657)	(53,120)
Re-measurement of defined benefit liability:		
Financial Assumptions	(10,546)	19,105
Experience Adjustments	5,021	(2,945)
Defined benefit obligation at the end of the year	**706,978**	**803,426**

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

	2021	2020
Discount rate	2.70%	2.05%
Expected rate of salary increase	2.70%	2.05%
Normal retirement age	60 years	60 years

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d) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2021 to the discount rate and salary increase rate.

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

	Impact on defined benefit obligation –increase/(decrease)		
Base Scenario 2020	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	1%	(59,027)	65,554
Expected rate of salary increase	1%	66,858	(61,286)

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

e) Expected maturity

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

	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2021	75,478	52,727	156,274	611,428	895,907

	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2020	103,368	59,439	182,159	605,826	950,792

The weighted average duration of the defined benefit obligation is 8 years (2020: 8 years).

f) Defined Contribution Plan

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its staff. The total amount expensed during the year in respect of this plan was SAR 77 million (2020: SAR 84 million).

29. Operating segments

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

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

The Group's reportable segments are as follows:

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

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

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

Others – includes activities of the Group's investment in its insurance subsidiary and associate, SABB Takaful and Wataniya (disposed of during the year), as well as a subsidiary and associate for investment banking and brokerage, Alawwal Invest and HSBC Saudi Arabia, equity investments, and merger-related expenses. It also includes elimination of inter-group income and expense items.

Transactions between the operating segments are reported as recorded by the Group's transfer pricing system. The Group's total assets and liabilities as at 31 December 2021 and 2020, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

2021	Retail Banking	Corporate and Institutional Banking	Treasury	Others	Total
Total assets	**49,486,513**	**131,385,762**	**89,291,758**	**2,231,990**	**272,396,023**
Loans and advances, net	39,710,668	127,845,810	-	-	167,556,478
Investments	-	-	64,147,268	756,430	64,903,698
Total liabilities	**81,876,379**	**110,896,316**	**25,953,871**	**640,940**	**219,367,506**
Customer deposits	77,676,109	105,400,607	3,683,896	-	186,760,612
Investments in associates	-	-	-	583,359	583,359
Total operating income, of which:	**2,672,074**	**3,382,196**	**1,862,755**	**21,017**	**7,938,042**
Special commission income, net	2,161,283	2,259,135	1,299,892	5,622	5,725,932
Fees and commission income, net	253,571	900,142	8,521	27,476	1,189,710
Provision for expected credit losses, net	**497,580**	**(955,992)**	**4,669**	**-**	**(453,743)**
Total operating expenses	(1,840,002)	(1,525,287)	(191,461)	(156,252)	(3,713,002)
Share in earnings of associates	-	-	-	131,429	131,429
Net income / (loss) for the year before Zakat and income tax	**1,329,652**	**900,917**	**1,675,963**	**(3,806)**	**3,902,726**

2020	Retail Banking	Corporate and Institutional Banking	Treasury	Others	Total
Total assets	**46,051,535**	**121,743,337**	**105,782,069**	**2,874,730**	**276,451,671**
Loans and advances, net	36,207,919	117,035,159	-	-	153,243,078
Investments	-	-	59,042,187	1,788,820	60,831,007
Total liabilities	**84,419,941**	**105,671,181**	**35,346,775**	**252,034**	**225,689,931**
Customer deposits	80,575,663	100,171,214	8,363,263	-	189,110,140
Investments in associates	-	-	-	619,232	619,232
Total operating income, of which:	**3,162,640**	**4,032,784**	**1,673,664**	**8,878**	**8,877,966**
Special commission income, net	2,724,631	2,844,827	1,296,157	7,091	6,872,706
Fees and commission income, net	276,283	986,446	(5,756)	26,178	1,283,151
Provision for expected credit losses, net	**(238,515)**	**(1,376,326)**	**(16,090)**	**-**	**(1,630,931)**
Goodwill impairment	-	(7,417,776)	-	-	(7,417,776)
Total operating expenses	(2,099,410)	(1,248,427)	(179,168)	(685,777)	(4,212,782)
Share in earnings of associates	-	-	-	81,936	81,936
Net income / (loss) for the year before Zakat and income tax	**824,715**	**(6,009,745)**	**1,478,406**	**(594,963)**	**(4,301,587)**

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a) Total operating income by operating segments, also referred to as revenue:

2021	Retail Banking	Corporate and Institutional Banking	Treasury	Others	Total
External	2,478,878	4,006,568	1,427,822	24,774	7,938,042
Internal	193,196	(624,372)	434,933	(3,757)	-
Total operating income	**2,672,074**	**3,382,196**	**1,862,755**	**21,017**	**7,938,042**

2020	Retail Banking	Corporate and Institutional Banking	Treasury	Others	Total
External	2,491,174	4,932,859	1,441,831	12,102	8,877,966
Internal	671,466	(900,075)	231,833	(3,224)	-
Total operating income	**3,162,640**	**4,032,784**	**1,673,664**	**8,878**	**8,877,966**

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

2021	Retail Banking	Corporate and Institutional Banking	Treasury	Others	Total
Assets	39,710,668	127,845,810	82,578,838	618,572	250,753,888
Commitments and contingencies	9,103	46,596,053	-	-	46,605,156
Derivatives	-	-	1,747,834	-	1,747,834
Total	**39,719,771**	**174,441,863**	**84,326,672**	**618,572**	**299,106,878**

2020	Retail Banking	Corporate and Institutional Banking	Treasury	Others	Total
Assets	36,207,919	117,035,159	97,942,819	1,333,691	252,519,588
Commitments and contingencies	63,217	43,943,590	-	-	44,006,807
Derivatives	-	-	1,803,823	-	1,803,823
Total	**36,271,136**	**160,978,749**	**99,746,642**	**1,333,691**	**298,330,218**

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

30. Financial risk management

i) Credit risk

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

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

There is also credit risk on credit related commitments and contingencies and derivatives. The Group assesses the probability of default of counterparties using internal rating tools. Also, the Group uses external ratings, of major rating agencies, where available.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions to mitigate credit risk.

The Group's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

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

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December

a) Provision for expected credit losses, net

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

	Notes	2021	2020
Net provision for expected credit losses:			
Due from banks and other financial institutions	4	(240)	(1,537)
Investments	5	4,909	(14,635)
Loans and advances	6	(604,260)	(1,623,990)
Loan commitments and financial guarantee contracts	20	(87,237)	(26,500)
Write-offs net of recoveries of debts previously written-off*		233,085	35,731
Net charge for the year		**(453,743)**	**(1,630,931)**

*Write-offs net of recoveries of debts previously written-off include recoveries from POCI accounts of SAR 273 million (2020: SAR 156 million).

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

2021	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,766,585	-	-	-	-	1,766,585
Balances with SAMA	12,991,534	-	-	-	-	12,991,534
Other balances	151,285	-	-	-	-	151,285
Due from banks and other financial institutions, net						
Current accounts	-	161,673	418,507	4,163,378	215,341	4,958,899
Money market placements	1,034,276	-	-	-	-	1,034,276
Positive fair value derivatives, net						
Held for trading	564,163	9,339	482,654	-	16	1,056,172
Held as fair value hedges	-	-	34,791	-	3	34,794
Held as cash flow hedges	-	4,436	14,443	-	-	18,879
Investments, net						
FVOCI	17,198,066	1,465,750	1,767	-	-	18,665,583
FVSI	1,201,695	-	181,673	-	-	1,383,368
Amortised cost	44,830,365	-	-	-	-	44,830,365
Loans and advances, net						
Credit cards	2,016,419	-	-	-	-	2,016,419
Other retail lending	37,694,249	-	-	-	-	37,694,249
Corporate and institutional lending	125,962,235	1,883,575	-	-	-	127,845,810
Other assets	3,353,086	-	-	-	-	3,353,086
Total	**248,763,958**	**3,524,773**	**1,133,835**	**4,163,378**	**215,360**	**257,801,304**
Liabilities						
Due to banks and other financial institutions						
Current accounts	576,836	387,885	489,256	310,496	443,405	2,207,878
Money market deposits	2,200,000	1,120,892	-	-	-	3,320,892
Repo with banks	-	-	567,906	-	-	567,906
Others	8,566,990	-	-	-	-	8,566,990
Customer deposits						
Demand	152,506,132	1,061	408,974	49,982	-	152,966,149
Time	30,443,041	-	-	-	-	30,443,041
Saving	2,035,730	-	6,188	-	10,002	2,051,920
Margin and other deposits	1,291,497	-	-	-	8,005	1,299,502
Debt securities in issue	5,061,533	-	-	-	-	5,061,533
Negative fair value derivatives, net						
Held for trading	118,093	1,042	927,719	4	-	1,046,858
Held as fair value hedges	-	3,587	454,343	19	-	457,949
Held as cash flow hedges	-	-	9,777	8	-	9,785
Other liabilities	11,367,103	-	-	-	-	11,367,103
Total	**214,166,955**	**1,514,467**	**2,864,163**	**360,509**	**461,412**	**219,367,506**
Commitments and contingencies	**79,964,388**	**1,472,805**	**5,691,140**	**1,035,769**	**7,249,817**	**95,413,919**
Credit exposure (stated at credit equivalent amounts)						
Assets	242,274,770	3,500,219	600,180	4,163,378	215,341	250,753,888
Commitments and contingencies	39,064,835	731,289	2,803,987	509,956	3,495,089	46,605,156
Derivatives	1,059,924	48,112	639,798	-	-	1,747,834
Total credit exposure	**282,399,529**	**4,279,620**	**4,043,965**	**4,673,334**	**3,710,430**	**299,106,878**

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For the year ended 31 December

2020	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	2,252,471	-	-	-	-	2,252,471
Balances with SAMA	33,524,829	-	-	-	-	33,524,829
Other balances	672,115	-	-	-	-	672,115
Due from banks and other financial institutions, net						
Current accounts	1,002	150,925	2,616,599	2,044,059	75,087	4,887,672
Money market placements	180,330	-	37,496	-	-	217,826
Positive fair value derivatives, net						
Held for trading	1,176,300	22,078	737,137	-	-	1,935,515
Held as fair value hedges	-	-	-	-	-	-
Held as cash flow hedges	-	8,821	16,970	-	-	25,791
Investments, net						
FVOCI	11,045,523	1,515,165	1,920	11,709	-	12,574,317
FVSI	1,054,510	-	183,250	-	-	1,237,760
Amortised cost	45,645,662	244,352	-	-	-	45,890,014
Loans and advances, net						
Credit cards	1,836,265	-	-	-	-	1,836,265
Other retail lending	34,371,654	-	-	-	-	34,371,654
Corporate and institutional lending	116,726,502	308,657	-	-	-	117,035,159
Other assets	4,090,044	73	8	-	47	4,090,172
Total	**252,577,207**	**2,250,071**	**3,593,380**	**2,055,768**	**75,134**	**260,551,560**
Liabilities						
Due to banks and other financial institutions						
Current accounts	334,988	1,760,174	226,307	192,397	45,341	2,559,207
Money market deposits	-	-	5,596	-	-	5,596
Repo with banks	-	-	567,906	-	-	567,906
Others	14,488,247	-	-	-	-	14,488,247
Customer deposits						
Demand	133,996,234	18,618	209,432	16,037	182	134,240,503
Saving	1,829,933	-	-	-	-	1,829,933
Time	51,633,400	3,364	3	-	-	51,636,767
Margin and other deposits	1,402,937	-	-	-	-	1,402,937
Debt securities in issue	5,066,610	-	-	-	-	5,066,610
Negative fair value derivatives, net						
Held for trading	301,748	4,226	1,672,312	-	-	1,978,286
Held as fair value hedges	-	6,736	827,769	-	-	834,505
Held as cash flow hedges	-	-	6,295	-	-	6,295
Other liabilities	11,069,418	-	3,721	-	-	11,073,139
Total	**220,123,515**	**1,793,118**	**3,519,341**	**208,434**	**45,523**	**225,689,931**
Commitments and contingencies	**75,774,692**	**1,962,804**	**5,285,504**	**1,233,329**	**6,006,199**	**90,262,528**
Credit exposure (stated at credit equivalent amounts)						
Assets	245,342,644	2,220,104	2,618,516	2,044,059	294,265	252,519,588
Commitments and contingencies	37,708,846	932,914	2,197,536	512,363	2,655,148	44,006,807
Derivatives	1,541,131	118,661	144,031	-	-	1,803,823
Total credit exposure	**284,592,621**	**3,271,679**	**4,960,083**	**2,556,422**	**2,949,413**	**298,330,218**

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

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

2020	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Non-performing loans and advances	5,187,783	189,570	-	-	-	5,377,353
Provision for expected credit losses	7,175,288	173	-	-	-	7,175,461

ii) Credit quality analysis

Amounts arising from ECL – Significant increase in credit risk

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

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

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

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

Credit risk grades

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

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

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Notes to the consolidated financial statements (continued)

For the year ended 31 December

The monitoring of exposures involves use of the following data:

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets, and projections. Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes	Internally collected data and customer behaviour – e.g. utilisation of credit card facilities.	Payment record – this includes overdue status as well as a range of variables about payment ratios.
Data from credit reference agencies, press articles, changes in external credit ratings	Affordability metrics.	Utilisation of the granted limit.
Quoted bond and credit default swap (CDS) prices for the borrower where available	External data from credit reference agencies including industry-standard credit scores.	Requests for and granting of forbearance.
Actual and expected significant changes in the political, regulatory, and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions.

a) Generating the term structure of PD

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

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

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

b) Determining whether credit risk has increased significantly

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

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

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

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

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

c) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of the financial assets are modified that does not result in de-recognition, the Group will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification.

Any difference between the recalculated amount and the existing gross carrying amount will be recognised in statement of income for Asset Modification.

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

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

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

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

d) Definition of 'default'

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

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

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

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

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

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

The Saudi British Bank

Notes to the consolidated financial statements (continued)

For the year ended 31 December

Incorporation of forward looking information

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

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

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

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

Economic Indicators	2021	2020
Government revenue, oil (SAR in Millions)	Upside: 615,946 Base: 552,663 Downside: 495,954	Upside: 418,277 Base case: 415,906 Downside: 413,901
Oil Price – Arabian Light (US$ per barrel)	Upside: 73.9 Base: 66.4 Downside: 59.7	Upside: 45.6 Base case: 45.3 Downside: 45.1
GDP, non-oil, nominal, LCU (SAR in Millions)	Upside: 2,175,704 Base: 2,146,582 Downside: 2,113,156	Upside: 1,990,688 Base case: 1,957,245 Downside: 1,881,587
Unemployment Rate (%)	Upside: 5.93 Base: 5.95 Downside: 6.0	Upside: 5.9 Base case: 6.0 Downside: 6.2

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

	Forecast calendar years used in 2021 ECL model			Forecast calendar years used in 2020 ECL model		
Economic Indicators	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**
Government revenue, oil (SAR in millions)	986,775	991,792	1,027,088	479,902	501,003	548,085
Oil Price – Arabian Light (US$ per barrel)	62.8	59.2	59.5	53.0	56.1	59.9
GDP, non-oil, nominal, LCU (SAR in millions)	2,231,694	2,338,415	2,483,838	2,074,301	2,207,176	2,326,582
Unemployment Rate (%)	5.8	5.6	5.6	5.9	5.8	5.8

e) Measurement of ECL

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

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

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

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

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

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

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

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

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

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For the year ended 31 December

Sensitivity of ECL allowance:

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

Assumptions sensitized	PL Impact 2021 SAR' 000
Macro-economic factors(Base scenario 2022):	
Government revenue, oil (SAR in millions) increase by 2.3%	
Oil Price – Arabian Light (US$ per barrel) reduction by 0.5%	(46,092)
GDP, non-oil, nominal, LCU (SAR in millions) increase by 0.1%	
Scenario weightages:	
Base scenario sensitized by +/- 5% with corresponding change in downside	9,897
Base scenario sensitized by +/- 5% with corresponding change in upside	9,305

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

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

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

31. Market risk

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

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

a) Market risk-trading book

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

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

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

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

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

The Group's VAR related information is as follows:

2021	**Foreign exchange**	**Special commission rate**	**Overall risk**
VAR as at 31 December 2021	151	614	717
Average VAR for 2021	118	810	874
Minimum VAR for 2021	5	272	305
Maximum VAR for 2021	394	2,304	2,309

2020	**Foreign exchange**	**Special commission rate**	**Overall risk**
VAR as at 31 December 2020	504	1,738	2,121
Average VAR for 2020	509	1,417	1,602
Minimum VAR for 2020	53	554	677
Maximum VAR for 2020	1,193	3,567	3,585

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

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non - trading financial assets and financial liabilities repricing as at 31 December 2021 including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI assets including the effect of any associated hedges as at 31 December 2021 for the effect of assumed changes in commission rates.

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Notes to the consolidated financial statements (continued)

For the year ended 31 December

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

2021

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

2021

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

2020

			Sensitivity of Equity				
Currency	**Increase in basis points**	**Sensitivity of special commission income**	**6 months or less**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
SAR	+100	984,589	(23,969)	(51,215)	(683,933)	(869,973)	**(1,629,090)**
USD	+100	117,971	(2,823)	(12,451)	(94,567)	(205,067)	**(314,908)**
EUR	+100	(4,998)	-	-	-	-	**-**
Others	+100	(353)	-	-	-	-	**-**

2020

							Sensitivity of Equity
Currency	**Decrease in basis points**	**Sensitivity of special commission income**	**6 months or less**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
SAR	- 100	(984,589)	23,969	51,215	683,933	869,973	**1,629,090**
USD	- 100	(117,971)	2,823	12,451	94,567	205,067	**314,908**
EUR	- 100	4,998	-	--	-	-	**-**
Others	- 100	353	-	--	-	-	**-**

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

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

2021	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,766,585	1,766,585
Balances with SAMA	927,961	-	-	-	12,063,573	12,991,534
Other balances	-	-	-	-	151,285	151,285
Due from banks and other financial institutions, net						
Current accounts	4,958,899	-	-	-	-	4,958,899
Money market placements	938,818	95,458	-	-	-	1,034,276
Positive fair value derivatives, net						
Held for trading	-	-	-	-	1,056,172	1,056,172
Held as fair value hedges	-	-	-	-	34,794	34,794
Held as cash flow hedges	-	-	-	-	18,879	18,879
Investments, net						
FVOCI	2,731,422	1,271,043	3,596,744	11,066,374	-	18,665,583
FVSI	-	-	35,933	216,418	1,131,017	1,383,368
Amortised cost	8,923,051	2,282,622	15,903,478	17,721,214	-	44,830,365
Loans and advances, net						
Credit cards	1,987,199	-	-	-	29,220	2,016,419
Other retail lending	18,383,511	2,013,529	12,338,654	4,592,183	366,372	37,694,249
Corporate and institutional lending	110,202,442	10,345,220	2,031,638	500,429	4,766,081	127,845,810
Other assets	-	-	-	-	3,353,086	3,353,086
Total assets	**149,053,303**	**16,007,872**	**33,906,447**	**34,096,618**	**24,737,064**	**257,801,304**
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	2,207,878	2,207,878
Money market deposits	3,320,892	-	-	-	-	3,320,892
Repo with banks	-	-	567,906	-	-	567,906
Others	-	2,235,294	6,331,696	-	-	8,566,990
Customer deposits						
Demand	-	-	-	-	152,966,149	152,966,149
Time	27,220,151	2,985,744	237,146	-	-	30,443,041
Saving	2,051,920	-	-	-	-	2,051,920
Margin and other deposits	-	-	-	-	1,299,502	1,299,502
Debt securities in issue	61,533	5,000,000	-	-	-	5,061,533
Negative fair value derivatives, net						
Held for trading	-	-	-	-	1,046,858	1,046,858
Held as fair value hedges	-	-	-	-	457,949	457,949
Held as cash flow hedges	-	-	-	-	9,785	9,785
Other liabilities	-	-	-	-	11,367,103	11,367,103
Equity	-	-	-	-	53,028,517	53,028,517
Total liabilities and equity	**32,654,496**	**10,221,038**	**7,136,748**	**-**	**222,383,741**	**272,396,023**
Commission rate sensitivity on assets and liabilities	**116,398,807**	**5,786,834**	**26,769,699**	**34,096,618**	**(197,646,677)**	**(14,594,719)**
Commission rate sensitivity on derivative financial instruments	**12,089,945**	**305,755**	**(6,025,370)**	**(6,370,330)**	**-**	
Total special commission rate sensitivity gap	**128,488,752**	**6,092,589**	**20,744,329**	**27,726,288**	**(197,646,677)**	
Cumulative special commission rate sensitivity gap	**128,488,752**	**134,581,341**	**155,325,670**	**183,051,958**	**(14,594,719)**	

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For the year ended 31 December

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	2,252,471	2,252,471
Balances with SAMA	21,841,129	-	-	-	11,683,700	33,524,829
Other balances	-	-	-	-	672,115	672,115
Due from banks and other financial institutions, net						
Current accounts	4,010,579	-	-	-	877,093	4,887,672
Money market placements	190,359	27,467	-	-	-	217,826
Positive fair value derivatives, net						
Held for trading	-	-	-	-	1,935,515	1,935,515
Held as fair value hedges	-	-	-	-	-	-
Held as cash flow hedges	-	-	-	-	25,791	25,791
Investments, net						
FVOCI	1,838,117	1,236,775	5,189,265	4,310,160	-	12,574,317
FVSI	-	-	53,959	305,280	878,521	1,237,760
Amortised cost	9,109,985	1,591,947	21,485,293	13,702,789	-	45,890,014
Loans and advances, net						
Credit cards	1,592,275	-	204,752	-	39,238	1,836,265
Other retail lending	5,073,687	3,433,189	13,272,568	11,927,127	665,083	34,371,654
Corporate and institutional lending	81,061,334	28,290,396	2,575,296	-	5,108,133	117,035,159
Other assets	-	-	-	-	4,090,172	4,090,172
Total assets	**124,717,465**	**34,579,774**	**42,781,133**	**30,245,356**	**28,227,832**	**260,551,560**
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	2,559,207	2,559,207
Money market deposits	5,596	-	-	-	-	5,596
Repo with banks	-	-	567,906	-	-	567,906
Others	-	8,537,416	5,950,831	-	-	14,488,247
Customer deposits						
Demand	78,954	-	-	-	134,161,549	134,240,503
Time	41,144,134	9,970,277	522,356	-	-	51,636,767
Saving	1,829,933	-	-	-	-	1,829,933
Margin and other deposits	168	-	-	-	1,402,769	1,402,937
Debt securities in issue	66,785	4,999,825	-	-	-	5,066,610
Negative fair value derivatives, net						
Held for trading	-	-	-	-	1,978,286	1,978,286
Held as fair value hedges	-	-	-	-	834,505	834,505
Held as cash flow hedges	-	-	-	-	6,295	6,295
Other liabilities	-	-	-	-	11,073,139	11,073,139
Equity	-	-	-	-	50,761,740	50,761,740
Total liabilities and equity	**43,125,570**	**23,507,518**	**7,041,093**	**-**	**202,777,490**	**276,451,671**
Commission rate sensitivity on assets and liabilities	**81,591,895**	**11,072,256**	**35,740,040**	**30,245,356**	**(174,549,658)**	**(15,900,111)**
Commission rate sensitivity on derivative financial instruments	**8,401,454**	**132,618**	**(4,103,666)**	**(4,430,406)**	**-**	
Total special commission rate sensitivity gap	**89,993,349**	**11,204,874**	**31,636,374**	**25,814,950**	**(174,549,658)**	
Cumulative special commission rate sensitivity gap	**89,993,349**	**101,198,223**	**132,834,597**	**158,649,547**	**(15,900,111)**	

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

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Group does not maintain material non-trading open currency positions. Foreign currency exposures that arise in the non-trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 31 (a) reflects the Group's total exposure to currency risk.

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

	2021 Long / (short)	2020 Long / (short)
US Dollar	(677,828)	(696,465)
Euro	(7,388)	(4,617)
Sterling Pounds	2,235	(15)
Other	(10,845)	(6,748)

32. Liquidity risk

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

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

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

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

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For the year ended 31 December

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

a) Analysis of undiscounted financial liabilities by remaining contractual maturities

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

2021	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	2,207,878	-	-	-	-	2,207,878
Money market deposits	3,324,381	-	-	-	-	3,324,381
Repo with banks	-	-	567,906	-	-	567,906
Others	-	2,500,000	6,331,696	-	-	8,831,696
Customer deposits						
Demand	-	-	-	-	152,966,149	152,966,149
Time	27,614,723	2,984,547	238,866	-	-	30,838,136
Saving	2,051,920	-	-	-	-	2,051,920
Margin and other deposits	119,771	238,712	703,667	237,352	-	1,299,502
Debt securities in issue	36,660	109,982	733,215	5,439,929	-	6,319,786
Lease liability	77,720	45,461	391,481	168,680	-	683,342
Derivatives:						
Special commission contractual amounts, net	-	7,625	153,421	243,702	-	404,748
Total undiscounted financial liabilities	**35,433,053**	**5,886,327**	**9,120,252**	**6,089,663**	**152,966,149**	**209,495,444**

2020	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	2,559,207	-	-	-	-	2,559,207
Money market deposits	6,960	-	-	-	-	6,960
Repo with banks	-	-	567,906	-	-	567,906
Others	-	8,537,417	5,950,830	-	-	14,488,247
Customer deposits						
Demand	-	-	-	-	134,240,503	134,240,503
Time	41,162,214	10,012,367	535,710	-	-	51,710,291
Saving	1,829,933	-	-	-	-	1,829,933
Margin and other deposits	413,950	244,158	549,835	194,994	-	1,402,937
Debt securities in issue	35,250	105,750	564,000	5,728,526	-	6,433,526
Lease liability	99,118	52,801	593,770	286,972	-	1,032,661
Derivatives:						
Special commission contractual amounts, net	3,024	615	302,711	551,606	-	857,956
Total undiscounted financial liabilities	**46,109,656**	**18,953,108**	**9,064,762**	**6,762,098**	**134,240,503**	**215,130,127**

b) Maturity analysis of financial assets and liabilities

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

2021	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,766,585	-	-	-	-	1,766,585
Balances with SAMA	927,961	-	-	-	12,063,573	12,991,534
Other balances	151,285	-	-	-	-	151,285
Due from banks and other financial institutions, net						
Current accounts	4,958,899	-	-	-	-	4,958,899
Money market placements	938,818	95,458	-	-	-	1,034,276
Positive fair value derivatives, net						
Held for trading	25,417	129,623	354,406	546,726	-	1,056,172
Held as fair value hedges	-	-	4	34,790	-	34,794
Held as cash flow hedges	-	97	18,782	-	-	18,879
Investments, net						
FVOCI	1,710,339	783,419	4,805,268	11,366,557	-	18,665,583
FVSI	-	-	217,606	216,418	949,344	1,383,368
Amortised cost	50,455	1,094,075	25,536,587	18,149,248	-	44,830,365
Loans and advances, net						
Credit cards	1,987,199	-	-	-	29,220	2,016,419
Other retail lending	852,973	1,514,596	16,249,587	18,710,721	366,372	37,694,249
Corporate and institutional lending	37,441,944	27,442,039	30,178,620	28,017,126	4,766,081	127,845,810
Other assets	691,523	1,206,689	392,290	-	1,062,584	3,353,086
Total assets	**51,503,398**	**32,265,996**	**77,753,150**	**77,041,586**	**19,237,174**	**257,801,304**
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	2,207,878	-	-	-	-	2,207,878
Money market deposits	3,320,892	-	-	-	-	3,320,892
Repo with banks	-	-	567,906	-	-	567,906
Others	-	2,235,294	6,331,696	-	-	8,566,990
Customer deposits						
Demand	-	-	-	-	152,966,149	152,966,149
Time	27,220,151	2,985,744	237,146	-		30,443,041
Saving	2,051,920	-	-	-	-	2,051,920
Margin and other deposits	119,771	238,712	703,667	237,352	-	1,299,502
Debt securities in issue	61,533	-	5,000,000	-	-	5,061,533
Negative fair value derivatives, net						
Held for trading	25,182	127,030	372,058	522,588	-	1,046,858
Held as fair value hedges	48	717	154,554	302,630	-	457,949
Held as cash flow hedges	-	9,785	-	-	-	9,785
Other liabilities	1,775,248	513,496	982,307	392,569	7,703,483	11,367,103
Equity	-	-	-	-	53,028,517	53,028,517
Total liabilities and equity	**36,782,623**	**6,110,778**	**14,349,334**	**1,455,139**	**213,698,149**	**272,396,023**
Commitments and contingencies						
Letters of credit	7,694,936	7,051,818	451,024	2,093,692	56,257	17,347,727
Guarantees	7,098,469	20,967,317	13,605,108	27,016,350	3,306,552	71,993,796
Acceptances	1,262,509	520,740	1,254	-	3,220	1,787,723
Irrevocable commitments	-	2,029,763	375,462	991,398	888,050	4,284,673
Total Commitments and contingencies	**16,055,914**	**30,569,638**	**14,432,848**	**30,101,440**	**4,254,079**	**95,413,919**

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For the year ended 31 December

2020	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	2,252,471	-	-	-	-	2,252,471
Balances with SAMA	21,841,129	-	-	-	11,683,700	33,524,829
Other balances	672,115	-	-	-	-	672,115
Due from banks and other financial institutions, net						
Current accounts	4,010,579	-	-	-	877,093	4,887,672
Money market placements	180,341	37,485	-	-	-	217,826
Positive fair value derivatives, net						
Held for trading	90,624	58,933	831,418	954,264	276	1,935,515
Held as fair value hedges	-	-	-	-	-	-
Held as cash flow hedges	-	5,296	20,495	-	-	25,791
Investments, net						
FVOCI	211,728	1,242,001	6,769,060	4,351,528	-	12,574,317
FVSI	-	-	53,959	305,280	878,521	1,237,760
Amortised cost	294,361	271,286	23,548,782	21,775,585	-	45,890,014
Loans and advances, net						
Credit cards	1,797,027	-	-	-	39,238	1,836,265
Other retail lending	2,570,662	1,760,577	14,704,332	14,671,000	665,083	34,371,654
Corporate and institutional lending	40,302,099	23,410,129	21,819,753	26,395,045	5,108,133	117,035,159
Other assets	530,766	971,219	-	-	2,588,187	4,090,172
Total assets	**74,753,902**	**27,756,926**	**67,747,799**	**68,452,702**	**21,840,231**	**260,551,560**
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	1,963,096	-	-	-	596,111	2,559,207
Money market deposits	5,596	-	-	-	-	5,596
Repo with banks	-	-	567,906	-	-	567,906
Others	-	8,537,416	5,950,831	-	-	14,488,247
Customer deposits						
Demand	78,954	-	-	-	134,161,549	134,240,503
Time	41,144,134	9,970,277	522,356	-	-	51,636,767
Saving	1,829,933	-	-	-	-	1,829,933
Margin and other deposits	148,266	244,158	549,835	194,995	265,683	1,402,937
Debt securities in issue	66,785	-	-	4,999,825	-	5,066,610
Negative fair value derivatives, net						
Held for trading	73,104	55,618	843,536	1,005,927	101	1,978,286
Held as fair value hedges	115	9,197	322,293	502,900	-	834,505
Held as cash flow hedges	6,295	-	-	-	-	6,295
Other liabilities	1,848,578	398,890	1,006,148	572,958	7,246,565	11,073,139
Equity	-	-	-	-	50,761,740	50,761,740
Total liabilities and equity	**47,164,856**	**19,215,556**	**9,762,905**	**7,276,605**	**193,031,749**	**276,451,671**
Letters of credit	6,222,093	6,607,604	406,958	2,006,685	4,995	15,248,335
Letters of guarantee	11,255,854	22,945,673	9,216,920	22,532,729	1,761,458	67,712,634
Acceptances	2,390,711	718,239	4,096	-	-	3,113,046
Irrevocable commitments to extend credit	-	1,024,102	1,303,643	1,860,768	-	4,188,513
Total	**19,868,658**	**31,295,618**	**10,931,617**	**26,400,182**	**1,766,453**	**90,262,528**

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

33. Offsetting of financial liabilities

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

				Amount not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amounts subject to enforceable master netting arrangement	Cash collateral pledged	Net amount
2021: Derivatives	1,514,592	-	1,514,592	-	(1,151,188)	363,404
2020: Derivatives	2,819,086	-	2,819,086	-	(1,979,400)	839,686

34. Fair values of financial instruments

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

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

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31 December 2020	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	1,961,306	-	1,961,306	-	**1,961,306**
Investments held as FVSI	1,237,760	878,521	359,239	-	**1,237,760**
Investments held as FVOCI – Debt	12,574,317	-	12,574,317	-	**12,574,317**
Investments held as FVOCI – Equity	1,128,916	1,103,450	-	25,466	**1,128,916**
Financial assets not measured at fair value					
Due from banks and other financial institutions	5,105,498	-	5,105,498	-	**5,105,498**
Investments held at amortised cost	45,890,014	-	47,794,071	-	**47,794,071**
Loans and advances	153,243,078	-	-	152,050,680	**152,050,680**
Financial liabilities measured at fair value					
Derivative financial instruments	2,819,086	-	2,819,086	-	**2,819,086**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	17,620,956	-	17,620,956	-	**17,620,956**
Customers deposits	189,110,140	-	189,231,025	-	**189,231,025**
Debt securities in issue	5,066,610	-	5,066,610	-	**5,066,610**

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

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

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

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

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

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

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

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

There were no transfers between the levels of fair value hierarchies during the period. The values obtained from valuation models may be different from the transaction price of financial instruments on transaction date.

The difference between the transaction price and the model value is commonly referred to as 'day one profit or loss'. It is either amortised over the life of the transaction or deferred until the instrument's fair value can be determined using market observable data or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated statement of income without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, and comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

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

35. Related party transactions

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

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

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

	2021	2020
The HSBC Group:		
Due from banks and other financial institutions	1,135,263	1,819,706
Investments	10,779	111,709
Fair value derivatives, net	3,421	20,812
Due to banks and other financial institutions	575,837	677,738
Commitments and contingencies	4,061,265	3,374,514

	2021	2020
Associates:		
Investments	583,359	619,232
Loans and advances	275,000	1,501
Other assets	47,726	21,923
Customer deposits	461,085	476,738
Other liabilities	-	37
Commitments and contingencies	1,303,655	1,503,428

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Notes to the consolidated financial statements (continued)

For the year ended 31 December

	2021	2020
Directors, board committees, other major Shareholders, key management personnel and their affiliates:		
Investments	3,769,568	664,344
Loans and advances	15,101,994	5,680,310
Customers' deposits	11,480,071	7,606,791
Positive fair value derivatives, net	72,626	56,962
Debt securities issued	500,000	750,000
Other liabilities	18,148	14,532
Commitments and contingencies	4,756,529	787,214

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

	2021	2020
Related mutual funds:		
Investments	363,510	361,673
Customers' deposits	17,440	47,546
Debt securities issued	212,000	212,000

	2021	2020
Subsidiaries:		
Other assets	34,000	34,000
Related mutual funds:		
Investments	578,649	516,848

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

	2021	2020
Special commission income	254,118	149,269
Special commission expense	59,951	94,684
Fees and commission income	127,408	40,040
General and administrative expenses	73,615	54,708
Service charges paid to HSBC group	30,247	29,906
Service charges recovered from associate	24,320	25,227
Proceeds from sale of non-current assets held for sale	79,895	-
Profit share paid to associate relating to investment banking activities	28,084	24,653
Directors' and board committees' remuneration	5,610	5,943

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

	2021	2020
Short-term employee benefits *	35,062	45,117
Termination benefits	746	3,081
Other long-term benefits	13,800	17,069
Share-based payments	12,944	8,681

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

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

36. Capital adequacy

The Group's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Group's ability to continue as a going concern; and to maintain a strong capital base.

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

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

As part of the latest SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two year period comprising 2020 and 2021 effective from 31 March 2021 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years. The impact of these revised transitional arrangements to the Group's Tier 1 and Tier 1 + 2 ratio have been an improvement of 37bps for the year ended 31 December 2021.

	2021	2020
Risk Weighted Assets (RWA)		
Credit Risk RWA	209,202,075	199,268,399
Operational Risk RWA	18,021,472	19,064,614
Market Risk RWA	2,192,526	1,988,398
Total RWA	**229,416,073**	**220,321,411**
Tier I Capital	44,263,704	41,774,973
Tier II Capital	5,850,780	6,303,054
Total I and II Capital	**50,114,484**	**48,078,027**
Capital Adequacy Ratio %		
Tier I ratio	19.29%	18.96%
Tier I + Tier II ratio	21.84%	21.82%

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Notes to the consolidated financial statements (continued)

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

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infection. Despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The Group has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models.

During the period ended December 31, 2021, the Group has revised certain inputs and assumptions (including but not limited to macroeconomic factors and scenario probabilities) used for the determination of ECL.

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. This resulted in the ECL (overlay) of SAR 65 million.

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H.

As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Group extended maturities on lending facilities to all eligible MSMEs as follows:

Support Programs	Tenor extended	Cost of extension (SAR 'million)
April 2020 – September 2020	SAR 6.9 billion	174
October 2020 – December 2020	SAR 6.9 billion	86
January 2021 – March 2021	SAR 5.1 billion	69
April 2021 – June 2021	SAR 5.5 billion	76
July 2021 – September 2021	SAR 283 million	3
October 2021 – December 2021	SAR 154 million	2
January 2022 – March 2022	SAR 100 million	-

The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. Since July 2021 this support only applied to those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement.

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed as assessment with respect to SICR for the customers still under DPP program as at 31 December 2021 and recorded an overlay of SAR 65 million.

The Group has also performed as assessment with respect to SICR for customers for whom DPP program ended on 31 December 2021 and migrated customers amounting to SAR 402 million from Stage 1/2 to Stage 2/3 by downgrading the customer credit rating during the year ended 31 December 2021. This did not result in any significant impact on the ECL charge for the year ended 31 December 2021.

In order to compensate the related cost that the Group has incurred under the SAMA and other public authorities program, during the years 2021 and 2020, the Group has received multiple profit free deposits from SAMA amounting to SAR 8.8 billion with varying maturities, which qualify as government grants. Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements.

Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2021, total income of SAR 444 million had been recognised in the consolidated statement of income with the remaining amount deferred. Grant income amounting to SAR 4.9 million arose on the profit free deposit amounting to SAR 2.5 billion received during the year ended 31 December 2021.

During the year ended 31 December 2021, a total of SAR 93 million (2020: SAR 351 million) has been recognized in the consolidated statement of income with respect to related deposits with an aggregate of SAR 21 million deferred grant income as at 31 December 2021 (2020: SAR 109 million).

38. IBOR Transition (Interest Rate Benchmark Reforms)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk Free Rate ("RFR").

The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective interest rate, resulting in no immediate profit or loss impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.

During 2018 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and, to oversee the Group's USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at 31 December 2021, the Group has updated systems and processes to accommodate the new EUR and GBP benchmark rates. There have been general communications with all affected counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management; and updating hedge designations.

The Group continues to engage with industry participant, to ensure an orderly transition to SOFR and to minimise the risks arising from transition, and it will continue to identify and assess risks associated with USD LIBOR replacement.

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

		Of which	
	Carrying Value/ Nominal Amount at 31 December 2021	Have yet to transition to an alternative benchmark interest rate as at 31 December 2021	Maturing before 30 June 2023
	Assets	**Assets**	**Assets**
Non derivative assets and liabilities exposed to USD LIBOR			
Investments held as FVSI – Debt	181,673	181,673	-
Loans and advances	4,756,632	4,756,632	2,475,193

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

	Carrying amount			Notional amount directly impacted by IBOR reform
	Notional	**Assets**	**Liabilities**	
Fair value hedges				
Commission rate swaps	5,594,311	2,747	(252,905)	1,006,875

Of the SAR 5.6 billion notional amount of hedges above, SAR 4.6 billion will mature before the anticipated USD LIBOR replacement on 30 June 2023. Whilst the LIBOR Steering Committee is overseeing a detailed transition plan to address all potential risks, the Group’s overall exposure to the demise of USD LIBOR is not considered to be material.

39. Board of Directors’ approval

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 14 Rajab 1443AH (Corresponding 15 February 2022).