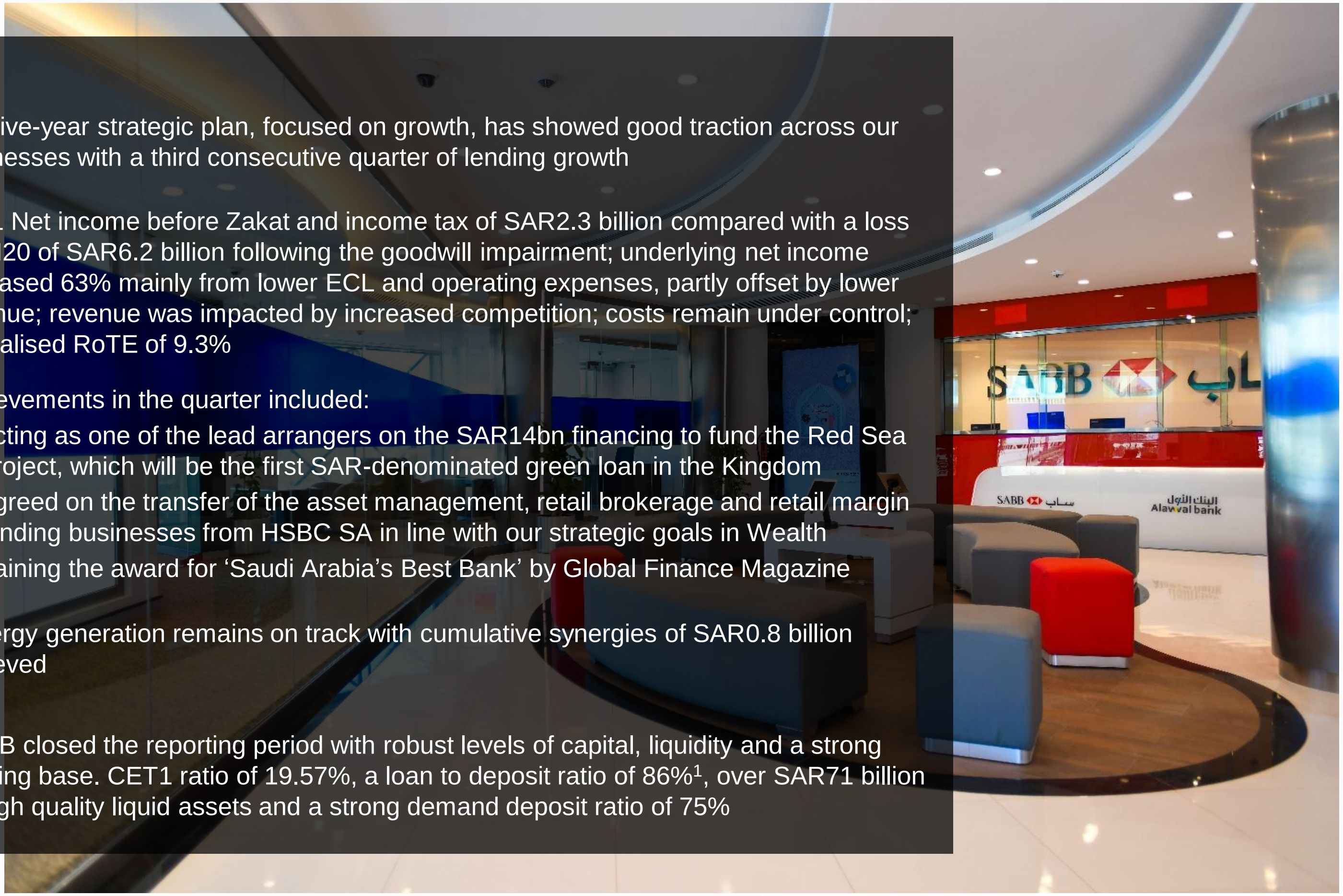
SABB ساب

# Saudi British Bank
# 2Q21 Results presentation

Presentation to investors and analysts

# Contents

# Key messages




1. Our five-year strategic plan, focused on growth, has showed good traction across our businesses with a third consecutive quarter of lending growth

2. 1H21 Net income before Zakat and income tax of SAR2.3 billion compared with a loss in 1H20 of SAR6.2 billion following the goodwill impairment; underlying net income increased 63% mainly from lower ECL and operating expenses, partly offset by lower revenue; revenue was impacted by increased competition; costs remain under control; annualised RoTE of 9.3%

3. Achievements in the quarter included:
   - acting as one of the lead arrangers on the SAR14bn financing to fund the Red Sea project, which will be the first SAR-denominated green loan in the Kingdom
   - agreed on the transfer of the asset management, retail brokerage and retail margin lending businesses from HSBC SA in line with our strategic goals in Wealth
   - gaining the award for ‘Saudi Arabia’s Best Bank’ by Global Finance Magazine

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 19.57%, a loan to deposit ratio of 86%[1], over SAR71 billion of high quality liquid assets and a strong demand deposit ratio of 75%

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

# 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. |

## SABB credentials[1]

We are the leading international bank 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 | **19.57%** CET 1 ratio |
| **210%** Liquidity coverage ratio | **7%** PoS market share | **12%** FX market share |

VOTED PRODUCT OF THE YEAR
إنتخب منتج العام
KSA 2020 SERVICE SECTOR

BEST BANK AWARD 2020 GLOBAL FINANCE

GTR Leaders in Trade MENA

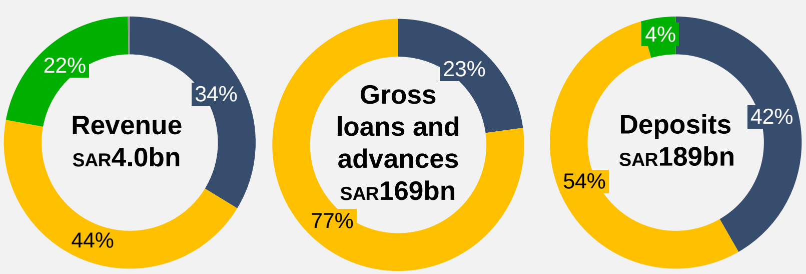
SAFEST BANK AWARD 2020 GLOBAL FINANCE

BEST TRADE FINANCE PROVIDER 2020 GLOBAL FINANCE

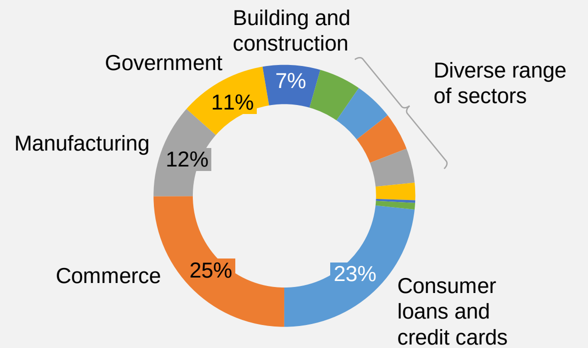
BEST DIGITAL BANK AWARD 2020 GLOBAL FINANCE

## 1H21 key financials by business

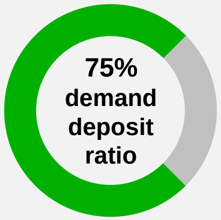
Retail | Corporate and Institutional Banking | Treasury




## Diverse lending portfolio




## Solid deposit base




1. Market share are based as at 1Q21.

# 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

# Contents

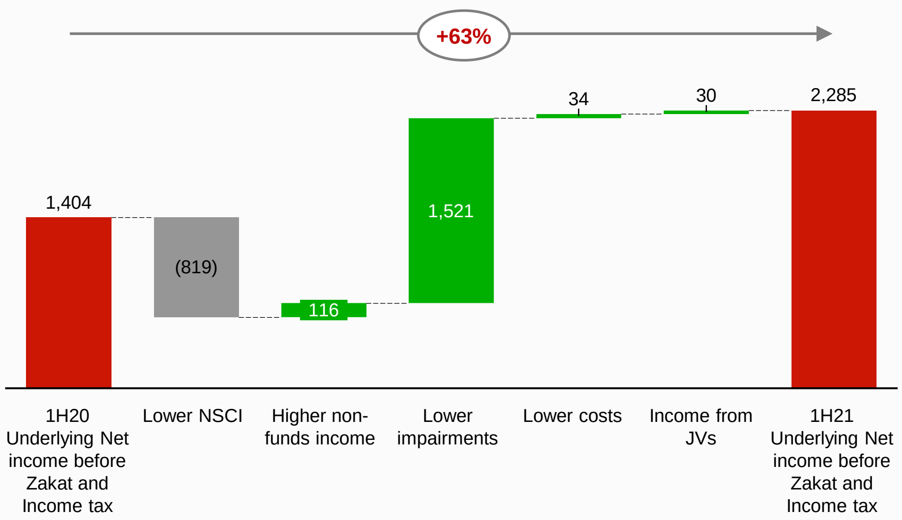
# Financial Summary

1H21 underlying net income before Zakat and income tax of SAR2.3bn up SAR1.0bn or 63%

## Highlights

- 1H21 reported net income before Zakat and income tax of SAR2.3bn
- Underlying net income up 63% driven by lower impairment charges and costs, partly offset by lower revenue
- Continued minimal cost of risk at 3bps for 2Q21
- 2Q21 NIM improves to 2.1%
- Underlying RoTE of 9.3%
- Robust capital position, with CET1 of 19.57%

## Underlying net income walk, 1H21 vs. 1H20




## Key ratios and Income statement

| % or bps | 1H21 | Δ 1H20 | 2Q21 | Δ 2Q20 |
|---|---|---|---|---|
| Net special commission margin ('NIM') | 2.1 | (0.7)ppt | 2.1 | (0.6)ppt |
| Underlying[1] Return on Tangible Equity | 9.3 | 2.5ppt | 8.7 | 6.7ppt |
| Underlying[1] Cost Efficiency Ratio ('CER') | 43.6 | (5.8)ppt | 43.6 | (6.3)ppt |
| Cost of risk ('CoR') | 3bps | 190bps | 6bps | 319bps |
| Common Equity Tier 1 ratio ('CET 1') | 19.57 | 1.5ppt | 19.57 | 1.5ppt |

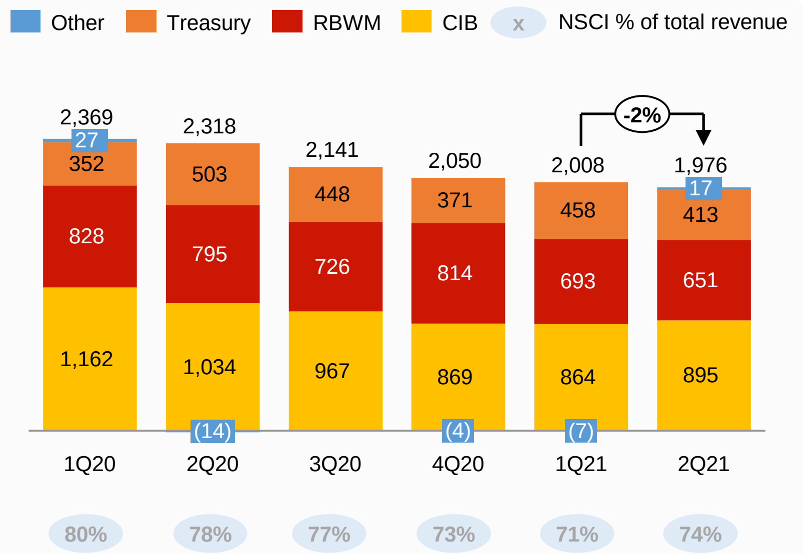
| SAR million | 1H21 | Δ 1H20 | 2Q21 | Δ 2Q20 |
|---|---|---|---|---|
| Total operating income ('Revenue') | 3,984 | (15)% | 1,976 | (15)% |
| Operating expenses | (1,750) | (11)% | (844) | (13)% |
| Provision for expected credit losses, net | (27) | (98)% | (26) | (98)% |
| Goodwill impairment | - | (100)% | - | (100)% |
| Share in earnings of associates and a JV | 64 | 86% | 25 | >100% |
| Net income before Zakat and income tax | 2,270 | >100% | 1,132 | >100% |
| Zakat and income tax | (381) | >(100)% | (213) | >(100)% |
| Net income after Zakat and income tax | 1,889 | >100% | 919 | >100% |
| **Underlying net income before Zakat and income tax** | **2,285** | **63%** | **1,113** | **>100%** |

1. Underlying measure excludes i) merger-related expenses and ii) non-recurring expenses

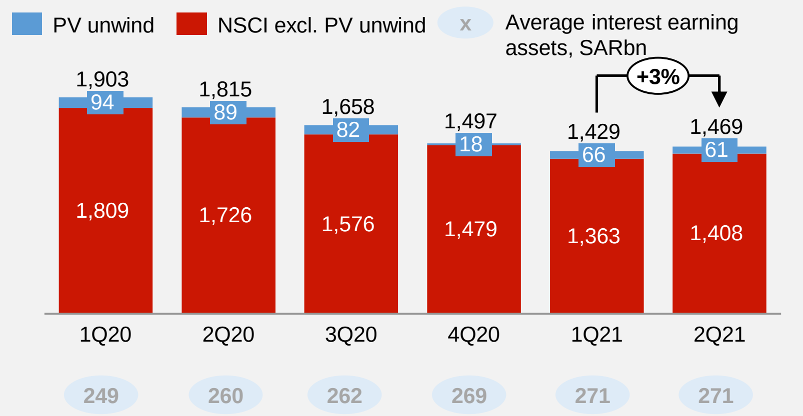
# Revenue analysis

## NIM improved to 2.1% and 3% increase in NSCI

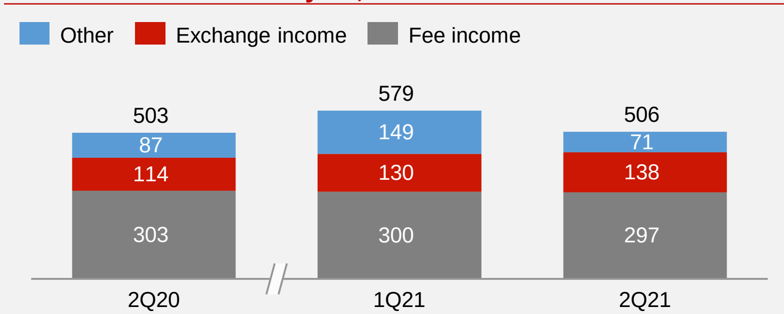
### Revenue by business, SARm



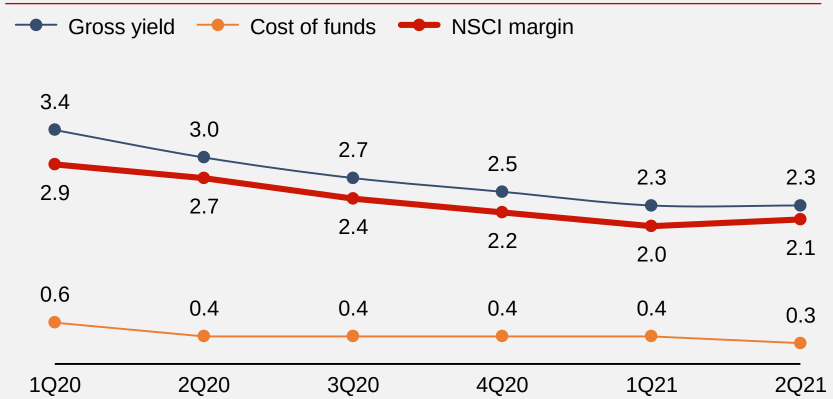

### NSCI, SARm and Average interest earning assets, SARbn




### Non-funds income analysis, %




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



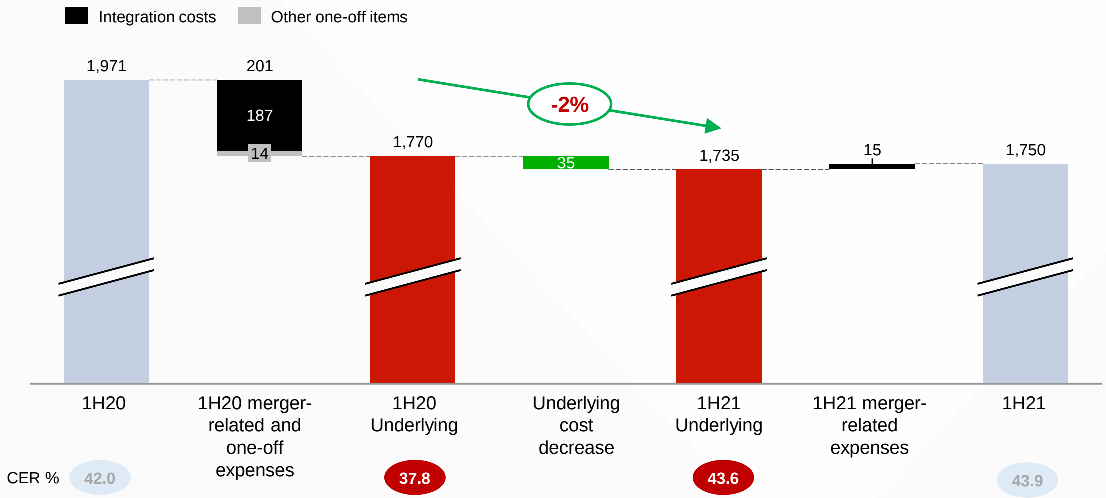
# Operating expenses

## Costs have continued their downward trajectory from robust cost management

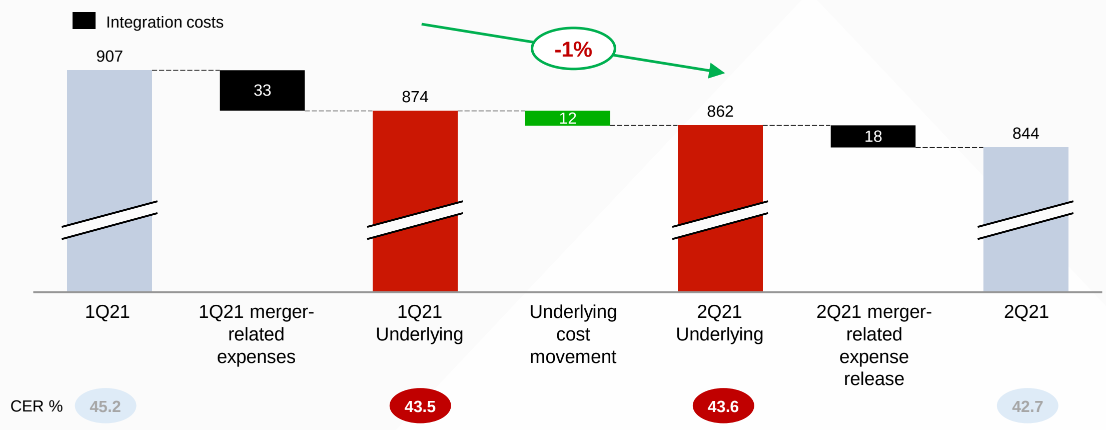
### Highlights

- Total 1H21 costs fell 11%
- Underlying costs which remove merger-related and other one-offs fell 2%
- SAR15m merger-related costs in 1H21; SAR18m release in 2Q21
- Synergy realisation of SAR0.6bn of annualised cost synergies achieved by the end of 1H21 and expect to receive a full year's income statement benefit in 2022
- Underlying 1H21 cost efficiency ratio of 43.6% is reflective of the challenging revenue environment
- 2Q21 underlying costs fell 1%

### 1H21 vs. 1H20 operating expenses movement



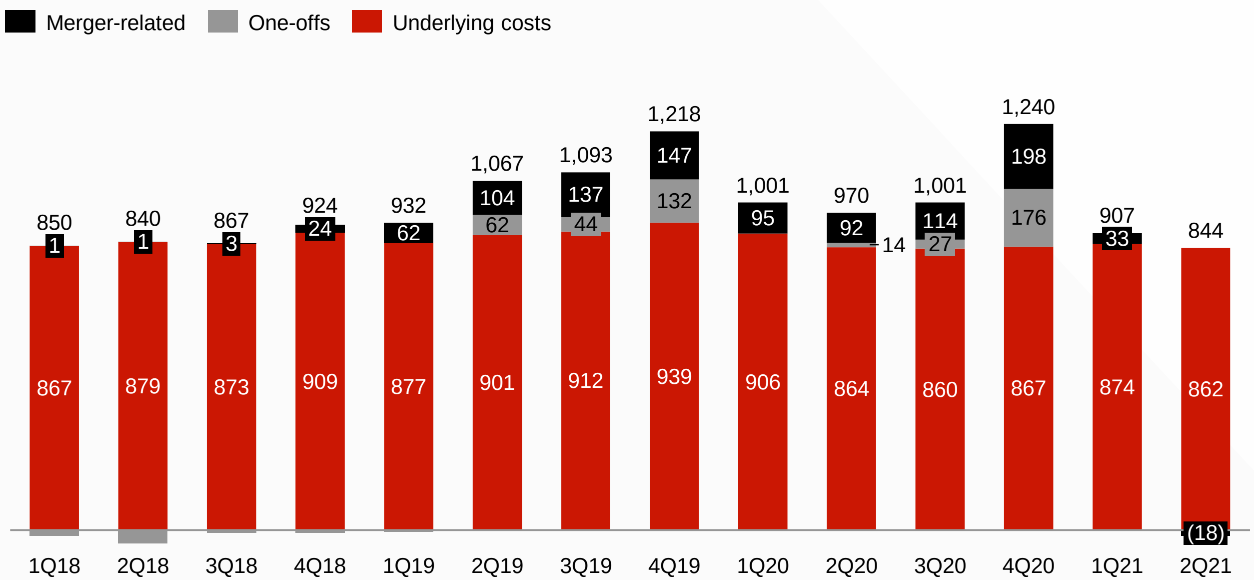

### 2Q21 vs. 1Q21 operating expenses movement



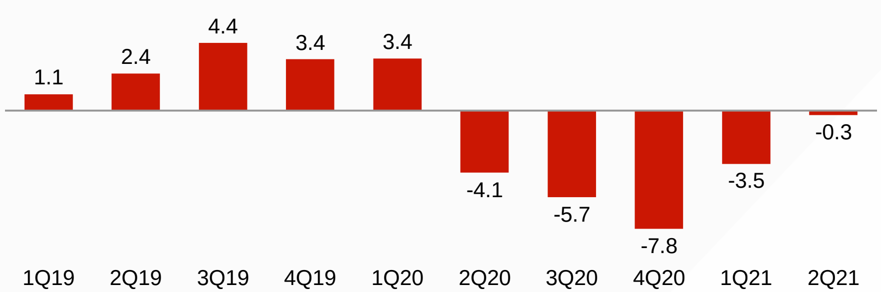
# Expenses trend

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

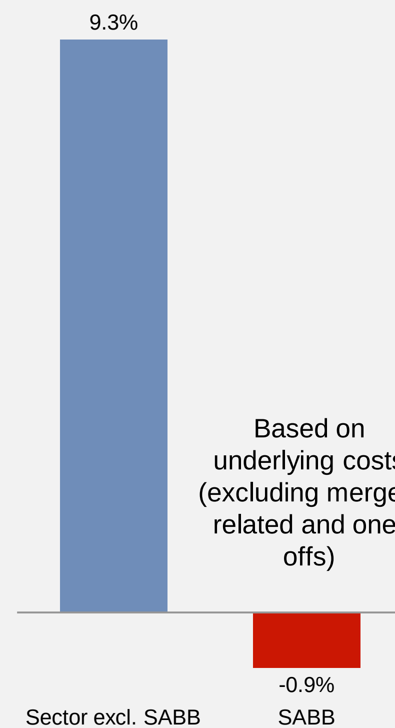
## Pro forma operating expenses, SARm




**Sequential drop in YoY underlying costs, %**




**% increase in quarterly costs between 4Q18 and 4Q20, using a 4 quarter rolling average[1]**



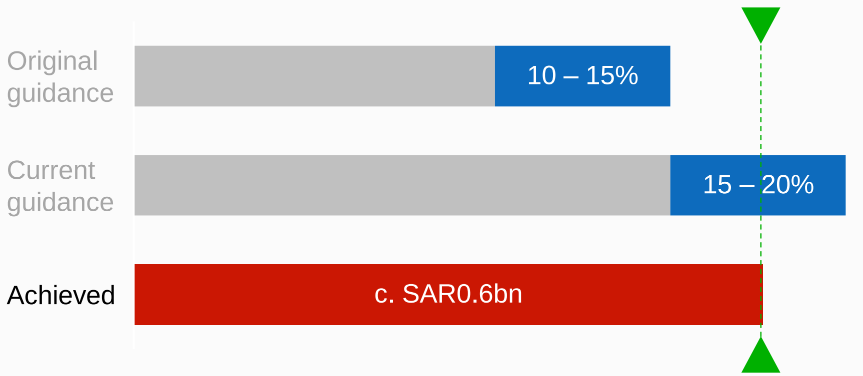

1. Compares the 4-quarter average of 1Q18, 2Q18, 3Q18 and 4Q18 to 1Q20, 2Q20, 3Q20 and 4Q20 for the sector excluding SABB, compared with SABB on a pro forma basis

# Synergy realisation and integration spend

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

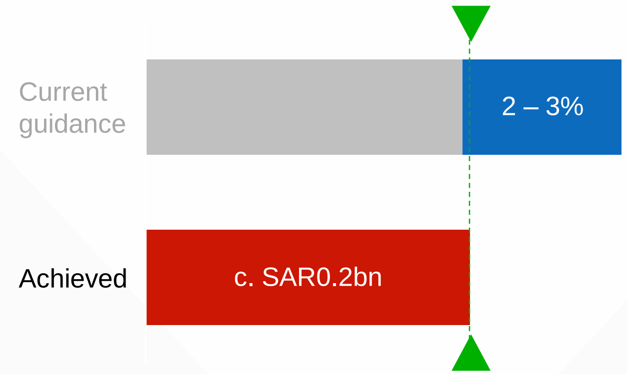
## Cost synergies guidance and 2020 achievement

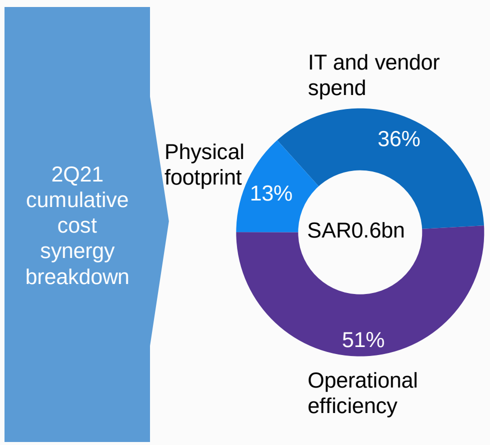
*%s are baselined against the 2017 combined cost base of SAR3.5bn*




## Revenue and funding synergies guidance

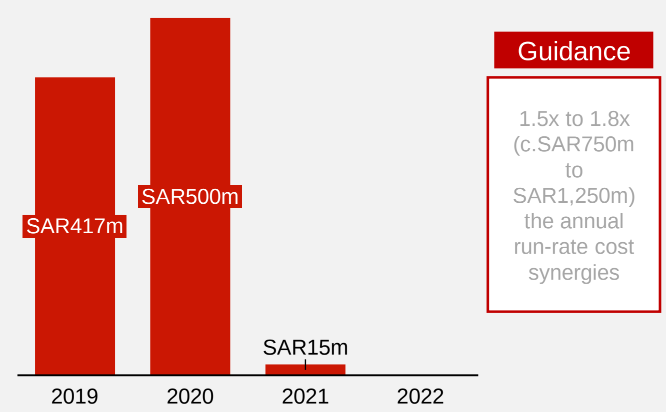
*%s are baselined against the 2017 combined revenue base of SAR10.8bn*




- SAR0.6bn annualised savings to the end of 2Q21
- 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

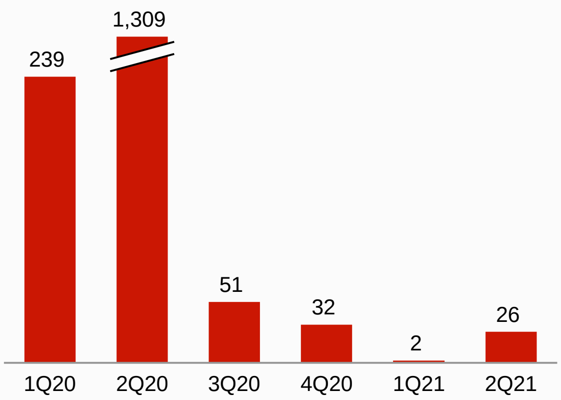
## Integration costs profile



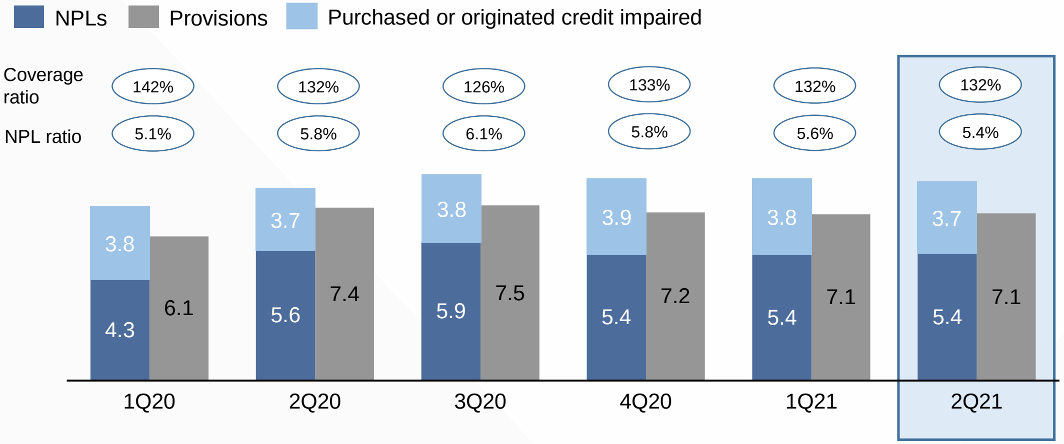
# Impairment analysis and credit quality

## Expected credit losses remain low and the NPL ratio continues its steady improvement

### Quarterly ECL charge, SARm

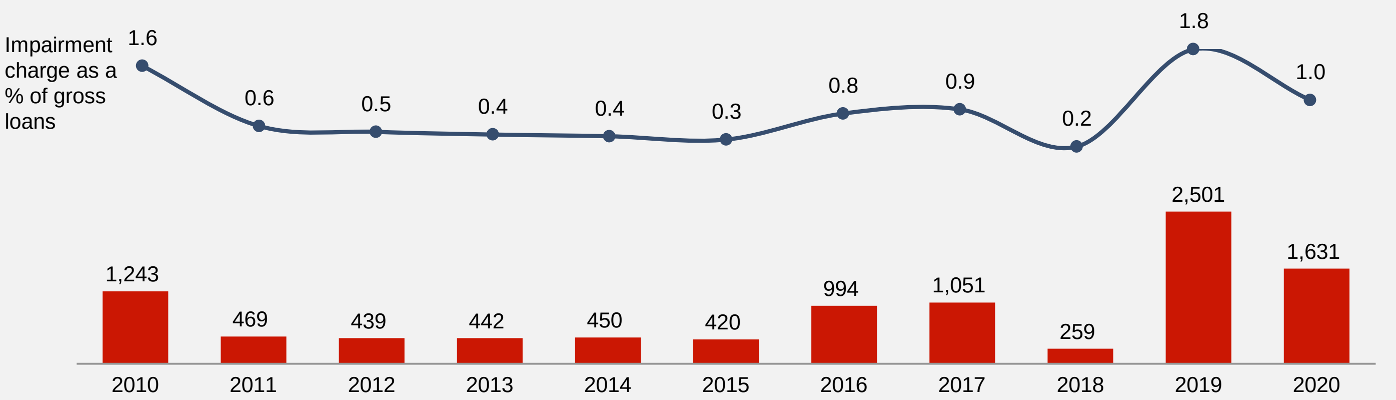



### NPLs / Provisions, SARbn




*At 2Q21, gross customer advances included SAR6.1bn 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, %**



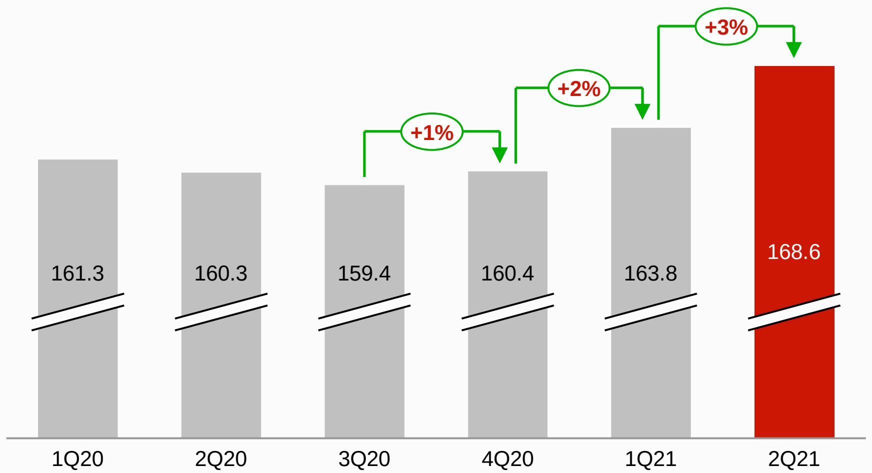
# Gross customer advances

## Gross customer advances grew 3% in the quarter and 5% YTD

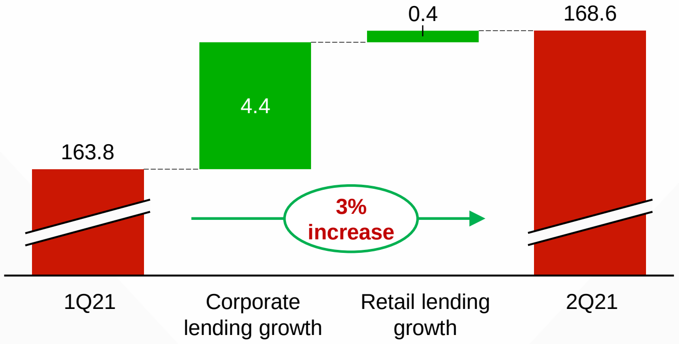
### Highlights

- Gross customer advances increased by 3% in the quarter and 5% YTD
- Net growth in 2Q21 was mainly from corporate lending
- Continued strong mortgage originations although partly offset by repayments

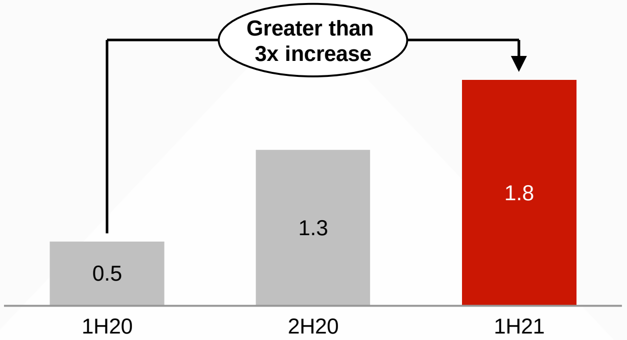
### Gross customer advances trend, SARbn




### Gross customer advances, 2Q21 vs. 1Q21




### Mortgage originations, SARbn



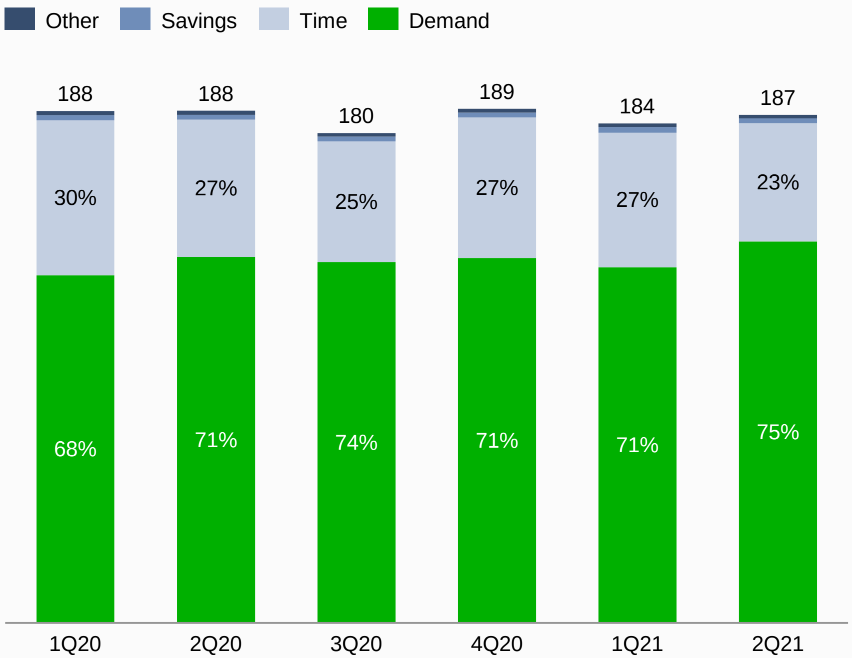
# Customer deposits, liquidity and funding

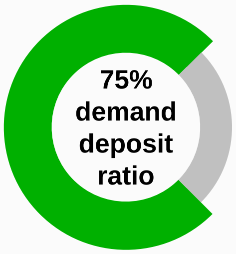
## Liquidity and funding remain strong

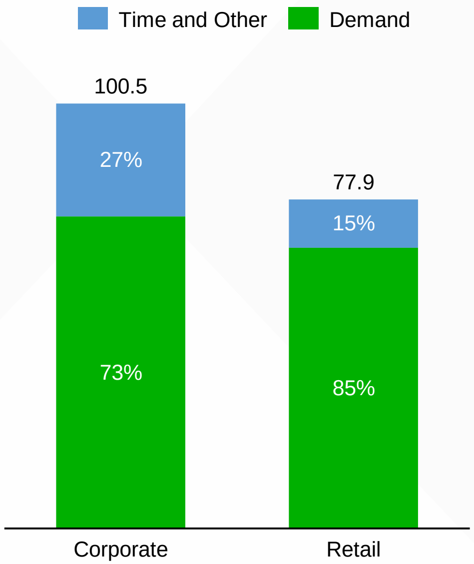
### Highlights

- Stable customer deposit base
- SAR187bn of customer deposits with 75% 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



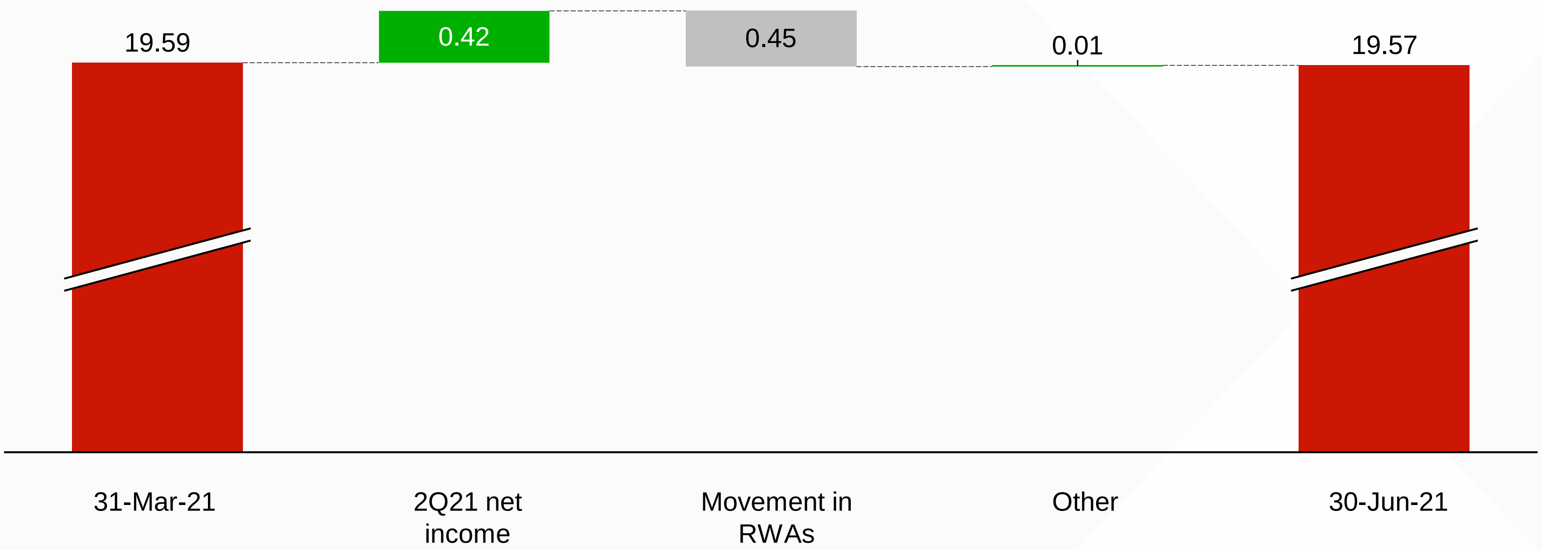



# Capital adequacy

## Strong CET1 ratio remaining stable at 19.57%

**Core Tier 1 ratio: 30 Jun 2021 vs. 31 Mar 2021, %**



# Closing remarks

1. Robust fundamental financial performance with continued lending growth, a continued fall in non-performing loans, and resilient net income generation.

2. Our five-year strategy is underway with both corporate and retail businesses gaining traction.

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

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