Chief Financial Officer's review

2022 was a solid financial year for SABB, building on the initial progress made in 2021 following the launch of our Strategy 2025. Sustained loan growth, expanding net special commission income margins, improving cost efficiency and returns, and more than sufficient levels of funding, liquidity and capital, mean we enter 2023 in a stronger position, and we can look back on 2022 with pride that we delivered on our promises.

Promising headline financials

We reported net income before Zakat and income tax of SAR 5.8 bln, which was SAR 1.8 bln, 47% higher than in 2021. The significantly higher net income was due to substantial revenue growth in 2022, which grew to SAR 9.7 bln for the year. We incurred expenses of SAR 3.7 bln during the year, which were 7% higher, and we incurred expected credit losses of SAR 0.4 bln, which was a drop of 2% from the previous year. This strong performance resulted in improving return with headline return on tangible equity (RoTE) of 11.5%.

During 2022, we posted 9% loan growth to expand our total loan portfolio to SAR 189.1 bln while simultaneously growing our deposit base by 15% to SAR 214.3 bln, in line with our responsible approach to lending from continued deposit gathering. Customer loans have grown year-on-year since the start of 2020, demonstrating the success of our strategy to date. Funding and liquidity remain robust; we ended the year with 17.7% CET1 to place SABB among the top banks in the Kingdom.

Revenue and margin expansion, complemented by sustained performance in non-funds income

Revenue grew by SAR 2.0 bln, or 26%, for the full year to reach SAR 9.7 bln, including a SAR 0.2 bln gain following the transfer of the retail margin lending, brokerage and asset management businesses to Alawwal Invest from HSBC Saudi Arabia, with the gain arising from the initial fair value exercise following the transfer.

Net special commission income (NSCI) of SAR 7.4 bln represented 76% of total revenue in 2022, an increase of SAR 1.7 bln, or 30%, compared to the prior year, mainly reflecting the increase in SAIBOR, together with growth in the loan and investment portfolios. With our corporate-focused loan portfolio, which is largely on a floating rate, the Bank is very sensitive to movements in benchmark rates. As the three-month SAIBOR increased from 0.9% at the start of the year to 5.3% at the end, SABB was a significant beneficiary of the normalising rate environment.

NSCI margin improved from 2.0% in 2021 to reach 2.5% by year-end 2022, and we exited the year with a quarterly margin of 2.9%, which provides a strong foundation as we enter 2023.

Non-funds income of SAR 2.3 bln increased by SAR 0.3 bln and included the SAR 0.2 bln gain mentioned above, that resulted from the transfer of the retail margin lending, brokerage and asset management businesses. Exchange income increased SAR 0.2 bln, as customer flows improved following the lifting of travel restrictions during the year. Fee income fell SAR 0.1 bln, however this was driven by a posting of fee expenses relating to prior years in the fourth quarter, following a realignment of fee income and expenses. Adjusting for these transactions, which distort the comparison, normalised fee income remained stable year-on-year.

Operating expenses increase reflecting accelerating investment; operating Jaws remain positive

Expenses of SAR 3.7 bln increased by SAR 0.2 bln, or 7%, reflecting accelerating investment but also inflationary pressures facing the entire sector. We have committed to spend SAR 1.5 bln to digitally transform the Bank, enhance our products and develop our people, and approximately two-thirds of this has now been committed. We therefore expect a step-up in our

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Chief Financial Officer's review (continued)

cost base over the short-term, as the pace of transformation increases, and we invest further.

Despite the increase in the cost base, we maintained positive operating leverage, or Jaws, resulting in a drop in cost efficiency ratio by 6.9ppt to 37.8%.

Cost-of-risk remains low and asset quality remains stable

Expected credit losses of SAR 0.4 bln were 2% lower than in 2021 and represent a cost-of-risk of 24bps. The 2022 net charge can be broken down into a charge of SAR 1.1 bln, partly offset by write offs net of recoveries of SAR 0.7 bln. We continued to see the benefits of the conservative approach introduced back in 2019 relating to the merger accounting, resulting in the lower-than-market cost-of-risk.

Sustained balance sheet growth

Our balance sheet continued to grow during the year, with total assets exceeding SAR 300 bln for the first time in our history. Customer lending balances increased 9% to SAR 189 bln, which marks a third consecutive year of growth since the merger. Corporate balances grew SAR 8 bln, or 6%, and retail balances grew SAR 6 bln, or 14%, together with SAR 1 bln of the balances from our Capital Markets business.

Improving financials leading to higher returns

As a result of this strong financial performance, we delivered an increased RoTE of 11.5% for the year, which is a 3.7ppt improvement compared to 2021. The quarterly trend on RoTE during the year was promising and, removing any one-off items that distort the quarterly figures, resulted in a fourth quarter RoTE of 13.0%.

Strong funding, liquidity and capital into 2023

Sector liquidity has been a key topic during 2022. It was therefore exceptionally pleasing to see SABB's leadership in this area, through conservative deposit gathering, whilst selectively lending in a responsible fashion, with all lending decisions passing our stringent internal thresholds. We closed the year with a regulatory loan-to-deposit ratio (LDR) of 73%, a liquidity coverage ratio of 172%, and a demand deposit ratio of 66%.

Capital also remains a key strength, as we closed the year with a 17.7% CET1 ratio and 19.9% total capital ratio. Our capital priorities are aligned to the Vision 2030 objectives, in supporting our customers and clients' aspirations, as they build out their businesses, investments and personal financial goals.

Delivering Shareholder returns

During the year, we paid dividends totalling SAR 2.7 bln, which equated to a payout ratio of 55%. This is in line with our expectations and pre-merger levels of dividend payouts. SABB's share price closed the year at SAR 38.95, which was an 18% increase during the year, compared with a 7% fall across the banking sector, following a re-rating towards the end of the year. I believe these results demonstrate the faith that our investor community has in our strategic plan and our ability to delivery going forward.

In summary

It was without doubt a strong financial year for SABB, but we have more to do to achieve our ambitions. We are well into our investment journey and expect further improvement in returns in 2023.

It is pleasing to see our financial performance ahead of where we expected it to be by 2022, and much of this has been shaped by a speedier return to normality post pandemic and faster than expected normalisation of benchmark rates. This places SABB in a strong position to continue to create value and deliver on our promises in the year ahead.

Ms. Lama Ghazzaoui
Chief Financial Officer

Revenue SAR
9.7 bln

Net income SAR
5.8 bln

Total assets SAR
314 bln

Return on tangible equity (RoTE)
11.5%

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