



## 3Q20 Financial Results

Presentation to investors and analysts

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# Key messages for 3Q20

1

More normalised 3<sup>rd</sup> quarter financial performance

- **Profit before tax for the three months ended 30 September 2020 of SAR1,112 million was SAR311 million or 22% down** compared with the three months ended 30 September 2019, mainly from a fall in revenue partly offset by lower expected credit losses and lower costs.
- **The third quarter represents a more normalised set of results** following the conclusion of the merger accounting and the recording of the goodwill impairment in the second quarter of the year, albeit with revenue significantly impacted by the cuts in benchmark interest rates earlier in the year.
- **Compared with the three months ended 30 June 2020, underlying profit before tax increased SAR1,104 million** mainly from lower expected credit losses partly offset by lower revenue as the repricing of the benchmark rate cuts from the first quarter flowed through the portfolio.

2

Robust capital, liquidity and funding

- **SABB completed the issuance of a SAR5 billion Tier II Sukuk in July 2020.** This was the first such transaction by the merged bank in the debt capital markets, the joint largest Tier II issuance by a Saudi bank in history, and the largest local issuance by a bank since the introduction of the Kingdom's national growth agenda under Vision 2030.
- **SABB closed the reporting period with robust levels of capital, liquidity and a strong funding base.** CET1 ratio of 18.6%, a loan to deposit ratio of 84%, over SAR75 billion of high quality liquid assets and strong demand deposit ratio of 74%. The funding base is diversified and surplus liquidity is ample to support lending growth.

3

Operational resilience

- **The challenges and uncertainty of COVID-19 continue to persist but we have countered the impacts with a focus on ensuring the right customer outcomes.** From the outset, the Bank has demonstrated operational resilience, transitioning swiftly, flexing our branch network appropriately and moving to new, remote working practices to ensure we maintained critical services and the safety of our customers and staff. The Bank continues to offer financial support to small business enterprises and has extended deferrals by 3 months to a total of 9 months.

4

Integration is on track

- **The integration of the merged bank is on track** with the final milestone of the core systems integration due for delivery in the first half of 2021. The optimisation of the Bank's operating structure continues to gain traction as evident by the trajectory of underlying costs.

# SABB profile

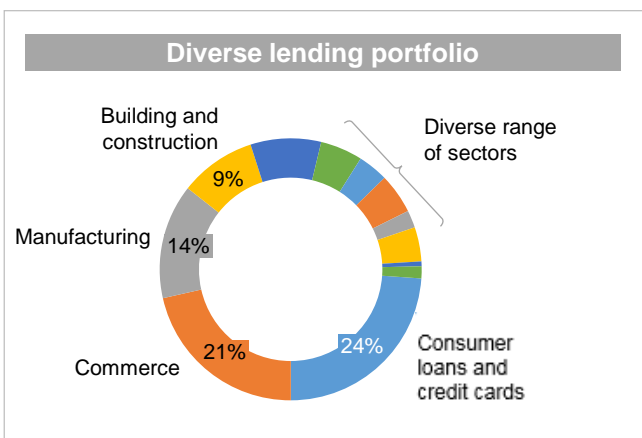
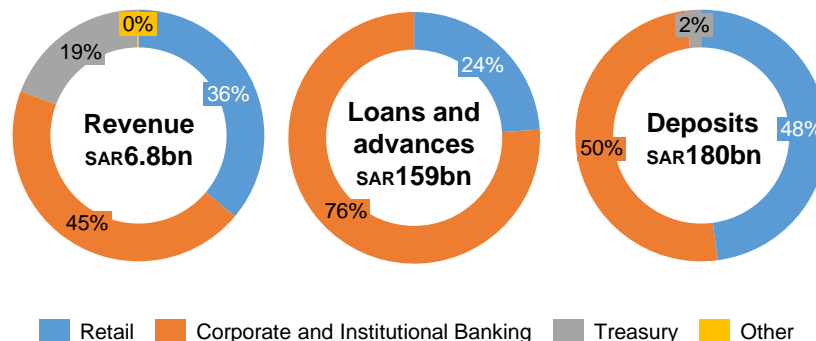
## Our businesses

**Retail Banking and Wealth Management** Retail Banking and Wealth Management provides services and products to personal and private customers, through a range of market leading digital channels and a traditional branch network.

**Corporate and Institutional Banking** As one of the largest commercial banks in the Kingdom, we support a variety of clients from micro enterprises focused on the domestic market to large internationally focused enterprises.

**Treasury** We provide corporate, institutional, retail and private banking customers with access to capital markets, foreign currency and rates management solutions. In addition, we manage the liquidity and market risk of the bank, including the deployment of the bank's commercial surplus through its investment portfolio.

## 9M20 key financials by business

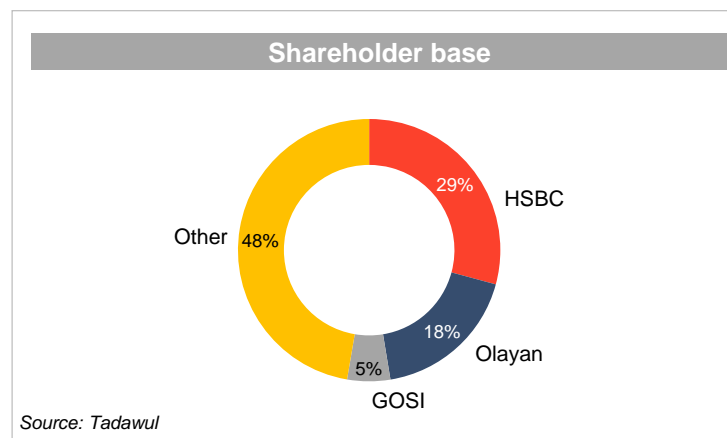


### Credit ratings

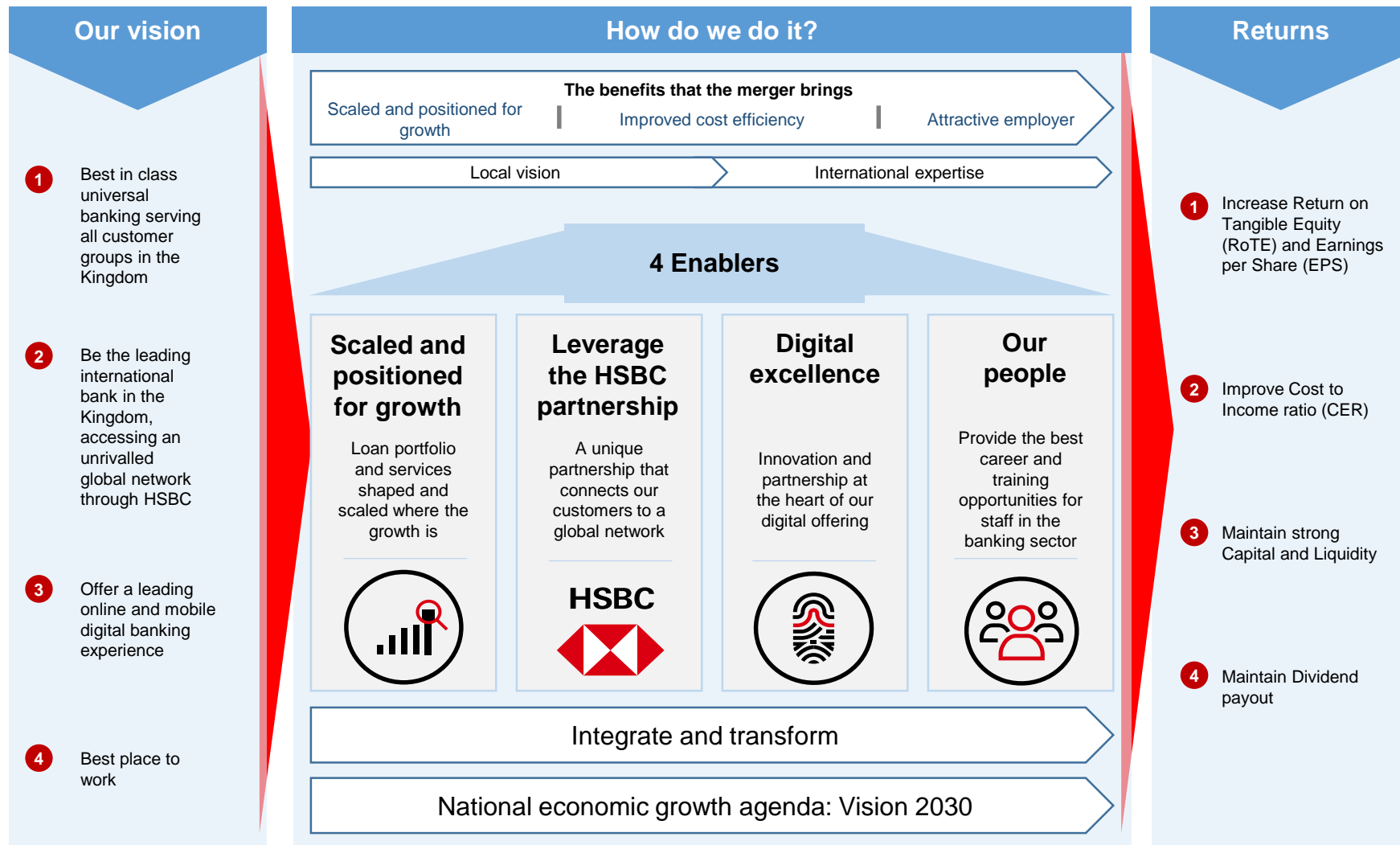
**Moody's:**  
A1 / P-1 / Negative

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**Fitch:**  
BBB+ / F2 / Stable

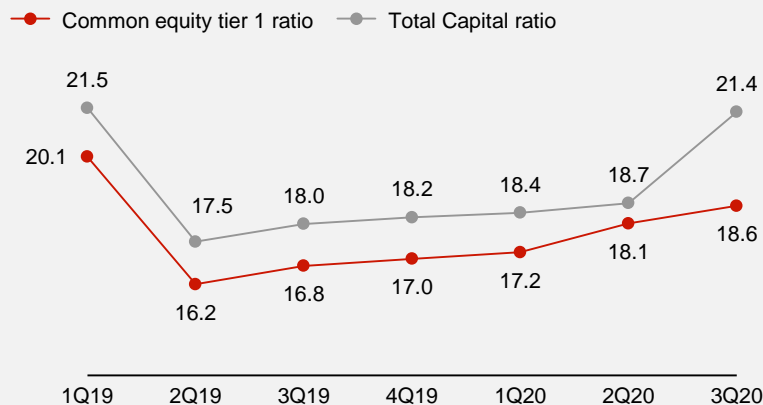


# We bring a world of financial opportunities to an ambitious Kingdom

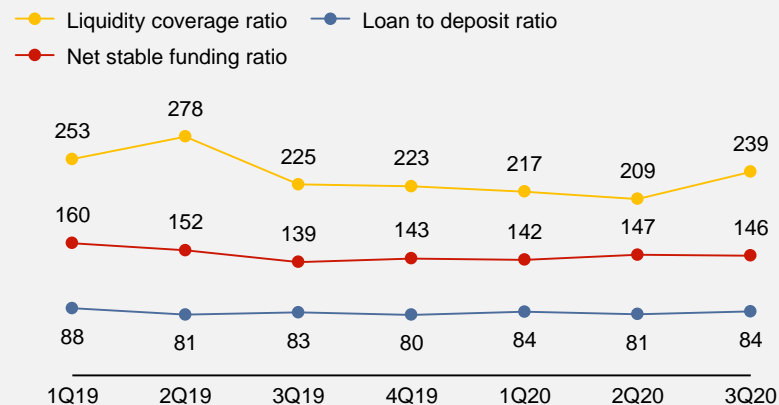


# Capital and liquidity

## Capital ratios, %

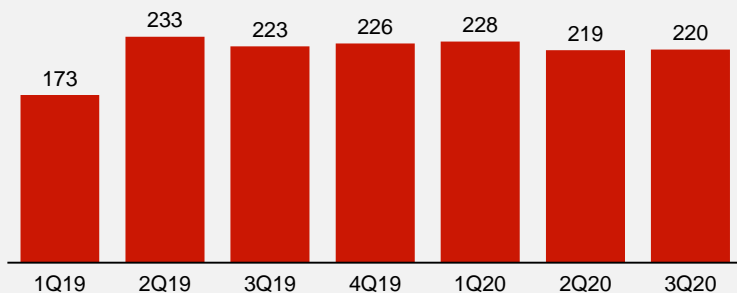


## Liquidity ratios, %



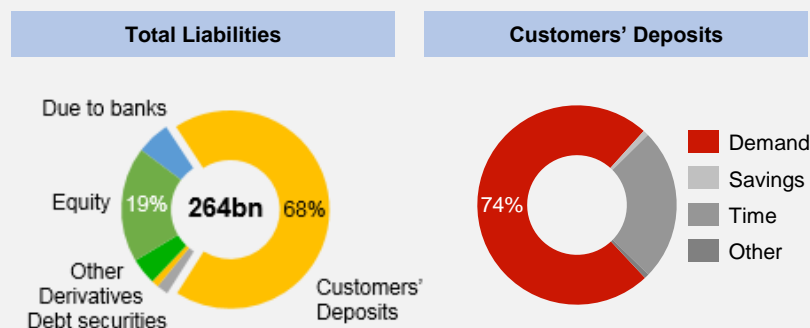
## Risk-weighted assets

SAR billion



## Funding metrics

SAR billion



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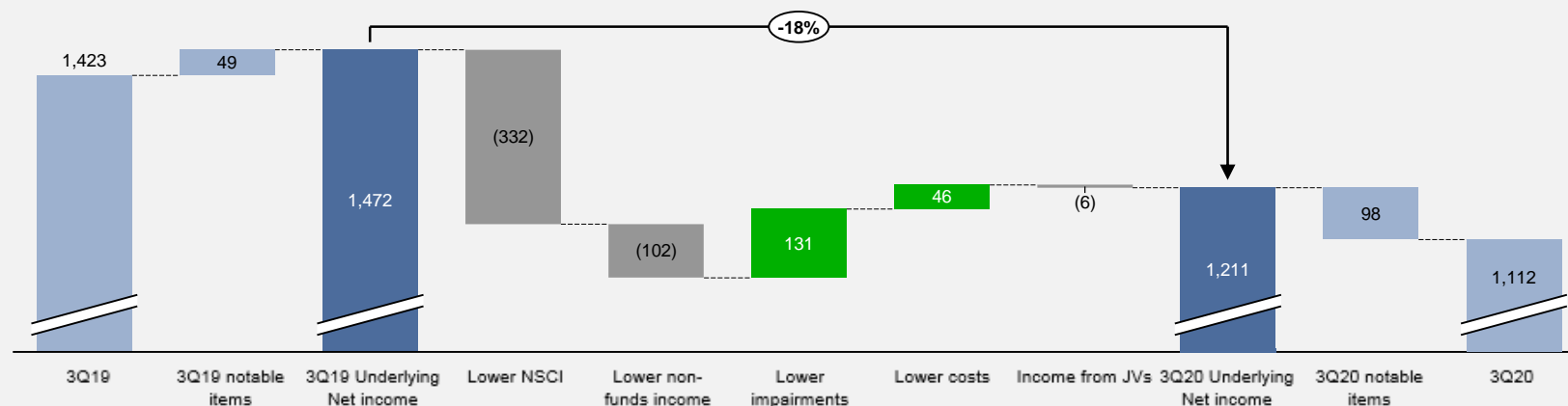
Appendix

# Pro forma financial summary

Key ratios (Pro forma basis)				
%	9M20	Δ 9M19	3Q20	Δ 3Q19
Net special commission margin (NIM)	2.6	(0.6)	2.4	(0.6)
Return on Tangible Equity (ROTE)	7.5	(1.6)	11.0	(1.8)
Cost efficiency ratio (CER)	43.5	(6.0)	46.8	(6.0)
Underlying CER	37.8	(5.0)	39.9	(5.4)
Cost of risk (COR)	1.33	0.48	0.13	0.33
Common Equity Tier 1 ratio (CET 1)	18.6	1.8	18.6	1.8

Income Statement				
SAR million	9M20	Δ 9M19	3Q20	Δ 3Q19
Total operating income ('Revenue')	<b>6,828</b>	(17)%	<b>2,141</b>	(20)%
Operating expenses	<b>(2,972)</b>	4%	<b>(1,001)</b>	8%
Provision for expected credit losses, net	<b>(1,599)</b>	30%	<b>(51)</b>	72%
Goodwill impairment	<b>(7,418)</b>	-	-	-
Share in earnings of associates and a JV	<b>58</b>	(39)%	<b>23</b>	(19)%
Net (loss) / profit before Zakat and income tax	<b>(5,102)</b>	>(100)%	<b>1,112</b>	(22)%
<b>Underlying Net income before Zakat and income tax</b>	<b>2,588</b>	(20)%	<b>1,211</b>	(18)%
Zakat and income tax	<b>255</b>	>100%	<b>(63)</b>	75%
Net (loss) / profit after Zakat and income tax	<b>(4,847)</b>	>(100)%	<b>1,049</b>	(10)%

## 3Q20 vs 3Q19 Pro forma PBT walk



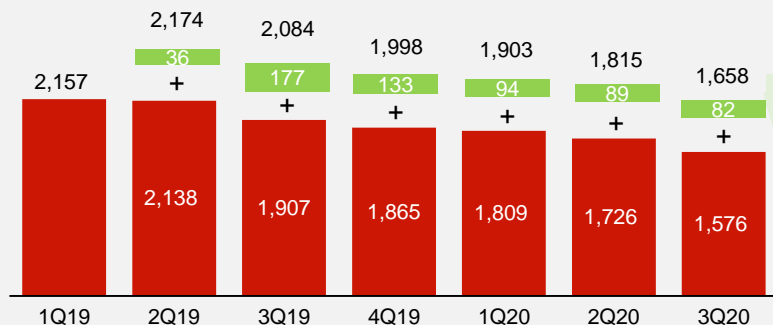


# NSCI margin analysis

Pro forma

## Net special commission income

SAR million ■ SABB

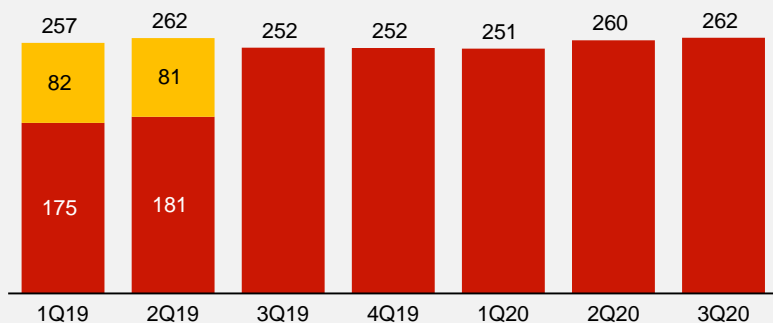


### Unwind of the fair value adjustment – SAR265 million in 9M20

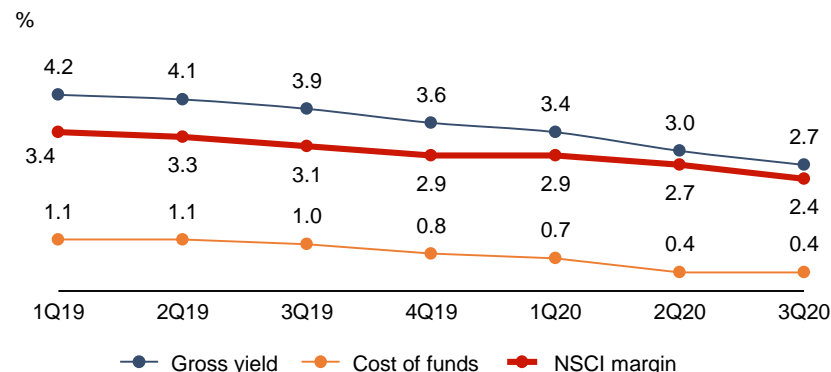
- AAB loan portfolio recognised at fair value on merger date
- The fair value is a discounted amount to the contractual amounts due of the underlying loans
- The discount applied will be unwound over time to the contractual maturity date of the loans
- The unwind will be recognised in NSCI using the 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

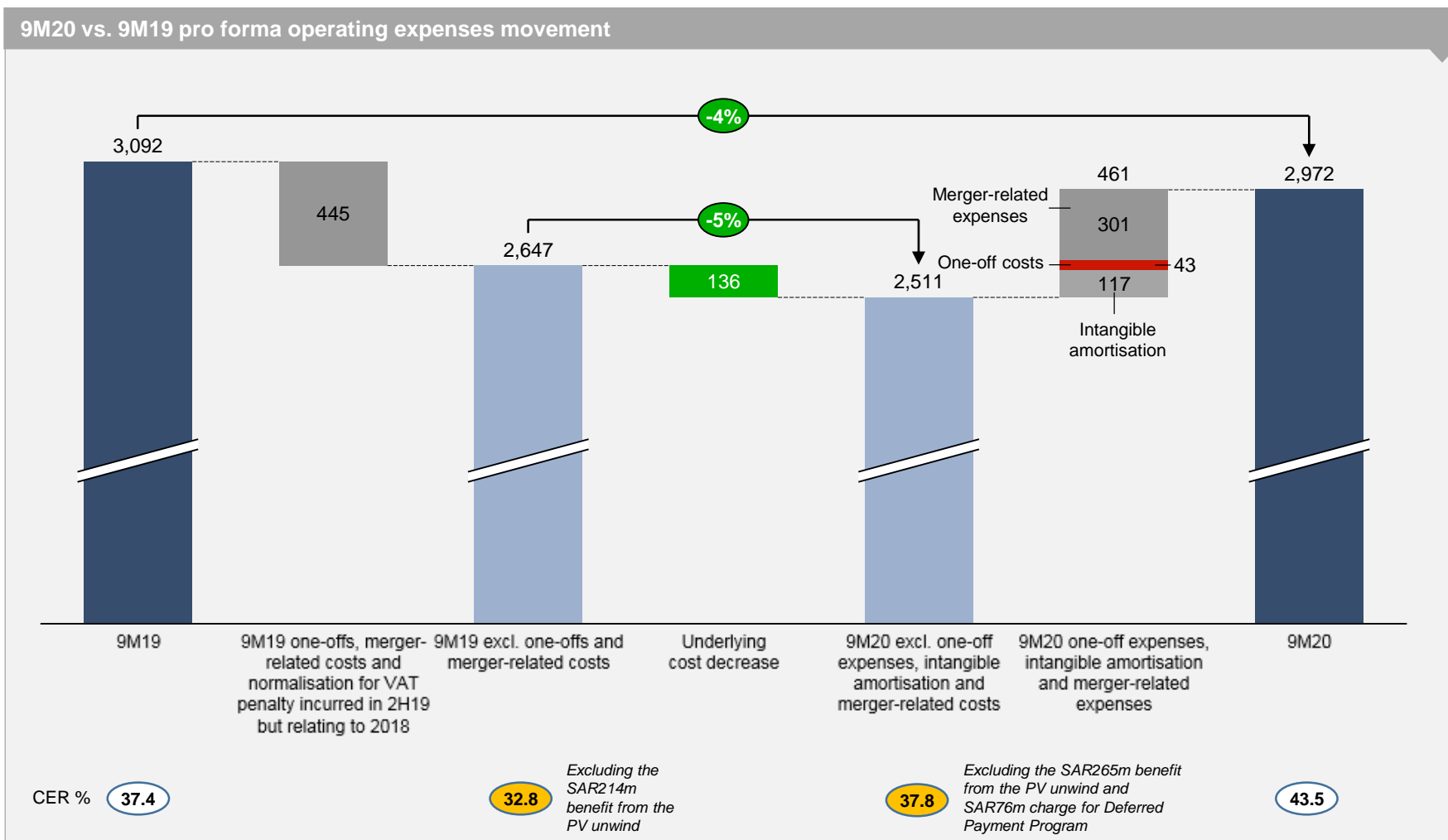
SAR billion ■ AAB ■ SABB



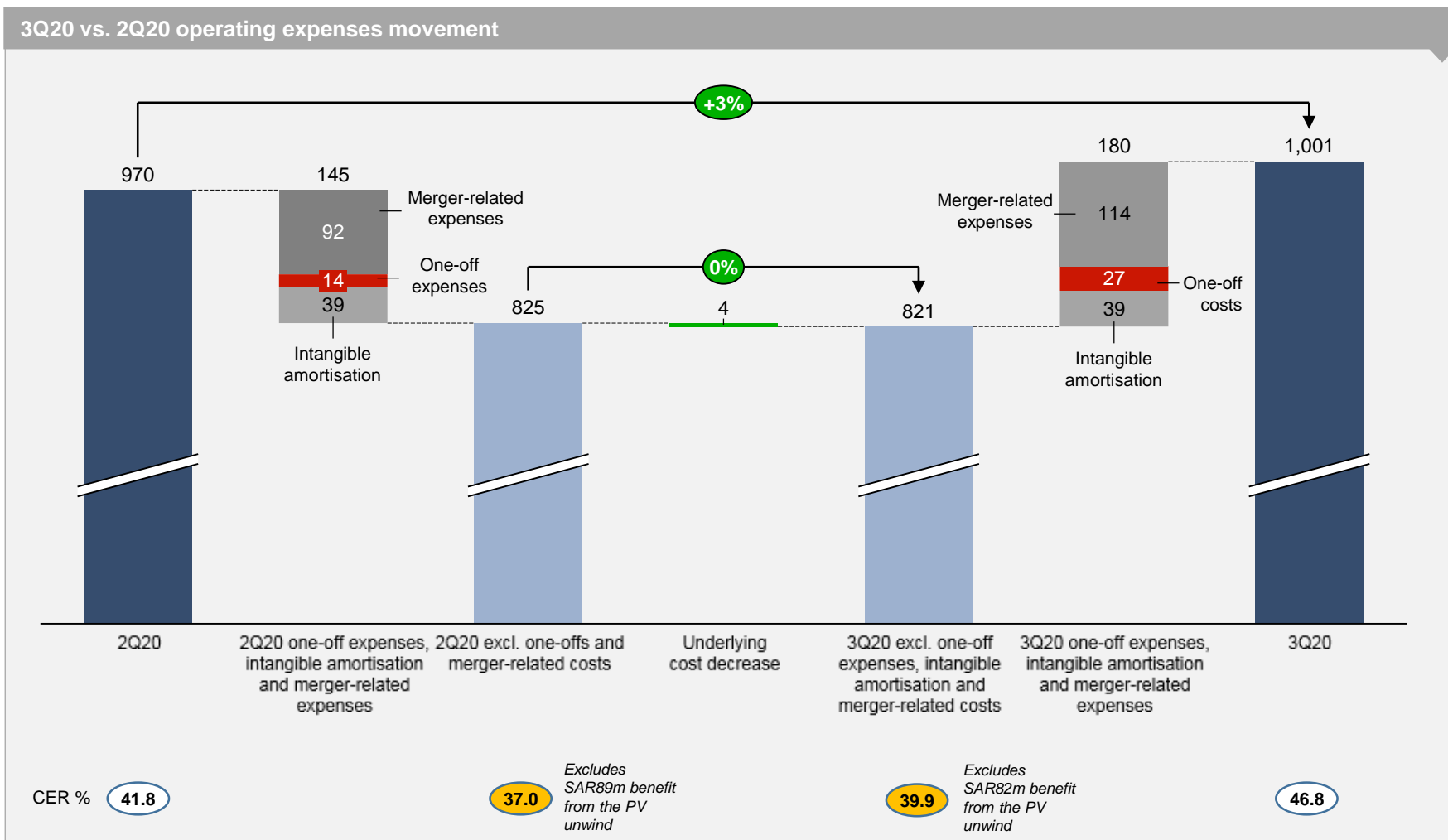
## Yield, costs of funds and margin (excl. PV unwind)



# Operating expenses: 9M20 vs. 9M19



# Operating expenses: Quarterly trends

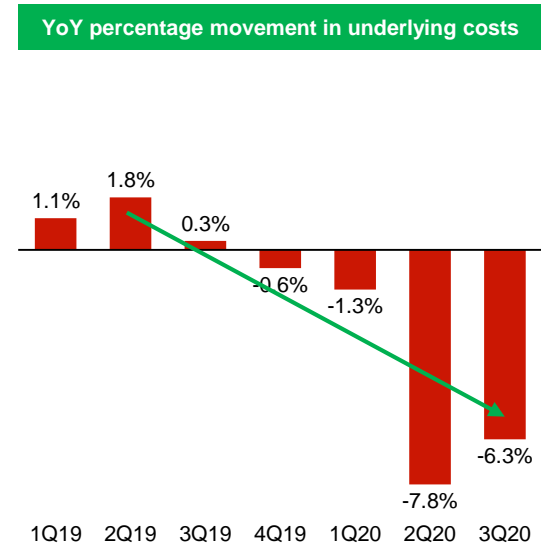
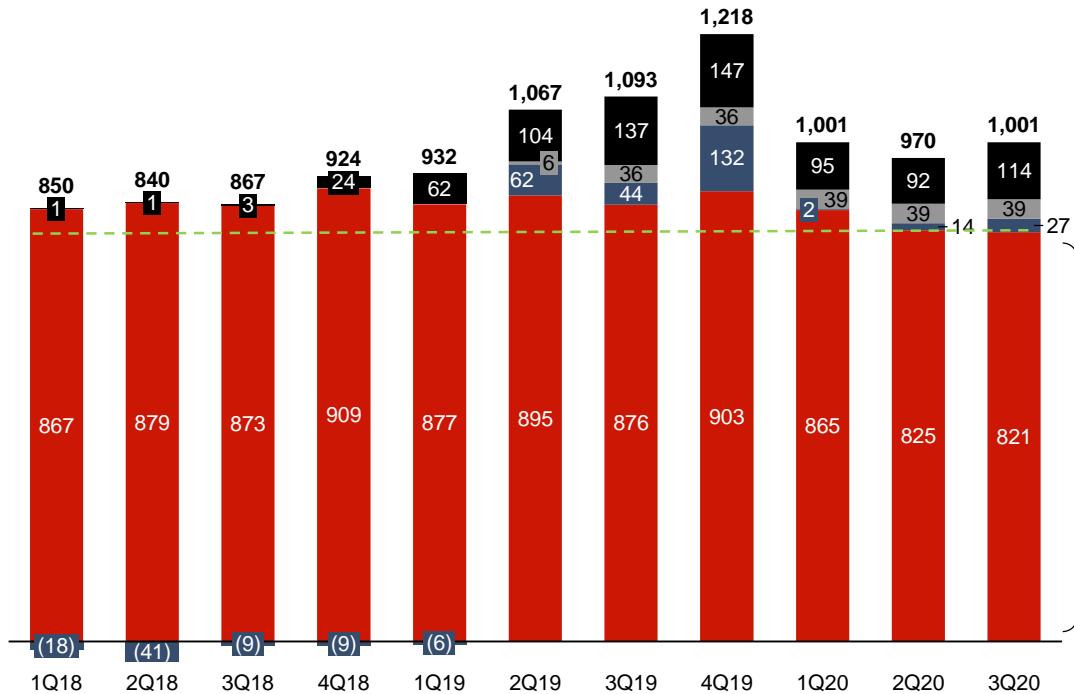


# Pro forma cost analysis

## Pro forma operating expenses

SAR million

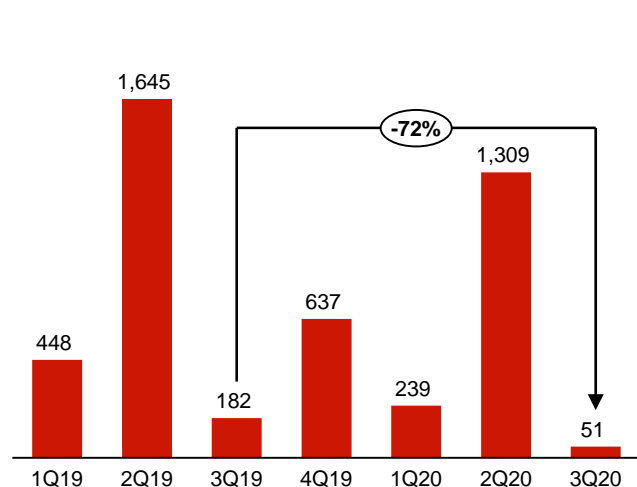
■ Merger-related 
 ■ Intangible amortisation 
 ■ One-offs 
 ■ Underlying costs



# Impairment analysis

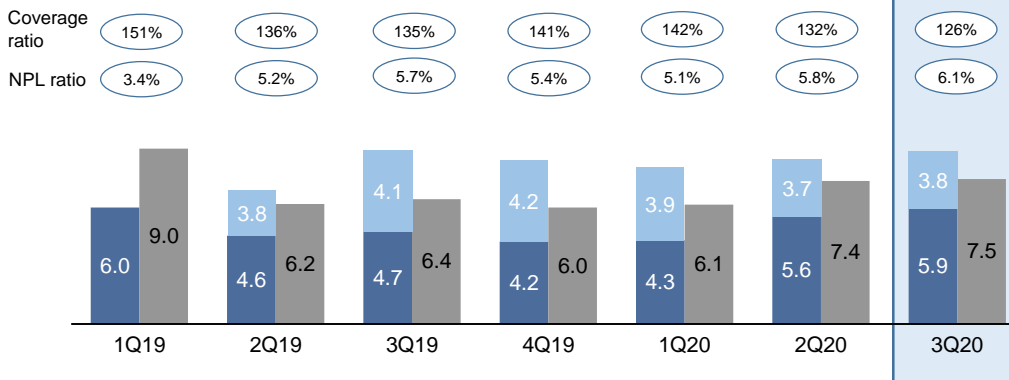
## Pro forma impairment charge by quarter

SAR million



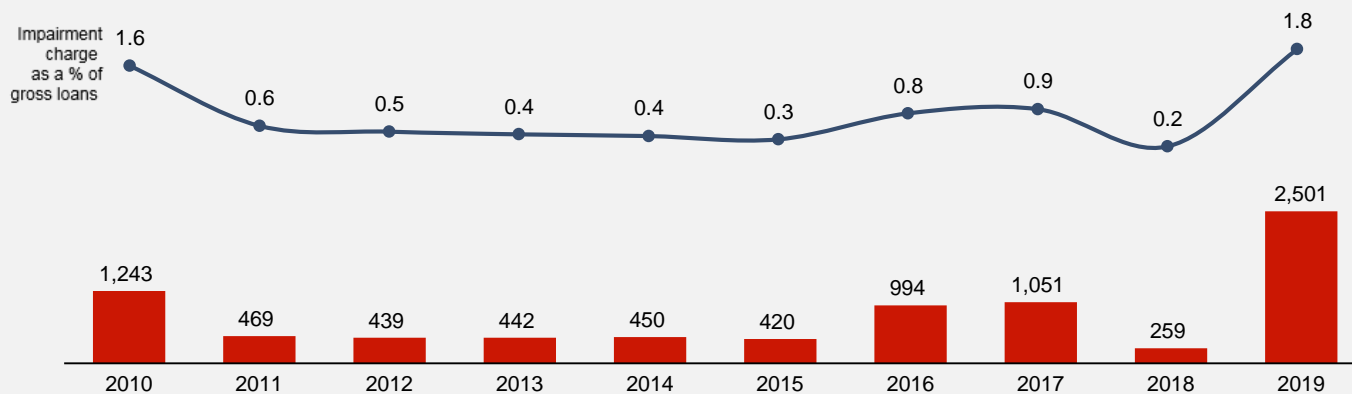
## Pro forma NPLs / Provisions

SAR billion



\*At 3Q20, gross customer advances included SAR6.5bn of *Lifetime ECL credit impaired* of which SAR5.9bn 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, %

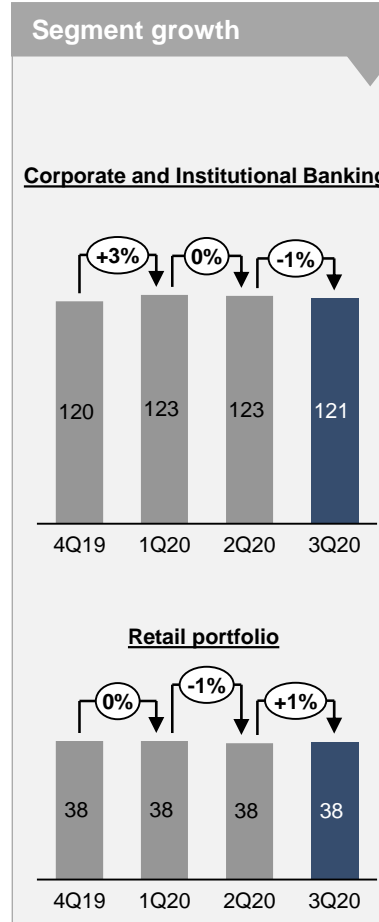
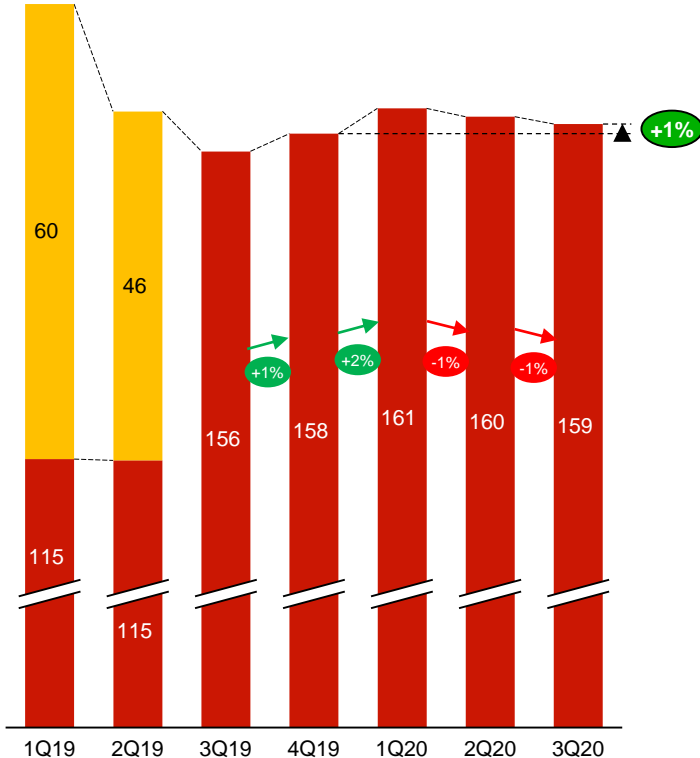


# Balance sheet trends

## Pro forma gross customer advances trend

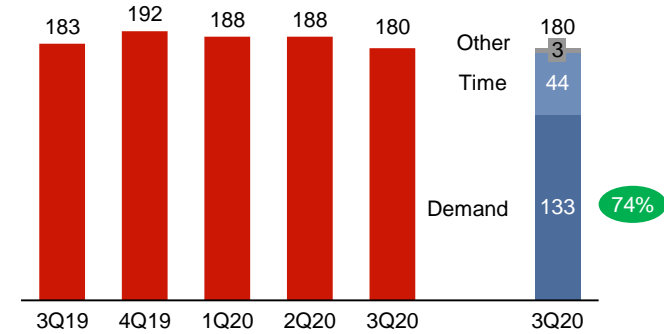
SAR billion

■ AAB ■ SABB

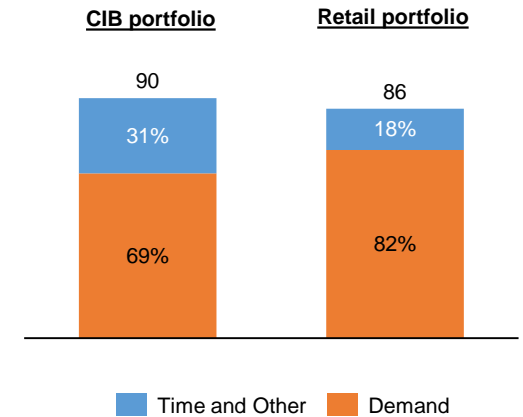


## Pro forma customer deposits

SAR billion



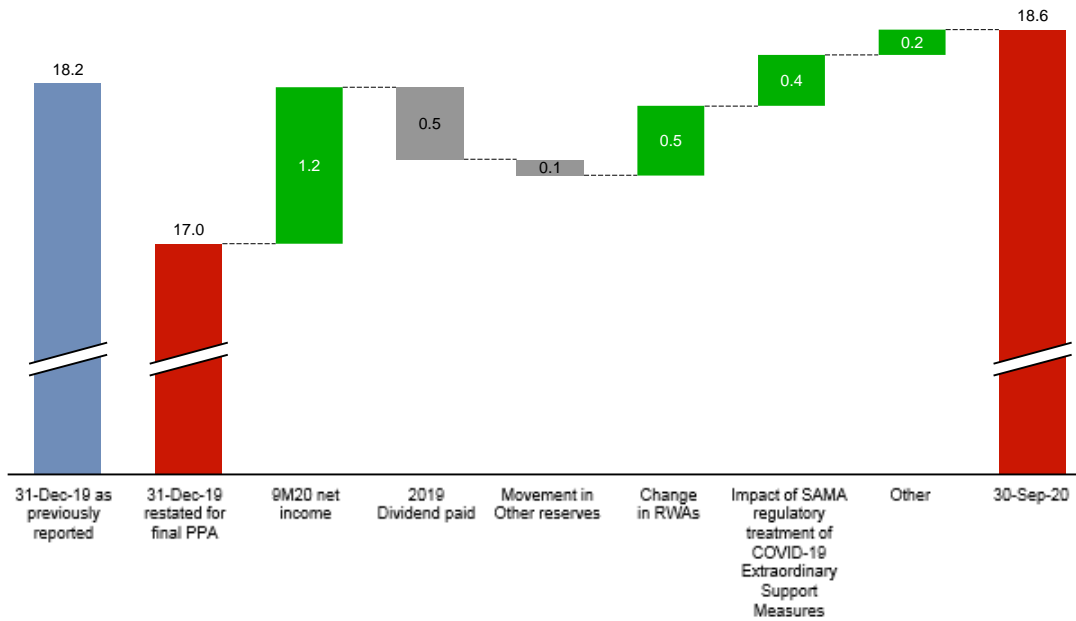
## 3Q20 Customer deposits by segment



# CET1 ratio 18.6%

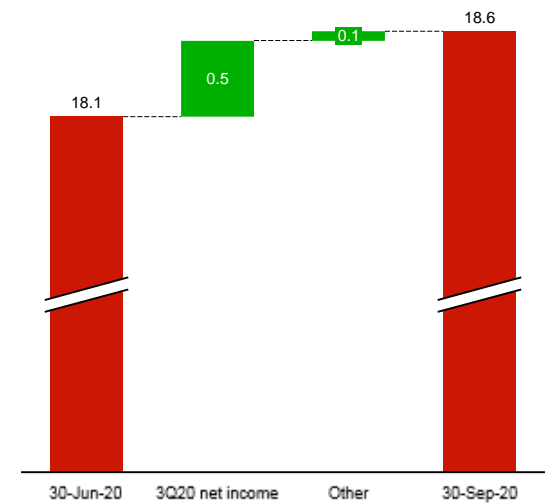
Core Tier 1 ratio: 30 Sep 2020 vs. 31 Dec 2019

%



Core Tier 1 ratio: 30 Sep 2020 vs. 30 Jun 2020

%



## Closing remarks

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- 1 Having completed the merger accounting and taken a significant impairment of goodwill in the second quarter, the third quarter reflects a more normalised performance, albeit with revenue impacted by the cuts in benchmark interest rates earlier in the year
- 2 The uncertainty linked to the COVID-19 pandemic persists but we continue to demonstrate considerable operational resilience while maintaining the safety of our customers and staff
- 3 Our focus remains on the completion of the integration which is on track and extracting the scale and efficiencies from the merger
- 4 We are finalising our 2021 to 2025 Strategic plan
- 5 SABB is positioned well for when the global and regional economy returns to growth – we are the leading international bank in the Kingdom with robust levels of capital, liquidity and funding and the scale to support the national growth agenda



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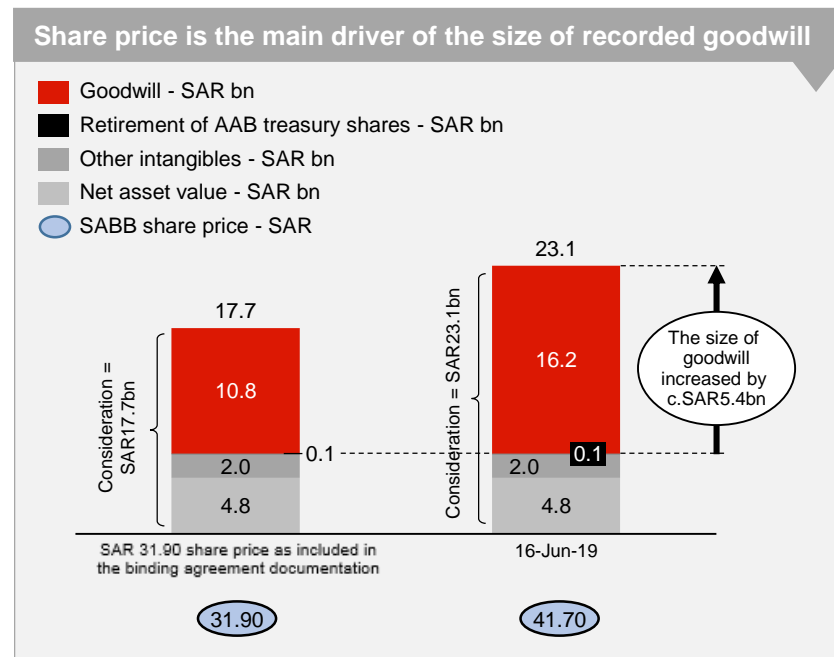
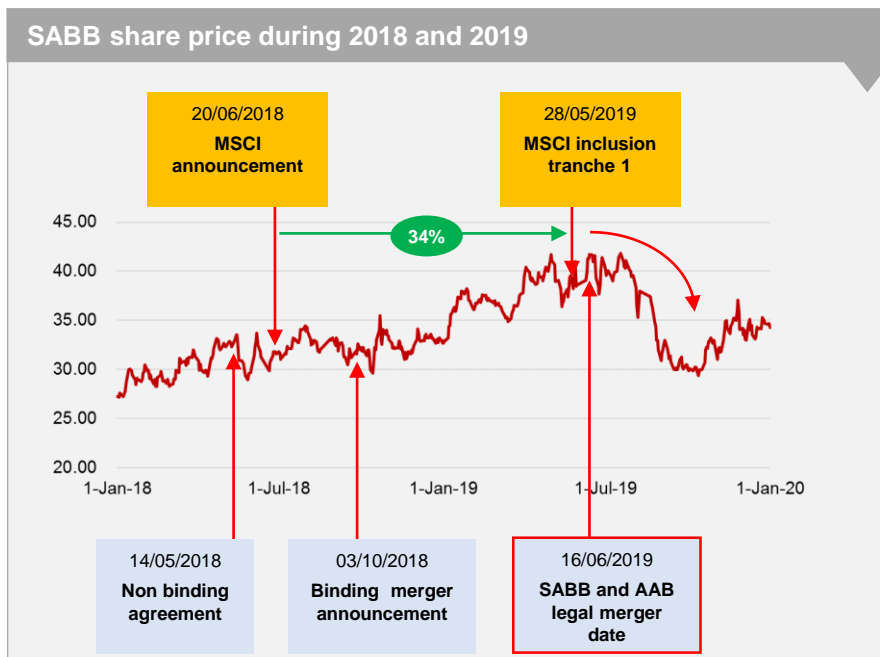
# Goodwill impairment

We recorded a goodwill impairment of SAR7,418 million relating to the goodwill created following the merger with Alawwal bank.

The need to impair is driven by two factors:

- the temporary inflation of the Bank's share price at the time of the merger caused by Saudi Arabia's inclusion into the MSCI EM Index
- the unprecedented and unexpected emergence of the COVID-19 pandemic and its impact on the economy has also contributed to outcome of the impairment assessment's expectation of future returns

- Non-cash item and expected to be a one-time accounting charge
- Does not affect the Bank's Capital, liquidity or funding; or strategic strengths and competitive advantages
- Our ability to lend to and support our customers, our products and services and our focus on our people all remain entirely unaffected by this accounting charge



# Accounting for the merger

## 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

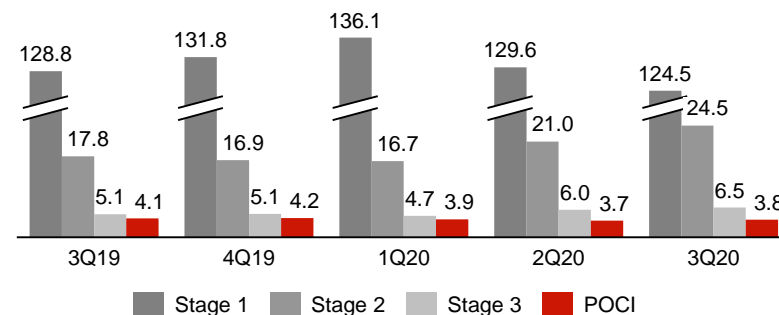
12 months to complete the exercise

## Completed the PPA exercise resulting in:

- Final fair value of Alawwal net assets of SAR4.8bn
- a commensurate recognition of goodwill of SAR16.2bn before goodwill impairment

## Gross lending balances by stage

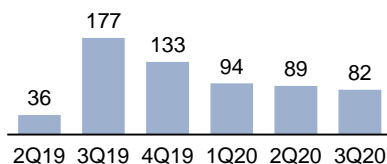
SAR billion



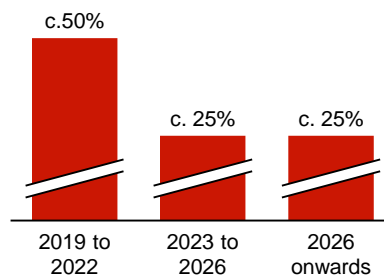
## PV unwind recorded in NSCI

SAR million

The PV unwind has been restated following the completion of the PPA exercise



Approximate timeline of the unwind

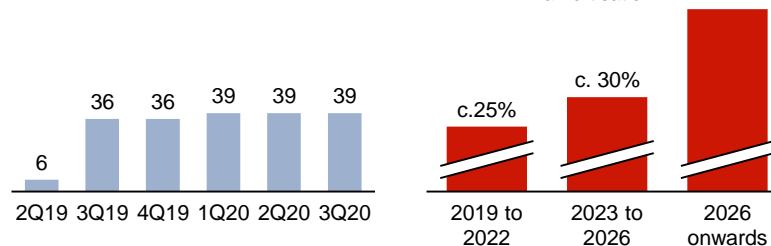


- The PV unwind represents the discount between the fair value of the AAB loan portfolio vs. the contractual amounts.
- The discount applied will be unwound over time to the contractual maturity date of the loans
- Expect this to be SAR2.3bn across the life of the loans

## Intangible amortisation recorded in Costs

SAR million

Approximate timeline for the intangible amortisation



- Following the merger, several intangible assets were created which mainly represent the future benefit of core deposits
- As at 3Q20, we had recorded SAR1.9bn of intangibles relating to AAB

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