

6 August 2019

THE SAUDI BRITISH BANK, ("SABB")

1H19 Earnings Release

SABB is a Saudi Joint Stock Company with a strong track record and a heritage that stretches back more than 40 years. Established on 12 Safar 1398(H) (corresponding to 21 January 1978G), SABB formally commenced activities on 26 Rajab 1398(H) (01 July 1978) when it took over the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB provides Shariah approved products, which are approved and supervised by an independent Shariah board. SABB also provides the option of a complete set of conventional banking products and services to our corporate and institutional customers, which include current accounts, savings, time deposits, corporate credit facilities, trade finance, cash and payments management, and treasury risk management solutions.

On 13 Shawwal 1440H (corresponding to 16 June 2019G), SABB completed a statutory merger with Alawwal bank ("AAB"), resulting in the transfer of the net assets and liabilities of AAB to SABB. The transaction was effected by a capital issuance of 554,794,522 shares of SAR10 by SABB to the shareholders of AAB, in a share swap transaction at the exchange ratio of 0.48535396 shares of SABB for each share of AAB. Pursuant to the transaction, the shares of AAB were delisted from Tadawul Stock Exchange and the AAB legal entity ceased to exist.

SABB has a 51% investment in its joint venture with HSBC, HSBC Saudi Arabia, and a 100% controlling stake in Alawwal Invest, both which conduct investment banking services in the Kingdom. SABB also has a 65% controlling ownership stake in SABB Takaful, a listed insurance company in Saudi Arabia and a 20% ownership interest in Wataniya Insurance Company.

SABB's strategic vision is to be the leading international bank in Saudi Arabia. Through a tested strategic partnership spanning more than 40 years with HSBC, one of the world's largest and most international financial institutions, SABB has delivered upon this through its corporate and institutional banking business, achieving leadership positions in trade finance, payments and cash management, foreign exchange, and investment banking; and supported by a meaningful domestic retail banking franchise.

Lubna Sulaiman Olayan, Chairman, said:

"The first half of 2019 witnessed the historic merger of SABB and Alawwal bank, uniting the legacies and resources of two of the oldest banks in the Kingdom, with legal effect on 16th June 2019. The greater scale, enhanced market leadership and efficient operating platform will reinforce our unique positioning as a leading financial institution in the Kingdom, enabling us not only to support Vision 2030, but to also take advantage of the many opportunities arising from its ambitious national economic growth agenda.

The integration of the two banks is progressing well, and the board and management team are focused on delivering a successful integration and continuing to create value through our businesses by helping our customers achieve their financial goals. Our balance sheet and capital base remain strong and will continue to underpin our lending growth capacity as we seek to support our customers. I look forward to keeping our shareholders, staff, customers and regulators updated on the steps we take to unlock our full potential as we continue this exciting journey.

For the six-month period ending 30th June 2019, the merged bank generated a profitable return even after taking into account extraordinary costs and one-off credit losses related to the merger, all of which were in line with our expectations. We are certainly pleased to have been in a position to announce an interim dividend distribution, further evidence of the strength of our position. That position enhances the confidence in our ability to generate increasingly competitive returns as the benefits of the merger are more fully realized.

Many people worked long and hard to make this successful merger a reality. I would like to thank our customers, shareholders and management team for their support and commitment, but we are especially grateful for the ongoing support of our longstanding global partner, HSBC, and for the vision and continued guidance of our regulators and government agencies in approving and supporting the merger."

1st half 2019 reported financial highlights

	Six months ended June 30		
	2019 SAR million	2018 SAR million	Change %
Total operating income ('Revenue')	3,953	3,630	9
Operating expenses (excluding Provisions for credit losses, net)	(1,331)	(1,060)	(26)
Provision for expected credit losses, net	(1,719)	(116)	> (100)
Share in earnings of a joint venture and an associate	66	17	>100
Net income before Zakat and income tax	968	2,471	(61)
	%	%	ppt.
Return on Equity (ROE)	4.2	10.9	(6.7)
Cost efficiency ratio (CER)	33.7	29.2	(4.5)
Core Tier 1 ratio (CET1)	17.6	20.1	(2.5)

The table above reflects the reported consolidated financials of SABB for the first half of 2019 and 2018 and includes the proportion of results from AAB from the date of the merger to 30 June 2019.

The following commentary is on a reported basis:

- **Net income for 1H19 of SAR968m was SAR1,503m or 61% lower than 1H18** with SAR1,719m of charges for expected credit losses and SAR156m of merger-related expenses including SAR133m for transaction fees and integration expenses, in the first half of 2019 (2018: NIL).
- **Revenue for 1H19 of SAR3,953m was SAR323m or 9% higher than 1H18** and included SAR137m of revenue generated by the acquired AAB business post-merger. Excluding this, revenue increased by SAR186m or 5% driven by a SAR250m or 9% increase in Net special commission income (NSCI). Non-NSCI revenue fell SAR64m mainly from a reduction in fee and commission income due to lower fees from credit cards and import trade finance volume, and lower trading income that was partly offset by gains on FVOCI investments. NSCI, which represented 78% of total revenue, increased as a result of several hikes in benchmark interest rates that occurred during 2018.

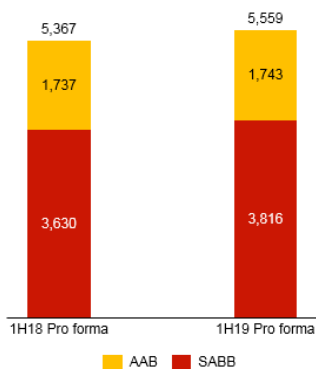
- **Operating expenses for 1H19 of SAR1,331m were SAR271m or 26% higher than 1H18** and included SAR57m of expenses incurred by the acquired AAB business post-merger, SAR156m of merger-related expenses, including SAR133m for transaction fees and integration costs (2018: NIL).
- **Charges for provisions in expected credit losses for 1H19 of SAR1,719m were SAR1,603m higher than 1H18** as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with AAB, as well as an increase in impairment charges for certain originated troubled corporate loan accounts.
- **Gross customer advances of SAR164.5bn included SAR49.0bn of customer advances from the acquired AAB business.** Excluding this portfolio, customer advances were broadly unchanged in the quarter.
- **Customer deposits of SAR196.1bn included SAR60.2bn of deposits from the acquired AAB business.** Excluding this, deposits increased 7% in the quarter.
- **CET1 capital ratio of 17.6%** in line with previous guidance.
- **The Board have declared an interim dividend for 2019 of SAR0.60 per share to Saudi shareholders net of zakat (2018: SAR0.96 per share). Total amount to be paid to shareholders of SAR1,185m (2018: SAR1,266m).**

1st half 2019 pro forma summarised income statement

	Six months ended June 30		Change %
	2019 SAR million	2018 SAR million	
Total operating income ('Revenue')	5,559	5,367	4
Operating expenses (excluding Provisions for credit losses, net)	(1,994)	(1,689)	(18)
Provision for credit losses, net	(2,130)	(691)	>(100)
Share in earnings of a joint venture and an associate	66	23	>100
Net income before Zakat and tax	1,501	3,011	(50)

Pro forma financial results have been calculated for illustrative purposes only for 2018 and 2019, to enable an understanding of the period on period performance of the combined entity. It assumes SABB and AAB banks merged on the 1 January 2018. Because of its nature, the pro forma financial information addresses a hypothetical situation and therefore, does not represent SABB's actual financial results.

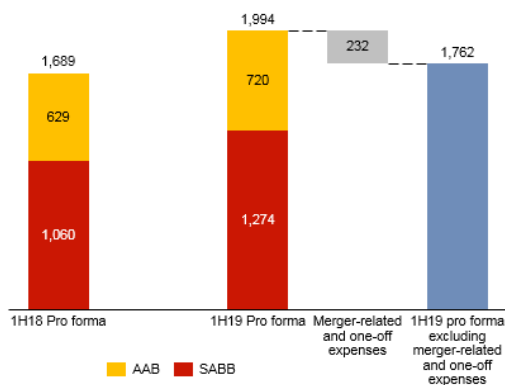
Pro forma Revenue



The chart to the left shows the year on year variance on pro forma revenue. Revenue increased 4% from:

- higher NSCI income from wider margins driven by benchmark rate hikes, despite a decrease in customer loan volumes,
- increased exchange income from higher volumes, partly offset by
- reduced fee income from credit cards and trade imports.

Pro forma Operating expenses



The chart to the left shows the year on year variance on pro forma costs.

- 1H19 costs included costs of SAR232m of which SAR191m were merger-related expenses (including SAR168m for transaction fees and integration costs) together with some one-off costs.

Update on our merger with AAB – Legal completion date 16 June 2019

Further to receipt of regulatory approvals, on 16 June 2019 SABB completed a statutory merger with AAB. On this date, the net assets and business activities of AAB were transferred to SABB in exchange for newly issued shares of SABB. The AAB legal entity ceased to exist following the transfer. Shares of AAB were cancelled and the new shares in SABB were issued to shareholders of AAB at an exchange ratio of 0.48535396 new SABB share for each AAB share. The issue of new shares has increased SABB's paid-up capital by 37% from SAR 15,000,000,000 to SAR 20,547,945,220 and the number of its issued shares have increased from 1,500,000,000 to 2,054,794,522. SABB and AAB's original shareholders owned 73% and 27% respectively, of the combined bank on a fully diluted basis on the merger date.

The Merger has created the Kingdom's third-largest bank (according to the total assets as of 31 March 2019G), a top-tier retail and corporate bank, and will provide access to a global banking network by diversifying its shareholders and customers base to facilitate the flow of investment capital into Saudi Arabia and the growth of international trade. SABB will be well positioned to support the Saudi economy, Saudi residents and Saudi companies in Saudi Arabia and internationally. The benefits of the merger created post completion of the transaction are expected to be fully realized in the earnings of the merged bank within three years subsequent to the completion of the transaction on 16 June 2019.

The purchase consideration was determined to be SAR 23,140,991 thousands which consisted of the issue of 554,794,522 new shares to the shareholders of AAB and an additional SAR 6,060 thousands representing SABB's grant of shares to AAB employees under its legacy Share Based Equity Settled Bonus. The fair value of the new issued shares of SABB was determined on the basis of the closing market price of the ordinary shares of SAR 41.70 per share on the Tadawul stock exchange on the last trading date prior to the acquisition date of 16 June 2019. Issue costs which were directly attributable to the issue of the shares were not material. As a result there was an increase in share capital and share premium of SAR 5,547,945 thousands and SAR 17,586,986 thousands, respectively.

Reported Income statement

	Six months ended	
	30 Jun 2019	30 Jun 2018
	SAR million	SAR million
Special commission income	3,749	3,175
Special commission expense	(680)	(462)
Net special commission income	3,069	2,713
Fee and commission income, net	550	608
Exchange income, net	211	204
Income from FVTPL, financial instruments, net	4	-
Trading income, net	40	84
Dividend income	42	32
Gains / (losses) on FVOCI debt instruments, net	40	(1)
Other operating income / (losses), net	(3)	(9)
Total operating income	3,953	3,630
Salaries and employee-related expenses	(700)	(592)
Rent and premises-related expenses	(21)	(63)
Depreciation and amortization	(125)	(66)
General and administrative expenses	(486)	(339)
Operating expenses (excluding Provision for expected credit losses, net)	(1,331)	(1,060)
Provision for expected credit losses, net	(1,719)	(116)
Total operating expenses (including Provision for expected credit losses, net)	(3,051)	(1,176)
Income from operating activities	903	2,454
Share in earnings of a joint venture and an associate	66	17
Net income before Zakat and taxes	968	2,471
<i>Attributable to:</i>		
Equity holders of the Bank	975	2,474
Non-controlling interests	(7)	(3)
Net income for the period	968	2,471

Reported Balance Sheet

	As at		
	30 Jun 2019	31 Dec 2018	30 Jun 2018
	SAR million	SAR million	SAR million
Assets			
Cash and balances with SAMA	23,738	14,101	21,128
Due from banks and other financial institutions, net	9,129	12,041	12,868
Positive fair value derivatives	965	562	893
Investments, net	56,092	34,570	32,281
Loans and advances to customers, net	158,275	110,326	113,362
Investment in a joint venture and an associate	625	533	542
Property and equipment, net	3,712	1,281	1,166
Goodwill	14,939	14	-
Other assets	2,802	1,249	889
Total assets	270,278	174,677	183,129
Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions	3,903	1,013	5,662
Customers' deposits	196,145	130,507	132,931
Debt securities in issue	1,501	1,499	3,000
Borrowings	1,697	1,695	1,687
Negative fair value derivatives	1,277	547	722
Other liabilities	10,331	6,839	6,042
Total liabilities	214,854	142,101	150,043
Equity			
Equity attributable to equity holders of the Bank			
Share capital	20,548	15,000	15,000
Share premium	17,587	-	-
Statutory reserve	10,991	10,778	10,164
Other reserves	290	(3)	134
Retained earnings	5,893	5,248	7,665
Proposed dividends	-	1,431	-
Total equity attributable to equity holders of the Bank	55,309	32,454	32,963
Non-controlling interests	115	122	123
Total equity	55,424	32,576	33,086
Total liabilities and equity	270,278	174,677	183,129

Legal disclaimer**Important notice**

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Forward-looking statements

This Earnings release may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position, strategy and business of SABB which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "project", "estimate", "seek", "intend", "target" or "believe" or the negatives thereof or other variations thereon or comparable terminology (together, "forward-looking statements"), including the strategic priorities and any financial, investment and capital targets described herein. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. Certain of the assumptions and judgements may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of SABB. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market conditions or regulatory changes). Any such forward-looking statements are based on the beliefs, expectations and opinions of SABB at the date the statements are made, and SABB does not assume, and hereby disclaims, any obligation or duty to update, revise or supplement them if circumstances or management's beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. No representations or warranties, expressed or implied, are given by or on behalf of SABB as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein.