

29th April 2019

## THE SAUDI BRITISH BANK, SABB

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) (21 January 1978), 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. SABB has an investment in its joint venture with HSBC, HSBC Saudi Arabia, which conducts investment banking services in the Kingdom. SABB also has a controlling ownership stake in SABB Takaful, a listed insurance company in Saudi Arabia.

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 strong domestic retail banking franchise.

### 1<sup>st</sup> quarter 2019 financial highlights

	Quarter ended 31 March		
	2019 SAR million	2018 SAR million	Change %
Total operating income ('Revenue')	1,970	1,762	12
Operating expenses (excluding Provisions for credit losses, net)	(609)	(527)	(16)
Provision for credit losses, net	(91)	(207)	56
Share in earnings of a joint venture	16	11	45
Net income	1,286	1,039	24
	%	%	ppt
Return on Equity (ROE)	15.7	12.9	2.8
Cost efficiency ratio (CER)	30.9	29.9	(1.0)

- **Net income for 1Q19 of SAR1.3bn was 24% higher than 1Q18** mainly from 12% revenue growth and 56% lower charges from provisions for credit losses, partly offset by a 16% increase in operating expenses that included integration planning and transaction costs for the proposed merger with Alawwal Bank. Excluding merger-related costs, net income was 29% higher than 1Q18.
- **Revenue for 1Q19 of SAR2.0bn was 12% higher than 1Q18** driven by a SAR164million or 12% increase in Net special commission income (NSCI), together with SAR42million in dividend income recognised in 1Q19 from equity investments, that had generated dividend income in 2Q18. In addition, there was a 2% increase in Exchange income. Fee and commission income in 1Q19 was lower by 1% compared with 1Q18, which is a notably shallower decline compared to previous periods when underlying low economic activity had led to a sharp decrease in fee and commission income. NSCI, which represented 75% of total revenue, increased as a result of several hikes in benchmark interest rates that occurred during 2018 and expanded Net special commission margin, despite a decrease in customer loans.

- **Operating expenses for 1Q19 of SAR0.6bn were 16% higher than 1Q18** including SAR58million of merger-related integration planning and transaction costs in 1Q19, resulting in a cost efficiency ratio of 30.9%, an increase of 1.0ppt. compared with 1Q18. Excluding merger-related costs, the cost efficiency ratio would have been 28.0%, a 1.9ppt. improvement on 1Q18, reflecting a revenue growth rate that was higher than the underlying rate of cost growth.
- **Charges for provisions in credit losses for 1Q19 of SAR0.1bn were 56% lower than 1Q18** largely reflecting improvements in the credit risk characteristics of the retail lending portfolio. Charges for provisions for credit losses in the corporate portfolio increased reflecting continued challenging conditions for certain corporate customers.
- **Customer advances, net of SAR110.4bn were broadly unchanged during the first quarter.**
- **Customer deposits of SAR127.2bn decreased SAR3.3bn or 3% during the first quarter**, mainly from a decrease in time deposits from corporate and institutional customers, partly offset by an increase in Retail Banking.
- **Our capital base remained strong** with a total capital ratio of 21.5%.

**Sheikh Khaled Suliman Olayan, Chairman, said:**

“SABB accomplished a strong financial performance in the first quarter of 2019, growing revenue and managing underlying cost inflation. The Board and the management team are focused on navigating through a challenging economic environment to ensure long-term sustainable value creation for our shareholders, whilst also preparing for the anticipated merger with Alawwal bank. The commencement of the merger planning activities led to an increase in operating costs in the first quarter. Over time the benefits from the transaction will yield positive net return to shareholders, and offer our customers and people an exciting place to bank and work respectively. We have received approvals from regulators and our shareholders will have the opportunity to vote on the transaction at the upcoming Extraordinary General Meeting. I anticipate we will complete the transaction in June, subject to approvals.

Sheikh Khaled further added, “I would like to thank our customers, staff and shareholders for their support and commitment. I would also like to express my sincere thanks and appreciation to our regulators and government ministries for their continued guidance and vision.”

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**MERGER WITH ALAWWAL BANK UPDATE**

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.

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 SAR58million (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 SAR14million and SAR44million 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.

## BUSINESS PERFORMANCE

### Net income by business

	Quarter ended 31 March		Change %
	2019 SAR million	2018 SAR million	
Retail Banking	385	244	58
Corporate Banking	656	538	22
Treasury	245	256	(4)
Other	0	1	(59)
<b>Total</b>	<b>1,286</b>	<b>1,039</b>	<b>24</b>

### Revenue by business

	Quarter ended 31 March		Change %
	2019 SAR million	2018 SAR million	
Retail Banking	665	636	5
Corporate Banking	974	837	16
Treasury	287	298	(4)
Other	43	(9)	>100%
<b>Total</b>	<b>1,970</b>	<b>1,762</b>	<b>12</b>

Our businesses continued to perform well with revenue up 12% and net income up 24% compared with 1Q18. We increased revenue in both Corporate and Retail Banking segments primarily from expanded NSCI margin, whilst revenue in Treasury decreased as a result of lower trading and exchange income. 'Other' segment, which includes the Bank's investment in SABB Takaful, HSBC Saudi Arabia, and equity investments also saw an increase in revenue.

**Corporate Banking** revenue, which represented 49% of SABB revenue, increased SAR137million or 16% mainly from growth in NSCI despite a decrease in customer advances.

**Retail Banking** revenue, which represented 34% of SABB revenue, increased by SAR29million or 5% from growth in NSCI as well as higher exchange income and fee and commission income, despite a decrease in customer advances.

**Treasury** revenue fell SAR11million or 4% mainly from lower trading income.

**Other** segment revenue increased SAR52million largely from dividend income due to timing differences. Net income also includes SAR58million of merger-related costs and income from our associate, HSBC Saudi Arabia.

## NET SPECIAL COMMISSION INCOME MARGIN

	Quarter ended 31 March		
	2019 SAR million	2018 SAR million	Change %
Special commission income	1,796	1,544	16
Special commission expense	(309)	(221)	(40)
<b>Net special commission income</b>	<b>1,487</b>	<b>1,323</b>	<b>12</b>
Average special commission income earning assets <sup>1</sup>	174,798	182,113	(4)
	%	%	ppt
Gross Yield	4.13	3.42	0.71
Cost of funding <sup>2</sup>	(0.91)	(0.62)	0.29
Net special commission income spread	3.22	2.80	0.42
Net special commission income margin	3.43	2.93	0.50

Net special commission income margin increased 50bps as a result of a 71bps increase in gross yield on assets, despite a 29bps increase in the cost of funding. Gross yields benefitted from several hikes of benchmark rates during 2018, which fed through to the repricing of the corporate loan portfolio and higher yielding investment securities. Cost of funding increased due to higher pricing on customer deposits, as market pricing increased as benchmark rates increased.

<sup>1</sup> Average special commission income earning assets is calculated using daily average balances of (i) Cash & balances with SAMA, (ii) Due from banks and other financial institutions, (iii) Loans and advances to customers (gross) and (iv) Investments excluding equity investments.

<sup>2</sup> Cost of Funding is calculated using daily average balances of (i) Due to banks and other financial institutions, (ii) Customer deposits, (iii) Debt securities in issue and (iv) Borrowings.

## SUMMARY INCOME STATEMENT

	Quarter ended		
	31 Mar	31 Dec	31 Mar
	2019	2018	2018
	SAR million	SAR million	SAR million
Special commission income	1,796	1,757	1,544
Special commission expense	(309)	(306)	(221)
<b>Net special commission income</b>	<b>1,487</b>	<b>1,451</b>	<b>1,323</b>
Fee and commission income, net	305	256	307
Exchange income, net	98	102	96
Income from FVTPL, financial instruments, net	1	-	-
Trading income, net	20	40	47
Dividend income	42	-	-
Gains / (Losses) on FVOCI debt instruments, net	17	(9)	(1)
Other operating income / (losses), net	(0)	(9)	(10)
<b>Total operating income</b>	<b>1,970</b>	<b>1,831</b>	<b>1,762</b>
Salaries and employee-related expenses	(330)	(324)	(296)
Rent and premises-related expenses	(15)	(38)	(35)
Depreciation	(57)	(32)	(33)
General and administrative expenses	(207)	(209)	(163)
<b>Operating expenses (excluding Provision for credit losses, net)</b>	<b>(609)</b>	<b>(603)</b>	<b>(527)</b>
Provision for credit losses, net	(91)	(56)	(207)
<b>Total operating expenses (including Provision for credit losses, net)</b>	<b>(700)</b>	<b>(659)</b>	<b>(734)</b>
<b>Income from operating activities</b>	<b>1,270</b>	<b>1,172</b>	<b>1,028</b>
Share in earnings of a joint venture	16	39	11
<b>Net income for the period</b>	<b>1,286</b>	<b>1,211</b>	<b>1,039</b>
<i>Attributable to:</i>			
Equity holders of the Bank	1,285	1,212	1,042
Non-controlling interests	1	(1)	(3)
Net income for the period	1,286	1,211	1,039

## SUMMARY BALANCE SHEET

	At		
	31 Mar 2019	31 Dec 2018	31 Mar 2018
	SAR million	SAR million	SAR million
<b>Assets</b>			
Cash and balances with SAMA	13,289	14,101	23,882
Due from banks and other financial institutions	6,161	12,041	6,885
Positive fair value derivatives	503	562	791
Investments, net	39,377	34,570	31,781
Loans and advances to customers, net	110,357	110,326	116,495
Investment in a joint venture	549	533	535
Property and equipment, net	2,012	1,281	1,144
Other assets	1,418	1,150	1,109
<b>Total assets</b>	<b>173,667</b>	<b>174,564</b>	<b>182,622</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	913	1,013	3,103
Customers' deposits	127,238	130,507	135,392
Debt securities in issue	1,517	1,499	3,024
Borrowings	1,696	1,695	1,688
Negative fair value derivatives	645	547	668
Other liabilities	7,667	6,840	6,852
<b>Total liabilities</b>	<b>139,676</b>	<b>142,101</b>	<b>150,727</b>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Bank</b>			
Share capital	15,000	15,000	15,000
Statutory reserve	10,778	10,778	9,546
Other reserves	421	(3)	(106)
Retained earnings	6,238	5,135	7,333
Proposed dividends	1,431	1,431	-
<b>Total equity attributable to equity holders of the Bank</b>	<b>33,868</b>	<b>32,341</b>	<b>31,772</b>
Non-controlling interests	123	122	123
<b>Total equity</b>	<b>33,991</b>	<b>32,463</b>	<b>31,895</b>
<b>Total liabilities and equity</b>	<b>173,667</b>	<b>174,564</b>	<b>182,622</b>

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