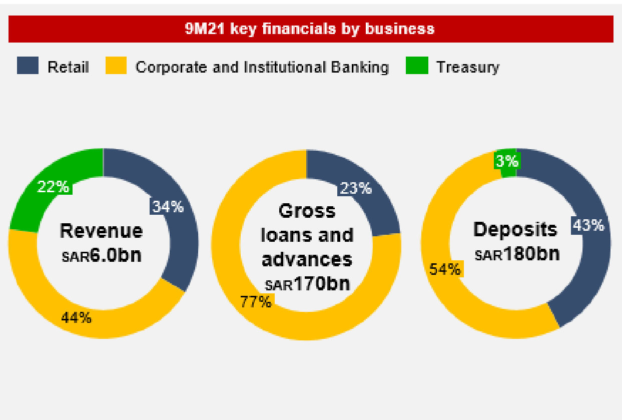
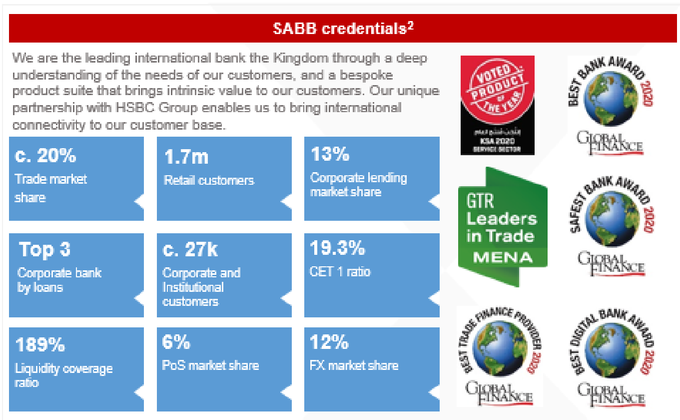
SAUDI BRITISH BANK

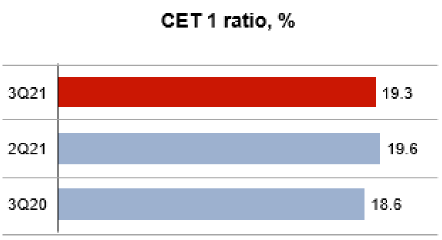
3Q21 Earnings Release

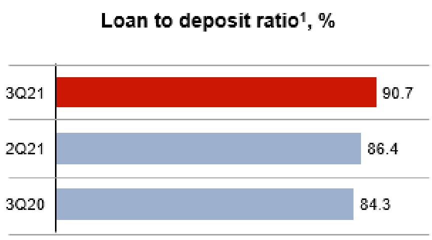
Key messages

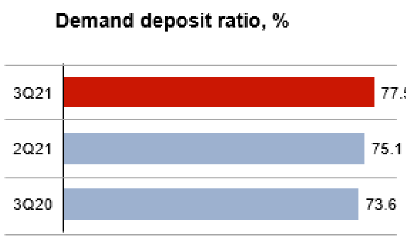
- We are in the first year of our 5-year strategic plan – a pivotal year which lays the foundation for our growth-oriented long-term aims; our businesses continue to show traction with a fourth consecutive quarter of lending growth: 7% year-on-year and 1% during the third quarter
- 9M21 Net income before Zakat and income tax of SAR3.3 billion; underlying net income increased 25% mainly from lower ECL partly offset by lower revenue; revenue was impacted by increased competition and the impact of lower benchmark interest rates at the start of 2020; costs remain under control; annualised RoTE of 9.0% year-to-date
- 3Q21 Net income before Zakat and income tax of SAR1.0 billion was 8% lower than 2Q21 largely driven by increased costs as we brought forward some infrastructure investment costs
- Synergy generation remains on track with cumulative synergies of SAR0.8 billion achieved
- Non-performing loans continued their gradual decline with an NPL ratio on SABB-originated loans now under 3%; total NPL ratio including POCI balances of 5.1%
- ESG remains front and centre of our plans; we are the first Saudi institution to make a green deposit, we established an ESG-compliant fund through HSBC Saudi Arabia, and were awarded 'The Leading Bank in Financing Sustainable Projects in the Middle East' from Global Finance Magazine
- SABB closed the reporting period with robust levels of capital, liquidity and a strong funding base. CET1 ratio of 19.3%, a loan to deposit ratio of 91%[1], over SAR70 billion of high quality liquid assets and a strong demand deposit ratio of 77%











1. *Loan to deposit ratio is calculated as 'Loans and advances, net' divided by 'Customers' deposits'*
2. *Customer numbers, Corporate revenue ranking and market shares are as at 30 June 2021*

Board Chair’s statement

Strategy execution on track

As we review our performance for the year so far, it is worth reiterating that we are in the investment phase of our newly announced five-year strategic plan, where we will be taking the necessary steps to develop the Bank into an institution fit to meet the future needs of our customers. We are investing considerably across the business front-to-back, to ensure that we remain relevant and can create a sustainable banking organisation. Making these sound investments in our business mean we can both support the aims of the Kingdom’s Vision 2030 plan but also unlock the opportunities that the economic transformation plans bring.

ESG front and centre of our agenda

During the quarter, we continued to formulate our Environmental, Social and Governance (‘ESG’) strategy, and I have been particularly pleased with the progress we made operationally. Through our associate, HSBC Saudi Arabia, our customers can now invest in an ESG-compliant fund where customers have direct access to investments that help reduce the impact of climate change. We also became the first Saudi institution to make a green deposit which will be used to finance purely green activities – this transaction was made via HSBC which again emphasizes the close collaboration and partnership that SABB enjoys with a leading global network. During the quarter, we were awarded ‘The Leading Bank in Financing Sustainable Projects in the Middle East’ from Global Finance Magazine – demonstrating SABB’s growing strengths in this area.

Business performance

SABB’s financial performance in the third quarter of 2021 is a continuation of the resilient progress seen in the first half of the year. Despite the lingering effects of the COVID-19 pandemic, regional economies have started to witness some green shoots of recovery, and with sustained local demand for corporate credit rolling into the third quarter, and continued demand for retail mortgage lending, SABB has performed robustly with a promising set of quarterly financials: we booked a fourth consecutive quarter of loan growth, sustained reduction in non-performing loans, continued low cost of credit risk, and protected our net interest margin (‘NIM’) despite the ever-present competition. Underlying costs increased, although this was in part driven by our investment plans. Capital levels remain healthy, and funding and liquidity levels are strong – our core financial fundamentals are a position of strength.

Our thanks

To conclude, a few words to express my thanks and gratitude. Firstly, I would like to thank our customers for their confidence in choosing SABB as their bank of choice. Secondly, in an ever-changing environment, the one constant is the hard work and dedication of our staff, senior management and Board members, with which we could not deliver the very high standards our customers and clients expect from us. Finally, my sincere gratitude for the support and guidance of our regulators.

Lubna Suliman Olayan

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Results for the nine months ended 30 September 2021 (Not subject to audit review)

Year-to-date Income statement

	Nine months ended		
	30 September 2021 SAR million	30 September 2020 SAR million	Change %
Total operating income ('Revenue')	**5,951**	6,828	(13)
Operating expenses	**(2,687)**	(2,972)	(10)
Provision for expected credit losses, net	**(40)**	(1,599)	(97)
Goodwill impairment	**-**	(7,418)	(100)
Share in earnings of associates	**84**	58	45
Net income before Zakat and tax	**3,308**	(5,102)	nm
Notable items:			
Merger-related expenses	***(15)***	*(301)*	*(95)*
One-off expenses	***-***	*(41)*	*(100)*
Goodwill impairment	***-***	*(7,418)*	*(100)*
Underlying income statement excluding notable items above:			
Total operating income ('Revenue')	**5,951**	6,828	(13)
Operating expenses	**(2,672)**	(2,630)	2
Provision for expected credit losses, net	**(40)**	(1,599)	(97)
Share in earnings of associates	**84**	58	45
Net income before Zakat and tax	**3,323**	2,658	25
Key ratios:	**%**	%	ppt.
Underlying Return on tangible equity ('ROTE')	**9.0**	8.7	0.3
Underlying Cost efficiency ratio ('CER')	**44.9**	38.5	6.4
Cost of Risk ('CoR')	**0.03**	1.33	(1.30)
Core Tier 1 ratio ('CET1')	**19.26**	18.59	0.67

The following commentary compares the performance for the nine months ending 30 September 2021 to the nine months ended 30 September 2020, unless otherwise stated.

- **SABB recorded net income before Zakat and income tax of SAR3,308 million which compared with a loss before Zakat and income tax of SAR5,102 million for the prior period.** The prior period included the impairment of goodwill in the second quarter of 2020, relating to the goodwill created following the merger with Alawwal Bank. On an underlying basis, which mainly excludes merger-related costs and the goodwill impairment, net income before Zakat and income tax of SAR3,323 million was 25% higher than the prior period mainly from lower expected credit losses partly offset by reduced revenue.
- **Revenue of SAR5,951 million was SAR877 million or 13% lower** largely from reduced Net special commission income which reflected the repricing as a result of the cuts in benchmark interest rates at the end of the first quarter of 2020. Net fee income fell partly from a reduction in trade fees together with lower loan origination fees, as a result of increased competition and the challenging economic activity. These factors were partly offset by an increase in card issuance fees in line with our strategic focus. Exchange income increased SAR44m or 12% from improved customer flows. Other operating income grew from increased PV unwind from the early settlement of loans.
- **3Q21 NIM of 2.0% was 0.1ppt lower than 2Q21** and continues the stabilisation trend seen year-to-date. A marginal fall in gross yield driven the competitive environment was partly offset by a marginal fall in cost of funds as we continued to optimise our deposit base.
- **Operating expenses of SAR2,687 million were SAR285 million or 10% lower** and included SAR15 million of merger-related expenses (9M20: SAR301 million). Excluding this, underlying costs increased SAR42 million or 2% reflecting inflationary pressures and the start of the investment phase of our strategic plan, as we brought forward some infrastructure investment costs. These factors were partly offset by the continued realisation of synergies and the ongoing robust management of the underlying cost base.
- **Underlying cost efficiency ratio of 44.9% was 6.4ppts higher** despite robust cost management, and was more reflective of the challenging revenue environment**.**
- **Charges for provisions for expected credit losses of SAR40 million were SAR1,559 million lower.** The prior period included significant charges taken against SABB-originated customers that were classified as POCI in the merger accounting, an increase in retail provisioning from slower collections, and thirdly increased charges against certain corporate customers.
- **Gross customer advances of SAR170.5 billion increased SAR11.1bn or 7% compared with 3Q20 and SAR1.9bn or 1% compared with 2Q21.** Growth in the quarter was mainly from a SAR1.2 billion increase in our corporate portfolio together with SAR0.7bn in our retail portfolio. Mortgage originations continued their strong trajectory, with originations in the first nine months more than doubling the same period from 2020, however net growth was impacted by a higher pace of run-off given our seasoned portfolio.
- **Customer deposits of SAR180.2 billion were broadly unchanged compared with 3Q20 and fell SAR6.6 billion or 4% compared with 2Q21** mainly from a fall in time deposits**.** The proportion of demand deposits to overall deposits grew to 77% and reflects the stability of our core funding deposit portfolio.
- **Capital levels remained strong with a CET1 ratio of 19.26% and total capital ratio of 21.89%.**

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Results for the three months ended 30 September 2021 (Not subject to audit review)

Quarter-to-date Income statement

	Three months ended		
	30 September 2021 SAR million	30 June 2021 SAR million	30 September 2020 SAR million
Total operating income ('Revenue')	**1,968**	1,976	2,141
Operating expenses	**(937)**	(844)	(1,001)
Provision for expected credit losses, net	**(13)**	(26)	(51)
Goodwill impairment	**-**	-	-
Share in earnings of associates	**20**	25	23
Net income before Zakat and tax	**1,038**	1,132	1,112
Notable items:			
Merger-related credit / (expenses)	**-**	*18*	*(114)*
One-off expenses	**-**	-	*(27)*
Goodwill impairment	**-**	-	-
Underlying income statement excluding notable items above:			
Total operating income ('Revenue')	**1,968**	1,976	2,141
Operating expenses	**(937)**	(862)	(860)
Provision for expected credit losses, net	**(13)**	(26)	(51)
Share in earnings of associates	**20**	25	23
Net income before Zakat and tax	**1,038**	1,113	1,254
Key ratios:	**%**	%	%
Underlying Return on tangible equity ('ROTE')	**8.4**	8.7	12.5
Underlying Cost efficiency ratio ('CER')	**47.6**	43.6	40.2
Cost of Risk ('CoR')	**0.03**	0.06	0.13
Core Tier 1 ratio ('CET1')	**19.26**	19.57	18.59

Net special commission income margin (Not subject to audit review)

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

	Quarter ended		
	30 September 2021 SAR million	30 June 2021 SAR million	30 September 2020 SAR million
Special commission income	**1,490**	1,582	1,774
Special commission expense	**(150)**	(174)	(205)
Net special commission income	**1,340**	1,408	1,569
Average special commission income earning assets[1]	**266,941**	271,026	262,314
	%	%	%
Gross Yield	**2.2**	2.3	2.7
Cost of funding[2]	**(0.3)**	(0.3)	(0.4)
Net special commission income spread	**1.9**	2.0	2.3
Net special commission income margin	**2.0**	2.1	2.4

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.*

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