

19 May 2020

THE SAUDI BRITISH BANK, ('SABB')

1st Quarter 2020 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 associate 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 bring a world of financial opportunities to an ambitious Kingdom. SABB is 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 Suliman Olayan, Chair, said:

"SABB had a solid start to the year, with the first three months of 2020 representing our second consecutive quarter of loan growth, underpinning robust operating income in challenging circumstances. We continued to make steady progress integrating the Bank following the legal merger last year, with a number of milestones met. Financial returns improved, capital stayed strong, with funding and liquidity remaining abundant and stable.

As the Board and Management looks beyond the first quarter, it is clear that the outbreak of the COVID-19 virus has posed several challenges to businesses and the economy as a whole, as well as having a very real impact on people's lives. The Bank has made every effort to ensure that it maintains critical banking services throughout, whilst protecting the safety of both our customers and staff. Although the availability of branches and ATMs has at times been reduced, in accordance with directives from the authorities, I am pleased to see our customers reaping the benefits of the investment we made in our digital platforms. These platforms enabled us to offer all our customers access to core banking services through our online and mobile banking, and our telephone call centres. Not surprisingly, we have seen a significant increase in active digital users recently, and the feedback is very positive.

While the crisis poses a number of unique challenges, SABB is in a healthy state to deal with the potential stresses ahead, with a strong capital base, a stable funding base, and ample reserves of liquidity. Those stresses should not be underestimated. Viewpoints on the outlook for both the global and domestic economies are consistent in expecting that the impact of the COVID-19 crisis will be negative for the economy in the near-term. With a weak economic outlook and lower benchmark interest rates, there is a reasonable expectation for adverse impacts on financial returns and credit quality, which may in turn require realignment of previously anticipated growth plans. Given the uncertainty in determining when and to what extent the precautionary measures taken will take effect, it is currently difficult to reasonably determine the size and extent of the financial impact. Clearly, the sooner we can return to normality in the economy, the better it will be for our customers and the Bank alike. In the meantime, we are pleased to support our customers during this unprecedented time and look forward to a return to economic growth in the future. The promise of the national economic growth agenda under Vision 2030 is still very much alive, and represents a significant opportunity ahead.

I would like to make a special note of gratitude to our staff who are working diligently to support our customers and each other during this very challenging time. We are also grateful to the government for its quick and decisive actions in implementing measures to combat the spread of the virus, as well as its economic support packages, and to SAMA for guiding and supporting the banks through these difficult times."

Reported results

Full year reported financial highlights

	Quarter ended 31 March		
	2020 SAR million	2019 SAR million	Change %
Total operating income ('Revenue')	2,435	1,970	24
Operating expenses (excluding Provisions for credit losses, net)	(1,001)	(609)	(64)
Provision for expected credit losses, net	(254)	(91)	> (100)
Share in earnings of associates and a joint venture	23	16	45
Net income before Zakat and income tax	1,204	1,286	(6)
Zakat and income tax	(182)	(181)	-
Net income after Zakat and income tax	1,022	1,105	(8)
	2020 SAR million	2019 SAR million	Change %
Gross customer advances	164,086	115,182	42
Customer deposits	188,275	127,238	48
	2020 %	2019 %	Change ppt.
Return on Tangible Equity (ROTE)	10.1	13.4	(3.3)
Cost efficiency ratio (CER)	41.1	30.9	(10.2)
Core Tier 1 ratio (CET1)	18.4	20.1	(1.7)

The table above reflects the reported consolidated financials of SABB for 1Q20 and 1Q19. SABB legally merged with Alawwal Bank on 16 June 2019 and 1Q20 results are of the combined entity, and hence the comparative period, in 2019, reflects the results of SABB prior to the merger.

The following commentary is on a reported basis, with the comparative period, in 2019, reflecting the results of SABB prior to the merger:

- **Net income after Zakat and income tax of SAR1,022 million was SAR83 million or 8% lower than 1Q19.**
- **Net income before Zakat and income tax of SAR1,204 million was SAR82 million or 6% lower than 1Q19** from higher revenue more than offset by increased operating expenses and higher expected credit losses (ECL).
- **Revenue of SAR2,435 million was SAR465 million or 24% higher than 1Q19** and included revenue generated by the acquired AAB business post-merger together with SAR106 million from the unwind of the PV discount, as described on page 4, and a charge of SAR76m representing the net impact in 1Q20 from the SAMA deferred payment programmes.
- **Operating expenses of SAR1,001 million were SAR392 million or 64% higher than 1Q19** and included expenses incurred by the acquired AAB business post-merger and SAR95 million of merger-related expenses (1Q19: SAR58 million). The merger-related expenses are temporary and will cease once the operational integration has completed.
- **Charges for provisions for expected credit losses of SAR254 million were SAR163 million higher than 1Q19** reflecting the worsening macro environment underpinned by the COVID-19 global pandemic and lower oil price.
- **CET1 capital ratio remains strong at 18.4%.** Our CET1 ratio increased 0.2ppts. compared with 31 December 2019 and included the impact from SAMA's regulatory COVID-19 support measures (c.0.4ppts). Excluding this our CET1 ratio decreased by c. 0.2ppts as the net income for the quarter (c. 0.4ppts) was more than offset by a reduction in 'Other reserves' mainly from widening of credit spreads and volatility in equity prices for debt and equity securities recognised at Fair Value through Other Comprehensive Income ('FVOCI') respectively (c. 0.6ppts).

COVID-19 response

COVID-19 which is the disease caused by the Coronavirus has created some unprecedented challenges for the global economy resulting in falling global benchmark interest rates and a worsening outlook on a macroeconomic level. The global pandemic will have far reaching impacts across all geographies, various types of businesses and sectors, including the financial sector. SABB's approach to the pandemic has been to ensure that critical services are available and that our staff and customers remain safe and healthy. A brief summary by business area and wider community initiatives are summarised below:

Retail Banking and Wealth Management

- SABB flexed its branch network in an industry-wide push together with the Ministry of Health and SAMA, encouraging customers to avoid unnecessary branch visits to reduce the risk of Coronavirus infection. RBWM further encouraged customers who were not active either on the mobile App or online banking through social media and mobile messaging, resulting in a 27% increase in App downloads. Branches that remained open were for those few types of transactions which require a branch visit, whilst ensuring stringent social distancing practise.
- RBWM waived certain fees and other charges for customers.
- For retail customers working in the Health sector, SABB provided a 3-month payment deferral that has benefited over 23k customers.

Corporate and Institutional Banking

- SABB has worked diligently to implement SAMA's various initiatives to support the financial sector and in particular the MSME segment. Following the launch of SAMA's Private Sector Financing Support Program ('PSFSP') which provides support to Micro Small and Medium Enterprises ('MSME'), SABB has provided eligible customers with a 6-month payment deferral. In addition, the Bank has waived fees associated with digital payments and transfers for corporate customers for six months.
- A large proportion of transactions and services for corporate customers can be completed digitally and SABB relationship managers have the ability to support customers remotely. SABB's Global Liquidity and Cash Management ('GLCM') and Global Trade and Receivables Finance ('GTRF') businesses have digital at their core and provide products and solutions that corporates can find beneficial in their financial planning in the current challenging environment.

Treasury

- In notably volatile markets, the Treasury business has continued to support its clients with their foreign exchange and interest rate hedging needs.
- Treasury continued to manage and monitor the funding and liquidity of the Bank ensuring that key liquidity ratios are well within the Banks targeted appetite and within regulatory thresholds, and the bank maintains access to stable funding and retains ample liquidity.
- SABB as one of only five official Primary Dealers is playing a proactive role in the issuance of government debt by actively participating in the primary debt market and also supporting the secondary market.

Society

- As mentioned earlier, SABB in line with the Ministry of Health and SAMA guidance flexed its branch network to avoid unnecessary branch visits and reduce the risk of the Coronavirus infection spreading. We have provided those branch staff who are working in branches with the necessary protective equipment as guided by the Ministry of Health. Non-branch staff have been equally protected providing staff with the ability to work from home where processes allow. SABB regularly reviews its business continuity plans and has successfully navigated its way through this challenging period.
- From a community perspective, the Bank contributed SAR17 million to the Ministry of Health's COVID-19 fund and provided food baskets to over 9,000 families through various charities. SABB also partnered with transport apps including Careem and Uber to deliver groceries free of charge with an additional discount when using SABB payment cards.

Pro forma results

1Q pro forma summarised income statement

	Quarter ended 31 March		
	2020 SAR million	2019 SAR million	Change %
Total operating income ('Revenue')	2,435	2,870	(15)
Operating expenses	(1,001)	(933)	(7)
Provision for expected credit losses, net	(254)	(448)	43
Share in earnings of associates and a joint venture	23	16	43
Net income before Zakat and tax	1,204	1,505	(20)
<i>Notable items:</i>			
Unwind of the fair value adjustment	106	-	-
Charge relating to the net impact in 1Q20 from the deferred payment programmes	(76)	-	-
Merger-related expenses	(95)	(62)	>(53)
Intangible amortisation	(39)	-	-
Gross customer advances	164,086	175,175	(6)
Customer deposits	188,275	189,086	-

Pro forma financial results have been calculated for illustrative purposes only for 1Q19, to enable an understanding of the period on period performance of the combined entity. It assumes SABB and AAB 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 1Q20 versus 1Q19, unless otherwise stated:

- **Net income before Zakat and income tax of SAR1,204 million was SAR301 million or 20% lower than 1Q19** mainly from lower revenue and increased operating expenses partly offset by lower ECL charges. There are several notable items which are included in the table above and are also explained further below.
- **Revenue of SAR2,435 million was SAR435 million or 15% lower than 1Q19** and included SAR106 million from the unwind of the fair value adjustment in 1Q20 (1Q19: nil) and a net charge of SAR76 million relating to the net impact in 1Q20 from two deferred payment programmes (1Q19: nil).

Unwind of the fair value adjustment: On the date of the merger, 16 June 2019, SABB recorded the acquired AAB loan portfolio at fair value which is a discounted amount to the contractual amounts that are due from the underlying loans. The discount applied will be unwound over time to the contractual maturity date of the loans and recognised in 'Net special commission income' using the effective interest rate method ('EIR'). The amount recognised in the future will be on a declining basis, in line with the EIR method.

Charge relating to the net impact in 1Q20 from two specific deferred payment programmes (DPP): Two key support packages for customers affected by the COVID-19 pandemic include:

- 6-month DPP for MSME customers – Following the launch of SAMA's Private Sector Financing Support Program ('PSFSP') which provides support to Micro Small and Medium Enterprises ('MSME'), SABB has provided eligible customers with a 6-month payment deferral by extending the tenure of applicable loans granted with no additional costs to be borne by the customer. From an accounting perspective, this has been treated in line with IFRS 9 as a modification in the terms of the arrangement and has resulted in a charge or 'modification loss' in 1Q20 of SAR94 million, recorded in 'Other Operating Income' and a discount has been applied to 'Loans and advances, net' of the same value. The discount will be unwound over the 6-month period on a flat line basis and will be recorded in 'Net special commission income'. In order to offset the modification loss, SABB has received SAR1.7 billion from SAMA with a tenure of 36 months. This has been accounted for in line with government grant accounting requirements which has resulted in a gain of SAR108 million, of which SAR94 million has been recorded in 'Other Operating Income' with the remainder deferred.
- 3-month DPP for retail customers who work in the healthcare sector - In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, SABB has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities for three months. The modification of these contracts has resulted in SABB recognising a modification loss of SAR76 million during the quarter and has been recorded in 'Other Operating Income' and a corresponding discount to 'Loans and advances, net'. The discount will be unwound over the 3-month period on a flat line basis and will be recorded in 'Net special commission income'.

For both deferred payment programmes, the unwind of the respective discounts will broadly offset the lower Special Commission Income as a result of the deferred accrual period, thereby maintaining a constant yield throughout the life of the contract, in line with the effective interest method.

Excluding the unwind of the fair value adjustment and the impact of the DPPs, revenue fell SAR464 million or 16%, largely from reduced Net special commission income reflecting lower lending balances and repricing as a result of the cuts in benchmark interest rates. Net fee income also fell from a reduction in trade fees together with lower loan origination fees and lower net fees from credit cards and merchant acquiring as a result of increased competition and challenging economic activity. Exchange income was 12% higher from increased customer flows.

- **Operating expenses of SAR1,001 million were SAR68 million or 7% higher than 1Q19** and included SAR95 million of merger-related expenses (1Q19: SAR62 million), and an amortisation charge of SAR39 million in the quarter (1Q19: SARnil), relating to the intangible assets which were recognised following the merger. Costs of a one-off nature were minimal in the current quarter, but excluding one-off costs from 1Q19 and the aforementioned items, underlying costs fell 1%. Compared with the trailing quarter, costs were SAR260 million or 21% lower and both periods included the notable items mentioned above (4Q19 merger-related expenses: SAR147 million; 4Q19 intangible amortisation: SAR78 million) and a number of one-off expenses. Excluding these items, costs fell 4% as headcount reduced, together with seasonal costs.
- **Cost efficiency ratio was 41.1%.** Excluding the notable items and one-off expenses, the adjusted cost efficiency ratio for 1Q20 was 36.0%.
- **Charges for provisions for expected credit losses of SAR254 million were SAR194 million lower than 1Q19** mainly from lower charges in CIB. Cost of risk for 1Q20 was 0.63% (1Q19: 1.02%).

- **Gross customer advances of SAR164.1bn fell SAR11.1 billion or 6% compared with 1Q19.** Customer lending declined in both the retail and corporate portfolios and included the impact of the adjustments made through the accounting for the merger. However, SABB has experienced a second quarter of consecutive growth with customer advances increasing SAR3.3bn compared with 4Q19 mainly in the Corporate sector.
- **Customer deposits of SAR188.3 billion were broadly unchanged compared with 1Q19 and fell SAR3.9 billion compared with 4Q19.** Overall funding remains strong and SABB was able to begin optimising its funding base post-merger. SABB's demand deposit ratio increased to 68% (1Q19: 59%, 4Q19: 64%).

Business¹ review

Pro forma Total operating income ('Revenue') by business

	Quarter ended 31 March		
	2020 SAR million	2019 SAR million	Change %
Retail Banking and Wealth Management	900	1,026	(12)
Corporate and Institutional Banking	1,156	1,419	(19)
Treasury	352	360	(2)
Other	27	66	(59)
Total	2,435	2,870	(15)

Pro forma Net income before Zakat and income tax by business

	Quarter ended 31 March		
	2020 SAR million	2019 SAR million	Change %
Retail Banking and Wealth Management	292	497	(41)
Corporate and Institutional Banking	698	710	(2)
Treasury	306	281	9
Other	(92)	18	> (100)
Total	1,204	1,505	(20)

Pro forma Net customer advances by business²

	Quarter ended 31 March		
	2020 SAR million	2019 SAR million	Change %
Retail Banking and Wealth Management	36,750	40,642	(10)
Corporate and Institutional Banking	121,089	125,502	(4)
Treasury	-	-	-
Other	-	-	-
Total	157,839	166,144	(5)

Pro forma Customer deposits by business³

	Quarter ended 31 March		
	2020 SAR million	2019 SAR million	Change %
Retail Banking and Wealth Management	88,164	85,060	4
Corporate and Institutional Banking	92,452	97,483	(5)
Treasury	7,659	6,542	17
Other	-	-	-
Total	188,275	189,086	(0)

Notes

1. Certain historic business segment data has been re-stated to ensure comparability to current period data, as a result of ongoing alignment of businesses and products post-merger.
2. Comparatives for the quarter ended 31 December 2019 for Net customer advances by business were as follows: RBWM SAR37,633 million; CIB SAR117,044 million.
3. Comparatives for the quarter ended 31 December 2019 for Customer deposits by business were as follows: RBWM SAR85,394 million; CIB SAR100,637 million; Treasury SAR6,135 million

Retail Banking and Wealth Management

Financial performance

- Net income before Zakat and income tax of SAR292 million was 41% lower than 1Q19 driven by lower revenue and higher impairments as the prior quarter included a net reversal relating to mortgages and personal lending.
- Revenue of SAR900 million was 12% lower than 1Q19 and included SAR86 million from the unwind of the fair value adjustment and the modification loss of SAR76 million for the healthcare DPP in the quarter. Excluding these impacts, revenue was down 13% mainly from lower average lending balances, relating to mortgages and personal lending, and also reflects the cuts in benchmark interest rates during 2019 and increased competition. In addition, revenue also fell from reduced fee income relating to credit cards and merchant acquiring.
- Net customer lending of SAR36.8 billion fell by 10% and included the impact of the adjustments made through the accounting for the merger. Compared with 4Q19, customer lending balances were 2% lower.
- Customer deposits of SAR88.2 billion increased 4%, with the proportion of demand deposits at 79%, a notable strength for the Bank.

Corporate and Institutional Banking

Financial performance

- Net income before Zakat and income tax of SAR698 million was 2% lower than 1Q19 driven by lower revenue partly offset by lower impairments.
- Revenue of SAR1,156 million was 18% lower than 1Q19 and included SAR21 million from the unwind of the fair value adjustment in the quarter. Excluding this impact, revenue fell 20% from lower average balances, reduced trade activity together with reduced margins. Margins fell across the term and trade lending portfolios reflecting the fall in benchmark rates and from increased competition as a result of the muted growth seen in the prior year, although this was partly offset by a decrease in special commission expense on interest bearing deposits, as we optimised certain expensive interest bearing deposits gained through the merger with Alawwal Bank. In addition, a modification loss of SAR96 million relating to the MSME DPP was recorded in 'Other Operating Income' offset by a gain of equal value, following the SAR1.7 billion deposit from SAMA.
- Net customer lending of SAR121.1 billion fell 4% compared with 1Q19 and included the impact of the adjustments made through the accounting for the merger and the increased competition for customer assets. Customer lending increased 3% compared with 4Q19 from increased demand.
- Customer deposits of SAR92.5 billion fell 5% compared with 1Q19 and fell 8% compared with 4Q19 as we optimised certain expensive interest bearing deposits gained through the merger with Alawwal Bank.

Treasury

Financial performance

- Net income before Zakat and income tax of SAR306 million was SAR25 million or 9% higher than 1Q19 primarily from lower impairments together with lower costs partly offset by lower revenue.
- Revenue of SAR352 million was 2% lower than 1Q19 primarily from lower trading income from volatility in market prices as a result of COVID-19 and lower activity partly offset by gains on disposals of securities.

Other

Financial performance

- Net loss before Zakat and income tax of SAR92 million compared with a net profit of SAR18 million in 1Q19. The movement was driven by increased costs mainly relating to the integration.
- Revenue of SAR27 million was SAR39 million or 60% lower than 1Q19 primarily from lower dividend income and a fall in revenue from SABB Takaful.

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

	Quarter ended		
	31 March 2020 SAR million	31 December 2019 SAR million	31 March 2019 SAR million
Special commission income	2,201	2,301	2,714
Special commission expense	(338)	(412)	(557)
Net special commission income	1,863	1,889	2,157
Average special commission income earning assets ¹	251,034	251,789	257,258
	%	%	%
Gross Yield	3.5	3.7	4.2
Cost of funding ²	(0.7)	(0.8)	(1.1)
Net special commission income spread	2.8	2.9	3.1
Net special commission income margin	3.0	3.0	3.4

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 1Q20, excluding the benefit from the unwind of the fair value adjustment was 3.0%. Net special commission income margin was 0.4ppt lower than 1Q19, 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. Net special commission income margin was broadly unchanged from the trailing quarter.

NSCI sensitivity

For every 25bps change in benchmark interest rates, we expect up to 10bps impact on our net special commission income margin.

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 SAR20,547,945,220 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 SAR23.1 billion which consisted of the issue of 554,794,522 new shares to the shareholders of AAB and an additional SAR6,060,000 representing SABB's grant of shares to AAB employees under its legacy Share Based Equity Settled Bonus and SAR78,706,454 representing AAB converted Treasury Shares (new shares issuance included 1,887,445 treasury shares). 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 SAR41.70 per share on the Tadawul stock exchange on the last trading date prior to the merger 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 SAR5.5bn and SAR17.6bn respectively.

The merger created the Kingdom's third-largest bank (according to the total assets at the time of the merger), 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 is 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 realised in the earnings of the merged bank within three years subsequent to the legal completion of the transaction on 16 June 2019.

The Board and Management focused on delivering a successful integration while continuing to create value by helping customers achieve their financial goals. Regulatory approvals for the merger were issued in the first half of 2019 and the statutory merger took place on 16 June 2019. An Integration Management Office was established, with 18 work-streams created, and partnerships built with top-tier consultants for project management, IT, HR and other critical areas. The Board has approved a road-map, developed together with SABB's consultant advisors, to achieve Customer Day 1 ('CD1'), the point in time when all data from the AAB systems will be transferred onto SABB's IT systems, and integration will be complete.

The integration of the two banks has progressed during the quarter in line with the plan with the integration of a number of internal systems and the migration of portfolios/customers within Treasury/CIB to the SABB IT system. SABB also gained SAMA approval for its retail hybrid branch plan and launched 7 retail hybrid branches in the quarter.

Update on Purchase price allocation exercise

We continue to refine the purchase price allocation which is expected to be completed within twelve months from the merger date. During the quarter there was no change to the provisional amount of the purchase price allocation and therefore no change to our provisional goodwill to SAR13,080 million as at 31 March 2020. Further information can be found in the 1Q20 Consolidated Financial Statements. We recorded SAR106 million during 1Q20 representing the unwind of the fair value adjustment in Net Special Commission Income. During the third quarter of 2019, we recognised other intangible assets and as at 31 March 2020 this was recorded as SAR1,905 million which largely represent the future benefit of core deposits. An amortisation charge of SAR39 million was incurred in 1Q20 for these intangible assets, recorded in Operating expenses.

Reported Income statement

	Quarter ended		
	31 Mar 2020	31 Dec 2019	31 Mar 2019
	SAR million	SAR million	SAR million
Special commission income	2,304	2,680	1,796
Special commission expense	(335)	(377)	(309)
Net special commission income	1,969	2,303	1,487
Fee and commission income, net	346	381	305
Exchange income, net	146	143	98
Income from FVTPL financial instruments, net	(9)	5	1
Trading income, net	21	27	20
Dividend income	25	-	42
Gains / (losses) on FVOCI debt instruments, net	27	-	17
Other operating income / (losses), net	(89)	8	-
Total operating income	2,435	2,867	1,970
Salaries and employee-related expenses	(502)	(572)	(330)
Rent and premises-related expenses	(15)	(28)	(15)
Depreciation and amortisation	(157)	(192)	(57)
General and administrative expenses	(327)	(469)	(207)
Total operating expenses	(1,001)	(1,261)	(609)
Provision for expected credit losses, net	(254)	(655)	(91)
Share in earnings of associates and a joint venture	23	38	16
Net income before Zakat and income tax	1,204	990	1,286
Provision for Zakat and income tax - Current	(178)	(75)	(183)
Zakat and income tax	(3)	(16)	2
Net income after Zakat and income tax	1,022	899	1,106
<i>Attributable to:</i>			
Equity holders of the Bank	1,032	905	1,109
Non-controlling interests	(10)	(5)	(3)
Net income for the period	1,022	(899)	1,106

Reported Balance Sheet

	As at		
	31 Mar 2020	31 Dec 2019	31 Mar 2019
	SAR million	SAR million	SAR million
Assets			
Cash and balances with SAMA	15,814	21,267	13,289
Due from banks and other financial institutions, net	5,096	4,988	6,161
Positive fair value derivatives, net	2,061	971	503
Investments, net	60,550	60,484	39,377
Loans and advances, net	157,839	154,677	110,357
Investment in associates and a joint venture	684	660	549
Property and equipment, net	3,257	3,308	1,938
Goodwill and other intangibles	15,324	15,346	88
Other assets	4,600	3,771	1,519
Total assets	265,226	265,472	173,667
Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions	6,699	3,653	913
Customers' deposits	188,275	192,167	127,238
Debt securities in issue	1,513	1,500	1,517
Borrowings	-	-	1,696
Negative fair value derivatives, net	2,941	1,318	645
Other liabilities	10,003	10,674	7,666
Total liabilities	209,431	209,312	139,676
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	11,486	11,486	10,778
Other reserves	(1,151)	237	421
Retained earnings	6,011	4,977	6,369
Proposed dividends	1,234	1,234	1,431
Total equity attributable to equity holders of the Bank	55,714	56,069	34,000
Non-controlling interests	81	91	106
Total equity	55,795	56,160	34,105
Total liabilities and equity	265,226	265,472	173,667

Legal disclaimer**Important notice**

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