

# Saudi British Bank 4Q20 Results

Presentation to investors and analysts

SABB  ساب



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# Key messages

1

Integration is on schedule with synergy realisation on track

2

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 and the safety of our customers and staff

3

A resilient end to the year but bottom line financial performance was disappointing with a full year net loss before Zakat and income tax of SAR4,302 million, which included the impairment of goodwill in the second quarter of SAR7,418 million

4

Underlying full year net income before Zakat and income tax of SAR3,835 million was 13% lower than 2019 (on a pro forma basis) from lower revenue reflecting the cuts to benchmark interest rates partly offset by lower expected credit losses and reduced costs

5

SABB closed the reporting period with robust levels of capital, liquidity and a strong funding base. CET1 ratio of 18.96%, a loan to deposit ratio of 81.0%<sup>1</sup>, over SAR83 billion of high quality liquid assets and a strong demand deposit ratio of 71%



1. Loan to deposit ratio is calculated as Net loans divided by Customer deposits

# 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.

## Our 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%**

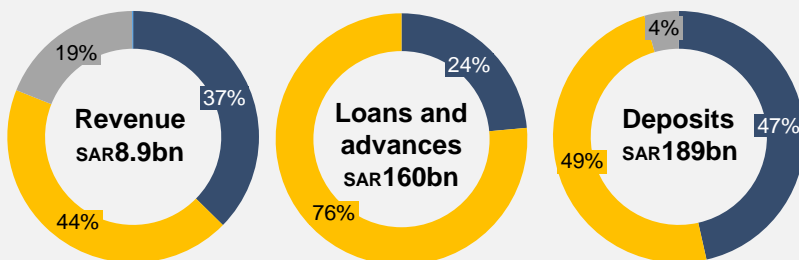
PoS market share

**10%**

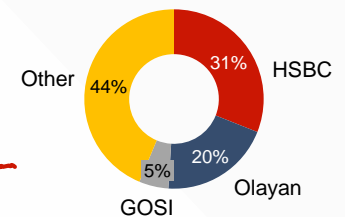
FX market share

## 2020 key financials by business

■ Retail ■ Corporate and Institutional Banking ■ Treasury



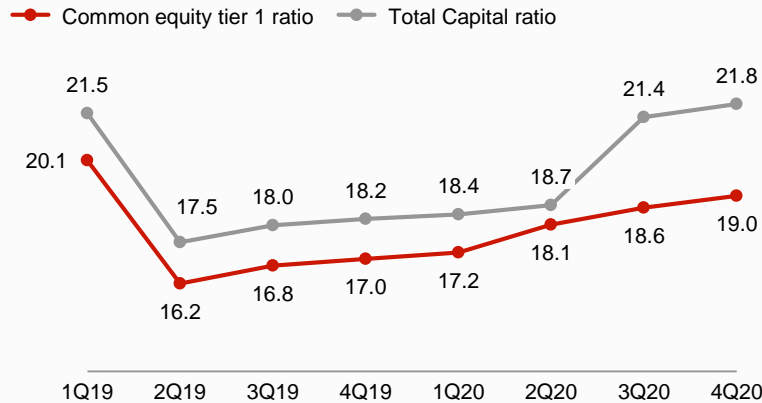
## 2020 share price performance and shareholder base as at 31 December 2020



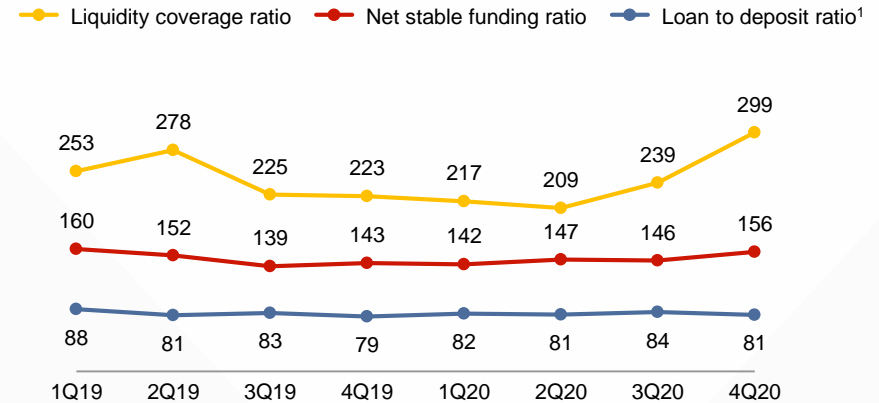
Source: Tadawul

# Capital and liquidity

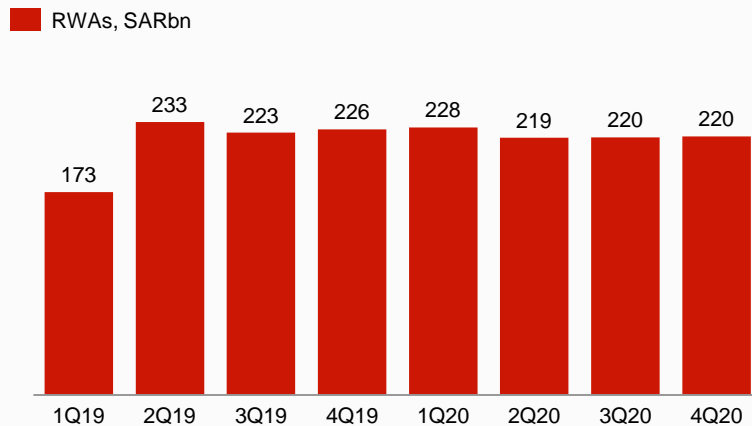
## Capital ratios, %



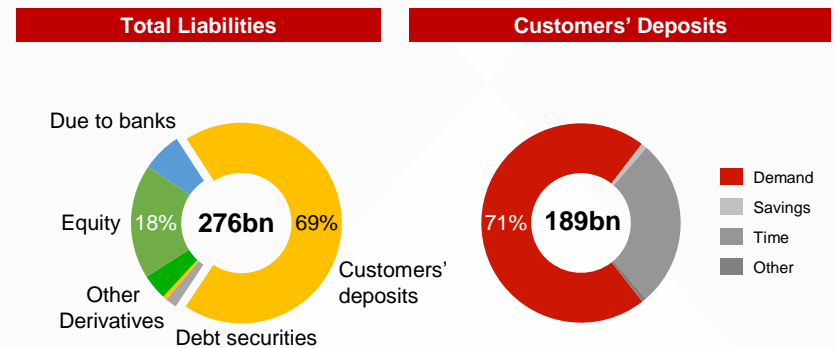
## Liquidity and funding ratios, %



## Risk-weighted assets



## Funding metrics, SARbn



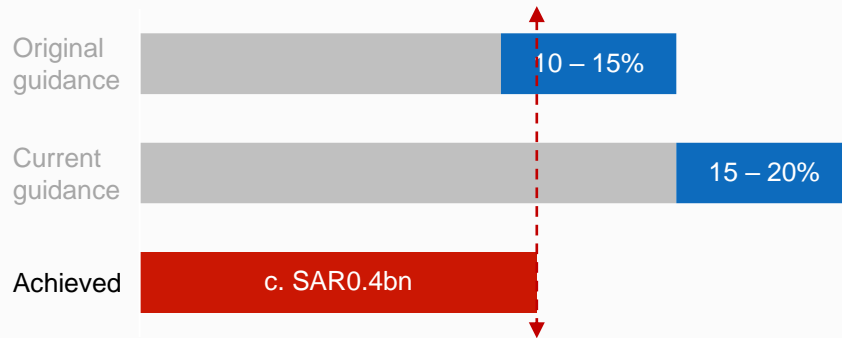
1. Loan to deposit ratio is calculated as Net loans divided by Customer deposits

# Synergy realisation and integration spend

Achieved c. SAR0.6bn of annualised synergies to date with integration spend on track

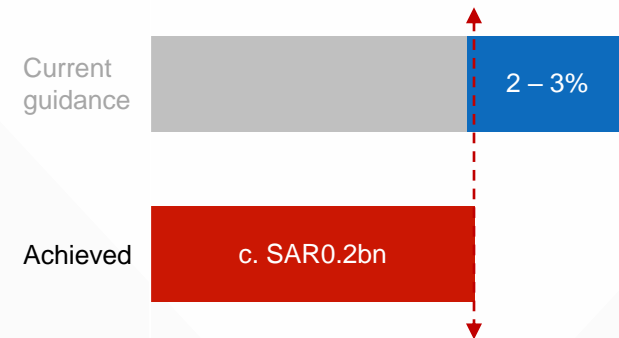
## Cost synergies guidance and 2020 achievement

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

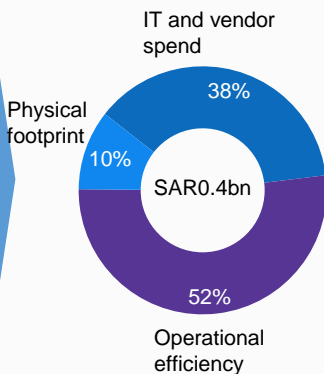


## Revenue and funding synergies guidance

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

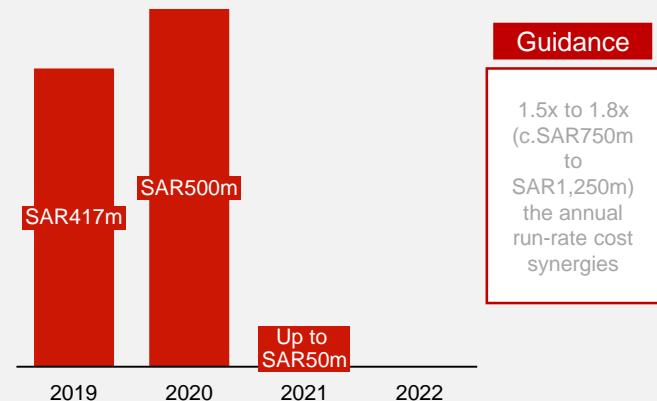


2020 cost synergy breakdown



- SAR0.4bn 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



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3. Appendix

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# Financial Summary

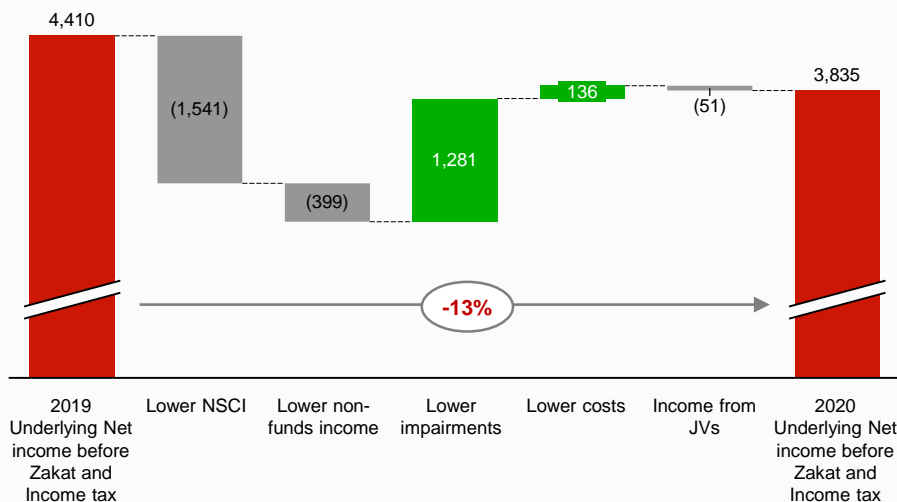
## Highlights

- 2020 underlying net income down 13% YoY mainly from lower revenue reflecting the cuts to benchmark interest rates, partly offset by lower impairments
- 2020 expected credit losses (ECL) lower than 2019 with FY CoR of 102bps; lower ECL credit losses in the second half due to recoveries
- Strong management of costs; fourth quarter costs increased due to integration costs that are temporary
- Robust capital position

## Key ratios and Income statement

%	2020	Δ 2019 pro forma	4Q20	Δ 4Q19
Net special commission margin ('NIM')	2.5	(0.6)	2.2	(0.7)
Underlying <sup>1</sup> Return on Tangible Equity	9.2	(1.2)	10.7	0.8
Underlying <sup>1</sup> Cost Efficiency Ratio ('CER')	39.4	(5.8)	42.3	(5.2)
Cost of risk ('CoR')	1.02	0.74	0.08	1.54
Common Equity Tier 1 ratio ('CET 1')	18.96	1.96	18.96	1.96

## Underlying net income walk, 2020 vs. 2019 pro forma



## SAR million

Total operating income ('Revenue')	8,878	(18)%	2,050	(20)%
Operating expenses	(4,213)	2%	(1,241)	(2)%
Provision for expected credit losses, net	(1,631)	44%	(32)	95%
Goodwill impairment	(7,418)	-	-	-
Share in earnings of associates and a JV	82	(38)%	24	(37)%
Net (loss) / profit before Zakat and income tax	(4,302)	>(100)%	801	7%
<b>Underlying Net income</b>	<b>3,835</b>	<b>(13)%</b>	<b>1,175</b>	<b>16%</b>
Zakat and income tax	134	>100%	(121)	34%
<b>Net (loss) / profit after Zakat and income tax</b>	<b>(4,168)</b>	<b>&gt;(100)%</b>	<b>680</b>	<b>4%</b>

1. Underlying measure excludes i) goodwill impairment, ii) merger-related expenses and iii) non-recurring expenses

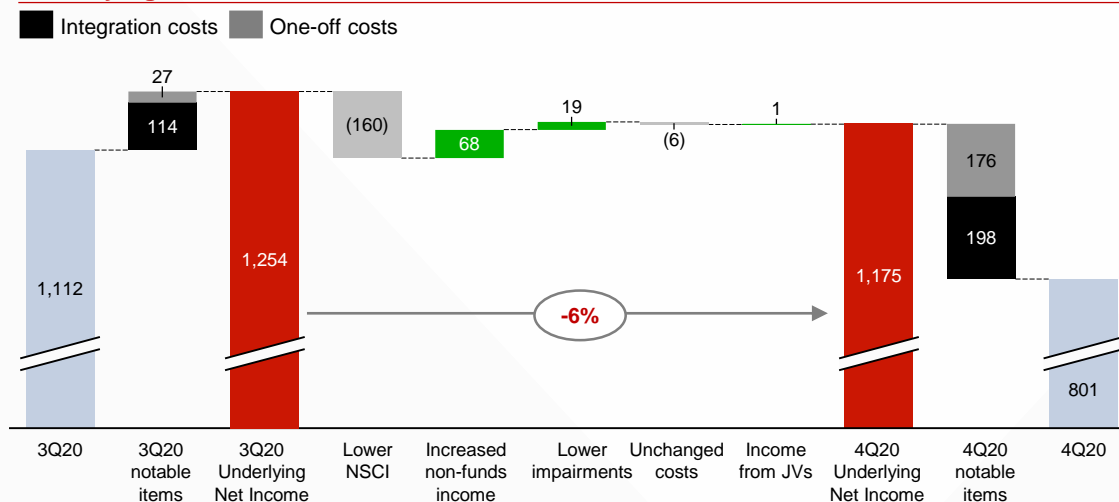


# Trailing quarter analysis

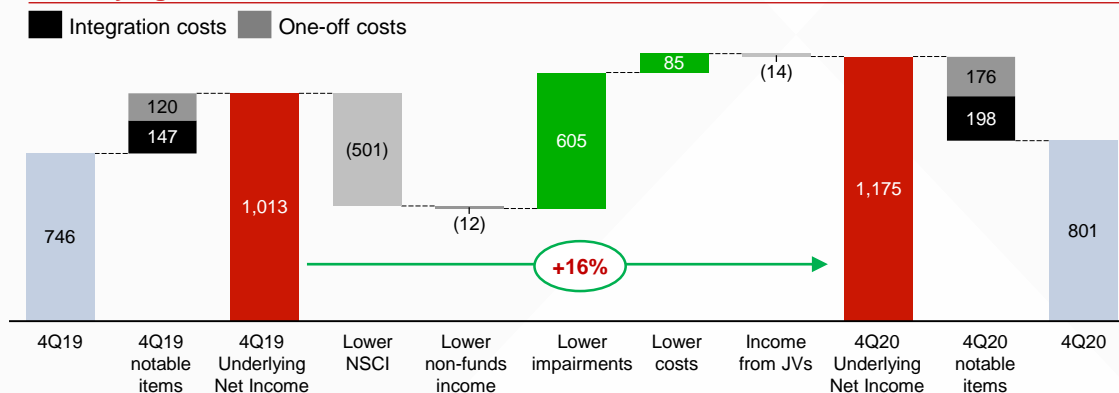
## Highlights

- 4Q20 underlying net income fell 6% compared with 3Q20 mainly from lower revenue reflecting the cuts to benchmark interest rates, together with a decrease in fee income
- 4Q20 underlying costs were broadly unchanged
- 4Q20 underlying net income increased 16% compared with 4Q19 mainly from lower ECL and reduced costs partly offset by a fall in revenue reflecting the cuts to benchmark interest rates
- 4Q20 underlying costs were SAR85 million lower demonstrating strong cost management
- 4Q20 ECL were SAR605 million lower

## Underlying net income walk, 4Q20 vs. 3Q20



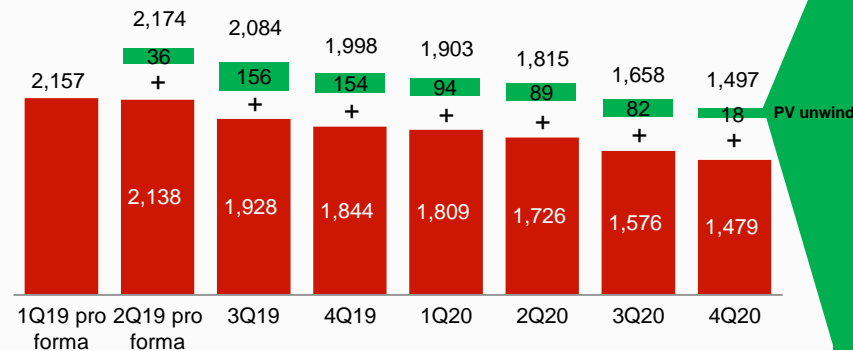
## Underlying net income walk, 4Q20 vs. 4Q19



## NIM analysis

4Q20 QTD NIM reduced to 2.2% reflecting the continued re-pricing following the reductions in benchmark interest rates earlier in the year

### Net special commission income, SARm

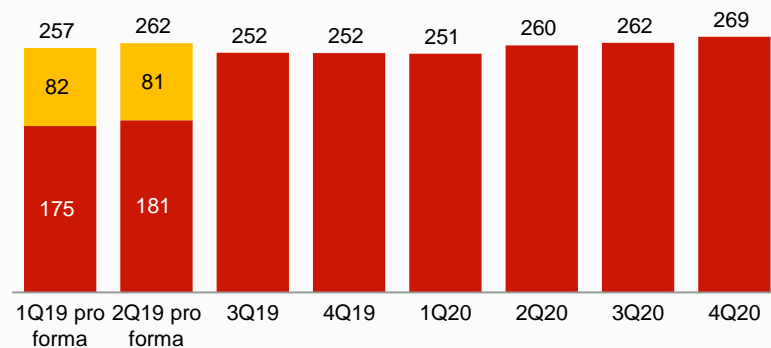


#### Unwind of the fair value adjustment – SAR284 million in 2020

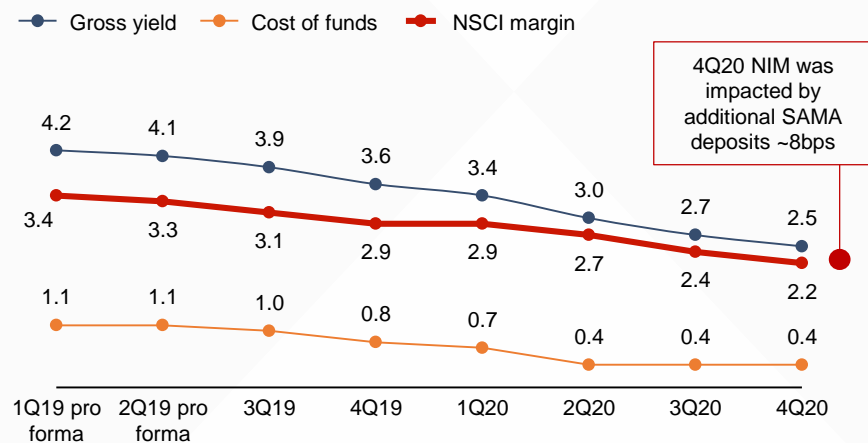
- AAB loan portfolio recognised at fair value on merger date
- The fair value is a discounted amount to the contractual amounts due of the underlying loans
- The discount applied will be unwound over time to the contractual maturity date of the loans
- The unwind will be recognised in NSCI using the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

■ AAB ■ SABB



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



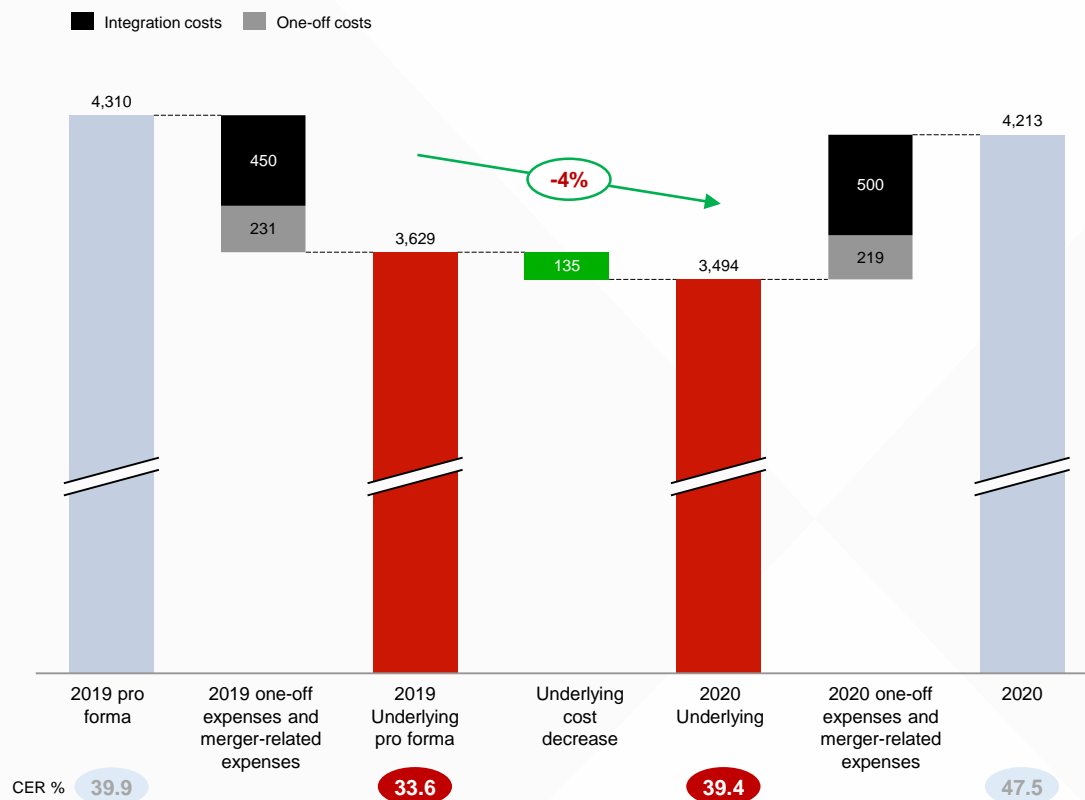
# Operating expenses: 2020 vs. 2019

Costs have continued their downward trajectory as we start to gather momentum with synergy realisation

## Highlights

- Underlying costs in 2020 of SAR3,494 million fell 4% compared with 2019
- Strong cost management and discipline has led to a reduction in expenses year on year and continues the trajectory since the legal merger
- Synergy realisation gathers pace with c. SAR0.4billion of annualised cost synergies achieved by the end of 2020
- Underlying cost efficiency ratio of 39.4% has increased reflective of the challenging revenue environment

## 2020 vs. 2019 operating expenses movement



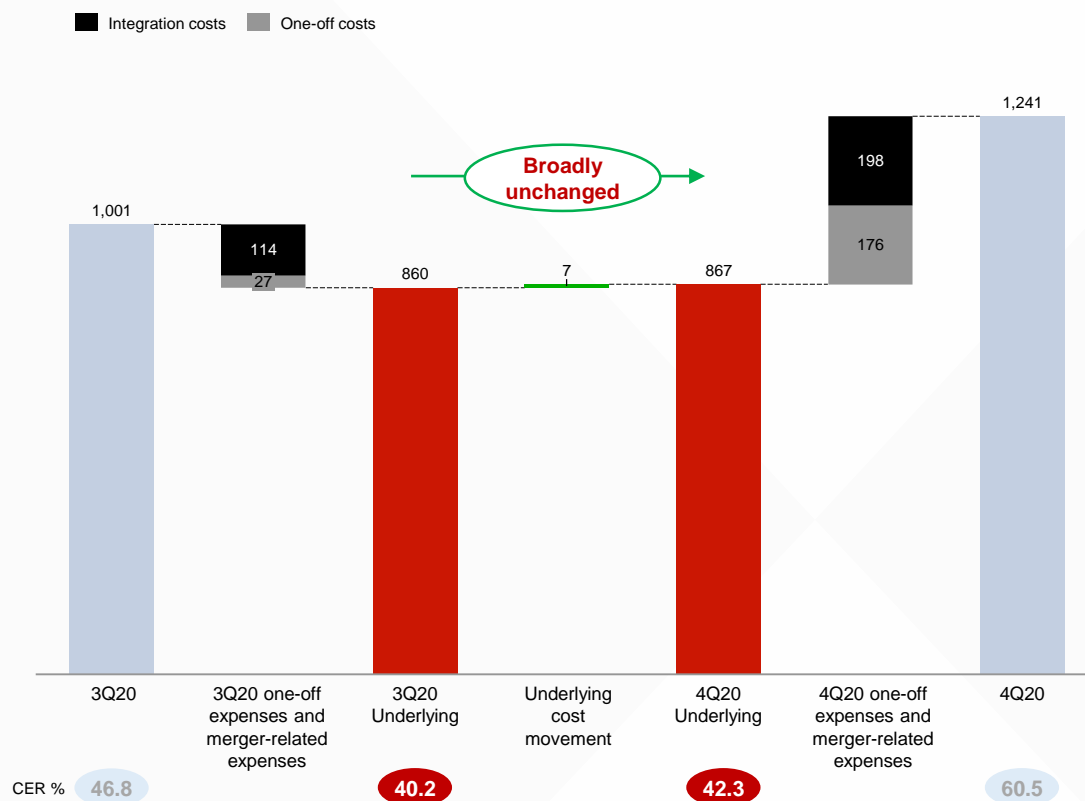
## Operating expenses: 4Q20 vs. 3Q20

Costs have continued their downward trajectory as we start to gather momentum with synergy realisation

### Highlights

- Underlying costs broadly unchanged compared with the third quarter
- SAR198m of merger-related expenditure in 4Q20 as we ramped up CIB-focused integration activities
- Underlying CER of 42.3% increased 2.1ppts. reflecting the challenging revenue environment
- One-off cost expenses in 4Q20 included SAR131m relating to the accelerated depreciation of certain assets that are now planned to be demised post CD1

### 4Q20 vs. 3Q20 operating expenses movement



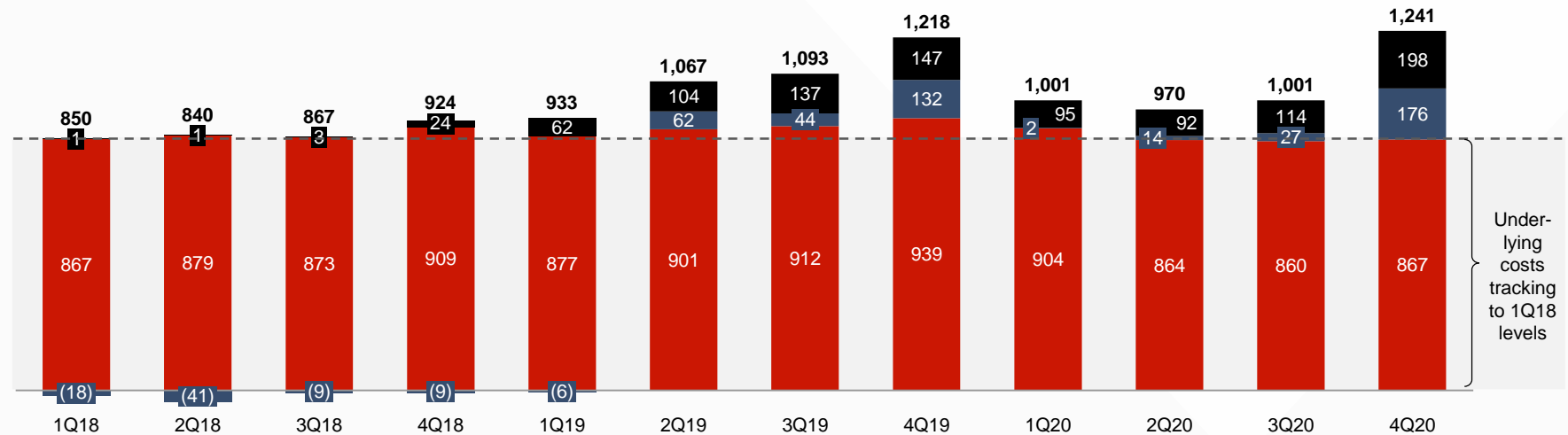


## Expenses trend

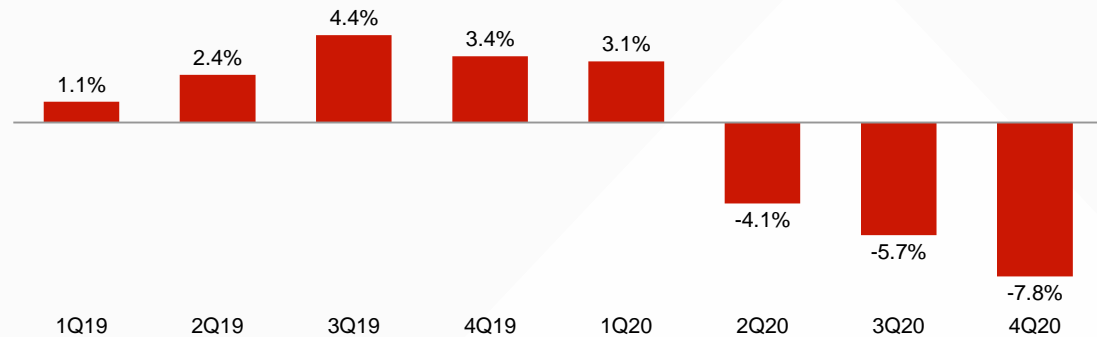
Underlying expenses for 3 consecutive quarters are now tracking below 1Q18 pro forma levels

### Pro forma operating expenses, SARm

■ Merger-related ■ One-offs ■ Underlying costs

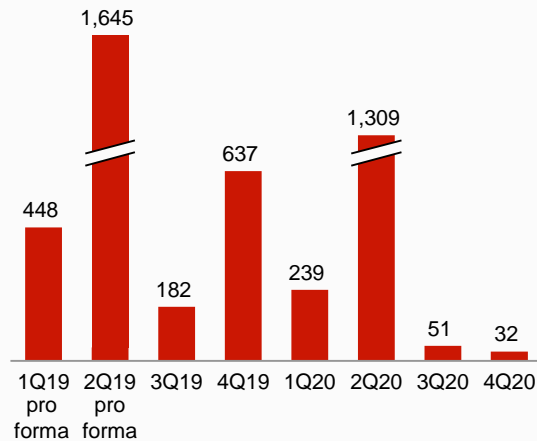


Sequential drop in YoY underlying costs

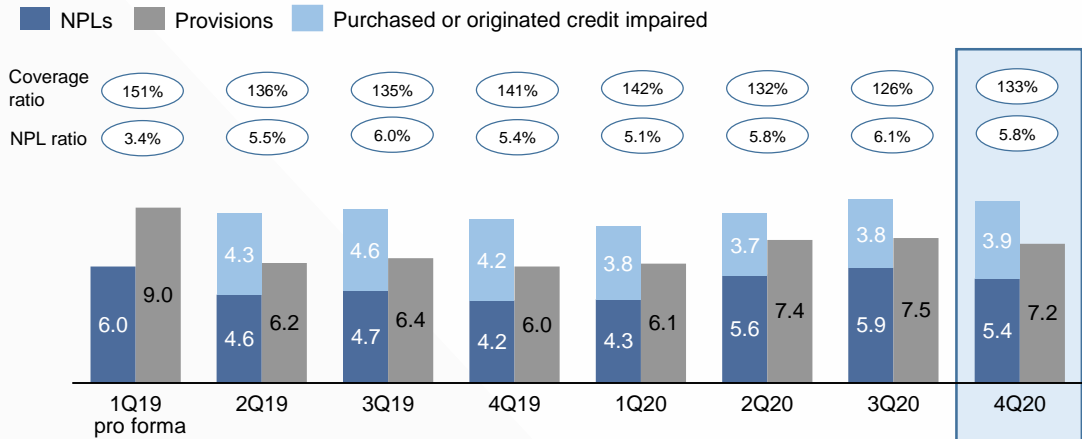


# Impairment analysis

## Quarterly ECL charge, SARm

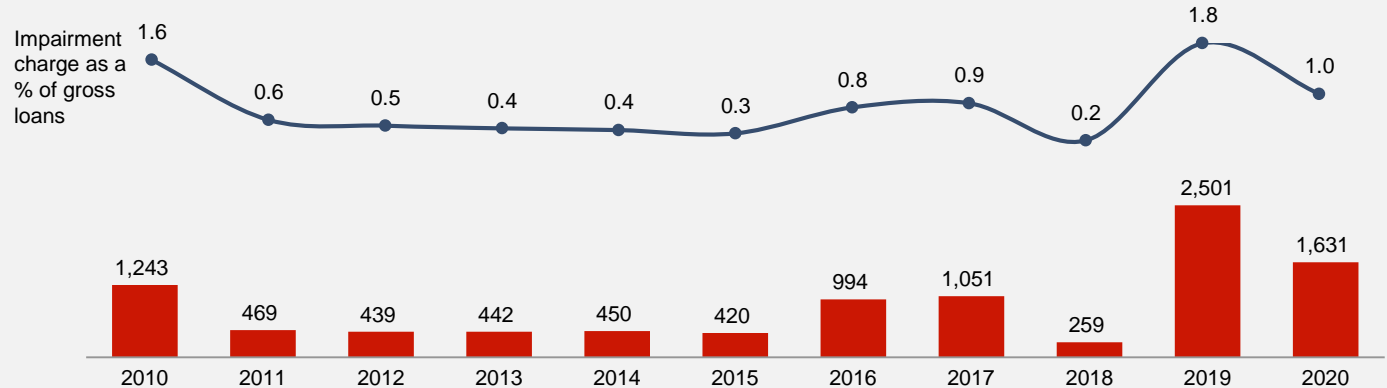


## NPLs / Provisions, SARbn



\*At 4Q20, gross customer advances included SAR6.0bn 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, %



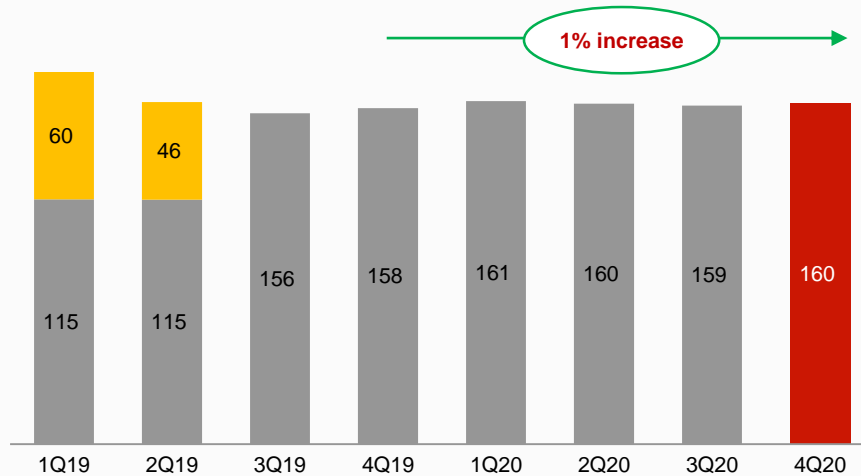
# Gross customer advances

## Highlights

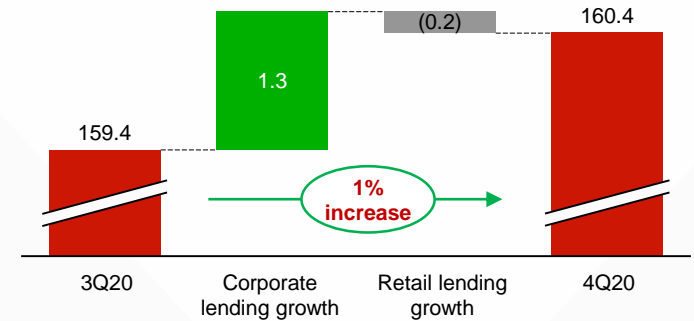
- Gross customer advances increased by 1% compared with 4Q19 and 3Q20
- Growth in the 4<sup>th</sup> quarter was mainly from term lending in the corporate portfolio

## Pro forma gross customer advances trend, SARbn

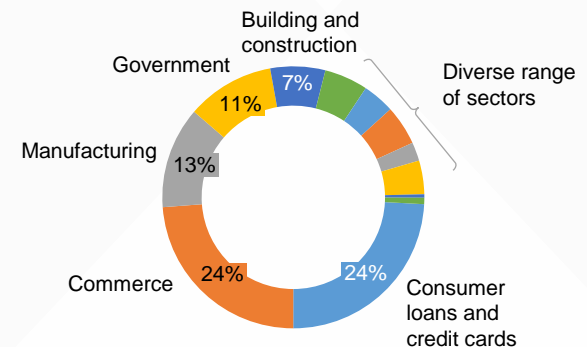
■ AAB ■ SABB



## Gross customer advances, 4Q20 vs. 3Q20



## Diverse lending portfolio

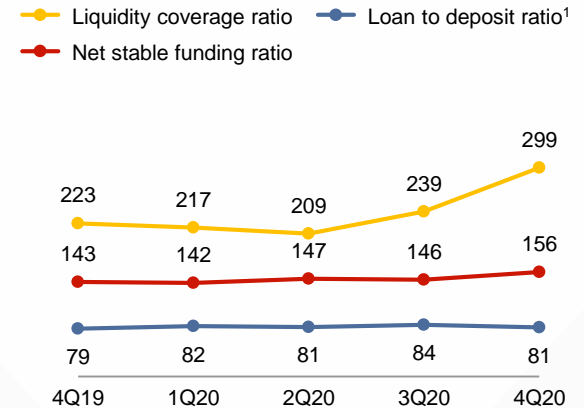


# Customer deposits, liquidity and funding

## Highlights

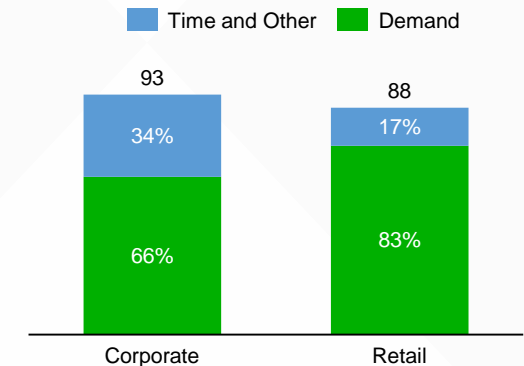
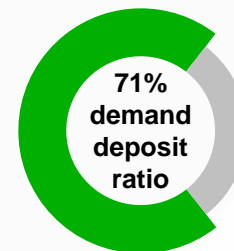
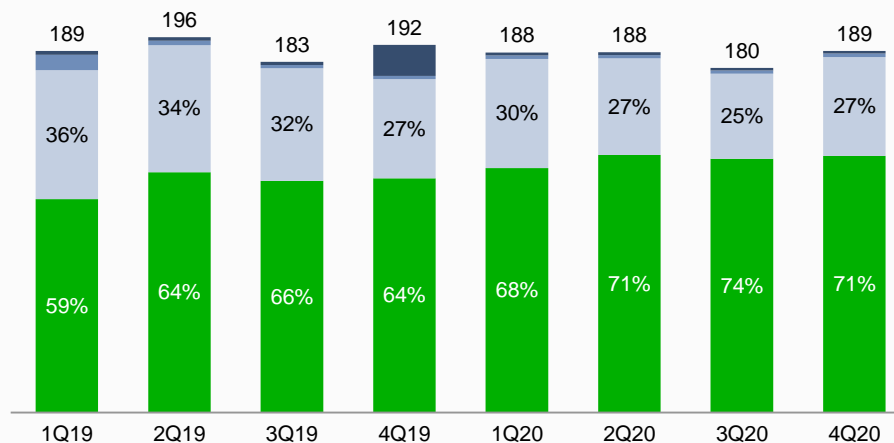
- Stable customer deposit base
- We close 2020 with SAR189bn of customer deposits with 71% demand deposit, with both CIB and Retail businesses contributing to this strong position
- We enter 2021 with robust levels of liquidity and a strong funding base
- Liquidity coverage ratio of 299%
- Loan to deposit ratio of 81%
- Net stable funding ratio of 156%

## Liquidity and funding ratios, %



## Customer deposits trend, SARbn

Other Savings Time Demand

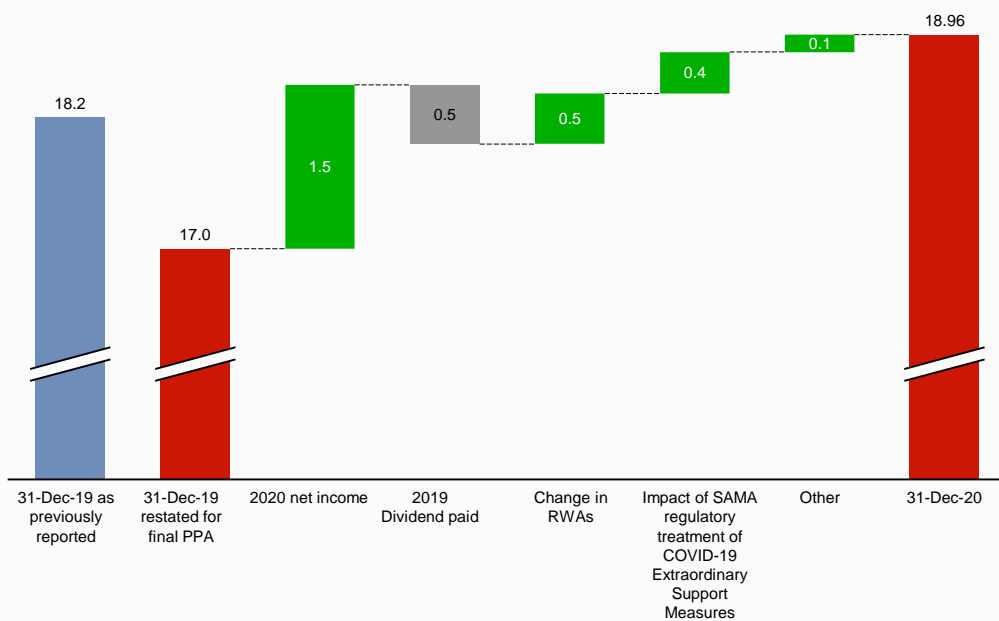


1. Loan to deposit ratio is calculated as Net loans divided by Customer deposits

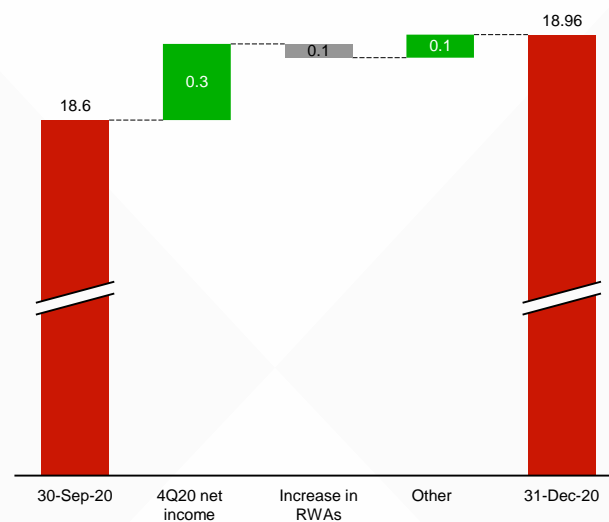


# Strong CET1 ratio of 18.96%

Core Tier 1 ratio: 31 Dec 2020 vs. 31 Dec 2019, %



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



## Closing remarks

- 1 Our Corporate and Institutional Bank is now operating as one bank. The Retail bank is on the cusp of completing its integration in the first quarter.
- 2 We are positioned for growth. Both corporate and retail businesses are gaining traction.
- 3 We possess robust levels of capital, liquidity and funding and the scale to support the national growth agenda.
- 4 The foundations are solid.

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**1. Key messages and profile**

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**2. 4Q20 SABB performance**

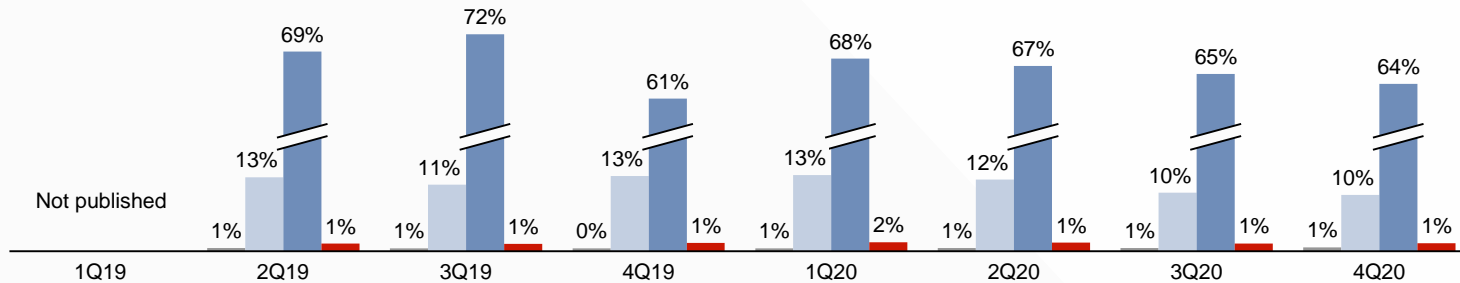
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**3. Appendix**

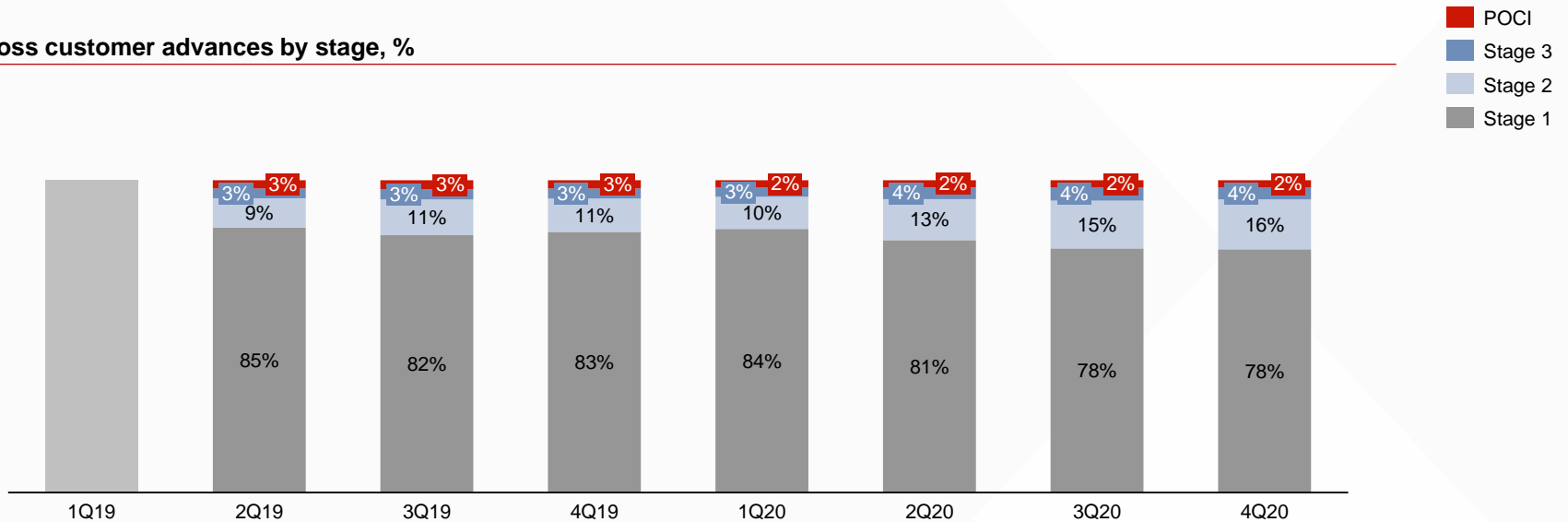
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# Gross customer advances and provisions by stage

Coverage by stage, %



Gross customer advances by stage, %





# Goodwill impairment

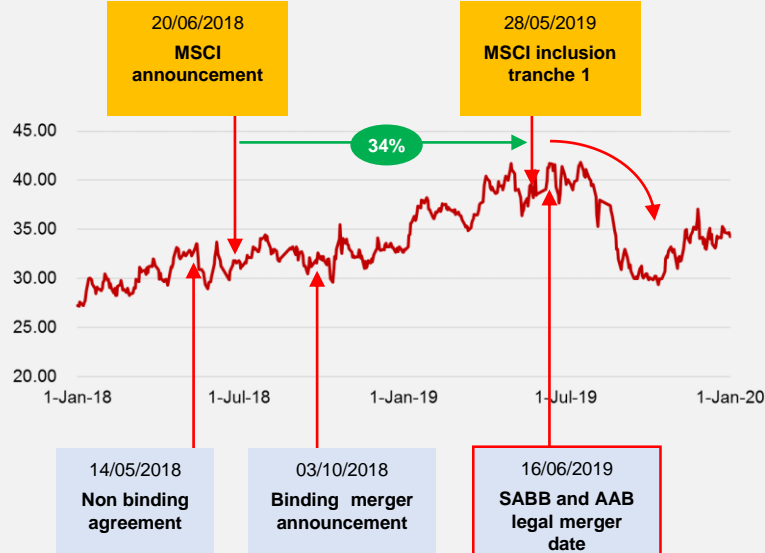
We recorded a goodwill impairment of SAR7,418 million relating to the goodwill created following the merger with Alawwal bank.

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

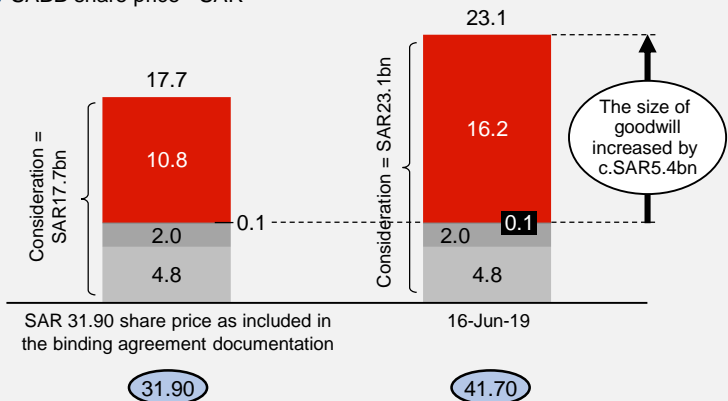
- Non-cash item and expected to be a one-time accounting charge
- Does not affect the Bank's Capital, liquidity or funding; or strategic strengths and competitive advantages
- Our ability to lend to and support our customers, our products and services and our focus on our people all remain entirely unaffected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

## SABB share price during 2018 and 2019



## Share price is the main driver of the size of recorded goodwill

- Goodwill - SAR bn
- Retirement of AAB treasury shares - SAR bn
- Other intangibles - SAR bn
- Net asset value - SAR bn
- SABB share price - SAR



# 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:

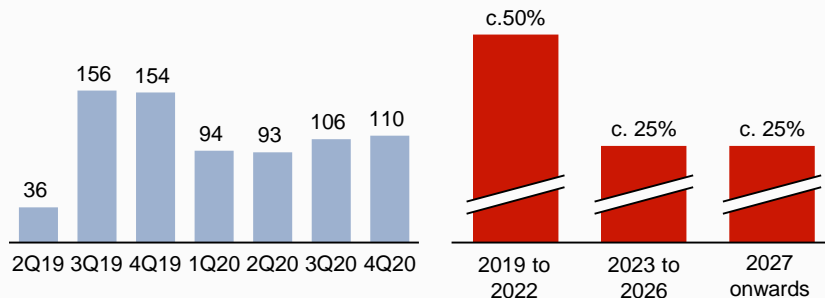
- Final fair value of Alawwal net assets of SAR4.8bn
- a commensurate recognition of goodwill of SAR16.2bn before goodwill impairment

## 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

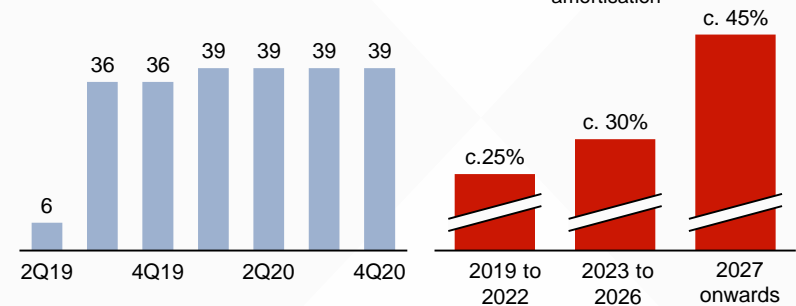


- The PV unwind represents the discount between the fair value of the AAB loan portfolio vs. the contractual amounts.
- The discount applied will be unwound over time to the contractual maturity date of the loans
- Expect this to be SAR2.3bn across the life of the loans

## 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 4Q20, we had recorded SAR1.9bn of intangibles relating to AAB

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