Chief Financial Officer's review

Following a challenging year in 2020, SABB has delivered a robust set of financials for 2021 with a return to profit and strong progress across a number of financial indicators. Gross customer lending grew 9% and asset quality continued to make its steady improvement. We extracted further synergies having now achieved SAR 0.7 bln of annualised synergies ahead of original expectations. Progress has been solid, and we are optimistic that we can build on these foundations.

We reported net income before Zakat and income tax of SAR 3.9 bln in 2021 which compared with a loss in 2020 of SAR 4.3 bln. We generated SAR 7.9 bln of revenue during the year of which SAR 5.7 bln was net special commission income, and we incurred SAR 3.7 bln of expenses. We completed our integration in the first half of the year, and with this came some additional integration related expenses of SAR 0.1 bln in the year, however the cumulative investment made via integration expenses of SAR 1.1 bln has been to generate over SAR 0.7 bln of annualised synergies – it is pleasing to have delivered cost synergies and savings at the upper end of our guidance having delivered c. 20% of the combined SABB and Alawwal 2017 cost base.

Excluding merger-related costs in 2021 and 2020, together with the goodwill impairment in 2020, in order to give a more comparable view of performance, underlying net income before Zakat and income tax of SAR 4.0 bln was SAR 0.4 bln higher than 2020 mainly from lower expected credit losses and costs, partly offset by lower revenue.

Revenue fell compared with 2020, due to the effect of the lower benchmark interest rates that occurred at the start of 2020 and the increasing competitive environment in the sector. With our corporate focused loan book, that is largely on a floating rate, we are generally sensitive to movements in benchmark rates, resulting in lower net special commission income during 2021. Non-funds income performed with resilience and was 10% higher compared with 2020 from increased trading and exchange income from improving customer flows, together with disposals from our investments portfolio. Net fee income fell 7% although this was in part driven by a remapping of certain revenue-related expenses. Trade fee income remained

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resilient throughout the year which drives approximately half of our fee income.

Costs excluding integration-related expenses were SAR 0.1 bln lower compared with 2020 continuing the strong trajectory from the last few years. We incurred SAR 0.1 bln of integration expenses during 2021 and some of this occurred post Customer Day 1 as we continued to drill into our cost base seeking further opportunities for rationalisation. We are firmly into our investment cycle in order to deliver on our strategy, and with this also comes tighter control of our cost base as we approve business cases and monitor the productivity of our investments.

Expected credit losses of SAR 0.5 bln were SAR 1.2 bln lower than 2020. The 2021 charge represents a cost of risk of 27 bps which is at the lower end of our through-the-cycle guidance, and reflects the early action taken following the merger and also our conservative approach to risk. Asset quality metrics continued their improvement throughout 2021 in line with our expectations, with an NPL ratio on SABB originated loans of 2.4% and a total NPL ratio including purchased or originated credit impaired loans of 4.6%.

Our balance sheet remains healthy, with gross lending balances of SAR 174.3 bln and deposit balances of SAR 186.8 bln at the end of the year. Loan growth has accelerated in 2021 with 9% growth in the year with progress made across both corporate and retail portfolios. Participation in the Kingdom's landmark giga-projects and a swift increase in mortgage originations was welcome, and we remain optimistic on growth into 2022 with a healthy pipeline.

We ended the year with a strong capital position reporting a common equity tier 1 ratio of 19.29% and a total capital ratio of 21.84%. The Bank has a stable and low cost funding base, with 82% of our deposit base in the form of demand deposits.

Looking back on the year, it is great to see the return to consistent loan growth, revenue stabilisation and a return to profitability, a marked improvement in asset quality metrics, and exceeding our delivery of cost synergies. Clearly the low rate environment has had its impact on our revenue, but the current consensus on global benchmark interest rate expectations for 2022 should hopefully start the process of normalisation in both rates and our revenue base. A resilient set of financials and a more positive outlook means we are very optimistic for the future.

Mrs. Lama Ghazzaoui
Chief Financial Officer