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1 March 2020

THE SAUDI BRITISH BANK, ('SABB')

4th Quarter 2019 Earnings Release

SABB is a Saudi Joint Stock Company with a strong track record and a heritage that stretches back more than 40 years. Established on 12 Safar 1398(H) (corresponding to 21 January 1978G), SABB formally commenced activities on 26 Rajab 1398(H) (01 July 1978) when it took over the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB provides Shariah approved products, which are approved and supervised by an independent Shariah board. SABB also provides the option of a complete set of conventional banking products and services to our corporate and institutional customers, which include current accounts, savings, time deposits, corporate credit facilities, trade finance, cash and payments management, and treasury risk management solutions.

On 13 Shawwal 1440H (corresponding to 16 June 2019G), SABB completed a statutory merger with Alawwal Bank ('AAB'), resulting in the transfer of the net assets and liabilities of AAB to SABB. The transaction was effected by a capital issuance of 554,794,522 shares of SAR10 by SABB to the shareholders of AAB, in a share swap transaction at the exchange ratio of 0.48535396 shares of SABB for each share of AAB. Pursuant to the transaction, the shares of AAB were delisted from Tadawul Stock Exchange and the AAB legal entity ceased to exist.

SABB has a 49% investment in its associate HSBC Saudi Arabia, following the completion of the sale of 2% of the issued share capital to HSBC on 1 October 2019 (51% as at 30 September 2019G). In addition, SABB has a 100% controlling stake in Alawwal Invest. Both HSBC Saudi Arabia and Alawwal Invest conduct investment banking services in the Kingdom. SABB also has a 65% controlling ownership stake in SABB Takaful, a listed insurance company in Saudi Arabia, and a 20% ownership interest in Wataniya Insurance Company.

SABB's strategic vision is to bring a world of financial opportunities to an ambitious Kingdom. SABB is the leading international bank in Saudi Arabia. Through a tested strategic partnership spanning more than 40 years with HSBC, one of the world's largest and most international financial institutions, SABB has delivered upon this through its corporate and institutional banking business, achieving leadership positions in trade finance, payments and cash management, foreign exchange, and investment banking; and supported by a meaningful domestic retail banking franchise.

Lubna Suliman Olayan, Chair, said:

"2019 witnessed the historic merger of SABB and AAB, uniting the legacies and resources of two of the oldest banks in the Kingdom, with legal effect on 16th June 2019. The greater scale, enhanced market leadership and efficient operating platform will reinforce our unique positioning as a leading financial institution in the Kingdom, enabling us to support Vision 2030 and to benefit from the many opportunities arising from its ambitious national economic growth agenda.

Since the legal merger date, the Board, senior management and our people across the Bank have continued the journey to unite the two organisations. The Board has met on a number of occasions throughout the year to focus on strategy, culture, branding, talent development, integration, customer experience and risk management. In December, an Ordinary General Meeting was held to conduct the triennial election of the Board of Directors. The Board comprises 11 members who bring a high calibre of local and international experience and diversity of perspectives. I continue to be enthused by the commitment and purpose amongst the Board and senior management.

The fourth quarter of 2019 represents the second full quarter of results since the legal merger and our financial performance was more reflective of the combined Bank's returns, albeit within the context of a challenging environment. Our full year net income before Zakat and income tax of SAR3.8bn on a pro forma basis was resilient. Our balance sheet is robust and the Bank is positioned to grow. We are pleased to announce a final dividend of SAR1,234 million demonstrating the strength of our position.

In the fourth quarter our integration plans have accelerated with the finalisation of our systems and architecture plan, continued migration of corporate customers, and having completed a review of the culture of our organisations, and defined the target behaviours, we have started the roll-out of a culture workshop for all employees. We are equally committed to our normal business operations. During the fourth quarter, we financed an international trade transaction using Blockchain technology, a first for the Kingdom. Within the retail business our new mobile banking apps launched earlier in the year secured top ratings in their respective app stores. Both these examples demonstrate our strengths in innovation.

I would like to express my heartfelt thanks to our customers, shareholders, management, and our longstanding global partner, HSBC Group, for their continued support and commitment. We are equally grateful to our regulators and government agencies for the support they have shown throughout the merger process; and to the government of Saudi Arabia for the ambitious path on which they have set the national economy. We look ahead to the future with optimism and vigour."

Reported results

Full year reported financial highlights

	Year ended 31 December		
	2019 SAR million	2018 SAR million	Change %
Total operating income ('Revenue')	**9,398**	7,323	28
Operating expenses (excluding Provisions for credit losses, net)	**(3,649)**	(2,200)	(66)
Provision for expected credit losses, net	**(2,609)**	(259)	> (100)
Share in earnings of associates and a joint venture	**133**	66	>100
Net income before Zakat and income tax	**3,271**	4,929	(34)
Zakat and income tax	**(459)**	(2,231)	79
Net income after Zakat and income tax	**2,812**	2,698	4

	2019 SAR million	2018 SAR million	Change %
Gross customer advances	**160,770**	115,077	40
Customer deposits	**192,167**	130,507	47

	2019 %	2018 %	Change ppt.
Return on Equity (ROE)	**6.0**	8.2	(2.2)
Return on Tangible Equity (ROTE)	**7.6**	8.3	(0.7)
Cost efficiency ratio (CER)	**38.8**	30.0	(8.8)
Core Tier 1 ratio (CET1)	**18.2**	19.7	(1.5)

The table above reflects the reported consolidated financials of SABB for the year ending 2019 and 2018 and includes the proportion of results from AAB from the date of the merger to 31 December 2019.

The following commentary is on a reported basis:

- **Net income after Zakat and income tax of SAR2,812 million was SAR114 million or 4% higher than 2018** from significantly lower Zakat and income tax charges (2019: SAR459 million, 2018: SAR2,231 million) as the prior period included charges relating to historic Zakat and income tax liabilities on an ongoing industry-wide issue, relating to the disallowance of long-term investments and addition of long-term financing to the Zakat base.
- **Net income before Zakat and income tax of SAR3,271 million was SAR1,658 million or 34% lower than 2018** from increased expected credit losses (ECL) and higher operating expenses which were partly offset by higher revenue and increased income from associates.
- **Revenue of SAR9,398 million was SAR2,075 million or 28% higher than 2018** and included revenue generated by the acquired AAB business post-merger.
- **Operating expenses of SAR3,649 million were SAR1,449 million or 66% higher than 2018** and included expenses incurred by the acquired AAB business post-merger and SAR417 million for transaction fees and integration costs (2018: SAR22 million). The merger-related expenses are temporary and will cease once the operational integration has completed.
- **Charges for provisions for expected credit losses of SAR2,609 million were SAR2,350 million higher than 2018** mainly as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with AAB, and an increase in impairment charges for certain originated troubled corporate loan accounts, notably in the second quarter.
- **CET1 capital ratio remains strong at 18.2%.** Our CET1 ratio fell 1.5ppts. compared with 31 December 2018 and improved 0.2ppts. compared with the 30 September 2019. Our capital ratio was impacted by the dilution from the accounting related to the merger by c. 2.0ppts. in line with guidance provided prior to the merger.

Pro forma results

Full year pro forma summarised income statement

	Year ended 31 December		
	2019 SAR million	2018 SAR million	Change %
Total operating income ('Revenue')	**11,003**	10,886	1
Operating expenses	**(4,312)**	(3,479)	(24)
Provision for expected credit losses, net	**(3,020)**	(1,422)	>(100)
Share in earnings of associates and a joint venture	**133**	74	80
Net income before Zakat and tax	**3,804**	6,060	(37)
Notable items:			
Unwind of the fair value adjustment	***414***	-	*>100*
Merger-related expenses	***(450)***	*(29)*	*>(100)*
Intangible amortisation	***(78)***	-	*>(100)*
Gross customer advances	**160,770**	176,738	(9)
Customer deposits	**192,167**	195,079	(1)

Pro forma financial results have been calculated for illustrative purposes only for 2018 and 2019, to enable an understanding of the period on period performance of the combined entity. It assumes SABB and AAB merged on the 1 January 2018. Because of its nature, the pro forma financial information addresses a hypothetical situation and therefore does not represent SABB's actual financial results.

The following commentary is on a pro forma basis and compares the performance in 2019 versus 2018, unless otherwise stated:

- **Net income before Zakat and income tax of SAR3,804 million was SAR2,256 million or 37% lower than 2018** mainly from higher ECL and operating expenses. There are several notable items which are included in the table above and are also explained further below.

- **Revenue of SAR11,003 million was SAR117 million or 1% higher than 2018** and included SAR414 million from the unwind of the fair value adjustment.

  Unwind of the fair value adjustment: On the date of the merger, 16 June 2019, SABB recorded the acquired AAB loan portfolio at fair value which is a discounted amount to the contractual amounts that are due from the underlying loans. The discount applied will be unwound over time to the contractual maturity date of the loans and recognised in 'Net special commission income' using the effective interest rate method ('EIR'). The amount recognised in the future will be on a declining basis, in line with the EIR method.

  Excluding the unwind of the fair value adjustment, revenue fell SAR297 million or 3%, largely from reduced Net special commission income reflecting lower lending balances and repricing as a result of the cuts in benchmark interest rates. Net fee income also fell from a reduction in trade fees together with lower loan origination fees and lower net fees from credit cards and merchant acquiring as a result of increased competition and challenging economic activity. Exchange income was 5% higher from increased customer flows.

- **Operating expenses of SAR4,312 million were SAR833 million or 24% higher than 2018** and included SAR450 million of merger-related expenses (2018: SAR29 million), and an amortisation charge of SAR78 million in the fourth quarter, relating to the intangible assets which were recognised following the merger. The amortisation charge recorded in the fourth quarter represents the year to date impact since the merger completion date. In addition, there were a small number of expenses that are one-off in nature totalling SAR232 million including a VAT penalty, provisions for legal cases, an adjustment for employees' long-term benefit plan and operating losses. Excluding the aforementioned items, operating expenses increased SAR27 million or 1%.

- **Cost efficiency ratio was 39.2%.** Excluding the notable items and one-off expenses, the adjusted cost efficiency ratio for 2019 was 33.5%.

- **Charges for provisions for expected credit losses of SAR3,020 million were SAR1,598 million higher than 2018** as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with AAB, and an increase in impairment charges for certain originated troubled corporate loan accounts, notably in the second quarter.

- **Gross customer advances of SAR160.8bn fell SAR16.0bn or 9% compared with 2018**. Customer lending declined in both the retail and corporate portfolios. However, SABB has experienced more promising signs of growth in the second half of 2019 and has maintained its market share in corporate lending, the larger component of our loan book. 2019 customer lending balances also included the impact of the adjustments made through the accounting for the merger.

- **Customer deposits of SAR192.2bn decreased SAR2.9bn or 1% compared with 2018.** Overall funding remains strong. SABB was able to begin optimising its funding base post-merger which led to a decline in funding as expensive surplus deposits matured. SABB's demand deposit ratio remained healthy at 64% (2018: 56%).

Business[1] review

Pro forma Total operating income ('Revenue') by business

	Year ended		
	2019 SAR million	2018 SAR million	Change %
Retail Banking and Wealth Management	**3,999**	3,897	3
Corporate and Institutional Banking	**5,525**	5,341	3
Treasury	**1,281**	1,600	(20)
Other	**197**	48	>100
Total	**11,003**	10,886	1

Pro forma Net income before Zakat and income tax by business

	Year ended		
	2019 SAR million	2018 SAR million	Change %
Retail Banking and Wealth Management	**1,316**	1,542	(15)
Corporate and Institutional Banking	**1,763**	3,084	(43)
Treasury	**1,022**	1,380	(26)
Other	**(297)**	53	>(100)
Total	**3,804**	6,060	(37)

Pro forma Net customer advances by business

	Year ended		
	2019 SAR million	2018 SAR million	Change %
Retail Banking and Wealth Management	**36,802**	40,145	(8)
Corporate and Institutional Banking	**117,875**	127,947	(8)
Treasury	**-**	-	-
Other	**-**	-	-
Total	**154,677**	168,093	(8)

Pro forma Customer deposits by business

	Year ended		
	2019 SAR million	2018 SAR million	Change %
Retail Banking and Wealth Management	**81,590**	80,426	1
Corporate and Institutional Banking	**104,441**	105,140	(1)
Treasury	**6,135**	9,513	(36)
Other	**-**	-	-
Total	**192,167**	195,079	(1)

Note
1. *Certain historic business segment data has been re-stated to ensure comparability to current period data, as a result of ongoing alignment of businesses and products post-merger.*

Retail Banking and Wealth Management

Operating highlights

The SABB-AAB merger created the 4th largest retail banking franchise in the Kingdom, with a scale that opens up opportunities and adds value to customers. The merger enables the Bank to bring together the skills, knowledge and best practice of two different organisations and provide an improved service offering to customers. SABB ended the year with robust market share positions across a number of key retail performance indicators.

Growth in credit appetite during 2019 was dominated by mortgage demand with the market growing rapidly year-on-year. SABB's mortgage market share fell, despite a healthy level of new sales volume, given the well-seasoned nature of the portfolio, the Bank's customer segmentation, and risk appetite.

RBWM continued to invest in its digital capability and offering, launching a new and improved mobile app which was downloaded over 280,000 times and achieved top rankings in both the Apple and android app stores. Enhancements were made to the internet banking platform which now offers over 120 services. Customers' mobile payment offering was improved through the launch of 'Apple Pay' and 'mada Pay'. End-to-end digital customer journeys were also introduced with the launch of Digital Account Opening and a completely online Know Your Customer ('KYC') review process – the first bank in the Kingdom to have launched a digital KYC service. SABB also launched its 'Umlaty' card, a multi-currency card that enables new to bank customers to open an account digitally and receive their debit card without the need to visit the branch.

The Bank also launched new e-remittance solutions across key remittance corridors, enabling real-time overseas transactions at a lower cost to customers by partnering with leading FinTech and payments organisations. SABB is now offering these solutions across five key corridors, with plans to expand further. Blockchain payment technology is employed to facilitate these transactions, and is an important part of the Bank's journey towards digital transformation and an enriched customer experience.

Financial performance

- Net income before Zakat and income tax of SAR1,316 million before Zakat and income tax was 15% lower than the previous year driven by higher impairments as a result of one-off expected credit losses and increased operating expenses, partly offset by higher revenue.

- Revenue of SAR3,999 million was 3% higher and included SAR116 million from the unwind of the fair value adjustment. Excluding this impact, revenue was broadly flat with lower average lending balances, notably relating to personal lending and to a lesser degree in mortgages offset by rising margin from the annualised benefit of previous rate hikes.

- Net customer lending of SAR36.8 billion fell by 8%, due mainly to a reduction in personal lending balances; mortgage balances also fell but to a lesser extent. Customer deposits of SAR81.6 billion increased 1%, with the proportion of demand deposits at 78%, a notable strength of the retail franchise.

Corporate and Institutional Banking

Operating highlights

The SABB-AAB merger has created one of the largest corporate banks in the Kingdom, ranked first by corporate revenue and with c. 15% of corporate lending market share. Its unique position as the leading international bank in Saudi Arabia, bolstered by a strong partnership with HSBC Group, enables SABB's customers to access services and opportunities globally, and allows global corporates to access the Kingdom.

Corporate credit growth was muted for most of the year and trade activity suffered from challenges in the macro environment, although the second half saw increased activity. SABB is well-positioned to support customers' needs, from large multinationals to small and medium-sized enterprises. Meanwhile, Vision 2030 has brought a number of significant opportunities, which the Bank's larger scale makes it well-equipped to support. Government investment in a series of mega-projects will be of particular importance, requiring unprecedented public and private-sector funding; and bringing with them opportunities for corporate and institutional lending.

The Global Liquidity & Cash Management ('GLCM') product suite offers solutions catering to the cash management needs of customers. This year, GLCM introduced 'SWIFTgpi for Corporates', which provides customers with transparency in making and tracking payments across multiple banks – making SABB the first bank in the MENA region to provide such a service. GLCM launched the first 'virtual' one-time-use payment card for corporates, in partnership with Amex, and was one of the first banks in the Kingdom to use a Blockchain-based platform to provide a frictionless experience to send money globally. During 2019 SABB was awarded 'Best Bank for Cash Management, KSA' by International Business Magazine and more recently awarded 'Best Treasury and Cash Management Provider, KSA' by Global Finance, proving the Bank's strength in the payments arena.

The Global Trade & Receivables Finance ('GTRF') service, which accounts for up to 20% of Saudi trade finance market share, delivered the region's first ever Blockchain-based open account transaction to enhance the performance of trade finance business operations. GTRF has strengthened its ability to meet rapidly evolving customer demands and harness technology, redesigning core platforms and partnering with best-in-class technology providers. In 2019, SABB was named 'Best Trade Finance Bank in Saudi Arabia' by Global Finance for the tenth consecutive year.

Financial performance

- Net income before Zakat and income tax of SAR1,763 million before Zakat and income tax was 43% lower than the previous year driven by higher impairments as a result of one-off expected credit losses in respect of the acquired loan portfolio through the merger with AAB, and an increase in impairment charges for certain originated troubled corporate loan accounts, notably in the second quarter. In addition, costs also increased, partly offset by increased revenue.

- Revenue of SAR5,525 million was 3% higher and included SAR296 million from the unwind of the fair value adjustment. Excluding this impact, revenue fell 2% as 2019 saw lower average term lending balances partly offset by increased trade-related lending balances. Margins also reduced in the term lending portfolio from increased competition in 2019 as a result of the muted growth seen in the year. Trade margins were more resilient showing a marginal improvement during 2019.

- Net customer lending of SAR117.9 billion fell 8% and included the impact of the adjustments made through the accounting for the merger and the increased competition for customer assets. Trade balances were more resilient with an increase in balances during 2019 and SABB has experienced more promising signs of growth in overall corporate lending in the second half of 2019 and has broadly maintained its market share in corporate lending throughout.

- Customer deposits of SAR104.4 billion fell 1% driven by lower time deposits as SABB began to optimise the funding base of the merged bank.

Treasury

Operating highlights

Throughout 2019 and in preparation for the merger, the Treasury business has maintained a heavy emphasis on planning and execution for combining SABB and AAB's treasury functions under a single market-risk mandate, whilst reorganising the team for maximum efficiency. The integration process is being delivered successfully, with Treasury continuing to perform its role of managing the Bank's liquidity and market risk, within regulatory limits. Our approach to liquidity risk management remains a competitive advantage and enables the Bank to maintain a healthy balance sheet that supports customer borrowing needs.

At the heart of Treasury's strategy is its support for SABB's role in the development of the Saudi capital market, as per the Vision 2030 agenda. This is achieved by SABB's role as a Primary Dealer, and the development of a repo market, while at the same time partnering with the Bank's business segments to develop a focused and attractive proposition for customers.

Following the Kingdom's MSCI and FTSE Russell Emerging Market indices inclusion and rebalancing events, SABB consolidated its leadership position by providing liquidity and FX services to offshore investors, accounting for significant market share in FX flows directly related to the index inclusions. The Bank has maintained its leading market position, ranking third among all local banks for foreign exchange and trading income and being named 'Best FX Provider Saudi Arabia' by Global Finance for the second consecutive year.

Treasury continues to deepen and widen its range of products and services, from simple FX trading to derivatives across asset classes – including Islamic; as well as a digital platform for customers to execute their own trades. The business is continuously focused on providing stable and inexpensive funding to facilitate the Bank's lending activities, while developing talent and ensuring the successful and timely delivery of its integration plan.

Financial performance

- Net income before Zakat and income tax of SAR1,022 million before Zakat and income tax was 26% lower than the previous year primarily from lower revenue.
- Revenue of SAR 1,281 million was 20% lower than 2018 primarily from lower trading income and reduced foreign exchange. In addition, there was a reduction of SAR145 million from lower net special commission income although this is offset in the Other business segment as a result of an allocation of intersegment revenue. These factors were partly offset by higher fair value gains on our investment portfolio.

Three months ended 31 December pro forma summarised income statement

	Three months ended 31 December		
	2019 SAR million	2018 SAR million	Change %
Total operating income ('Revenue')	**2,867**	2,772	3
Operating expenses	**(1,261)**	(924)	(36)
Provision for expected credit losses, net	**(655)**	(365)	(79)
Share in earnings of associates and a joint venture	**38**	39	(2)
Net income before Zakat and tax	**990**	1,521	(35)
Notable items:			
Unwind of the fair value adjustment	***414***	-	*>100*
Merger-related expenses	***(147)***	*(24)*	*>(100)*
Intangible amortisation	***(78)***	-	*>(100)*

- **Net income before Zakat and income tax of SAR990 million was SAR531 million or 35% lower than the prior period** from increased costs and higher ECL charge, partly offset by increased revenue.

- **Revenue of SAR2,867 million was SAR95 million or 3% higher than the prior period** and included SAR414 million from the unwind of the fair value adjustment mentioned earlier on page 3. Excluding this, revenue was SAR319 million lower driven by a fall in net special commission income, as average lending balances fell together with the decreases in benchmark rates. In addition, fee income fell SAR38 million due to lower loan origination and trade finance fees, reflecting the current challenging macro environment.

- **Operating expenses of SAR1,261 million were SAR337 million or 36% higher than the prior period** and included SAR147 million of merger-related expenses, (4Q18: SAR24 million), and an amortisation charge of SAR78 million relating to the intangible assets which were recognised following the merger. The amortisation charge recorded in the fourth quarter represents the year to date impact since the merger completion date. In addition, there were a small number of expenses that are one-off in nature totalling SAR132 million including a VAT penalty, provisions for legal cases and an adjustment for employees' long-term benefit plan. Excluding the aforementioned items, operating expenses decreased by 1%.

- **4Q19 cost efficiency ratio was 44.0%.** Excluding notable items and expenses that are one-off in nature, the adjusted cost efficiency ratio for the fourth quarter was 36.9%.

- **Charges for provisions for expected credit losses of SAR655 million were SAR290 million or 79% higher than the prior period** due to the Corporate and Institutional Banking business.

- **Gross customer advances of SAR160.8 billion increased SAR1.8 billion or 1% in the fourth quarter.** The increase in the quarter was mainly in the Corporate and Institutional Banking business**.** Retail balances were broadly unchanged with growth in credit card balances offsetting a fall in net mortgage balances.

- **Customer deposits of SAR192.2 billion increased SAR8.7 billion or 5% in the fourth quarter.** The demand deposits ratio was 64%, reflecting our healthy stable funding composition.

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Pro forma Net special commission income by quarter excluding the unwind of the fair value adjustment

	Three months ended		
	31 December 2019 SAR million	30 September 2019 SAR million	31 December 2018 SAR million
Special commission income	**2,301**	2,499	2,755
Special commission expense	**(412)**	(508)	(580)
Net special commission income	**1,889**	1,992	2,175
Average special commission income earning assets[1]	**251,789**	252,071	260,357
	%	%	%
Gross Yield	**3.7**	4.0	4.2
Cost of funding[2]	**(0.8)**	(1.0)	(1.1)
Net special commission income spread	**2.9**	3.0	3.1
Net special commission income margin	**3.0**	3.2	3.3

Notes

1. *Average special commission income earning assets is calculated using daily average balances of Cash & balances with SAMA, Due from banks and other financial institutions, Loans and advances to customers (gross) and Investments excluding equity investments.*
2. *Cost of Funding is calculated using daily average balances of Due to banks and other financial institutions, Customer deposits, Debt securities in issue and borrowings.*

Pro forma net special commission income margin, excluding the benefit from the unwind of the fair value adjustment, for the three months ended 31 December 2019 was 3.0%. Net special commission income margin reduced by 0.2ppts. compared with the trailing quarter and 0.3ppts. compared with the fourth quarter of 2018, in line with previous guidance as global benchmark interest rates began to fall, partly offset by an improvement in cost of funds as we actively reduced our time deposits together with the benefit of repricing. Net special commission income also declined due to a decrease in customer lending and deposits.

Update on our merger with AAB – Legal completion date 16 June 2019

Further to receipt of regulatory approvals, on 16 June 2019 SABB completed a statutory merger with AAB. On this date, the net assets and business activities of AAB were transferred to SABB in exchange for newly issued shares of SABB. The AAB legal entity ceased to exist following the transfer. Shares of AAB were cancelled and the new shares in SABB were issued to shareholders of AAB at an exchange ratio of 0.48535396 new SABB share for each AAB share. The issue of new shares has increased SABB's paid-up capital by 37% from SAR 15,000,000,000 to SAR20,547,945,220 and the number of its issued shares have increased from 1,500,000,000 to 2,054,794,522. SABB and AAB's original shareholders owned 73% and 27% respectively, of the combined bank on a fully diluted basis on the merger date.

The purchase consideration was determined to be SAR23.1 billion which consisted of the issue of 554,794,522 new shares to the shareholders of AAB and an additional SAR6,060,000 representing SABB's grant of shares to AAB employees under its legacy Share Based Equity Settled Bonus and SAR78,706,454 representing AAB converted Treasury Shares (new shares issuance included 1,887,445 treasury shares). The fair value of the new issued shares of SABB was determined on the basis of the closing market price of the ordinary shares of SAR41.70 per share on the Tadawul stock exchange on the last trading date prior to the merger date of 16 June 2019. Issue costs which were directly attributable to the issue of the shares were not material. As a result, there was an increase in share capital and share premium of SAR5.5bn and SAR17.6bn respectively.

The merger created the Kingdom's third-largest bank (according to the total assets at the time of the merger), a top-tier retail and corporate bank, and will provide access to a global banking network by diversifying its shareholders and customers base to facilitate the flow of investment capital into Saudi Arabia and the growth of international trade. SABB is well positioned to support the Saudi economy, Saudi residents and Saudi companies in Saudi Arabia and internationally. The benefits of the merger created post completion of the transaction are expected to be fully realised in the earnings of the merged bank within three years subsequent to the legal completion of the transaction on 16 June 2019.

The integration of the two banks is progressing well, with Board and Management focused on delivering a successful integration while continuing to create value by helping customers achieve their financial goals. Regulatory approvals for the merger were issued in the first half of 2019 and the statutory merger took place on 16 June 2019. An Integration Management Office was established, with 18 work-streams created, and partnerships built with top-tier consultants for project management, IT, HR and other critical areas.

The Board has approved a road-map, developed together with SABB's consultant advisors, to achieve Customer Day 1 ('CD1'), the point in time when all data from the AAB systems will be transferred onto SABB's IT systems, and integration will be complete. The Bank has already migrated certain corporate customers from AAB, harmonised retail customer pricing, combined the organisational structures into a single entity, aligned internal policies, co-located staff, moved all staff data onto a single platform and engaged with business partners to produce a detailed IT Integration plan, including a resource plan to ensure sufficient support throughout execution. Following a detailed review of the cultures of the two banks in the third quarter, the target culture for the combined organisation has been defined and the Bank has started the roll out to all employees.

Reported merger-related integration and transaction costs were SAR147m during the quarter, and SAR417m for the full year reflecting fees paid to third parties for legal, valuation and transaction services as well as costs of in-house staff and third party consultants working on the merger.

Update on Purchase price allocation exercise

We continue to refine the purchase price allocation which is expected to be completed within twelve months from the merger date. During the quarter there was a decrease to the provisional amount of the purchase price allocation of SAR176m. This has resulted in an update to our provisional goodwill to SAR13,080m as at 31 December 2019. Further information can be found in the 2019 Consolidated Financial Statements. We recorded SAR414m during the fourth quarter representing the unwind of the fair value adjustment in Net Special Commission Income, which represented six months of unwind since the merger date. During the third quarter of 2019, we recognised other intangible assets on a provisional basis for an amount of SAR2,022m, which largely represent the future benefit of core deposits. We commenced amortisation of these intangible assets in the fourth quarter (SAR78m is included in Operating expenses), which represented six months of amortisation since the merger date.

Reported Income statement

	Three months ended		Twelve months ended	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	SAR million	SAR million	**SAR million**	SAR million
Special commission income	**2,680**	1,757	**8,928**	6,642
Special commission expense	**(377)**	(306)	**(1,564)**	(1,065)
Net special commission income	**2,303**	1,451	**7,364**	5,577
Fee and commission income, net	**381**	256	**1,302**	1,128
Exchange income, net	**143**	102	**509**	413
Income from FVTPL financial instruments, net	**5**	-	**15**	4
Trading income, net	**27**	40	**95**	171
Dividend income	**-**	-	**72**	65
Gains / (losses) on FVOCI debt instruments, net	**-**	(9)	**40**	(21)
Other operating income / (losses), net	**8**	(9)	**1**	(14)
Total operating income	**2,867**	1,831	**9,398**	7,323
Salaries and employee-related expenses	**(572)**	(324)	**(1,789)**	(1,239)
Rent and premises-related expenses	**(28)**	(38)	**(77)**	(136)
Depreciation and amortisation	**(192)**	(32)	**(432)**	(131)
General and administrative expenses	**(469)**	(209)	**(1,351)**	(694)
Total operating expenses	**(1,261)**	(604)	**(3,649)**	(2,200)
Provision for expected credit losses, net	**(655)**	(56)	**(2,609)**	(259)
Share in earnings of associates and a joint venture	**38**	39	**133**	66
Net income before Zakat and income tax	**990**	1,211	**3,271**	4,929
Provision for Zakat and income tax - Current	**(75)**	(1,383)	**(446)**	(2,254)
Zakat and income tax	**(16)**	4	**(13)**	24
Net income after Zakat and income tax	**899**	(168)	**2,812**	2,698

Attributable to:				
Equity holders of the Bank	**904**	(162)	**2,830**	2,715
Non-controlling interests	**(5)**	(6)	**(18)**	(17)
Net income for the period	**899**	(168)	**2,812**	2,698

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Reported Balance Sheet

	As at		
	31 Dec 2019	**30 Sep 2019**	31 Dec 2018
	SAR million	SAR million	SAR million
Assets			(Restated)
Cash and balances with SAMA	**21,267**	15,691	14,101
Due from banks and other financial institutions, net	**4,988**	6,906	12,041
Positive fair value derivatives, net	**971**	1,191	562
Investments, net	**60,484**	58,720	34,570
Loans and advances, net	**154,677**	152,529	110,326
Investment in associates and a joint venture	**660**	654	533
Property and equipment, net	**3,308**	3,366	1,224
Goodwill and other intangibles	**15,346**	15,233	70
Other assets	**3,771**	3,574	1,249
Total assets	**265,472**	257,864	174,676
Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions	**3,653**	3,584	1,013
Customers' deposits	**192,167**	183,417	130,507
Debt securities in issue	**1,500**	1,517	1,499
Borrowings	**-**	1,698	1,695
Negative fair value derivatives, net	**1,318**	1,636	547
Other liabilities	**10,674**	10,984	6,839
Total liabilities	**209,312**	202,836	142,100
Equity			
Equity attributable to equity holders of the Bank			
Share capital	**20,548**	20,548	15,000
Share premium	**17,587**	17,587	-
Statutory reserve	**11,486**	10,991	10,778
Other reserves	**237**	12	(2)
Retained earnings	**4,977**	5,781	5,260
Proposed dividends	**1,234**	-	1,431
Total equity attributable to equity holders of the Bank	**56,069**	54,919	32,467
Non-controlling interests	**91**	109	109
Total equity	**56,160**	55,028	32,576
Total liabilities and equity	**265,472**	257,864	174,676

Legal disclaimer

Important notice

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