

3 November 2019

THE SAUDI BRITISH BANK, (“SABB”)

3rd Quarter 2019 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 49% investment in its joint venture with HSBC, HSBC Saudi Arabia, following the completion of the sale of 2% of the issued share capital to HSBC on 1 October 2019 (51% as at 30 September 2019G). In addition, SABB has a 100% controlling stake in Alawwal Invest, both HSBC Saudi Arabia and Alawwal Invest 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 third quarter of 2019 represents the first full quarter since the legal completion of our ground-breaking merger of SABB and Alawwal bank on 16th June 2019. Since that date the Board and the Management team have continued the journey to unite the two organisations around a common strategy, customer base, and values set. The new Board has met on two occasions to date to discuss strategy, culture, branding, talent development, integration, and maintaining our high standards of customer experience and risk management. I am enthused by the level of commitment and focus amongst the Board and the Management team. We have appropriately high aspirations for the future.

Our financial performance in the third quarter was more reflective of the merged Bank’s current returns as it included a full quarter of business returns and did not repeat the one off merger-related accounting we reported in the second quarter. Credit losses were lower as expected, the temporary cost of integration increased in line with plan, growth remained challenging in the current economic environment, and the pressure of a declining cycle in interest rates began to be felt. Notwithstanding, SABB generated a solid return for the period to support capacity to lend and capacity to distribute dividends. The Bank remains strong, profitable, and well positioned.

In the third quarter, the SABB Group maintained its position as the primary settlement bank and custodian in Saudi Arabia, supporting the inflow of foreign investment through the latest tranches of MSCI and FTSE-Russell EM Index investments. Also in the quarter, SABB was the first bank in the region to implement SWIFT gpi for Corporates service, to provide customers with transparency in making and tracking payments across multiple banks in a simple manner, re-emphasising SABB’s priority to bring best-in-class services to its corporate franchise. For our retail customers, SABB was proud to partner with two global leaders in payments technology to implement cutting-edge mobile and browser-enabled remittance technology, providing fast, safe and low cost international remittances to two key payments corridors, and soon to be expanded further. In September, SABB completed its third SABB Taqadam start up accelerator program, working with 28 start-ups in Saudi Universities, to help entrepreneurs turn ideas into businesses, and provide financial investment. Over the past three years of SABB Taqadam, 200 entrepreneurs graduated from 78 start-ups supported by a total of SAR 9 million as grants and seed funds.

Looking forward into the fourth quarter, the prospect of an IPO of one of the Kingdom’s jewels, Aramco, should make us all excited about the extent of transformation being achieved in Saudi Arabia. Whilst we cannot set the pace of economic growth in the near term, we are confident that our strategic positioning in SABB will both contribute and benefit.

I would like to thank our customers, shareholders, management team and our longstanding global partner, HSBC, for their continued support and commitment; as well as our regulators and government agencies for their vision and guidance.”

3rd quarter 2019 reported financial highlights

	Nine months ended 30 September		
	2019 SAR million	2018 SAR million	Change %
Total operating income (‘Revenue’)	6,530	5,492	19
Operating expenses (excluding Provisions for credit losses, net)	(2,389)	(1,597)	(50)
Provision for expected credit losses, net	(1,955)	(203)	> (100)
Share in earnings of a joint venture and an associate	95	27	>100
Net income before Zakat and income tax	2,281	3,718	(39)
Zakat and income tax	(369)	(852)	57
Net income after Zakat and income tax	1,913	2,867	(33)
	2019 SAR million	2018 SAR million	Change %
Gross customer advances	158,996	116,876	36
Customer deposits	183,417	129,328	42
	2019 %	2018 %	Change ppt.
Return on Equity (ROE)	5.8	11.6	(5.8)
Return on Tangible Equity (ROTE)	6.8	11.6	(4.8)
Cost efficiency ratio (CER)	36.6	29.1	(7.5)
Core Tier 1 ratio (CET1)	18.0	19.9	(1.9)

The table above reflects the reported consolidated financials of SABB for the first nine months of 2019 and 2018 and includes the proportion of results from Alawwal bank from the date of the merger to 30 September 2019.

The following commentary is on a reported basis:

- **Net income after Zakat and income tax of SAR1,913m was SAR954m or 33% lower than the first nine months of 2018** from increased expected credit losses (ECL) and higher operating expenses which were partly offset by higher revenue and increased income from associates. In addition, Zakat and income tax fell 57% as the prior period included a provision of SAR500m relating to historic Zakat and income tax liabilities on an ongoing industry-wide issue, relating to the disallowance of long-term investments and addition of long-term financing to the Zakat base.
- **Revenue of SAR6,530m was SAR1,038m or 19% higher than the first nine months of 2018** and included revenue generated by the acquired Alawwal bank business post-merger.
- **Operating expenses of SAR2,388m were SAR792m or 50% higher than the first nine months of 2018** and included expenses incurred by the acquired Alawwal bank business post-merger and SAR293m of merger-related expenses, including SAR270m for transaction fees and integration costs (9M18: SAR1m). The merger-related expenses are temporary and will cease once the operational integration has completed.
- **Charges for provisions for expected credit losses of SAR1,955m were SAR1,752m higher than the first nine months of 2018** as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with Alawwal bank, and an increase in impairment charges for certain originated troubled corporate loan accounts, notably in the second quarter.
- **CET1 capital ratio remains strong at 18.0%.**

Nine months ended 30 September pro forma summarised income statement

	Nine months ended 30 September		
	2019 SAR million	2018 SAR million	Change %
Total operating income ('Revenue')	8,135	8,115	0
Operating expenses (excluding Provisions for credit losses, net)	(3,051)	(2,554)	(19)
Provision for expected credit losses, net	(2,365)	(1,057)	>(100)
Share in earnings of a joint venture and an associate	95	35	>100
Net income before Zakat and tax	2,814	4,539	(38)
<i>Memo item:</i>			
<i>Merger-related expenses</i>	326	5	>100%
Gross customer advances	158,996	179,879	(12)
Customer deposits	183,417	194,642	(6)

Three months ended 30 September pro forma summarised income statement

	Three months ended 30 September		
	2019 SAR million	2018 SAR million	Change %
Total operating income ('Revenue')	2,577	2,748	(6)
Operating expenses (excluding Provisions for credit losses, net)	(1,057)	(866)	(22)
Provision for expected credit losses, net	(236)	(365)	35
Share in earnings of a joint venture and an associate	29	12	>100
Net income before Zakat and tax	1,313	1,528	(14)
<i>Memo item:</i>			
<i>Merger-related expenses</i>	137	2	>100%

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 Alawwal bank 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.

The following commentary is on a pro forma basis and compares the performance in the three months ending 30 September 2019 versus three months ending 30 September 2018, unless otherwise stated:

- **Net income before Zakat and income tax of SAR1,313m was SAR215m or 14% lower than the prior period** from lower revenue and increased costs partly offset by reduced ECL charges. There were SAR137m of merger-related costs in the quarter (3Q18: SAR2m), excluding these net income was SAR80m or 5% lower.
- **Revenue of SAR2,577m was SAR171m or 6% lower than the prior period** largely driven by a fall in net special commission income, as average lending balances fell together with the decreases in benchmark rates. In addition, fee income fell SAR45m due to lower loan origination and trade finance fees, reflecting the current challenging global macro environment. This was partly offset by higher exchange income from increased volumes.
- **Operating expenses of SAR1,057m were SAR191m or 22% higher than the prior period** and included SAR137m of merger-related expenses, (3Q18: SAR2m). Excluding these, costs increased SAR57m or 7% and the adjusted cost efficiency ratio for the third quarter, which excludes the merger-related costs, was 35.7%.
- **Charges for provisions for expected credit losses of SAR236m were SAR129m or 35% lower than the prior period** in line with previous guidance.
- **Gross customer advances of SAR159.0bn fell SAR20.9bn or 12% year-on-year and SAR5.5bn or 3% in the third quarter.** The fall in the quarter was mainly in the Corporate and Institutional Banking business. Retail balances were broadly unchanged with growth in credit card balances offsetting a fall in net mortgage balances.
- **Customer deposits of SAR183.4bn decreased SAR11.2bn or 6% year-on-year or SAR12.7bn or 6% in the third quarter.** The prior quarter end included temporary balances relating to the timing of the foreign investment inflows into the Kingdom, as a result of the index inclusion where SABB plays a significant role as the leading settlement bank in Saudi Arabia. During the third quarter, we also actively reduced our time deposit balances.

Pro forma Net special commission income by quarter

	Three months ended		
	30 September 2019 SAR millions	30 June 2019 SAR millions	30 September 2018 %
Special commission income	2,499	2,706	2,663
Special commission expense	(508)	(560)	(557)
Net special commission income	1,992	2,147	2,106
Average special commission income earning assets ¹	252,071	262,224	262,980
	%	%	%
Gross Yield	4.0	4.1	4.0
Cost of funding ²	(1.0)	(1.1)	(1.1)
Net special commission income spread	3.0	3.0	2.9
Net special commission income margin	3.2	3.3	3.2

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.

Pro forma net special commission income margin for the three months ended 30 September 2019 was 3.2%, which was a 0.1ppt reduction compared with the trailing quarter, in line with previous guidance as global benchmark interest rates began to fall, partly offset by an improvement in cost of funds as we actively reduced our time deposits together with the benefit of repricing. Net special commission income also declined due to a decrease in customer lending and deposits.

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 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.

The merger has created the Kingdom's third-largest bank (according to the total assets as of 30 June 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.

During the last quarter, progress has been made with executing our integration strategy in line with the plans communicated at the 2Q19 Results call. The end state IT architecture, which was chosen to be the current SABB IT system, has been reviewed to understand any gaps in functionality. The process of developing solutions for these gaps is underway, as well as the plans for how to automatically migrate all of the data from the existing Alawwal bank IT system to the SABB IT system. In addition, within the corporate space, the manual migration of former Alawwal bank clients to SABB has started. On the staff front and following a detailed review of the cultures of the two banks, the target culture for the combined organisation has been defined and plans on how to reach that target are being finalised. Reported merger-related integration and transaction costs were SAR137m during the quarter, and SAR293m for the nine months including SAR270m of integration and transaction costs reflecting fees paid to third parties for legal, valuation and transaction services as well as costs of in-house staff and third party consultants working on the merger.

Update on Purchase price allocation exercise

As communicated in our financial statements for the first half of the year, we continue to refine the purchase price allocation which is expected to be completed within twelve months from the acquisition date. During the quarter we have provisionally determined the fair value of identifiable intangible assets of SAR2,022m which largely represent the future benefit of core Alawwal bank deposits. The estimated useful life of these intangible assets vary and amortisation of these will commence in the fourth quarter. This has resulted in a provisional goodwill of SAR12,904m as at 30 September 2019. For further information, see page 15 of the Interim Condensed Consolidated Financial Statements.

Reported Income statement

	Three months ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	30 Sep 2019	30 Sep 2018
	SAR million	SAR million	SAR million	SAR million
Special commission income	2,499	1,710	6,248	4,885
Special commission expense	(508)	(296)	(1,187)	(758)
Net special commission income	1,992	1,414	5,061	4,127
Fee and commission income, net	370	264	921	872
Exchange income, net	155	107	366	311
Income from FVTPL, financial instruments, net	6	4	10	4
Trading income, net	29	47	69	132
Dividend income	30	34	72	65
Gains / (losses) on FVOCI debt instruments, net	4	(11)	40	(12)
Other operating income / (losses), net	(5)	3	(8)	(6)
Total operating income	2,577	1,861	6,530	5,491
Salaries and employee-related expenses	(518)	(323)	(1,218)	(915)
Rent and premises-related expenses	(29)	(35)	(49)	(98)
Depreciation and amortization	(115)	(33)	(240)	(99)
General and administrative expenses	(395)	(146)	(881)	(485)
Total operating expenses	(1,057)	(537)	(2,389)	(1,597)
Provision for expected credit losses, net	(236)	(87)	(1,955)	(203)
Share in earnings of a joint venture and an associate	29	10	95	27
Net income before Zakat and income tax	1,313	1,247	2,281	3,718
Zakat and income tax	(252)	(186)	(369)	(852)
Net income after Zakat and income tax	1,061	1,062	1,913	2,866
<i>Attributable to:</i>				
Equity holders of the Bank	1,067	1,062	1,926	2,869
Non-controlling interests	(6)	-	(13)	(3)
Net income for the period	1,061	1,062	1,913	2,866

Reported Balance Sheet

	As at		
	30 Sep 2019	30 Jun 2019	30 Sep 2018
	SAR million	SAR million	SAR million
Assets			
Cash and balances with SAMA	15,691	23,738	13,158
Due from banks and other financial institutions, net	6,906	9,129	11,918
Positive fair value derivatives	1,191	965	954
Investments, net	58,720	56,092	33,958
Loans and advances to customers, net	152,529	158,275	112,128
Investment in a joint venture and an associate	654	625	494
Property and equipment, net	3,366	3,712	1,153
Intangibles	15,233	14,939	66
Other assets	3,575	2,802	1,220
Total assets	257,864	270,278	175,048
Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions	3,584	3,903	1,198
Customers' deposits	183,417	196,145	129,328
Debt securities in issue	1,517	1,501	3,031
Borrowings	1,698	1,697	1,694
Negative fair value derivatives	1,636	1,277	763
Other liabilities	10,984	10,331	6,075
Total liabilities	202,836	214,854	142,089
Equity			
Equity attributable to equity holders of the Bank			
Share capital	20,548	20,548	15,000
Share premium	17,587	17,587	-
Statutory reserve	10,991	10,991	10,164
Other reserves	12	290	212
Retained earnings	5,780	5,893	7,460
Proposed dividends	-	-	-
Total equity attributable to equity holders of the Bank	54,919	55,309	32,836
Non-controlling interests	109	115	123
Total equity	55,028	55,424	32,959
Total liabilities and equity	257,864	270,278	175,048

Legal disclaimer**Important notice**

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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.