

# **Interim Condensed Consolidated Financial Statements**

For the three months period ended  
31 March 2019

(Unaudited)

**The Saudi British Bank**

SABB  ساب

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

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

**Introduction**

We have reviewed the accompanying interim consolidated statement of financial position of The Saudi British Bank ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2019, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and other explanatory notes (collectively referred to as "the interim condensed consolidated financial statements"). Management is responsible for preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

**Other regulatory matters**

As required by SAMA, certain capital adequacy information has been disclosed in Note 15 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 15 to the relevant analysis prepared by the Bank for its submission to SAMA and found no material inconsistencies.

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24 Sha'aban 1440H  
(29 April 2019)



# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 March 2019 Unaudited SAR' 000	31 December 2018 Audited SAR' 000	31 March 2018 Unaudited SAR' 000
<b>ASSETS</b>				
Cash and balances with SAMA	4	13,289,382	14,101,089	23,882,189
Due from banks and other financial institutions	5	6,161,484	12,041,294	6,885,156
Positive fair value derivatives	10	502,520	562,373	791,330
Investments, net	6	39,377,492	34,570,456	31,780,522
Loans and advances, net	7	110,356,665	110,325,959	116,494,557
Investment in a joint venture	8	548,687	532,597	535,431
Property and equipment, net		2,012,234	1,280,670	1,144,113
Other assets		1,418,050	1,149,673	1,108,735
<b>Total assets</b>		<b>173,666,514</b>	<b>174,564,111</b>	<b>182,622,033</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		912,797	1,013,233	3,103,176
Customers' deposits	9	127,238,413	130,506,505	135,391,757
Debt securities in issue		1,516,540	1,499,282	3,024,491
Borrowings		1,696,477	1,695,308	1,688,187
Negative fair value derivatives	10	645,415	547,253	667,535
Other liabilities		7,666,147	6,839,433	6,852,023
<b>Total liabilities</b>		<b>139,675,789</b>	<b>142,101,014</b>	<b>150,727,169</b>
<b>Equity</b>				
<b>Equity attributable to equity holders of the Bank</b>				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		10,778,261	10,778,261	9,545,984
Other reserves		421,039	(3,123)	(106,362)
Retained earnings		6,237,401	5,135,131	7,332,542
Proposed dividends		1,430,954	1,430,954	-
<b>Total equity attributable to equity holders of the Bank</b>		<b>33,867,655</b>	<b>32,341,223</b>	<b>31,772,164</b>
Non-controlling interest		123,070	121,874	122,700
<b>Total equity</b>		<b>33,990,725</b>	<b>32,463,097</b>	<b>31,894,864</b>
<b>Total liabilities and equity</b>		<b>173,666,514</b>	<b>174,564,111</b>	<b>182,622,033</b>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF INCOME

Unaudited

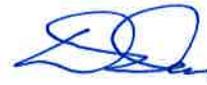
	Note	Three months ended	
		31 March 2019 SAR'000	31 March 2018 SAR'000
Special commission income		1,796,419	1,543,982
Special commission expense		309,476	221,435
<b>Net special commission income</b>		<b>1,486,943</b>	<b>1,322,547</b>
Fee and commission income, net		305,234	307,474
Exchange income, net		98,302	96,162
Income from FVTPL financial instruments, net		658	-
Trading income, net		20,174	46,835
Dividend income		41,999	-
Gains / (losses) on FVOCI debt instruments, net		16,854	(1,157)
Other operating losses, net		(152)	(10,215)
<b>Total operating income</b>		<b>1,970,012</b>	<b>1,761,646</b>
Salaries and employee related expenses		329,828	295,803
Rent and premises related expenses		15,229	34,619
Depreciation		56,675	32,908
General and administrative expenses		207,386	162,633
Provision for expected credit losses, net		90,776	207,250
<b>Total operating expenses</b>		<b>699,894</b>	<b>733,213</b>
<b>Income from operating activities</b>		<b>1,270,118</b>	<b>1,028,433</b>
Share in earnings of a joint venture	8	16,090	10,507
<b>Net income for the period</b>		<b>1,286,208</b>	<b>1,038,940</b>
<b>Attributable to:</b>			
Equity holders of the Bank		1,285,012	1,042,119
Non-controlling interest		1,196	(3,179)
<b>Net income for the period</b>		<b>1,286,208</b>	<b>1,038,940</b>
<b>Basic and diluted earnings per share (in SAR)</b>	14	<b>0.86</b>	<b>0.69</b>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

	Three months ended	
	31 March 2019 SAR' 000	31 March 2018 SAR' 000
<b>Net income for the period</b>	<b>1,286,208</b>	<b>1,038,940</b>
<b>Other comprehensive income for the period</b>		
<b>Items that cannot be reclassified subsequently to consolidated statement of income in subsequent periods</b>		
- Movement in fair value reserve (FVOCI equity instruments)	313,886	136,421
<b>Items that can be reclassified subsequently to consolidated statement of income in subsequent periods</b>		
Debt instrument at fair value through other comprehensive income		
- Net change in fair value	110,221	(46,665)
- Transfer to consolidated statement of income, net	(16,854)	1,157
Cash flow hedges		
- Net change in fair value	13,865	(617)
- Transfer to consolidated statement of income, net	(751)	(5,636)
Total other comprehensive income for the period	<u>420,367</u>	<u>84,660</u>
<b>Total comprehensive income for the period</b>	<u><b>1,706,575</b></u>	<u><b>1,123,600</b></u>
<b>Attributable to:</b>		
Equity holders of the Bank	1,705,379	1,126,779
Non-controlling interest	1,196	(3,179)
<b>Total</b>	<u><u><b>1,706,575</b></u></u>	<u><u><b>1,123,600</b></u></u>

Mathew Pearce



Chief Financial Officer

David Dew



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# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three month period ended 31 March (Unaudited)

	Attributable to equity holders of the Bank					Total	Non-controlling interest	Total Equity
	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends			
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>2019</b>								
Balance at the beginning of the period	15,000,000	10,778,261	(3,123)	5,135,131	1,430,954	32,341,223	121,874	32,463,097
Total comprehensive income for the period								
Net income for the period	-	-	-	1,285,012	-	1,285,012	1,196	1,286,208
Net changes in fair value of cash flow hedges	-	-	13,865	-	-	13,865	-	13,865
Net changes in fair value of FVOCI equity investments	-	-	313,886	-	-	313,886	-	313,886
Net changes in fair value of FVOCI debt instruments	-	-	110,221	-	-	110,221	-	110,221
Transfer to interim consolidated statement of income	-	-	(17,605)	-	-	(17,605)	-	(17,605)
			420,367	1,285,012		1,705,379	1,196	1,706,575
Treasury shares	-	-	11,351	-	-	11,351	-	11,351
Employee share plan reserve	-	-	(7,556)	-	-	(7,556)	-	(7,556)
Provision for zakat	-	-	-	(78,733)	-	(78,733)	-	(78,733)
Provision for income tax	-	-	-	(104,009)	-	(104,009)	-	(104,009)
Balance at the end of the period	15,000,000	10,778,261	421,039	6,237,401	1,430,954	33,867,655	123,070	33,990,725
<b>2018</b>								
Balance at the beginning of the period	15,000,000	9,545,984	488	7,858,470	939,650	33,344,592	125,879	33,470,471
Impact of adopting of new standards at 1 January 2018								
- Re-measurement of financial instruments	-	-	-	(1,642,777)	-	(1,642,777)	-	(1,642,777)
- Reclassification of AFS equity to FVOCI	-	-	(170,000)	170,000	-	-	-	-
- Reclassification of AFS debt to held at AC	-	-	(11,133)	-	-	(11,133)	-	(11,133)
Restated balance at 1 January 2018	15,000,000	9,545,984	(180,645)	6,385,693	939,650	31,690,682	125,879	31,816,561
Total comprehensive income for the period								
Net income for the period	-	-	-	1,042,119	-	1,042,119	(3,179)	1,038,940
Net changes in fair value of cash flow hedges	-	-	(617)	-	-	(617)	-	(617)
Net changes in fair value of FVOCI equity investments	-	-	136,421	-	-	136,421	-	136,421
Net changes in fair value of FVOCI debt instruments	-	-	(46,665)	-	-	(46,665)	-	(46,665)
Transfer to interim consolidated statement of income	-	-	(4,479)	-	-	(4,479)	-	(4,479)
			84,660	1,042,119		1,126,779	(3,179)	1,123,600
Treasury shares	-	-	(3,319)	-	-	(3,319)	-	(3,319)
Employee share plan reserve	-	-	(7,058)	-	-	(7,058)	-	(7,058)
Provision for zakat	-	-	-	(15,890)	-	(15,890)	-	(15,890)
Provision for income tax	-	-	-	(79,380)	-	(79,380)	-	(79,380)
2017 final dividend	-	-	-	-	(939,650)	(939,650)	-	(939,650)
Balance at the end of the period	15,000,000	9,545,984	(106,362)	7,332,542	-	31,772,164	122,700	31,894,864

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month period ended 31 March

Unaudited

	Note	2019 SAR'000	2018 SAR'000
<b>OPERATING ACTIVITIES</b>			
Net income for the period		1,286,208	1,038,940
Adjustments to reconcile net income to net cash (used in) / from operating activities:			
(Accretion of discount) / amortisation of premium on investments not held as FVTPL investments, net		(564)	3,796
Depreciation		56,675	32,908
Income from FVTPL financial instruments, net		(658)	-
(Gains) / losses on FVOCI debt instruments, net		(16,854)	1,157
Cash flow hedge gain transfer to interim consolidated statement of income		(751)	(5,636)
Share in earnings of a joint venture		(16,090)	(10,507)
Provision for expected credit losses, net		90,776	207,250
Employee share plan reserve		3,795	3,654
		<u>1,402,537</u>	<u>1,271,562</u>
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with SAMA		(100,410)	12,537
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		1,005,840	1,371,251
Investments held at FVTPL		(371,383)	(66,809)
Loans and advances, net		(125,209)	(821,851)
Other assets and derivatives		(208,524)	(293,226)
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		(100,436)	(587,799)
Customers' deposits		(3,268,092)	(4,847,756)
Other liabilities and derivatives		149,679	444,955
		<u>(1,615,998)</u>	<u>(3,517,136)</u>
<b>Net cash used in operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturity of investments not held as FVTPL		1,560,155	1,600,075
Purchase of investments not held as FVTPL		(5,571,306)	(6,269,680)
Purchase of property and equipment		(135,003)	(42,094)
		<u>(4,146,154)</u>	<u>(4,711,699)</u>
<b>Net cash used in investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Treasury shares purchased		-	(14,031)
Debt securities in issue		17,258	25,743
Borrowings		1,169	5,742
Dividends paid		(41,953)	(2,685)
		<u>(23,526)</u>	<u>14,769</u>
<b>Net cash (used in) / from financing activities</b>			
<b>Net decrease in cash and cash equivalents</b>		<u>(5,785,678)</u>	<u>(8,214,066)</u>
<b>Cash and cash equivalents at beginning of the period</b>		<u>16,801,572</u>	<u>30,095,578</u>
<b>Cash and cash equivalents at end of the period</b>	12	<u>11,015,894</u>	<u>21,881,512</u>
Special commission received during the period		<u>1,776,801</u>	<u>1,479,283</u>
Special commission paid during the period		<u>281,495</u>	<u>187,327</u>
<b>Supplemental non cash information</b>			
Net changes in fair value and transfers to interim consolidated statement of income		<u>420,367</u>	<u>84,660</u>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

## 1. General

The Saudi British Bank (“SABB”) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 77 branches (31 March 2018 : 81 branches) in the Kingdom of Saudi Arabia. SABB employed 3,157 staff as at 31 March 2019 (31 March 2018 : 3,235). The address of SABB’s head office is as follows:

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

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

SABB has 100% (2018:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (a subsidiary company of SABB) within the Kingdom of Saudi Arabia as per the agreement between the two subsidiaries. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2018:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

SABB has 100% (2018:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary’s main purpose is the registration of real estate and to hold and manage collateral on behalf of the Bank.

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

SABB has 65% (2018: 65%) ownership interest in a subsidiary, SABB Takaful, a joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumada Awal 1428H (6 June 2007). SABB Takaful’s principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom.

SABB owns 51% (2018: 51%) of the shares of HSBC Saudi Arabia , a joint venture with HSBC. The main activities of HSBC Saudi Arabia are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

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

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

SABB owns 50% (2018: 50%) share in each entity. SABB does not consolidate the entities as it does not have the right to variable returns from its involvement with the entities and ability to affect those returns through its power over the entities. The related underlying funding to the borrower is recorded in SABB’s interim consolidated statement of financial position.

These interim condensed consolidated financial statements were approved by the Board of Directors on 24 Sha’aban 1440H (Corresponding 29 April 2019).

31 March 2019

### 2. Basis of preparation

The interim condensed consolidated financial statements for the three months period ended 31 March 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting as modified by SAMA for the accounting of zakat and income tax. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Bank's annual consolidated financial statements as at 31 December 2018. The Bank has adopted IFRS 16 Leases from 1 January 2019 and accounting policies for this new standard are disclosed in Note 3.

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the annual consolidated financial statements as at and for the year ended 31 December 2018, except for the adoption of IFRS 16 Leases as disclosed above.

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

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

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

#### (i) Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of SABB and its subsidiaries, as mentioned in note 1 (collectively referred to as the "Bank"). The financial statements of the subsidiaries are prepared for the same reporting period as that of SABB, using consistent accounting policies, except for SABB Takaful whose financial statements are made up to the previous quarter end for consolidation purposes 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 in preparing these interim condensed consolidated financial statements.

### 3. Impact of changes in accounting policies due to adoption of new standards

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for the following new accounting standard that the Bank has adopted effective 1 January 2019. The impact of the adoption of this standard is explained below:

#### IFRS 16 Leases

The standard replaces the existing guidance on leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Bank's interim consolidated statement of financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 leases into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, and which is amortized over the estimated useful life.

The Bank has opted for the modified retrospective application permitted by IFRS 16 upon the adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018, discounted using the Bank's incremental interest rate at the time of first time application.

**Reconciliation of lease liabilities**

	<b>SAR '000</b>
Operating lease commitments as at 31 December 2018	375,685
Discounted using the Bank's weighted average incremental borrowing rate of 3.2%	(34,951)
Short term leases recognised on a straight-line basis as expense	(6,224)
Adjustments as a result of different treatment of extension options	318,726
<b>Lease liability recognised as at 1 January 2019</b>	<b>653,236</b>

**4. Cash and balances with SAMA**

<b>SAR'000</b>	<b>31 March 2019 (Unaudited)</b>	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Cash in hand	1,332,335	1,542,528	1,348,237
Statutory deposit	7,709,959	7,609,549	8,149,226
Placements with SAMA	4,080,717	4,811,666	14,256,921
Other balances	166,371	137,346	127,805
<b>Total</b>	<b>13,289,382</b>	14,101,089	23,882,189

**5. Due from banks and other financial institutions**

<b>SAR'000</b>	<b>31 March 2019 (Unaudited)</b>	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Current accounts	4,760,919	6,896,890	4,626,472
Money market placements	1,204,426	5,144,404	2,258,684
Reverse repo	196,139	-	-
<b>Total</b>	<b>6,161,484</b>	12,041,294	6,885,156

**6. Investments, net**

Investment securities are classified as follows:

<b>SAR'000</b>	<b>31 March 2019 (Unaudited)</b>	31 December 2018 (Audited)	31 March 2018 (Unaudited)
<b>Investments:</b>			
- FVOCI – Debt	12,577,483	11,642,455	12,615,798
- FVOCI – Equity	1,660,029	1,346,179	1,152,042
- FVTPL	790,516	419,133	446,875
- Held at amortised cost	24,349,464	21,162,689	17,565,807
<b>Total</b>	<b>39,377,492</b>	34,570,456	31,780,522

**7. Loans and advances, net**

Loans and advances are comprised of the following:

<b>Held at amortised cost SAR'000</b>	<b>31 March 2019 (Unaudited)</b>	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Credit cards	2,013,922	2,130,911	2,095,104
Consumer loans	19,640,404	19,883,855	20,967,449
Commercial loans and overdrafts	90,187,600	89,734,554	96,201,010
Performing loans and advances, gross	111,841,926	111,749,320	119,263,563
Non-performing loans and advances, net	3,339,721	3,327,251	2,059,572
<b>Total loans and advances</b>	<b>115,181,647</b>	115,076,571	121,323,135
Provision for credit losses, net	(4,824,982)	(4,750,612)	(4,828,578)
<b>Loans and advances, net</b>	<b>110,356,665</b>	110,325,959	116,494,557

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8. Investment in a joint venture

SAR'000	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
<b>HSBC Saudi Arabia</b>			
Balance at beginning of the period / year	532,597	524,924	524,924
Share in earnings	16,090	65,551	10,507
Dividend received	-	(57,878)	-
	<u>548,687</u>	<u>532,597</u>	<u>535,431</u>

SABB owns 51% (2018: 51%) of the shares of HSBC Saudi Arabia, a joint venture with HSBC. No single investor group can direct the activities of the entity without cooperation of the other. Both investors can appoint an equal number of board members and thereby board resolutions require joint decision making. Hence, SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

9. Customers' deposits

SAR'000	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Demand	81,876,077	82,086,159	83,990,840
Savings	7,724,739	7,823,077	7,526,816
Time	36,696,819	39,560,510	42,927,772
Margin deposits	940,778	1,036,759	946,329
<b>Total</b>	<u>127,238,413</u>	<u>130,506,505</u>	<u>135,391,757</u>

**10. Derivatives**

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

SAR'000	31 March 2019 (Unaudited)			31 December 2018 (Audited)			31 March 2018 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
<b>Derivatives held for trading:</b>									
Special commission rate swaps	293,909	(290,123)	39,816,881	283,080	(271,665)	39,675,381	354,923	(334,435)	42,196,715
Special commission rate options	100,546	(104,952)	17,149,991	128,632	(135,847)	18,386,296	133,890	(136,639)	18,483,405
Forward foreign exchange contracts	23,135	(19,829)	4,026,522	18,852	(14,135)	3,710,093	23,878	(18,206)	7,905,890
Currency options	2,506	(2,505)	3,905,568	133	(133)	5,513,328	13,027	(13,042)	28,720,020
Currency swaps	12,354	(11,928)	1,487,500	11,962	(11,113)	1,487,500	54,160	(52,894)	2,987,276
Others	9,373	(9,373)	360,836	5,198	(5,198)	360,835	20,781	(20,781)	360,836
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	12,484	(182,810)	9,466,075	76,710	(84,558)	9,420,627	144,836	(33,330)	8,768,125
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	12,896	(6,639)	1,190,000	13,169	(10,716)	1,190,000	20,969	(16,092)	1,390,000
Currency swaps	35,317	(17,256)	1,837,500	24,637	(13,888)	1,462,500	24,866	(42,116)	1,348,544
<b>Total</b>	<b>502,520</b>	<b>(645,415)</b>	<b>79,240,873</b>	<b>562,373</b>	<b>(547,253)</b>	<b>81,206,560</b>	<b>791,330</b>	<b>(667,535)</b>	<b>112,160,811</b>

**11. Commitments and contingencies**

**a) Legal proceedings**

As at 31 March 2019, there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

**b) Credit related commitments and contingencies**

The Bank's credit related commitments and contingencies are as follows:

SAR'000	<b>31 March 2019 (Unaudited)</b>	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Letters of credit	<b>11,690,431</b>	11,775,605	11,306,102
Letters of guarantee	<b>55,684,203</b>	53,261,236	55,228,983
Acceptances	<b>2,527,918</b>	2,984,802	3,094,160
Irrevocable commitments to extend credit	<b>5,836,184</b>	3,534,587	4,283,168
<b>Total</b>	<b>75,738,736</b>	71,556,230	73,912,413

**c) Status of zakat and income tax**

In 2018, the Bank reached a settlement agreement with the General Authority of Zakat and Tax ("GAZT") for zakat claims pertaining to fiscal years 2006 to 2017 resulting in an agreed amount of SAR 1,628.1 million, which will be recovered from Saudi shareholders in accordance with the bylaws of SABB.

As per the settlement agreement, the Bank paid 20% of total zakat liability amounting to SAR 325.6 million in December 2018 and the remaining amount of SAR 1,302.5 million (SAR 1,628.1 million less SAR 325.6 million) zakat liability will be settled in equal installments of SAR 260.5 million each year until the end of the fiscal year 2023.

The zakat settlement agreed with GAZT also includes the basis of zakat calculation for fiscal year 2018 that amounts to SAR 227.8 million. As a result of the settlement agreement, the Bank has agreed to withdraw all of the previous appeals which were filed against zakat assessments raised by the GAZT pertaining to fiscal years up to 2017. The Bank has received tax assessments for fiscal years 2005 to 2009 in which the GAZT raised additional demands for income tax and withholding tax. However, the amounts are not material.

In March 2019, new Zakat Regulations were issued vide MR No. 2215 dated 7/7/1440 (corresponding to 14 March 2019) which provide a new basis for calculation of Zakat for companies engaged in financing activities. The Zakat base computed as per the new formula is also subject to thresholds for minimum and maximum liability, equivalent to 10% and 20% of Net Income attributable to the Saudi shareholders respectively. The new regulations are still subject to clarification needed on certain computation aspects from the GAZT, which will be finalised over the coming reporting periods. In the meantime, based on the current understanding of the new regulation, the Bank has recognised a liability for the quarter ended 31 March 2019 attributable to the Saudi shareholders on a best estimate basis, that is subject to change based on the clarification which will be provided by GAZT in the future.

## 12. Cash and cash equivalents

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

SAR'000	<b>31 March 2019 (Unaudited)</b>	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	<b>5,579,423</b>	6,491,540	15,732,963
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	<b>5,436,471</b>	10,310,032	6,148,549
<b>Total</b>	<b>11,015,894</b>	16,801,572	21,881,512

## 13. Operating segments

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

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

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

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

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

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

**Others** – includes activities of the Bank's investment in insurance subsidiary, SABB Takaful, its investment banking joint venture, HSBC Saudi Arabia, equity investments, and merger-related expenses. It also includes elimination of inter-group income and expense items.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 March 2019 and 2018, its total operating income and expenses, and the results for the three months period then ended, by operating segment, are as follows:

31 March 2019 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	26,093,705	88,066,697	56,483,118	3,022,994	173,666,514
Total liabilities	59,892,189	67,404,846	11,888,931	489,823	139,675,789
Total operating income	665,281	974,489	287,067	43,175	1,970,012
Provision for credit losses and other impairments	(47,162)	136,702	1,236	-	90,776
Other operating expenses	327,693	181,906	40,730	58,789	609,118
Share in earnings of a joint venture	-	-	-	16,090	16,090
Net income for the period	384,750	655,881	245,101	476	1,286,208

# The Saudi British Bank

## Notes to the interim condensed consolidated financial statements (continued)

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31 March 2018 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	26,499,321	92,903,712	60,644,393	2,574,607	182,622,033
Total liabilities	61,736,719	70,805,890	17,622,962	561,598	150,727,169
Total operating income	636,188	837,169	297,530	(9,241)	1,761,646
Provision for credit losses and other impairments	85,805	120,753	692	-	207,250
Other operating expenses	306,456	178,596	41,069	(158)	525,963
Share in earnings of a joint venture	-	-	-	10,507	10,507
Net income for the period	243,927	537,820	255,769	1,424	1,038,940

### b) Total operating income by operating segments

31 March 2019 (Unaudited) SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
External	462,456	1,181,626	281,071	44,859	1,970,012
Inter-segment	202,825	(207,137)	5,996	(1,684)	-
Total operating income	665,281	974,489	287,067	43,175	1,970,012

31 March 2018 (Unaudited) SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
External	490,958	1,074,684	205,245	(9,241)	1,761,646
Inter-segment	145,230	(237,515)	92,285	-	-
Total operating income	636,188	837,169	297,530	(9,241)	1,761,646

### 14. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 31 March 2019 and 31 March 2018 are calculated by dividing the net income for the periods by 1,500 million shares.

### 15. Capital adequacy

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

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

SAMA through its circular number 391000029731 Dated 15/03/1439AH (Corresponding to 3/12/2017), which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

<b>SAR'000</b>	<b>31 March 2019 (Unaudited)</b>	31 December 2018 (Audited)	31 March 2018 (Unaudited)
<b>Risk Weighted Assets (RWA)</b>			
Credit Risk RWA	<b>157,934,233</b>	155,438,168	159,370,016
Operational Risk RWA	<b>12,880,824</b>	12,434,259	12,543,983
Market Risk RWA	<b>2,034,375</b>	1,510,175	2,171,163
<b>Total RWA</b>	<b>172,849,432</b>	169,382,602	174,085,162
<b>Tier I Capital</b>	<b>34,681,015</b>	33,359,762	33,332,802
<b>Tier II Capital</b>	<b>2,534,656</b>	2,700,534	4,064,351
<b>Total I &amp; II Capital</b>	<b>37,215,671</b>	36,060,296	37,397,153
<b>Capital Adequacy Ratio %</b>			
<b>Tier I ratio</b>	<b>20.06%</b>	19.69%	19.15%
<b>Tier I + Tier II ratio</b>	<b>21.53%</b>	21.29%	21.48%

#### 16. Fair values of financial instruments

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

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

#### Determination of fair value and fair value hierarchy

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

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

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

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

31 March 2019 (Unaudited) SAR' 000	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Derivative financial instruments	502,520	-	502,520	-	502,520
Held as FVTPL	790,516	790,516	-	-	790,516
Held as FVOCI	14,237,512	1,633,776	12,577,447	26,289	14,237,512
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions	6,161,484	-	6,161,484	-	6,161,484
Investments held at amortised cost	24,349,464	-	24,504,785	-	24,504,785
Loans and advances	110,356,665	-	-	109,611,379	109,611,379
<b>Financial liabilities measured at fair value</b>					
Derivative financial instruments	645,415	-	645,415	-	645,415
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	912,797	-	912,797	-	912,797
Customers deposits	127,238,413	-	127,359,711	-	127,359,711
Debt securities in issue	1,516,540	-	1,516,540	-	1,516,540
Borrowings	1,696,477	-	1,696,477	-	1,696,477

31 December 2018 (Audited) SAR' 000	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Derivative financial instruments	562,373	-	562,373	-	562,373
Held as FVTPL	419,133	419,133	-	-	419,133
Held as FVOCI	12,988,634	1,318,781	11,642,455	27,398	12,988,634
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions	12,041,294	-	12,041,294	-	12,041,294
Investments held at amortised cost	21,162,689	-	21,028,501	-	21,028,501
Loans and advances	110,325,959	-	-	109,316,526	109,316,526
<b>Financial liabilities measured at fair value</b>					
Derivative financial instruments	547,253	-	547,253	-	547,253
<b>Financial liabilities not measured at fair value</b>					
Due to banks and other financial institutions	1,013,233	-	1,013,233	-	1,013,233
Customers deposits	130,506,505	-	130,624,132	-	130,624,132
Debt securities in issue	1,499,282	-	1,499,282	-	1,499,282
Borrowings	1,695,308	-	1,695,308	-	1,695,308

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

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

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

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

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

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 total amount of the changes in fair value recognised in the interim consolidated statement of income, which was estimated using valuation techniques, is positive SAR 6.7 million (2018 : positive SAR 20.6 million).

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

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

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

### **17. Proposed merger transaction with Alawwal bank**

On 24/1/1440H (corresponding to 4th October 2018G) the Boards of the Saudi British Bank ("SABB") and Alawwal Bank announced to their respective shareholders that they had entered into a binding merger agreement on 3 October 2018 under which the two banks agreed to take the necessary steps to implement a merger by way of a statutory merger pursuant to Articles 191-193 of the Companies Law and Article 49(a)(1) of the Merger and Acquisition Regulations (the "Agreement"). Subsequently, the Boards of both banks announced on 4/7/1440H (corresponding to 11th March 2019G) their Firm Intention to proceed with the merger. The merger is conditional upon shareholder approvals in the forthcoming Extraordinary General Meetings, regulatory approvals, and elapse of a statutory period for Alawwal Bank's creditors to raise objections to the merger.

As at the date of approval of the SABB financial statements for the period ending 31st March 2019, approval has been received from all the required regulatory authorities, the SABB Board has issued to its shareholders a circular in advance of the Extraordinary General Meeting to be held on 15th May 2019 when the shareholders will be asked to vote on the transaction, and the SABB Board has issued an offer letter to the shareholders of Alawwal Bank in advance of its Extraordinary General Meeting to be held on 15th May 2019. Subject to the shareholder approvals, there will be a 30-day period for Alawwal bank's creditors to raise objections subsequent to the Extraordinary General Meetings. In the event that all approvals are obtained and there are no objections, the merger is expected to complete in the month of June 2019.

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In the meantime, SABB and Alawwal Bank have been preparing for the integration of the banks upon completion of the transaction. A formal governance structure has been established between the two banks to ensure effective coordination whilst maintaining independence until the date of completion. An integration team, supported by experienced consultant firms, has identified key activities and decisions, and set out an integration timeline which is expected to take up to two years to complete the full integration. Where appropriate, certain key decisions have been completed. Key decisions completed to date include the selection of the future technology infrastructure, the selection of executive management personnel, and the primary operational and system activities to be conducted upon the completion date to ensure continuous service of operations and a high standard of customer experience. The banks will continue to coordinate to ensure an effective transition to and integration of the merged Bank once approvals are received.

During the period ended 31 March 2019, the Bank incurred merger-related integration and transaction costs amounting to SAR 58 million (2018: NIL). These costs have been included in 'salaries and employee related expenses' and 'general, administrative and other operating expenses' in the interim consolidated statement of income amounting to SAR 14 million and SAR 44 million respectively. The trend in costs attributable to integration activities may increase during 2019 and 2020 in line with an increase in the pace of activities post completion, and are expected to be in line with the total spend set out in the shareholder circular and as previously announced on 4th October 2018.

The benefits of the merger have been set out in the shareholder circular and as previously announced on 4th October 2018, will be created post completion of the transaction, and are expected to be fully realized in the earnings of the merged Bank two to three years post completion of the transaction in June 2019.

### 18. Post balance sheet event

Subsequent to the reporting period end, SABB announced on the Tadawul website on 21 April 2019 that it entered into a binding agreement with HSBC Asia Holdings B.V. on 18 April 2019 for the sale of 1,000,000 shares in the share capital of HSBC Saudi Arabia (the "Shares"), representing 2% of the issued share capital of HSBC Saudi Arabia, for a total value of SAR 36,000,000 (the "Transaction"). Following completion of the Transaction, SABB will (directly and indirectly) be the owner of 49%, and HSBC Asia Holdings B.V. will become the owner of 51%, of the shares in HSBC Saudi Arabia. HSBC Saudi Arabia is an authorised person licensed by the Capital Market Authority (the "CMA") to carry out securities business activities.

The total book value of the Shares amounts to approximately: SAR 20,886,156 as of 31 December 2016, and SAR 20,585,255 as of 31 December 2017 and SAR 20,144, 235 as of 31 December 2018.

Completion of the Transaction is subject to certain agreed contractual conditions and shareholder and regulatory approvals, including the approval of the CMA.

The Transaction will allow HSBC Saudi Arabia to further benefit from the international experience of the HSBC Group. The Transaction is not expected to have a material effect on SABB's day to day operations.

The Transaction is expected to be reflected as a profit in the financial records of SABB for the period in which the Transaction is completed. The amount of such profit will be in the order of SAR 14 million based on the financial position as at 31st March 2019.

At completion of the Transaction, SABB and HSBC Asia Holdings B.V. will also enter into an amended shareholders' agreement in respect of their ownership in HSBC Saudi Arabia (the "Shareholders' Agreement"). The amendments to be made to the Shareholders Agreement mainly relate to the governance and management of HSBC Saudi Arabia (including the board composition) and reflect the change in ownership resulting from the Transaction as a result of which SABB's control and governance rights over HSBC Saudi Arabia will be reduced.

SABB intends to use the proceeds from the sale to support its activities generally.

It should be noted that the Transaction involves a related party of SABB, as HSBC Asia Holdings B.V. is part of the HSBC Group which is a substantial shareholder in SABB and has representation on SABB's board. As such (and as noted above), the Transaction will be presented to the SABB general assembly for approval, in accordance with the requirements of Article 71 of the Companies Law.

### 19. Comparative figures

Certain prior period figures have been reclassified to conform with the current period's presentation. The effect of these reclassifications was not material to these interim condensed consolidated financial statements.