



## 4Q19 Financial Results

Presentation to investors and analysts

SABB  ساب

**1**

**2019 Key messages, SABB Board and strategy**

2

Merger update

3

4Q19 SABB performance

# Leading. Together – key messages for 2019

## 2019 key messages

- Recap on merger between SABB and Alawwal Bank ('AAB'):
  - Legally completed 16<sup>th</sup> June 2019. A milestone event for the Saudi capital markets. Positions SABB as a leading bank in the Kingdom at a significant juncture in the Kingdom's history
  - Focus on integration: established strong governance and execution expertise, culture, and organisational structure; unified corporate customer coverage; commenced manual systems migration of corporate clients; and began planning for automated systems migration of retail clients
- Triennial Board election in December – our Board comprises a diverse group of individuals bringing together a wealth of both local and international expertise across a spectrum of industries.
- Maintained focus on other strategic priorities such as digital; during 2019 we have:
  - Launched top-rated new retail mobile apps
  - Partnered with 2 global payment technology leaders to launch blockchain-based retail remittance solutions
  - First in Kingdom to conduct blockchain-based Trade transaction
  - First in region to implement SWIFTgpi for corporates, providing customers with transparency in making and tracking payments across multiple banks

## 2019 Financial update

- Reported Net income before zakat and income taxes of SAR3.3bn and Total operating income ('revenue') of SAR9.4bn
- Pro forma Net income before zakat and income taxes of SAR3.8bn and revenue of SAR11.0bn
  - Revenue increased SAR117m or 1% from higher net special commission income and included SAR414m from the benefit of the 'PV unwind'
  - Costs increased SAR833m or 24% mainly driven by an increase in merger-related costs of SAR450m, charge for intangible amortisation of SAR78m, and a number of significant charges that are one-off in nature; underlying costs increased 1%
  - Impairment charges of SAR3,020m impacted by one-off credit losses in the second quarter in respect of the acquired loan portfolio through the merger with AAB; 4Q19 charges of SAR655m
- Customer lending into the fourth quarter increased by 1%, mainly in the corporate sector. Customer lending in the first half of 2019 was muted although experienced positive signs in the second half of the year
- NIM, excluding the benefit of the PV unwind, fell c.0.2ppts. to 3.0% from the third quarter, in line with previous guidance

# Board



Chair:  
**Ms. Lubna  
Suliman Olayan**

Ms. Olayan was a member of the board of Alawwal since 2004, and served as its Deputy Chairman. With wide-ranging experience in investments and operating companies, Ms. Olayan served as CEO of Olayan Financing Company for over 35 years, and presently chairs its ExCom, in addition to chairing the board of Olayan Saudi Holding Company. Ms. Olayan has been a member of the board of Schlumberger since 2011, and in 2016 she joined the board of Ma'aden. Ms. Olayan also sits on various domestic and international advisory boards.

'Our Board comprises a group of individuals who bring together a wealth of local and international expertise across a spectrum of industries'



Vice Chair:  
**Mr. Saad Bin A  
Muhsin Al-Fadhli**



**Mr. Mohammed Bin  
Omran Alomran**



**Mr. Khalid Bin  
Abdullah Al-Mulhelm**



Managing Director:  
**Mr. David Dew**



**Mr. Stuart Gulliver**



**Mr. Samir Assaf**



**Mr. Stephen Moss**



**Ms. Maria Ramos**



**Mr. Ahmed Farid Al-  
Aulaqi**



**Mr. Martin Powell**

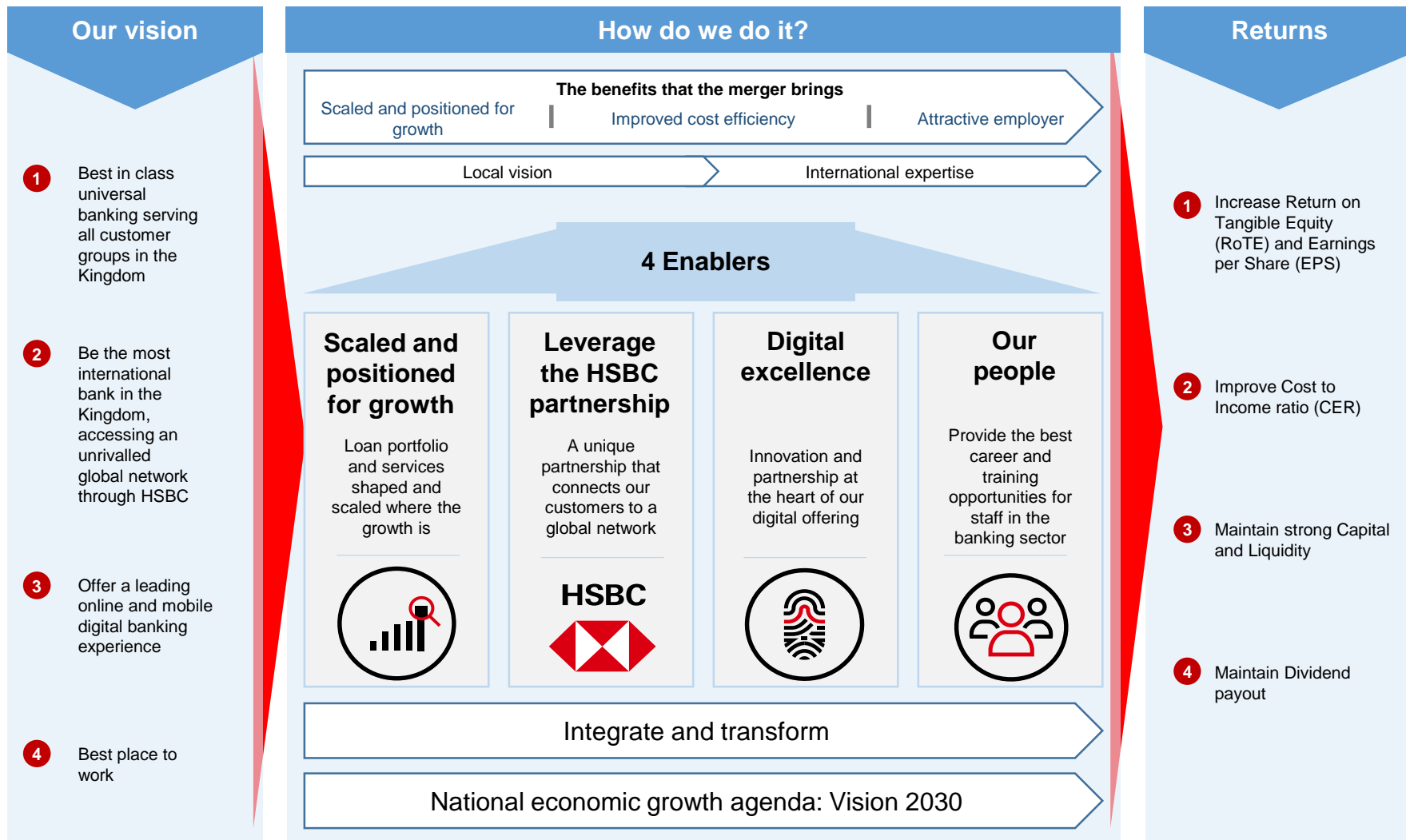
**Executive committee**

**Board Risk committee**

**Audit committee**

**Nomination and  
remuneration committee**

# Vision and strategy



1

2019 Key messages, SABB Board and strategy

**2**

**Merger update**

3

4Q19 SABB performance

# Integration update

## Governance

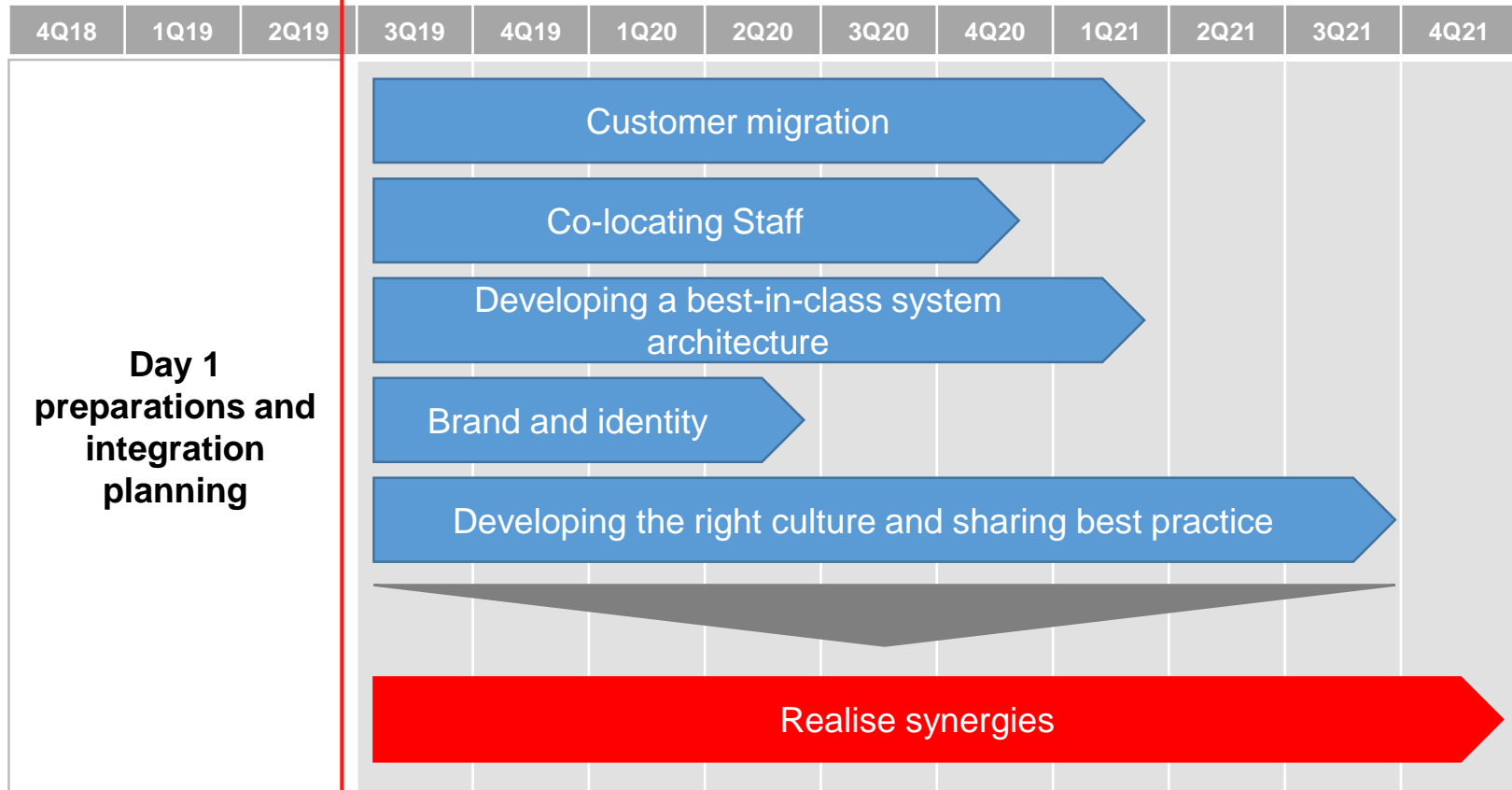
- The merger of AAB and SABB was legally completed in June 2019
- Board members elected and appointed executive leadership team
- Established integration governance and a dedicated project management office
- Appointed industry-leading external consultants to assist in the key areas of project management and synergy realization, Human Resources, technology, culture and branding

## Integration

- Defined the target culture for the organisation and have now started the roll out to staff
- Established single organisational structure, aligned internal policies, co-located staff and migrated all staff onto a common people management platform
- Unified the relationship coverage model for our corporate clients
- Launched a number of hybrid retail branches servicing all retail customers from a common premises
- Harmonised retail customer pricing
- Target IT architecture selected and completed an analysis to understand any gaps in functionality
- Commenced manual migration of corporate clients from the legacy AAB systems to the SABB systems

# Integration plan

Day1: 16 June 2019



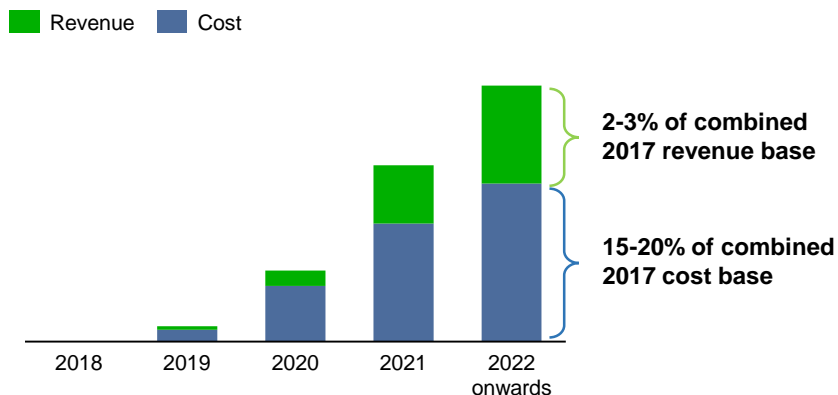


# Synergies vs. integration costs

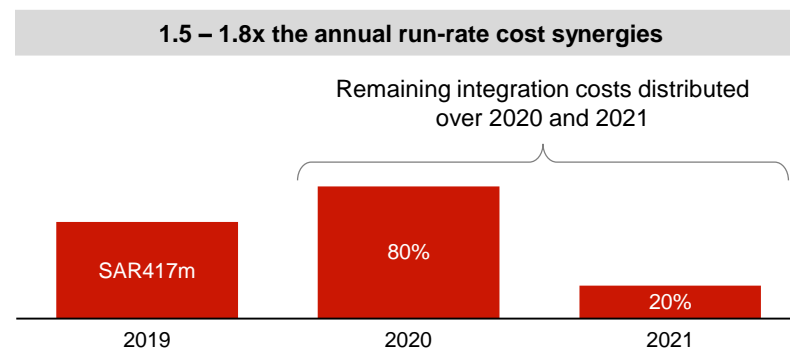
	Previous guidance (communicated Oct 2018)	Current guidance (communicated Aug 2019)
Cost synergies	10% - 15% of the combined cost base	15% - 20% of the combined cost base
Revenue synergies	No guidance provided	2-3% of the combined revenue base
Integration costs	1.5 – 2.0x the annual run-rate cost synergies	1.5 – 1.8x the annual run-rate cost synergies

- Reduce overhead duplication through natural attrition
- Optimize systems, distribution, infrastructure and real estate
- Improve supplier negotiating positions
- Revenue cost synergies from cross-selling, deeper customer penetration and diversified fund-raising

Expected profile of synergies



Expected profile of integration costs



1

2019 Key messages, SABB Board and strategy

2

Merger update

**3**

**4Q19 SABB performance**

# Key financial metrics and pro forma results

## Key ratios (Reported basis)

%	2018	2019	Δ 2018
Net special commission margin	3.1	3.2*	0.1ppt
Return on Equity (ROE)	8.2	6.0*	(2.2)pt
Return on Tangible Equity (ROTE)	8.3	7.6*	(0.7)pt
Cost efficiency ratio (CER)	30.0	38.8	(8.8)ppt
Common Equity Tier 1 ratio	19.7	18.2*	(1.5)pt

\*2019 diluted by merger

## Reported Income Statement

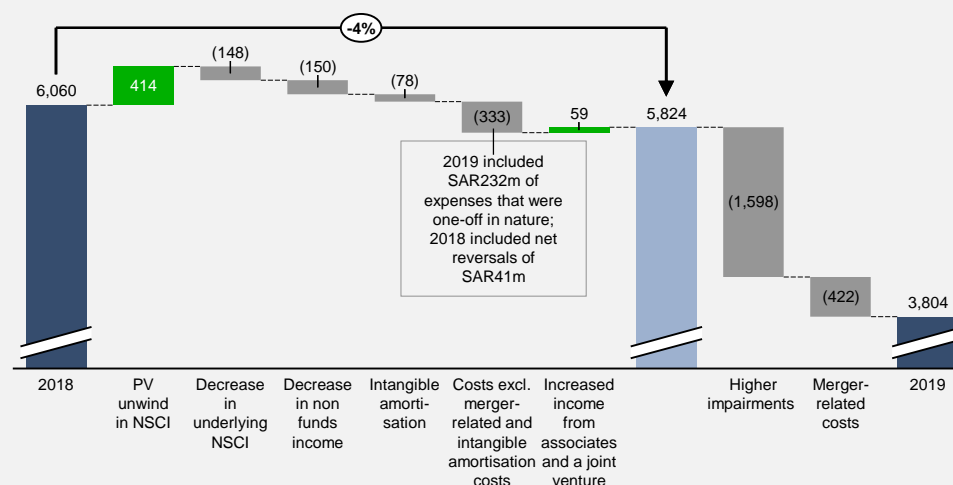
SAR million	4Q19	Δ 4Q18	2019	Δ 2018
Total operating income ('Revenue')	<b>2,867</b>	57%	<b>9,398</b>	28%
Operating expenses	<b>(1,261)</b>	>(100)%	<b>(3,649)</b>	(66)%
Provision for expected credit losses, net	<b>(655)</b>	>(100)%	<b>(2,609)</b>	>(100)%
Share in earnings of an associate and a joint venture	<b>38</b>	(2)%	<b>133</b>	>100%
Net income before Zakat and income tax	<b>990</b>	(18)%	<b>3,271</b>	(34)%
Zakat and income tax	<b>(91)</b>	93%	<b>(459)</b>	79%
Net income after Zakat and income tax	<b>899</b>	>100%	<b>2,812</b>	4%

## 4Q19 vs. 4Q18 and 2019 vs. 2018 pro forma net income

## Net income before Zakat and income tax: 2019 vs. 2018

### Pro forma Income Statement

SAR million	4Q19	Δ 4Q18	2019	Δ 2018
Total operating income ('Revenue')	<b>2,867</b>	3%	<b>11,003</b>	1%
Operating expenses	<b>(1,261)</b>	(38)%	<b>(4,312)</b>	(24)%
Provision for expected credit losses, net	<b>(655)</b>	(79)%	<b>(3,020)</b>	>(100)%
Share in earnings of an associate and a joint venture	<b>38</b>	(2)%	<b>133</b>	80%
Net income before Zakat and income tax	<b>990</b>	(35)%	<b>3,804</b>	(37)%
Zakat and income tax	<b>(91)</b>	94%	<b>(572)</b>	77%
Net income after Zakat and income tax	<b>899</b>	>100%	<b>3,232</b>	(9)%

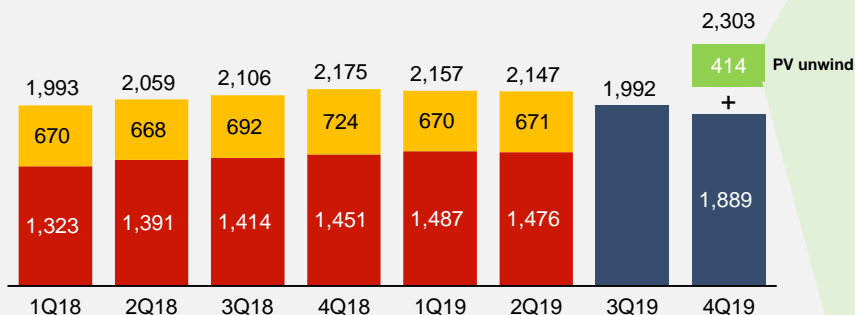


# NSCI margin analysis

Pro forma

## Net special commission income

SAR million ■ AAB ■ SABB

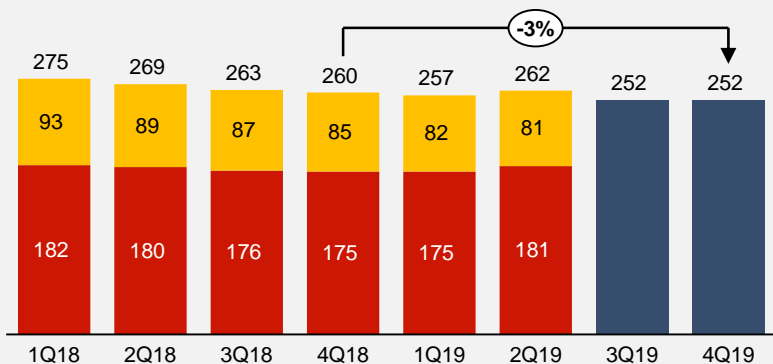


### Unwind of the fair value adjustment

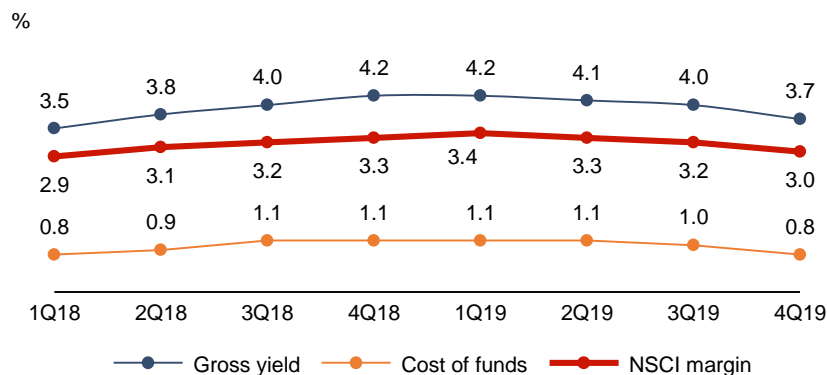
- AAB loan portfolio recognised at fair value on merger date
- The fair value is a discounted amount to the contractual amounts due of the underlying loans
- The discount applied will be unwound over time to the contractual maturity date of the loans
- The unwind will be recognised in NSCI using the effective interest rate ('EIR') method
- The amount recognised in the future will be on a declining basis, in line with the EIR method

## Average interest-earning assets

SAR billion ■ AAB ■ SABB

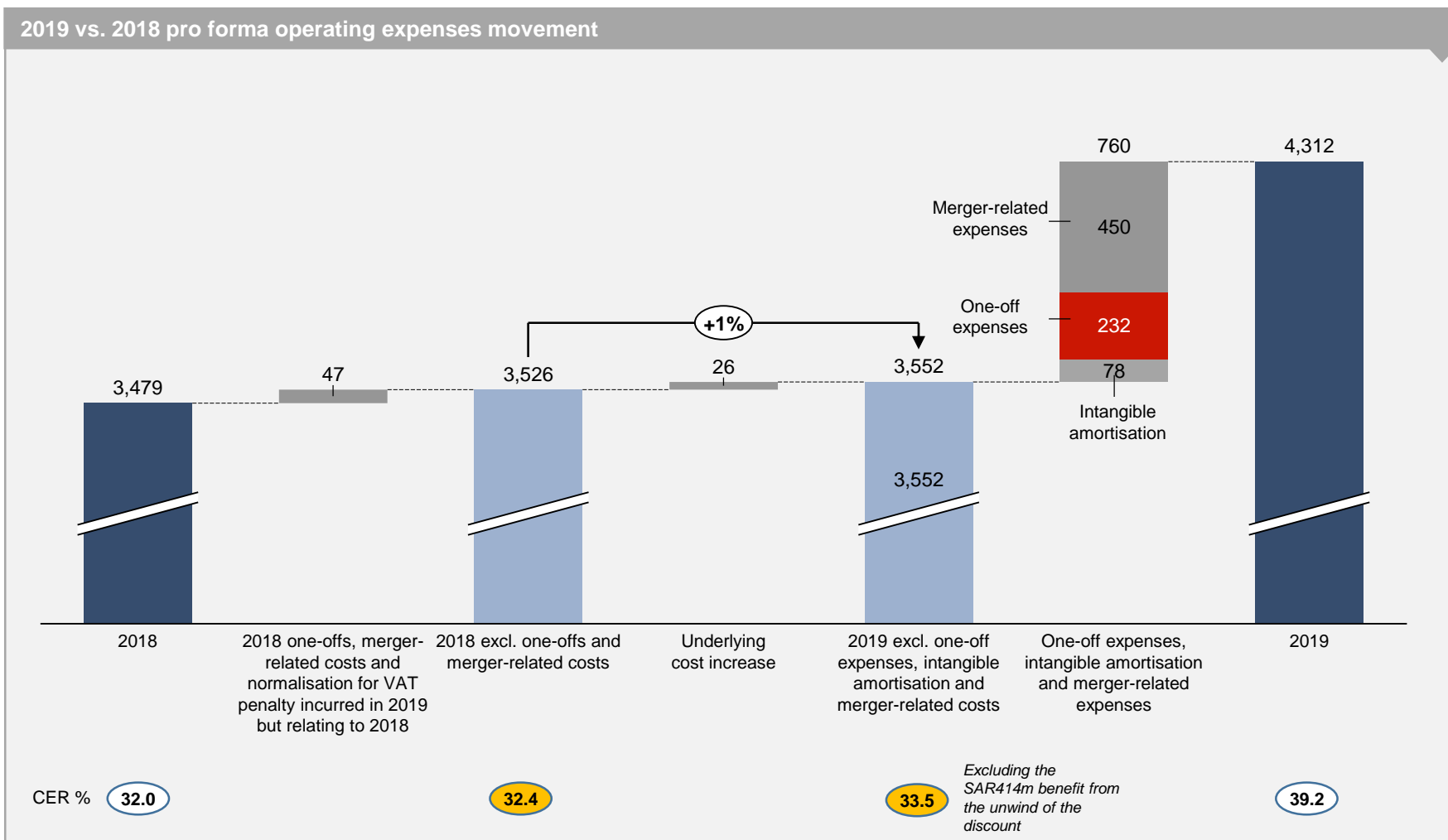


## Yield, costs of funds and margin (excl. PV unwind)



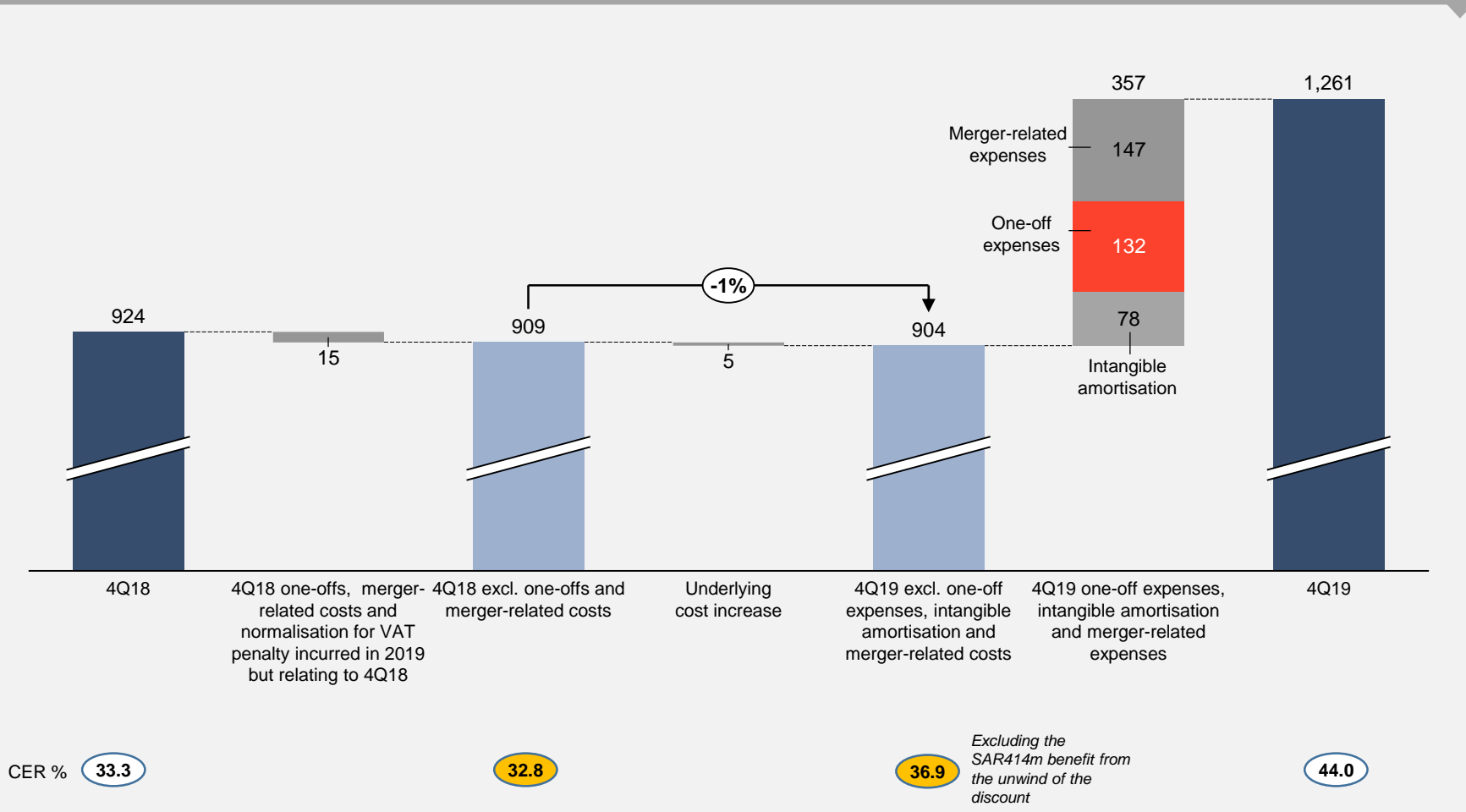
# Operating expenses

2019 vs. 2018 pro forma operating expenses movement



# Operating expenses

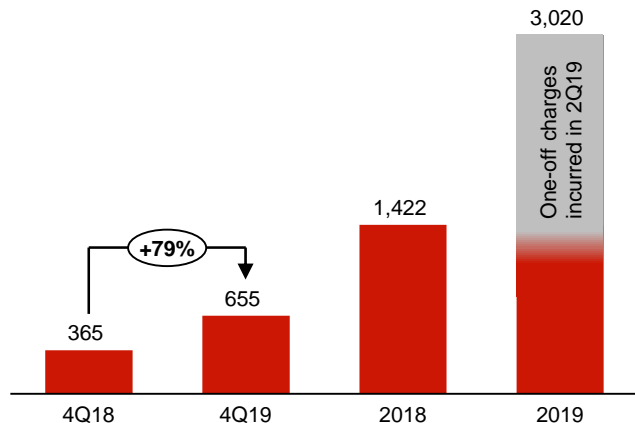
4Q19 vs. 4Q18 pro forma operating expenses movement



# Impairment analysis

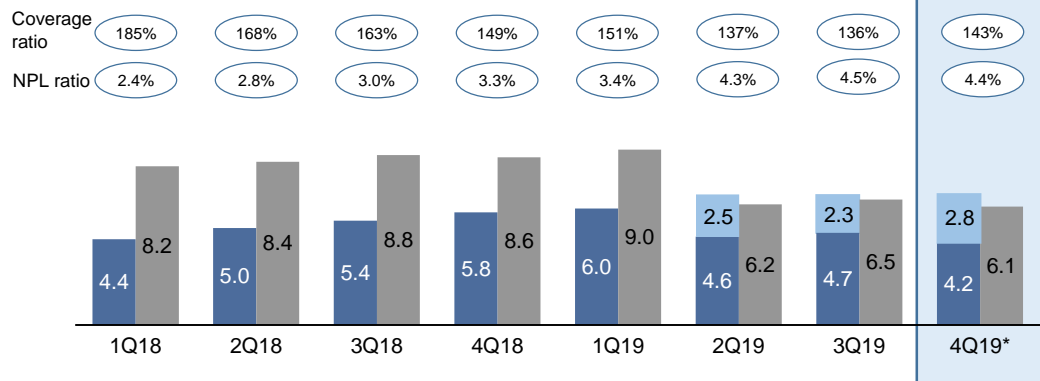
## Pro forma impairment charge by quarter and YTD

SAR million



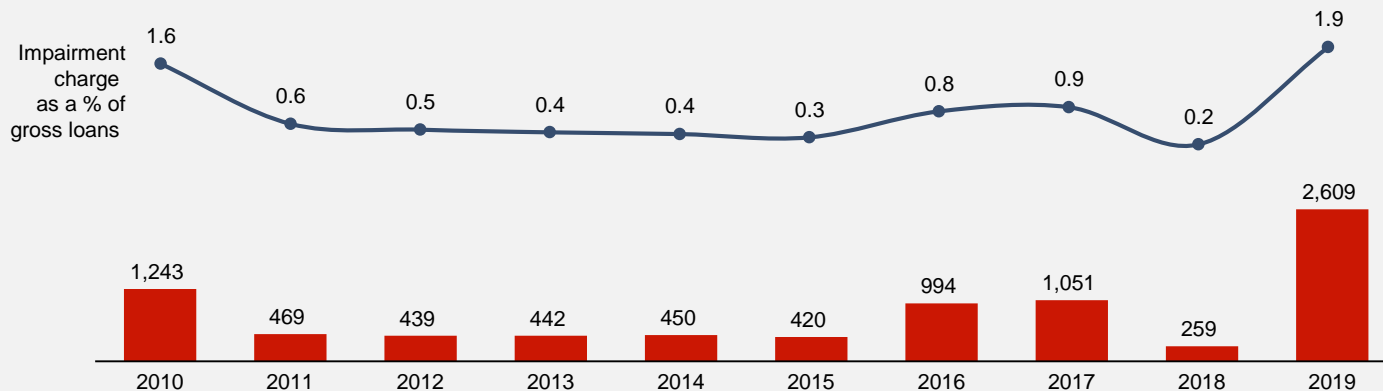
## Pro forma NPLs / Provisions

SAR billion ■ NPLs ■ Provisions ■ Purchased or originated credit impaired



\*At 4Q19, gross customer advances included SAR5.1bn of *Lifetime ECL credit impaired* of which SAR4.2bn is non-performing. It also includes exposures that are performing but have yet to complete a period of 12 months of performance to be eligible to be upgraded to a not-impaired category.

Reported SABB impairment charge trend (SAR million) and cost of risk trend, %

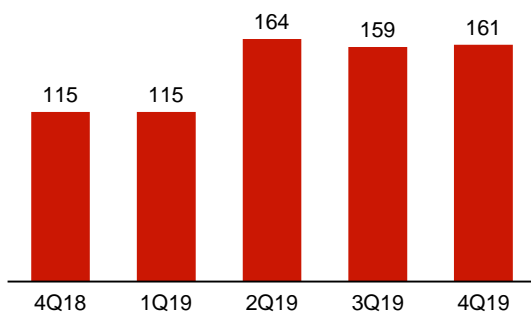


# Balance sheet trends

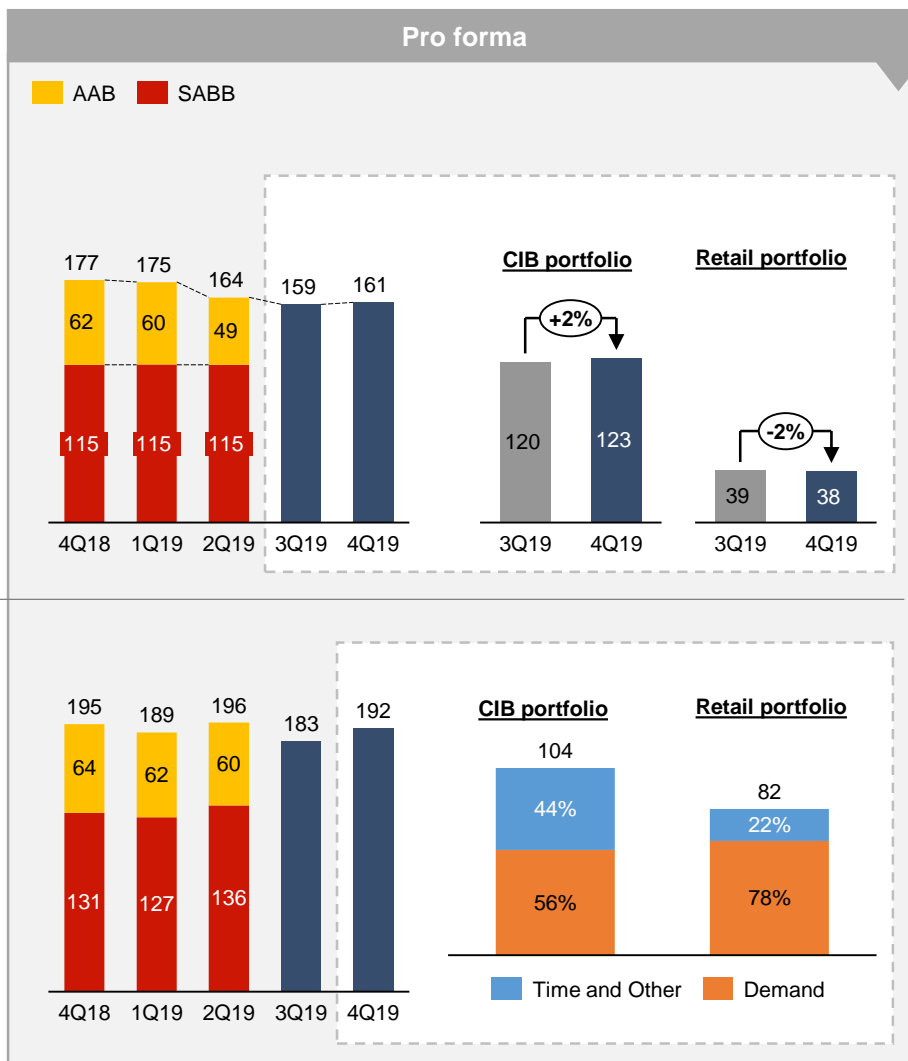
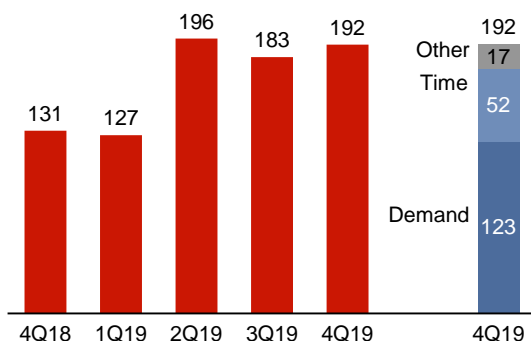
## Reported gross balances

SAR billion

Gross customer advances



Customer deposits

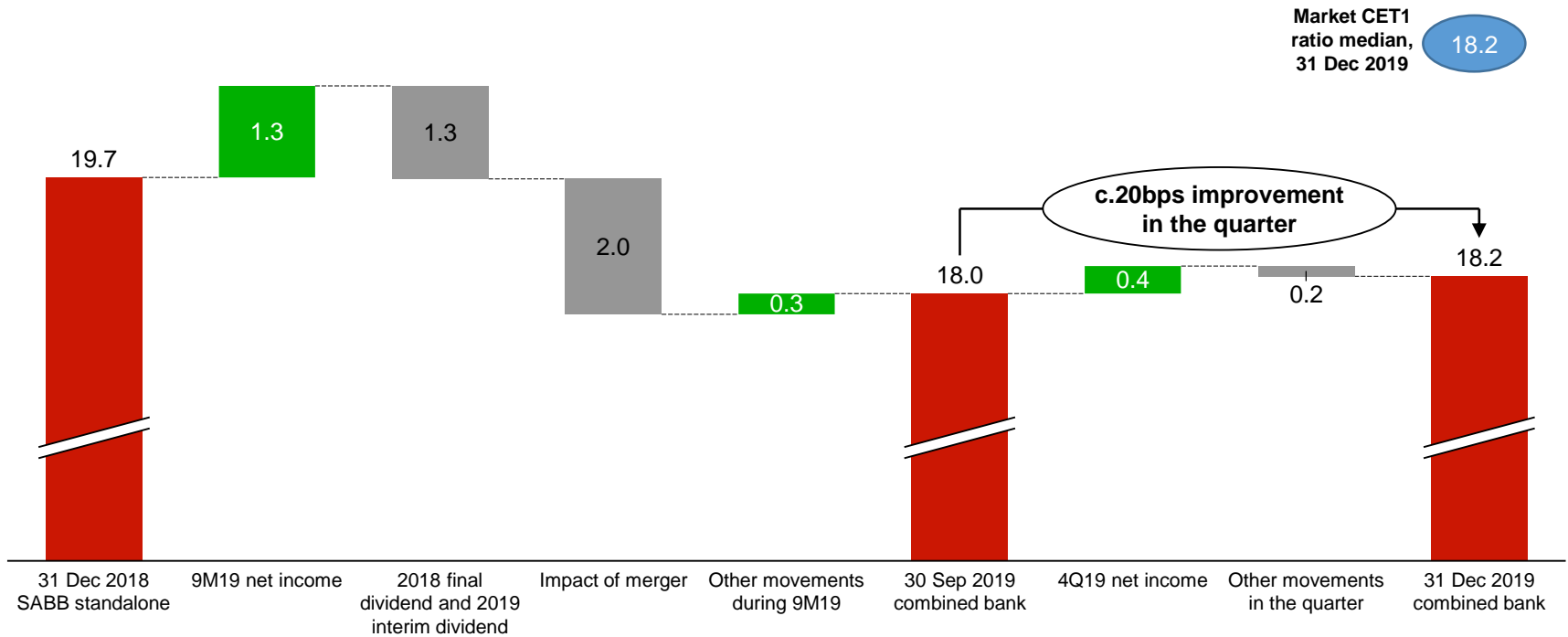




# Capital adequacy

Core Tier 1 ratio: 31 Dec 2019 vs. 30 Sep 2019 vs 31 Dec 2018

%



# Purchase price allocation ('PPA')

## 4Q19 Update

- As we continue to refine our PPA, as at 31 Dec 2019, we have recorded SAR1.9bn of intangible assets, resulting in a reported goodwill of SAR13.1bn
- PPA will be finalised within 12 months of the legal merger date
- A goodwill impairment assessment was undertaken during 4Q19 and as at 31 Dec 2019 there is no impairment of goodwill. Impairment testing will occur annually.

## Core principles of IFRS 3 – Business combinations

- the acquiring legal entity measures the cost of the acquisition at the fair value of the consideration paid
- the acquirer allocates that cost to the acquired identifiable assets and liabilities on the basis of their fair values
- allocates the rest of the cost to goodwill

12 months to complete the exercise

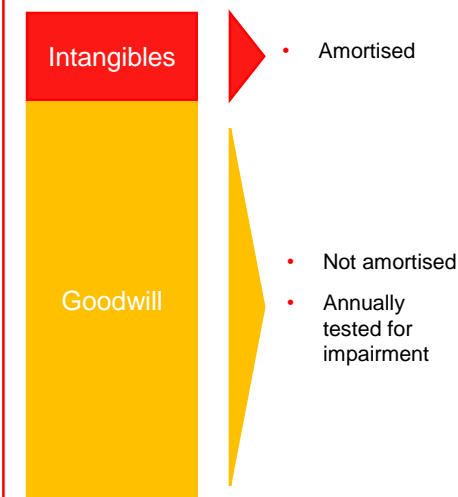
## Fair value of acquired receivables as at 31 Dec 2019

SAR million	Fair value of the acquired receivables	Gross contractual amount receivable	The contractual cash flows not expected to be collected
Due from banks and other financial institutions	966	966	-
Investments	15,561	15,598	37
Loans and advances	48,411	58,339	9,928
Other financial assets	80	54	-
<b>Total</b>	<b>65,018</b>	<b>74,597</b>	<b>9,965</b>

Our purchase price allocation is preliminary and subsequent adjustments may occur. A comprehensive exercise will be completed within 12 months and focus on:

- recognition of intangible assets including core deposits and other customer relationships,
- (ii) loans and advances.
- (iii) properties and equipment and
- (iv) other recognized financial and non-financial assets and liabilities

## Goodwill and intangible treatment



# Closing remarks

- 1 2019 was an historic year with the strategic legal merger of SABB and AAB
- 2 Integration continues at pace with progress made across all the major workstreams
- 3 2019 operating performance continues to be resilient but impacted in 2Q19 by one-off credit losses in respect of the acquired loan portfolio through the merger with AAB, and an increase in impairment charges on certain originated troubled corporate loans
- 4 2H19 performance provides a more normalised set of results generating SAR5.4bn of revenue and SAR2.3bn of net income before Zakat and income taxes
- 5 Margin outlook remains challenging given the sequential cuts to benchmark rates in the second half of 2019 and more recently in March 2020. Uncertainty remains on near term US rate outlook given Coronavirus threat globally, as well as competitive pressure for quality assets locally impacting spreads
- 6 Muted corporate lending growth in the market; maintained our corporate market share and experienced more positive signs in the second half of the year. We are well positioned, and have the capacity to support our customers' lending requirements. Mortgage market remains competitive
- 7 Our balance sheet, capital and funding remain strong and our continued resilient results support our future dividend distribution capacity

# Disclaimer

## Important notice

The information, statements and opinions set out in this presentation are for informational and reference purposes only and do not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any advice or recommendation in respect of such securities or other financial instruments. This presentation, which does not purport to be comprehensive nor render any form of legal, tax, investment, accounting, financial or other advice, has been provided by SABB and has not been independently verified by any person. You should consult your own advisers as to legal, tax investment, accounting, financial or other related matters concerning any investment in any securities. No responsibility, liability or obligation (whether in tort, contract or otherwise) is accepted by SABB or their affiliates or any of its or their officers, employees, agents or advisers (each an “Identified Person”) as to or in relation to this presentation (including the accuracy, completeness or sufficiency thereof) or any other written or oral information made available or any errors contained therein or omissions therefrom, and any such liability is expressly disclaimed. No representations or warranties, express or implied, are given by any Identified Person as to, and no reliance should be placed on, the accuracy or completeness of any information contained in this presentation, any other written or oral information provided in connection therewith or any data which such information generates. No Identified Person undertakes, or is under any obligation, to provide the recipient with access to any additional information, to update, revise or supplement this presentation or any additional information or to remedy any inaccuracies in or omissions from this presentation. Past performance is not necessarily indicative of future results. Differences between past performance and actual results may be material and adverse.

## Forward-looking statements

This presentation 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.

