



SABB  ساب

# Saudi British Bank

## 1Q21 Results and Strategy Announcement

Presentation to investors and analysts



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# 1Q21 Key messages

1

We completed 'Customer Day 1', which was the final migration of our retail customers following the migration of our corporate customers in 2020. We are now one bank where our customers enjoy a single, seamless quality experience

2

Our financial performance was resilient with 1Q21 Net income before Zakat and income tax of SAR1.1 billion which was 1% lower than 1Q20. Revenue was impacted by increased competition; costs remain under control; annualised RoTE of 9.9%

3

Following the Board approval of our Strategy 2025 at the end of 2020, our roadmap towards growth and improved returns commenced with the signing of key mandates in the Corporate business and an increase in mortgage originations in the quarter, supporting a second quarter of consecutive growth in customer lending.

4

Synergy generation remains on track with cumulative synergies of SAR0.8 billion achieved

5

SABB closed the reporting period with robust levels of capital, liquidity and a strong funding base. CET1 ratio of 19.6%, a loan to deposit ratio of 85%<sup>1</sup>, over SAR84 billion of high quality liquid assets and a strong demand deposit ratio of 71%

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# Financial Summary

1Q21 underlying net income of SAR1.2bn

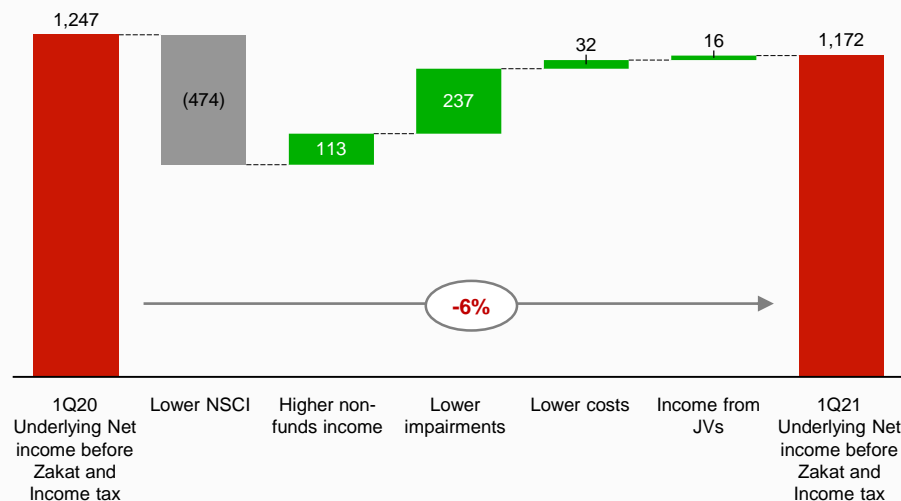
## Highlights

- Reported net income before Zakat and income tax of SAR1.1bn down 1%; underlying down 6%; driven by:
  - Lower revenue partly offset by lower impairment charges and lower costs
  - Minimal cost of risk as increased ECLs in our corporate portfolio were broadly offset by a net release in retail
- Underlying RoTE of 9.9%
- Robust capital position, with CET1 of 19.6%

## Key ratios and Income statement

%	1Q21	Δ 1Q20	Δ 4Q20
Net special commission margin ('NIM')	2.0	(0.9)ppt	(0.2)ppt
Underlying <sup>1</sup> Return on Tangible Equity	9.9	(1.5)ppt	(0.8)ppt
Underlying <sup>1</sup> Cost Efficiency Ratio ('CER')	43.5	(5.3)ppt	(1.2)ppt
Cost of risk ('CoR')	0.0	0.6ppt	0.1ppt
Common Equity Tier 1 ratio ('CET 1')	19.6	2.4ppt	0.6ppt

## Underlying net income walk, 1Q20 vs. 1Q21



### SAR million

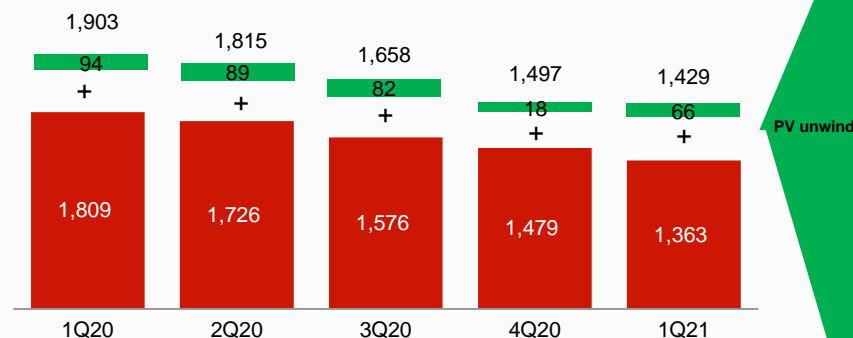
Total operating income ('Revenue')	2,008	(15)%	(2)%
Operating expenses	(907)	9%	27%
Provision for expected credit losses, net	(2)	99%	95%
Share in earnings of associates and a JV	39	67%	63%
<b>Net income before Zakat and income tax</b>	<b>1,138</b>	<b>(1)%</b>	<b>42%</b>
Zakat and income tax	(168)	7%	(39)%
Net income after Zakat and income tax	970	0%	43%
<b>Underlying net income before Zakat and income tax</b>	<b>1,172</b>	<b>(6)%</b>	<b>0%</b>

\* Positive variance denotes a favourable movement; a negative variance denotes an adverse movement.

## NIM analysis

NIM fell to 2.0% from competitive pressures together with the one-off impact of aligning the treatment of suspended interest on non-performing Alawwal loans following CD1

### Net special commission income, SARm

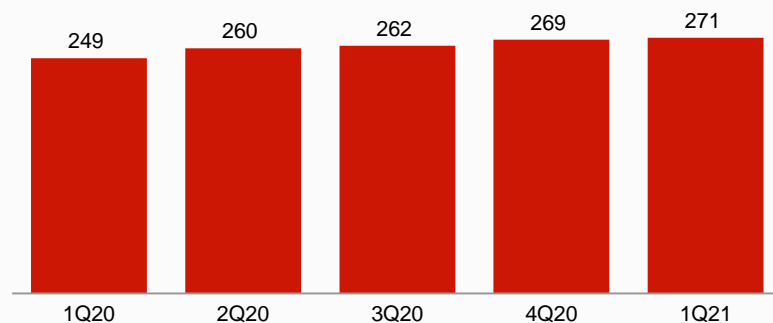


### Unwind of the fair value adjustment

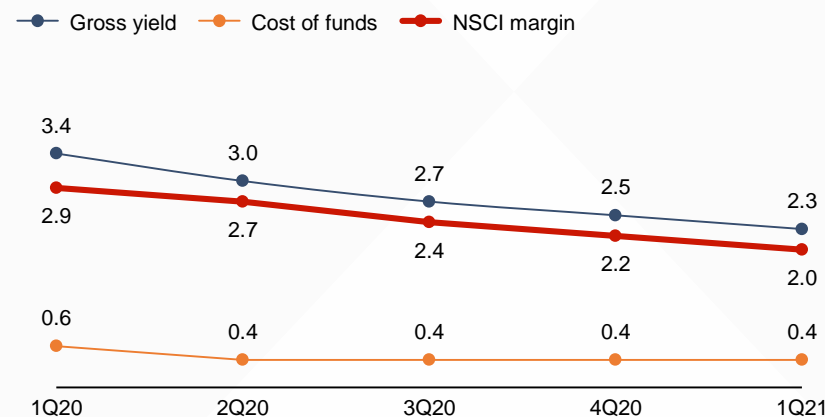
AAB loan portfolio recognised at fair value on merger date

- 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, SARbn



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



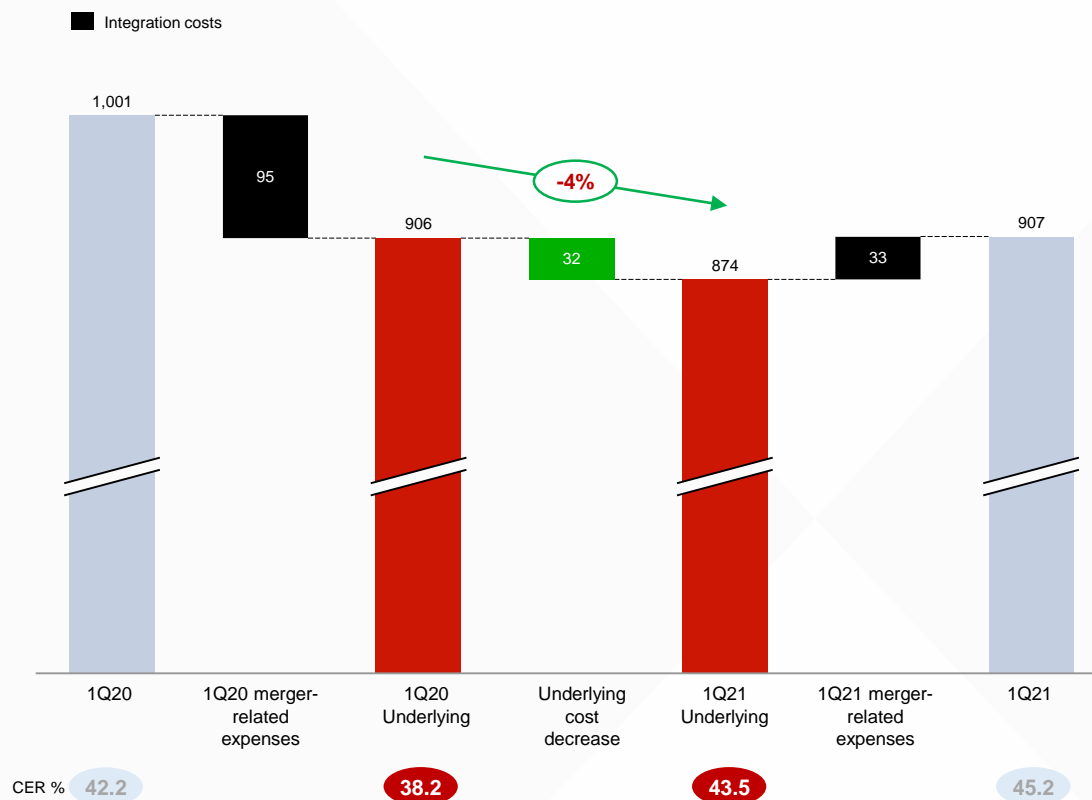
# Operating expenses: 1Q21 vs. 1Q20

Costs have continued their downward trajectory from robust cost management

## Highlights

- Total costs fell 9%
- Underlying costs which remove merger-related fell 4%
- Synergy realisation continues its momentum with SAR0.6bn of annualised cost synergies achieved by the end of 1Q21
- Expect to receive a full year's income statement benefit in 2022
- Underlying cost efficiency ratio of 43.5% is reflective of the challenging revenue environment

## 1Q21 vs. 1Q20 operating expenses movement



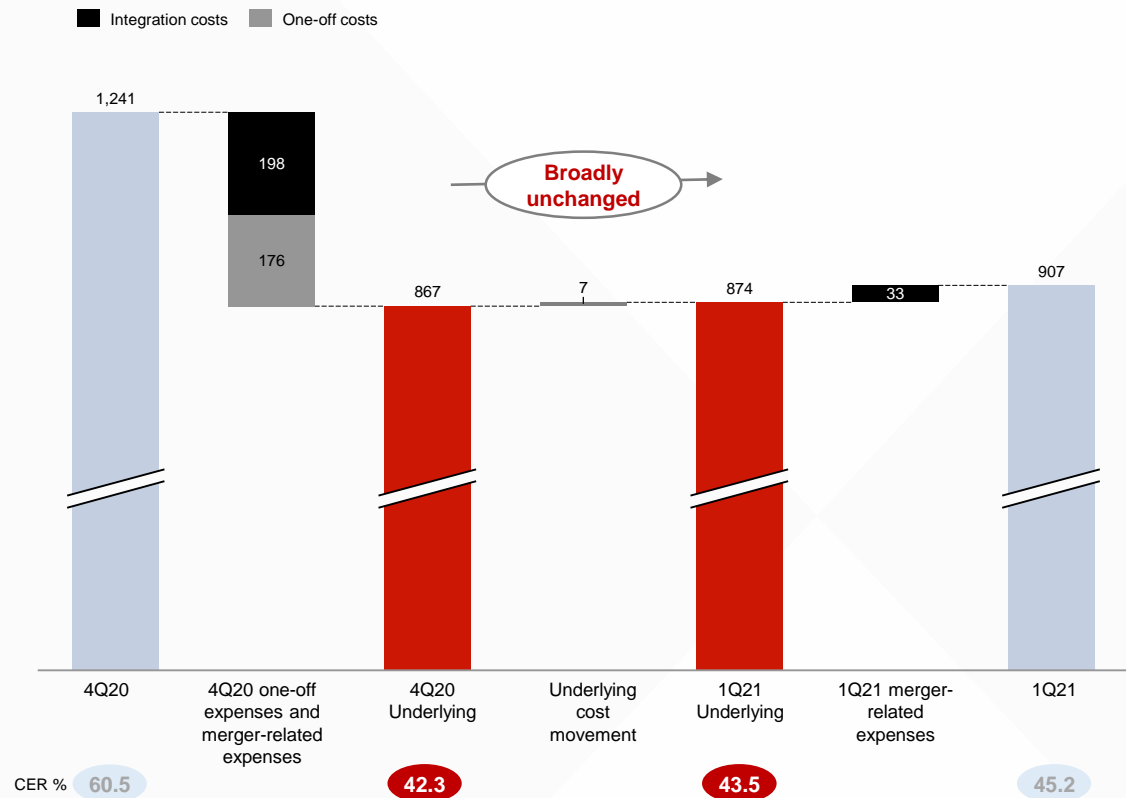
# Operating expenses: 1Q21 vs. 4Q20

Quarterly costs remain well-controlled

## Highlights

- Underlying costs broadly unchanged compared with the fourth quarter
- SAR33m of merger-related expenditure in 1Q21 as we completed RBWM-focused integration activities
- 4Q20 one off-expenses mainly relate to the accelerated depreciation of assets
- Underlying CER of 43.5% increased 1.2ppts and is more reflective of the challenging revenue environment

## 1Q21 vs. 4Q20 operating expenses movement



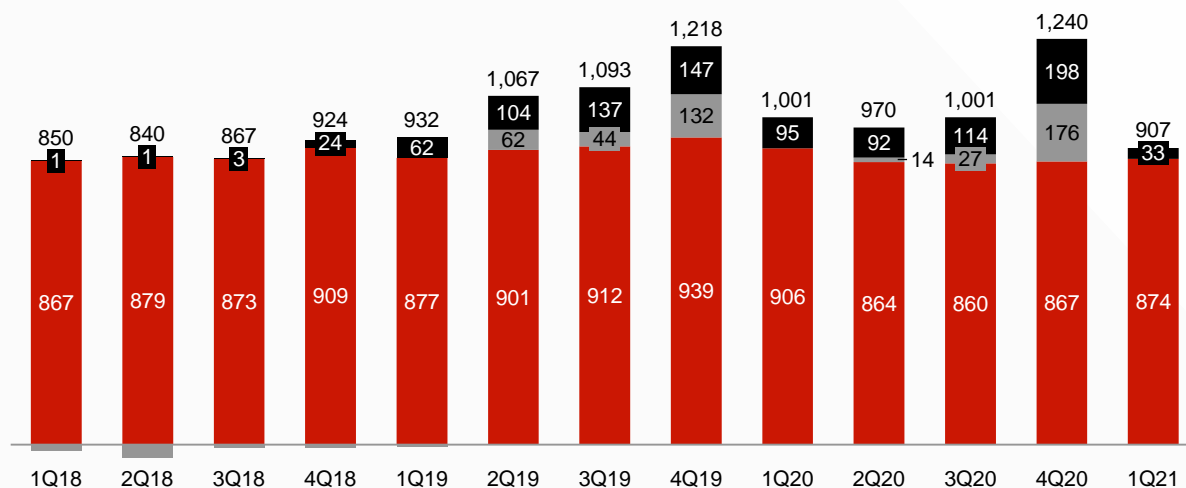


## Expenses trend

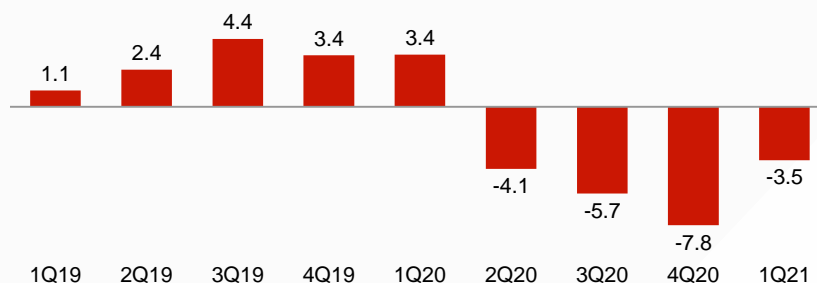
Quarterly underlying costs remain at historic pro forma levels in a sector that has grown by over 9% over the same time

### Pro forma operating expenses, SARm

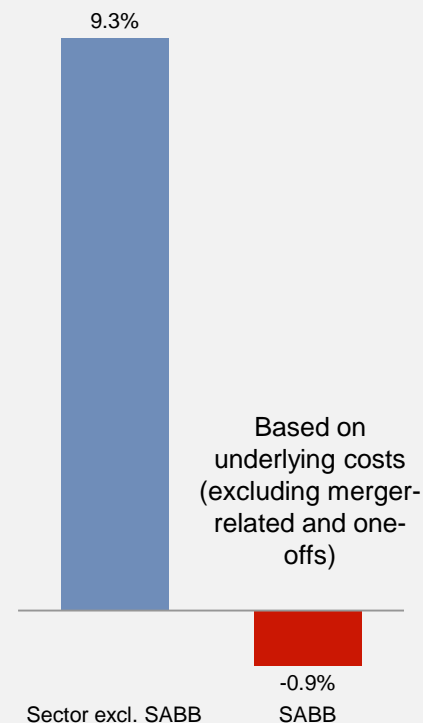
■ Merger-related ■ One-offs ■ Underlying costs



Sequential drop  
in YoY  
underlying costs



**% increase in quarterly costs  
between 4Q18 and 4Q20, using  
a 4 quarter rolling average<sup>1</sup>**

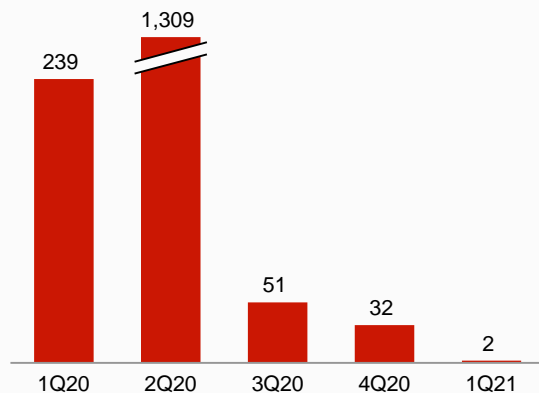


1. Compares the 4-quarter average of 1Q18, 2Q18, 3Q18 and 4Q18 to 1Q20, 2Q20, 3Q20 and 4Q20 for the sector excluding SABB, compared with SABB on a pro forma basis

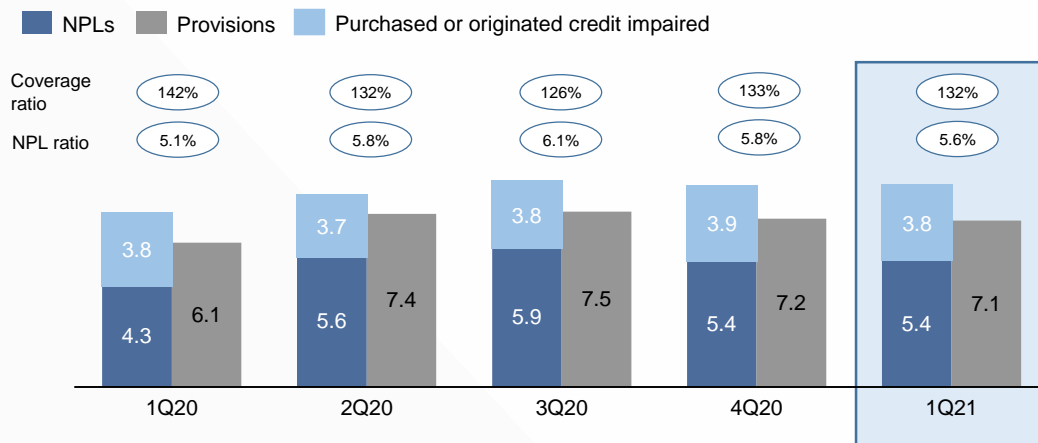
# Impairment analysis

Expected credit losses remain low

## Quarterly ECL charge, SARm

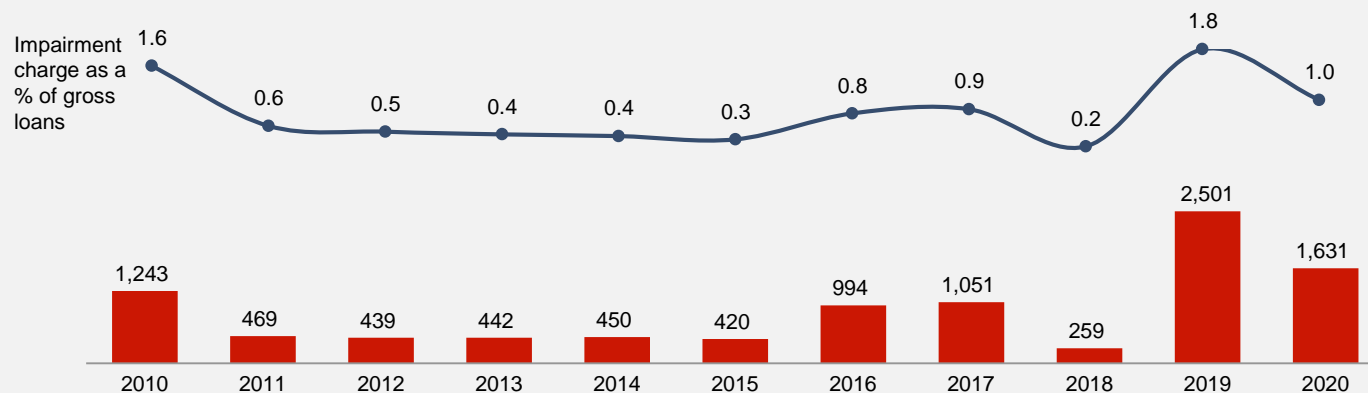


## NPLs / Provisions, SARbn



\*At 1Q21, gross customer advances included SAR5.9bn of *Lifetime ECL credit impaired* of which SAR5.4bn 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, %



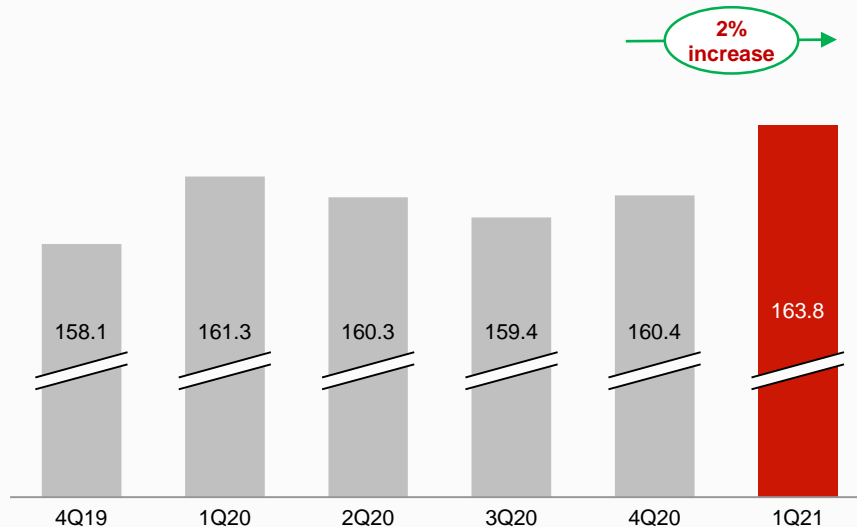
# Gross customer advances

Gross customer advances grew 2% in the quarter

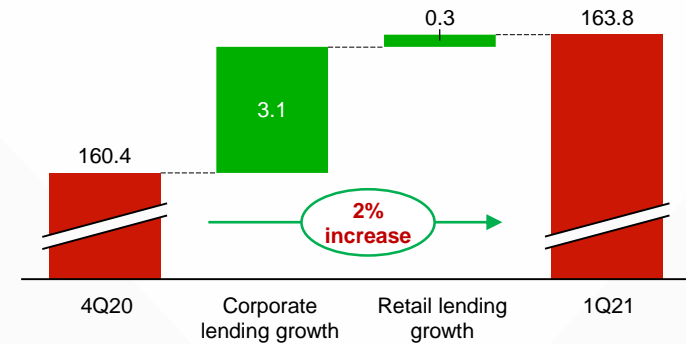
## Highlights

- Gross customer advances increased by 2% compared with 4Q20
- Growth in the 1<sup>st</sup> quarter was mainly from corporate lending
- Strong mortgage originations although partly offset by repayments across the retail portfolio

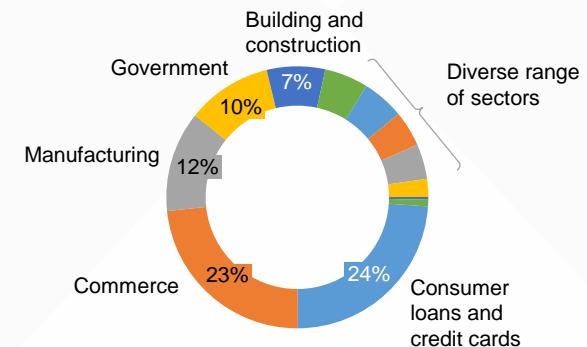
## Pro forma gross customer advances trend, SARbn



## Gross customer advances, 1Q21 vs. 4Q20



## Diverse lending portfolio



As at 1Q21; split based on performing loans



# Customer deposits, liquidity and funding

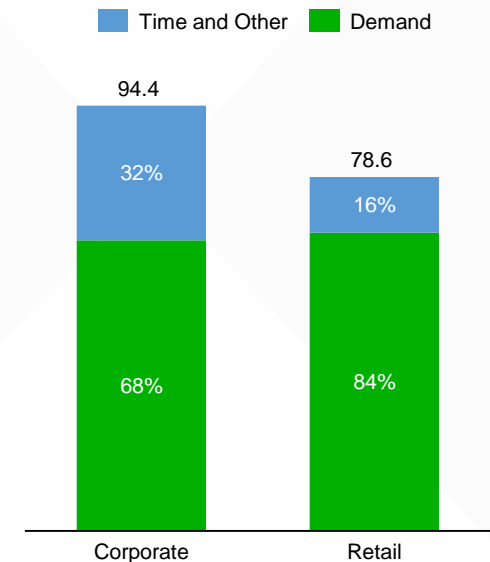
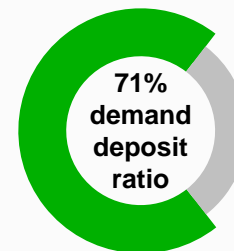
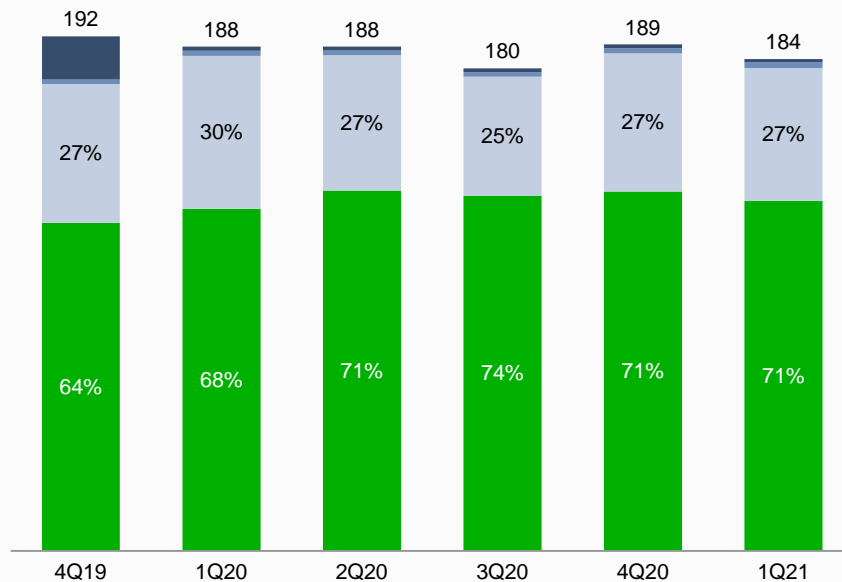
Liquidity and funding remain strong

## Highlights

- Stable customer deposit base
- SAR184bn of customer deposits with 71% demand deposit, with both CIB and Retail businesses contributing to this strong position
- Robust levels of liquidity and a strong funding base

## Customer deposits trend, SARbn

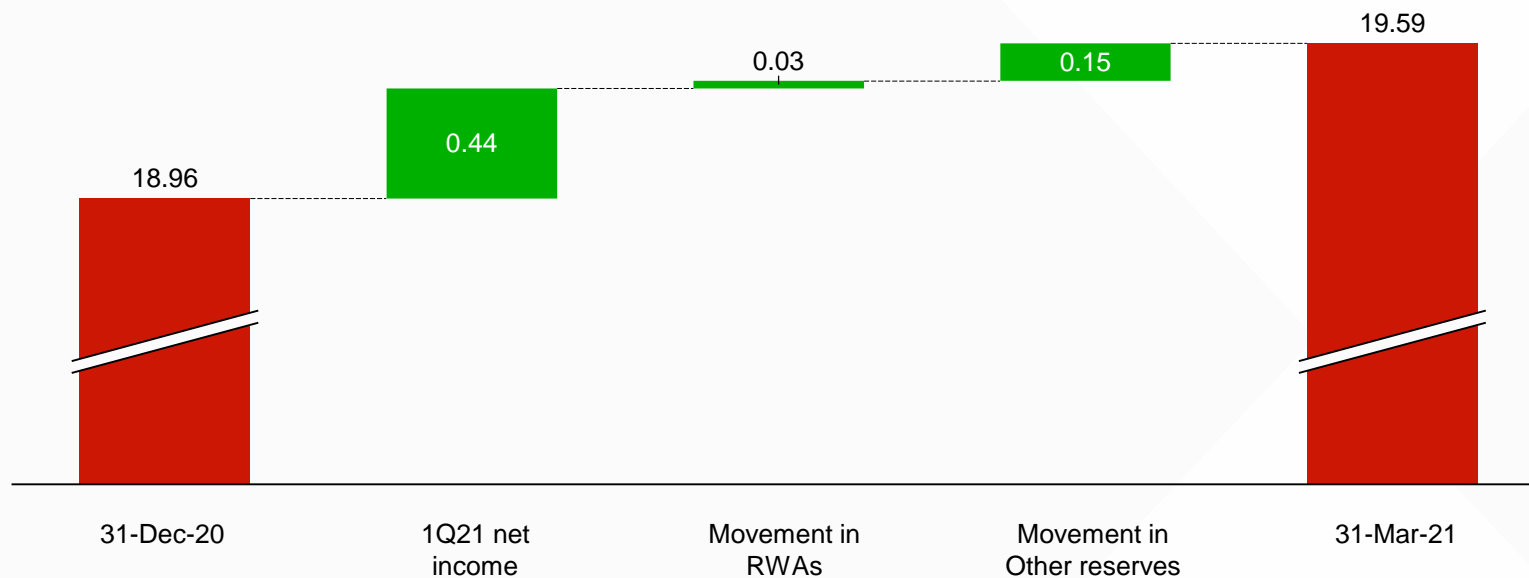
Other Savings Time Demand



# Capital adequacy

Strong CET1 ratio of 19.59%

Core Tier 1 ratio: 31 Mar 2021 vs. 31 Dec 2020, %

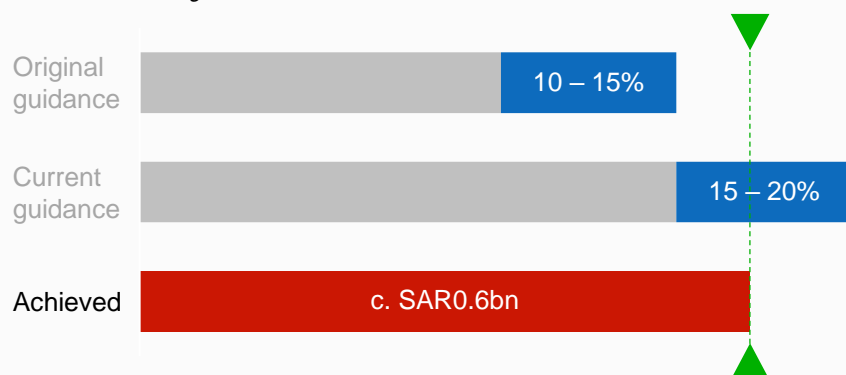


# Synergy realisation and integration spend

Achieved c. SAR0.8bn of annualised synergies to date with integration spend on track

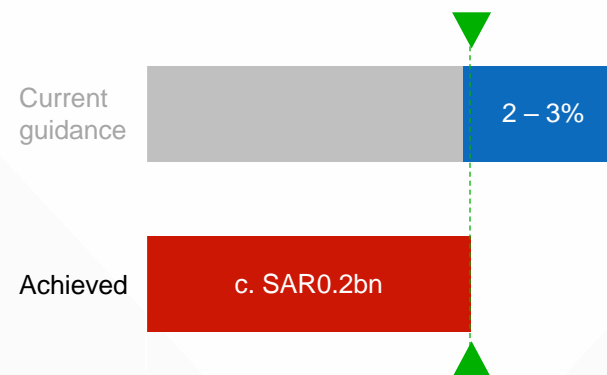
## Cost synergies guidance and 2020 achievement

%s are baselined against the 2017 combined cost base of SAR3.5bn

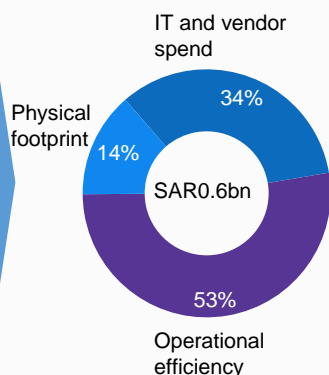


## Revenue and funding synergies guidance

%s are baselined against the 2017 combined revenue base of SAR10.8bn

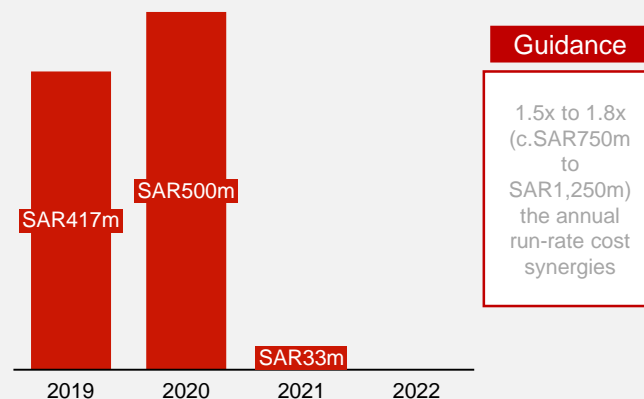


1Q21 cumulative cost synergy breakdown



- SAR0.6bn annualised savings to the end of 2020
- operational efficiency from the optimisation of organizational design and economies of scale
- minimizing the costs of our combined branch and office footprint
- reduced IT spend from the retirement of legacy Alawwal systems and the reduction in SABB IT costs per capita
- Reduced vendor spend, including marketing, procurement and buildings-related expenditure

## Integration costs profile





## Closing remarks

1

We are now one bank where our customers enjoy a single, seamless quality experience.

2

We are positioned for growth. Both corporate and retail businesses are gaining traction and we are well on our strategic roadmap.

3

We possess robust levels of capital, liquidity and funding and the scale to support the national growth agenda.

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## 1. Key messages

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## 2. 1Q21 SABB performance

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## 3. Strategy

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# SABB's strengths

## Diversified 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.

## 2020 credentials

We are the leading international bank in the Kingdom through a deep understanding of the needs of our customers, and a bespoke product suite that brings intrinsic value to our customers. Our unique partnership with HSBC Group enables us to bring international connectivity to our customer base.

**c. 20%**

Trade market share

**1.7m**

Retail customers

**13%**

Corporate lending market share

**Top 3**

Corporate bank by revenue

**c. 27k**

Corporate and Institutional customers

**18.96%**

CET 1 ratio

**299%**

Liquidity coverage ratio

**8%**

PoS market share

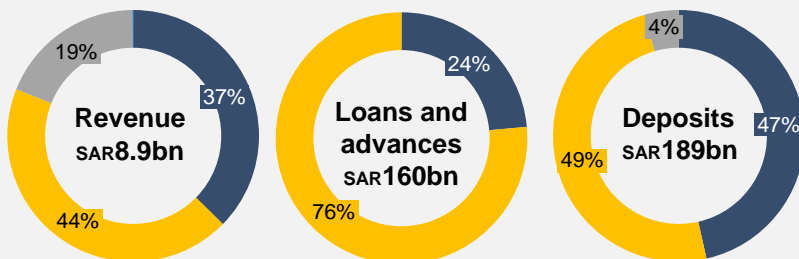
**10%**

FX market share

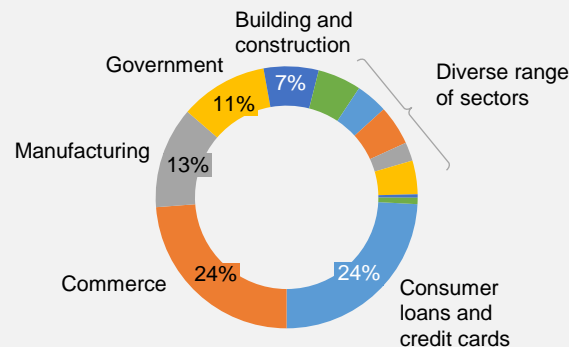


## 2020 key financials by business

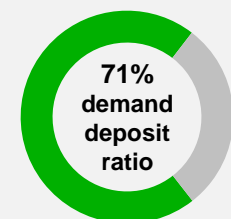
■ Retail ■ Corporate and Institutional Banking ■ Treasury



## Diverse lending portfolio



## Solid deposit base





# Strategy 2025 objectives

## VISION We bring a world of financial opportunity to an ambitious Kingdom



Best in class universal banking serving all customer groups in the Kingdom



Be the leading international bank in the Kingdom, accessing an unrivalled global network through HSBC



Offer a leading online and mobile digital banking experience



The best place to work

## OUR ACTIONS TO OUTGROW THE MARKET



### Build on our core strengths

1. Bank of choice for Large Corporates
2. Reinforce leadership in Trade and Payments
3. Maintain leadership in Wealth
4. Reinforce our position in Cards



### Maximise our participation in key growth areas

1. Fast growing Mid-Corporate business
2. Digital SME focus
3. Mortgage expansion



### Transform the organisation

1. Lead in digital innovation and evolve the IT architecture
2. Transforming HR and developing the right talent
3. Revamp operating model through improved data management, automation and digitisation

## 2025 TARGETS

### 1 Top 3 bank for Loans

Current expectation: Mid-single digit loan growth per year

### 2 Top 3 bank for Revenue

Current expectation: Mid to high single digit revenue growth per year

### 3 Top 3 bank for cost efficiency

Current expectation: <32% CER

### 4 Top 3 bank for capital

Current expectation: 18 to 19% CET1 ratio

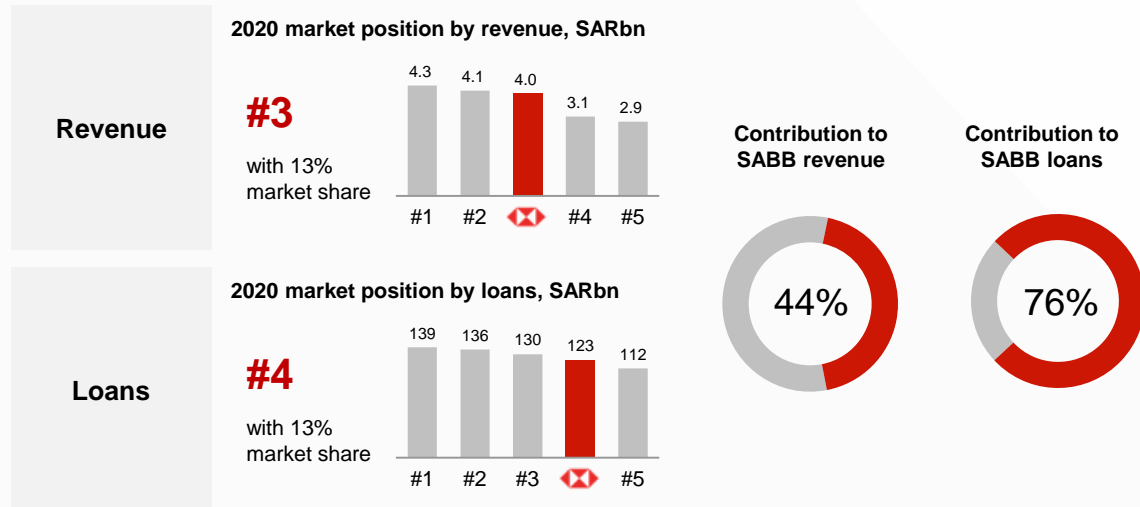
### 5 Top 3 bank for RoTE

Current expectation: >13% RoTE

# Corporate and Institutional Banking strategy

We aim to be the #2 CIB bank in the Kingdom by 2025 by outgrowing the market, and we aim to maintain our position as the leading international bank in the Kingdom

## The current corporate landscape



## OUR AIMs by 2025

We aim to outgrow the market and increase market share

**#2** CIB bank in the Kingdom by revenues in 2025

**#2** CIB bank in the Kingdom by assets in 2025

## We will achieve this through our focus on



- **Bank of choice** for Large and Multinational Corporates, and Financial Institutions
- **be the leading partner for Vision 2030** priority sectors & giga-projects
- drive deeper wallet share using our strengths in trade finance and payments



- **Market leader in cash management and trade finance** services, offering best-in-class digital propositions



- **Leveraging our unique partnership with HSBC** through greater collaboration



- **Fast growing Mid-Corporate business** in the kingdom, prioritizing the supply chain of SABB's Large Corporate client groups



- **'Digital First' SME proposition**, with a comprehensive offering and significant growth in the Kafalah financing guarantee program

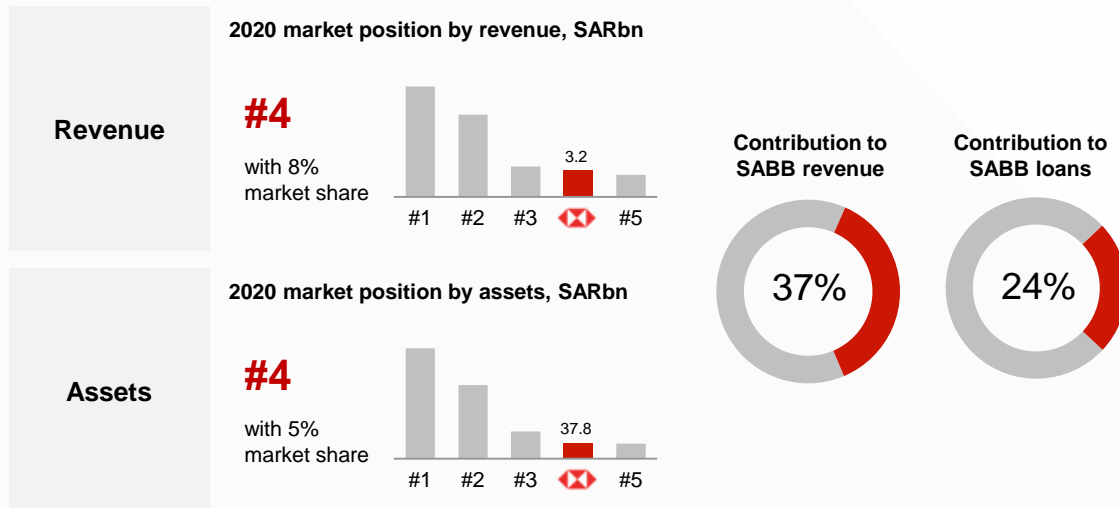


- **Digital innovation leader in KSA**, across all key services and segments: Trade Finance, Cash Management, Payments, MSME

# Retail Banking and Wealth Management strategy

We aim to grow our retail business by building on our strengths in Wealth and cards, and increasing our participation in mortgage lending; all supported by digital innovation and best-in-class customer experience

## The current retail landscape



## OUR AIM

We aim to outgrow the market and increase market share

**#3** retail bank in the Kingdom by revenues in 2025

**#4** retail bank in the Kingdom by assets in 2025

## We will achieve this through our focus on



- **Leading bank for Wealth:** through a personalized offering, reliable investment platform, wealth advisory and dependable digital capabilities



- **Increasing our mortgage business** through further expansion into the REDF programme and supporting V2030 home ownership targets



- **Reinforcing our position in Cards** through digital end-to-end journeys and servicing platform
- **Best in class loyalty programme** empowered by strong data analytics and insights.



- **Digital innovation leader** with a 'bank in a pocket' offering
- **Resilient against fintech** threats through developing seamless digital journeys and innovative models



# Environmental, Social and Governance

ESG will be part of SABB's identity and will form an integral part of our strategy

**Our ambition: Set the leading standards for ESG in the KSA banking sector, leveraging our partnership with HSBC**

## Environmental



**Launch sustainable financing solutions** in the corporate and retail space



**Actively pursue significant reductions** in waste, water usage, paper and others

## Social



**Contribute to the community and improve quality of life** for citizens and residents



**Enhance safety of work environment** for SABB staff and indirect (supply chain) workers



**Ensure trustworthy management** and use of customers' and other stakeholder data

## Governance



**Deploy best practices in governance**, with high transparency and robust risk management



**Attract and develop best talents in KSA**



**Increase gender diversity** in SABB leadership and workforce

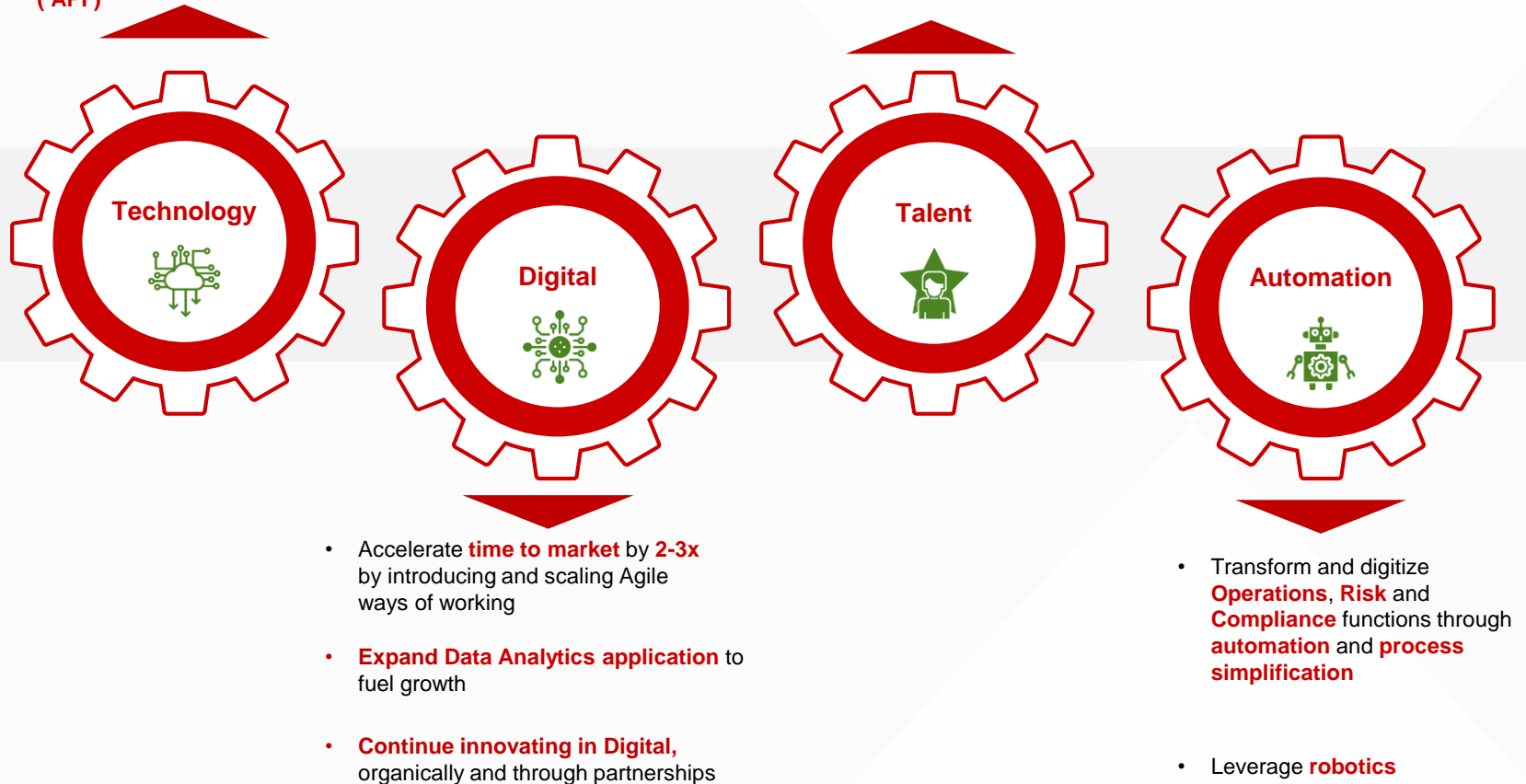
# Enablers

Key enablers to be in place to support SABB's growth ambition; Digital, Technology, Talent and Automation will be at the heart of our strategy

- **Double** our **capex** for transformation over the next 5 years
- **Rebuild** our **IT architecture** and enable fast, efficient integration of external solutions through **micro-services** and **Application Programming Interfaces ('API')**

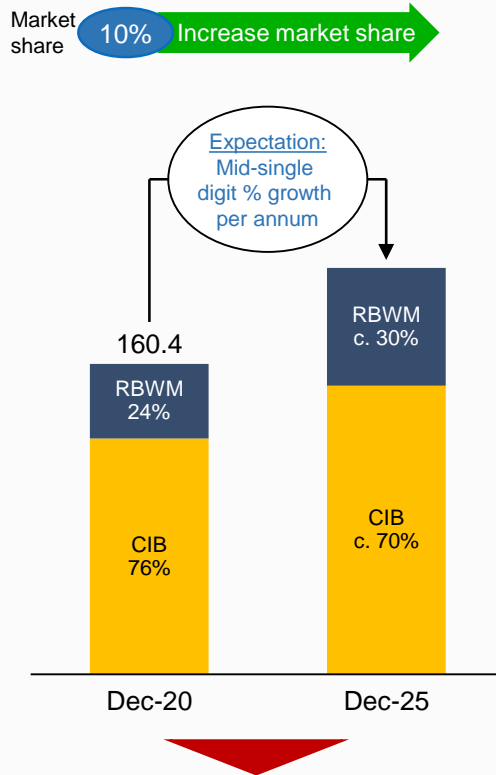
- Revamp our HR and **change the mix of our workforce** by bringing in **new capabilities in IT, Digital, Business**
- **Retain key talent** by upgrading career path and incentive programs

Key  
Enablers



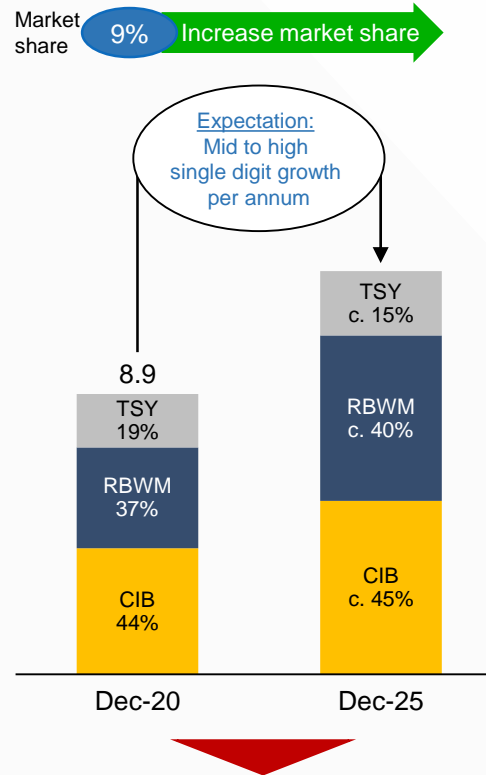
# Our Balance sheet will outperform the market

## Gross Loans



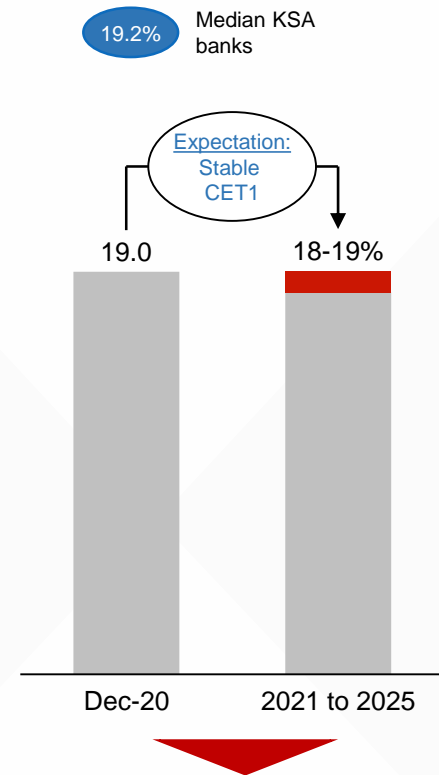
**1 Top 3 bank for Loans**

## Revenue



**2 Top 3 bank for Revenue**

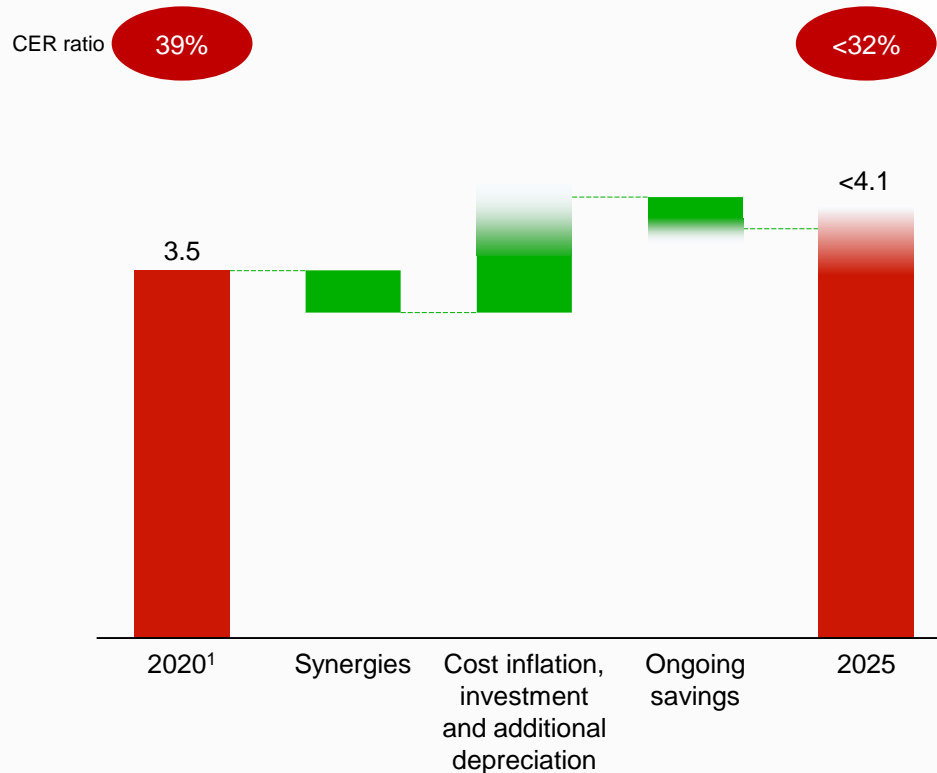
## Capital



**3 Top 3 bank for capital**

## Cost efficiency

Operating costs will increase over the plan from inflation, additional depreciation and investment, but partly offset by further cost optimisation; aim to reduce CER to below 32%



### Synergies

- We will continue to achieve merger synergies during 2021 and expect a full years' benefit in 2022

### Investment

- We plan to invest in talent and technology throughout the plan horizon
  - Increased customer-facing resources and IT/Digital resources
  - Significant capital expenditure to support delivery of our IT operating model

### Savings

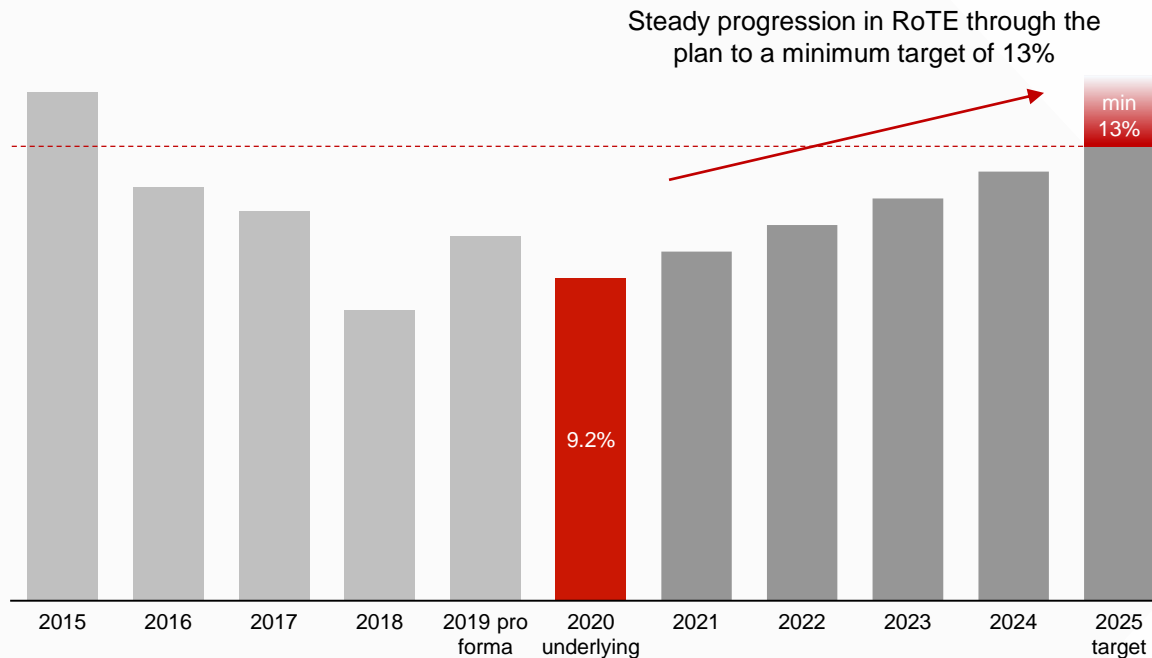
- To finance investments, we will implement a structural cost review program and deliver savings through automation, digitization and streamlining

1. Excludes SAR0.5bn of merger-related costs and SAR0.2bn of one-off items



# Targets

RoE / RoTE progression<sup>1</sup>



## 2025 TARGETS

### 1 Top 3 bank for Loans

Current expectation: Mid-single digit loan growth per year

### 2 Top 3 bank for Revenue

Current expectation: Mid to high single digit revenue growth per year

### 3 Top 3 bank for cost efficiency

Current expectation: <32% CER

### 4 Top 3 bank for capital

Current expectation: 18 to 19% CET1 ratio

### 5 Top 3 bank for RoTE

Current expectation: >13% RoTE

1. 2015 to 2018 shows SABB reported RoE based on restated Net income after Zakat and income tax; 2019 onwards shows RoTE

# Our investment case

## SIX REASONS TO INVEST IN SABB

1. **We are the leading international bank in the Kingdom** thanks to our partnership with HSBC Group
2. **We have increased scale and a diversified business mix**, reinforced by the merger with Alawwal Bank, ready to support the Vision 2030 aspirations
3. **We have strong financial fundamentals**, from a strong balance sheet, robust funding and liquidity dynamics, and a solid capital position
4. **We have a sustainable business model** and respected ESG fundamentals
5. **We are safe and dependable**, with robust governance and a prudent risk management record
6. **We have an energetic senior leadership team, a trusted and experienced Board**, and a diverse workforce and talent pool



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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.