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SAUDI BRITISH BANK

4Q22 Earnings Release

Key messages

- The Bank continues on its investment programme and has already started to deliver tangible progress across all parts of the business, and which in turn have resulted in increasing financial returns. Our businesses continue to show strong traction with 9% lending growth in the year
- Net income before Zakat and income tax of SAR5.8 billion; net income increased 47% mainly from higher total operating income (or revenue) which increased 26% partly offset by a 7% increase in operating expenses
- Net special commission income ('NIM') improved 0.5ppts to 2.5% for the full year
- Cost efficiency ratio improved 6.9ppts to 37.8%
- Cost of risk remained low at 24bps for the year; non-performing loans ratio for SABB-originated loans remained stable at 2.3%
- Return on tangible equity excluding discontinued operations increased 3.7ppts to 11.5%
- Gross customer advances grew SAR14.9bn or 9% to finish the year at SAR189.1bn, with SAR8.0bn or 6% growth in our corporate business and SAR5.9bn or 14% growth in our retail business
- 4Q22 Net income before Zakat and income tax of SAR1.7 billion was 1% higher than 3Q22 largely driven by an increase in revenue partly offset by higher costs reflecting our investment journey and inflation together with higher ECLs which included an overlay for in our corporate business, reflecting the potential challenges posed by the pace of the rate changes in 2022
- We exit the year with a 4Q22 QTD NIM of 2.9%; 4Q22 QTD revenue was the highest revenue on record for the Bank
- ESG remains front and centre of our plans; we are the first Saudi institution to launch a green deposit allowing customers to safely deposit their money towards green financing initiatives, we established an ESG-compliant fund through HSBC Saudi Arabia, and were awarded 'The Leading Bank in Financing Sustainable Projects in the Middle East' from Global Finance Magazine
- SABB closed the reporting period with robust levels of capital, liquidity and a strong funding base. CET1 ratio of 17.7%, a loan to deposit ratio of 86% using the simple calculation, over SAR87billion of high quality liquid assets and a demand deposit ratio of 66%, which remains ahead of the market

Mrs. Lubna Suliman Olayan, Chair of the Board of Directors commented "SABB continues to deliver on the promise of the merger, with growth across all businesses, improving digitisation and customer experience as a result of our strategic investment plans, and increased investment in our people who remain our core asset. One hundred percent of our senior management team reporting into the CEO are homegrown, local Saudi talent and over a third of our senior management is female. We continue to be a nurturing environment for talent across the entire employee base – something we are extremely proud of."

On SABB's financial performance, Ms. Olayan noted "our financial performance was ahead of plans, and mirrored the strong and resilient performance by the Kingdom and the Saudi economy against a global backdrop of increased uncertainty and geopolitical tensions. Benchmark rates have increased at pace as global economies tackle inflation. Given the construct of our balance sheet with a large proportion that re-prices with 3-month SAIBOR, our revenues have increased significantly, and at the same time we have continued to invest whilst maintaining positive operating efficiency. Throughout the year, asset quality has remained stable. We grew our customer lending portfolio by 9%, revenue by 26%, and profits by 52%, while our return on tangible equity grew 3.7ppts to 11.5%."

Customer lending has been a strategic focus, with SAR 8.0 billion or 6% growth in our corporate business accompanied by SAR 5.9 billion or 14% growth in our retail business. Ms. Olayan commented "within our corporate business, we continue to participate in the Vision 2030 giga projects and all the way down the value chain and, more recently, have focused our energies on investing and improving our MSME business. Equally, our retail business has performed extremely well with mortgage originations growing at faster than the market rate."

SABB's performance during 2022 has also received external recognition through being awarded Saudi Arabia's Best Bank 2022 by Global Finance Magazine. Ms. Olayan commented "we were delighted to win this award for the third year running, testament to the hard work of our employees, and the loyalty of our customers."

Finally, Ms. Olayan added "The Board and I are extremely grateful to the Saudi Central Bank, the Capital Markets Authority, the Ministry of Finance and the other government agencies for their support and direction. As our collaboration with HSBC goes from strength to strength, I am especially grateful to HSBC for their commitment, to SABB, and more importantly to the Kingdom as a whole."

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Results for the year ended 31 December 2022

(Not subject to audit review)

Year-to-date Income statement

	Year ended 31 December		
	2022 SAR million	2021 SAR million	Change %
Total operating income ('Revenue')	**9,697**	7,678	26
Operating expenses	**(3,662)**	(3,429)	7
Provision for expected credit losses, net	**(445)**	(454)	(2)
Share in earnings of associates	**172**	131	31
Net income before Zakat and tax	**5,762**	3,927	47
Notable items			
Bargain purchase gain	**155**	-	nm
Key ratios:	**%**	%	ppt.
Return on tangible equity ('ROTE')	**11.3**	7.7	3.6
ROTE excluding discontinued operations	**11.5**	7.8	3.7
Net special commission income margin ('NIM')	**2.5**	2.0	0.5
Cost efficiency ratio ('CER')	**37.8**	44.7	(6.9)
Cost of Risk ('CoR')	**0.24**	0.27	(0.03)
Core Tier 1 ratio ('CET1')	**17.65**	19.29	(1.64)

The following commentary compares the performance for the year ended 31 December 2022 to the year ended 31 December 2021, unless otherwise stated.

- **SABB recorded net income before Zakat and income tax of SAR5,762 million which was an increase of SAR1,834 million or 47%.** This was driven by higher revenue partly offset by an increase in operating expenses
- **Revenue of SAR9,697 million was SAR2,019 million or 26% higher** and included a bargain purchase gain of SAR155m from the acquisition of the asset management, retail brokerage and retail margin lending businesses from HSBC SA. Excluding this, net income increased from higher net special commission income from increased special commission-earning assets and reflective of the significant increase in policy rates during 2022. In addition, revenue was higher from improved foreign exchange income, whilst fee income fell mainly due to some fee-related expenses relating to prior years that were charged in 2022. Normalising for these factors, underlying fee income was broadly stable.
- **NIM of 2.5% increased 0.5ppt** following the increases to 3-month SAIBOR and other policy rates during 2022
- **Operating expenses of SAR3,662 million were SAR234 million or 7% higher** reflecting the increase in investments as we continue on our transformation journey together with the effects of inflation
- **Cost efficiency ratio of 37.8% was 6.9ppts lower** supported by our increased revenue generation whilst we continue to invest; operating Jaws was positive
- **Charges for provisions for expected credit losses of SAR445 million were SAR8.5 million or 2% lower** as we continue to benefit from recoveries from the impaired Purchased or Originated Credit Impaired or 'POCI' portfolio
- **Gross customer advances of SAR189.1 billion increased SAR14.9bn or 9%** with SAR8.0bn or 6% growth in our corporate business and SAR5.8bn or 14% growth in our retail business. Corporate originations remained strong but the end of the year was impacted by repayments. Retail mortgages and personal lending balances grew SAR2.2bn and SAR2.0bn respectively, and our successful mortgage investments resulted in a 56% increase in mortgage originations driven by strong performance in both REDF and private customer segments.

- **Customer deposits of SAR214.3 billion were higher by SAR27.5billion or 15%.** The proportion of demand deposits to overall deposits decreased to 66% but remains comfortably ahead of the sector. The reduction in the ratio driven by the migration of customers opting for time-deposits reflects the current heightened rate environment.
- **Capital levels remained strong with a CET1 ratio of 17.65% and total capital ratio of 19.91%.**

Results for the three months ended 31 December 2022

(Not subject to audit review)

Quarter-to-date Income statement

	Three months ended		
	31 December 2022 SAR million	30 September 2022 SAR million	31 December 2021 SAR million
Total operating income ('Revenue')	**2,936**	2,507	1,897
Operating expenses	**(1,077)**	(881)	(931)
Provision for expected credit losses, net	**(212)**	(38)	(414)
Share in earnings of associates	**5**	47	47
Net income before Zakat and tax	**1,652**	1,635	599
Notable items:			
Bargain purchase gain	**155**	-	nm
Key ratios:	**%**	%	%
Return on tangible equity ('ROTE')	**12.7**	12.9	4.0
ROTE excluding discontinued operations	**13.0**	13.0	4.1
Net special commission income margin ('NIM')	**2.9**	2.5	2.0
Cost efficiency ratio ('CER')	**36.7**	35.2	49.1
Cost of Risk ('CoR')	**0.45**	0.08	0.96
Core Tier 1 ratio ('CET1')	**17.65**	17.96	19.29

Net special commission income margin

(Not subject to audit review)

Net special commission income by quarter excluding the unwind of the fair value adjustment

	Quarter ended		
	31 December 2022 SAR million	30 September 2022 SAR million	31 December 2021 SAR million
Special commission income	**3,198**	2,521	1,563
Special commission expense	**(907)**	(536)	(147)
Net special commission income	**2,292**	1,985	1,416
Average special commission income earning assets[1]	**313,591**	302,056	271,929
	%	%	%
Gross Yield	**4.0**	3.2	2.2
Cost of funding[2]	**(1.4)**	(0.9)	(0.3)
Net special commission income spread	**2.6**	2.3	1.9
Net special commission income margin	**2.9**	2.5	2.0

Notes
1. *Average special commission income earning assets is calculated using daily average balances of Cash & balances with SAMA, Due from banks and other financial institutions, Loans and advances to customers (gross) and Investments excluding equity investments.*
2. *Cost of Funding is calculated using daily average balances of Due to banks and other financial institutions, Customer deposits, Debt securities in issue and borrowings.*

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