2Q 2021 Merger Update

Introduction

This document is designed to provide the reader with an overview on several key elements of Saudi National Bank financial results for the second quarter of 2021.

In particular the document covers:

- Merger update
- Purchase Price Allocation (‘PPA’) update
- 1H 2021 reported results
- 1H 2021 pro forma results

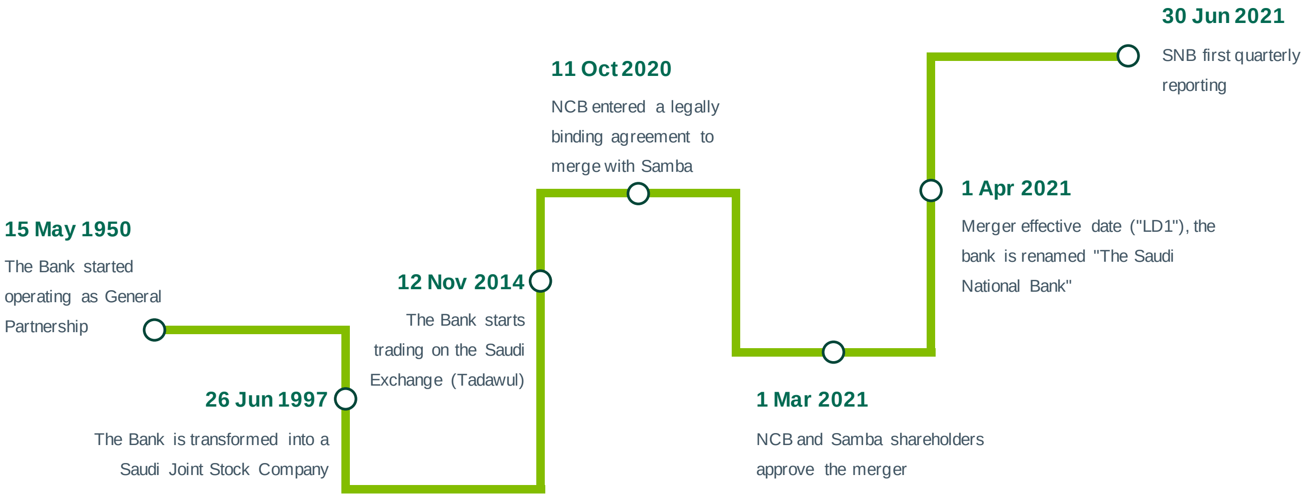
1. Merger Update

The Saudi National Bank (“SNB” or “the Bank”) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank’s conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration number 4030001588 dated on 19 Safar 1418H (26 June 1997). The Bank initiated business in the name of “The National Commercial Bank” (“NCB”) under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank’s conversion from a General Partnership to a Saudi Joint Stock Company. The Bank’s shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

On 11 October 2020 it was announced that NCB and Samba Financial Group ("Samba") entered into a legally binding merger agreement pursuant to which these entities agreed to take necessary steps to implement a merger between the two Banks in accordance with applicable regulations.

SNB merger - Key milestones achieved to date



On 1 March 2021, pursuant to receipt of the required regulatory approvals, the shareholders of NCB and Samba approved the proposed merger of the two banks pursuant to Articles 191-193 of the Companies Law and the terms and conditions of the Merger Agreement entered into between the two banks on 24/2/1442H (corresponding to 11 October 2020).

The effective date of above merger was 1 April 2021 (“Legal day 1” or “LD1”), pursuant to which Samba ceased to exist and all of its assets and liabilities were transferred to NCB.

As a result of merger, total new ordinary shares of 1.478 bn with a nominal value of SAR 10 per share were issued by NCB in favor of Samba Shareholders by way of increasing the paid-up capital of NCB from SAR 30 bn to SAR 44.78 bn which represents an increase in the number of shares of the Bank from 3 bn shares to 4.478 bn fully paid shares.

Additionally, the Bank announced that, as a result of the merger, the Bank’s name changed from NCB to Saudi National Bank (“SNB”) from the date of the Merger taking effect pursuant to the Bank’s extraordinary general meeting approval on 17/7/1442H (corresponding to 1 March 2021). The legal procedures to register the new name of the Bank were completed during the period ended 30 June 2021.

2. Purchase Price Allocation (“PPA”) update

PPA overview

The merger has been accounted for using the acquisition method under IFRS 3 – Business Combinations with NCB being the acquirer and Samba being the acquiree.

SNB is in the process of allocating the purchase consideration to the identifiable assets and liabilities. Accordingly, as at 2Q 2021 SNB has accounted for the acquisition based on the provisional fair values of the acquired assets and liabilities as at the acquisition date. Adjustment to those provisional values will be finalized within twelve months of the date of acquisition. However, it is also worth noting that management believes that the current PPA exercise captures all the material adjustments, and this implies that, while SNB will keep refining the PPA until the end of this year, no material changes to the Goodwill amount are to be expected.

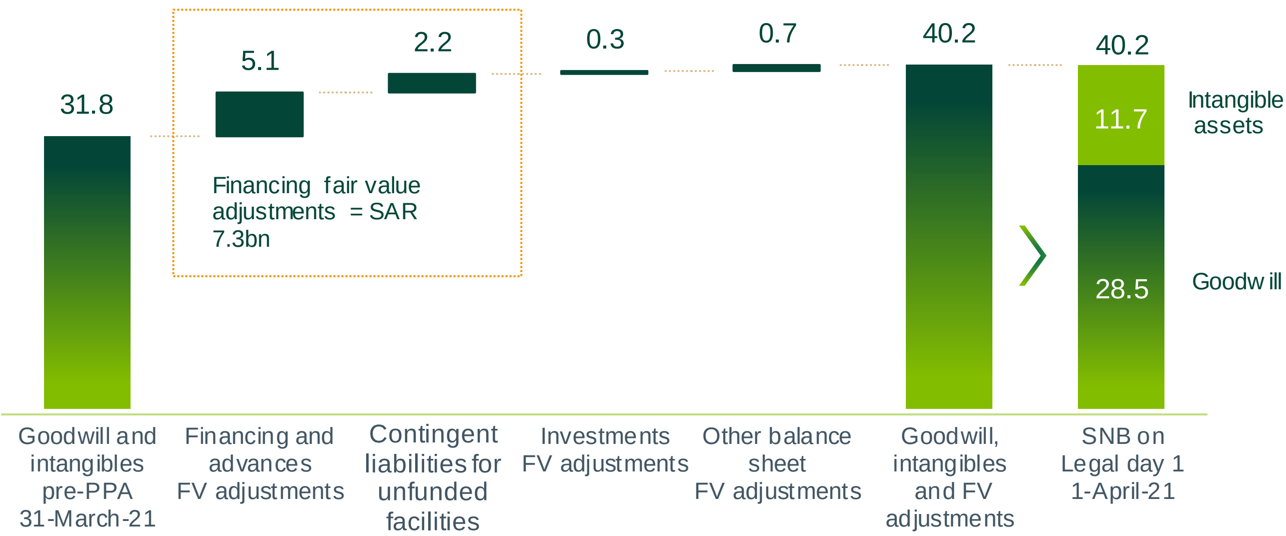
Results of PPA exercise and preliminary goodwill

As illustrated, the transaction perimeter included Samba's assets and liabilities and was completed for 1.478 bn of NCB. The purchase consideration was determined on the basis of the exchange ratio (0.739) and NCB's 31 March 2021 share price of SAR 53.1.

Based on this the purchase consideration paid to Samba shareholders was SAR 78.5 bn that, once compared with Samba's net assets of SAR 45.8 bn, resulted in an excess purchase consideration of SAR 31.8 bn (approximately 40% of the purchase consideration paid).

Following the merger announcement on 11 October 2020, and in line with the broader market trend in the KSA banking sector and the positive investors' reactions to the announcement, NCB share price increased and this translated into an increase in the value of the goodwill on LD1 to SAR 31.8 bn.

SNB goodwill, intangibles and FV adjustments as of 30 June 2021



The purchase price allocation exercise required Fair Value ("FV") adjustments over the following areas:

- **Finance and advances**: mostly attributable to adjustments of corporate loans and Purchased or Originated Credit-Impaired ("POCI") loans. POCI are financial assets which are credit impaired at the initial recognition date.
- **Contingent liabilities for unfunded facilities**: attributable to POCI related unfunded facilities accounted as contingent liabilities at the initial recognition date.

- **Investments**: the fair value adjustment mostly attributable to fixed incomes securities and private equities.
- **Other Fair Value adjustments**: composed by adjustments to property plant and equipment, realignment to market value of debt securities in issue and on balance recognition of Samba other contingent liabilities.
- **Intangible assets**: the value of the intangible assets generated by the transaction are primarily related to:
  - Core Deposits Intangibles
  - Customer Relationships
  - Purchase Credit Card Receivables

Subsequent measurements due to purchase price allocation

Unwind of the fair value adjustment: on the date of the merger, 1 April 2021, SNB recorded the acquired Samba 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 recognized in 'Net special commission income' using the effective interest rate method ("EIR"). The amount recognized in the future will be on a declining basis, in line with the EIR method. The majority of the adjustment on finance and advances will unwind in a tenure of 10 years.

Amortization of intangible assets: pursuant to the PPA exercise, intangible assets amounting to SAR 11.7 bn were recognized comprising of customer relationship, purchase credit card receivables core deposits intangible assets, and brand and customer relationships which will be amortized over their respective useful economic lives averaging approximately 10 years.

Annual goodwill impairment testing: in line with the requirements of accounting standards which requires the goodwill to be tested annually or more frequently in case of any indicators, SNB will test for the impairment of the goodwill annually at the end of each financial year (including 4Q 2021) since, as of 2Q 2021, no impairment indicators have been identified.

3. 1H 2021 reported results

SAR (mn)	**1H 2021**	**1H 2020**	**Δ**	**Δ%**
Selected Income Statement items				
Net special commission income	9,962	8,115	1,847	23%
Operating income	13,274	10,071	3,203	32%
Operating expenses	4,301	3,221	1,080	34%
Operating results before ECL	**8,973**	**6,850**	**2,123**	**31%**
Impairment charge for ECL	2,687	1,224	1,463	120%
Income from Operations (net)	**6,286**	**5,626**	**660**	**12%**
Net income of the period	**5,565**	**4,999**	**566**	**11%**
Equity holders of the bank	*5,526*	*4,922*	*604*	*12%*
Non controlling interest	*39*	*77*	*(38)*	*-49%*
Selected Balance Sheet items				
Investments	228,859	146,306	82,553	56%
Finance and advances	503,157	315,844	187,313	59%
Customer deposits	588,135	380,398	207,737	55%
Selected financial multiples				
Basic EPS	1.41	1.58	(0.17)	-11%
Diluted EPS	1.41	1.58	(0.17)	-11%

The table above illustrates SNB reported consolidated reported results as of 30 June 2021 (including SAMBA results from the date of the merger 1 April 2021).

In line with the reporting framework, SNB reported results as of 1H 2021 include:

- For 1Q 2021 NCB consolidated results
- For 2Q 2021 SNB consolidated results

In light of the above, the year over year comparison is not on a like for like basis, and in order to have such comparison the reader is referred to the pro forma financials and the pro forma section included in this document.

The following commentary applies to SNB published consolidated results for reported period 1H 2021 and 1H 2020:

- **Net income of the period after zakat** was SAR 5,565 mn, showing an increase compared to the same period last year (+11%), while the **net income attributable to equity holders of the bank was SAR 5,526 mn**. The variance compared to the same period in 2020 is largely driven by the effect of the consolidation of Samba in 2Q 2021 and the unwinding and amortization of purchase price allocation related adjustments. The combination of these effects were sufficient to offset the merger driven incremental ECL provision.

- **Net Special Commission Income** (SAR 9,962 mn), and operating income (SAR 13,274 mn) showed an increase (+23% and +32% respectively) mostly driven by the consolidation of Samba 2Q figures and the effects of the unwinding of PPA adjustments which contributed to offset the market repricing due to lower interest rates.
- **Operating expenses (excluding ECL)** totaled SAR 4,301 mn, +34% compared with 1H 2020, driven by the consolidation of Samba costs, the incremental merger related cost (estimated in SAR 42 mn for the initial 6 months) and other one-offs, partially offset by the initial cost synergies being realized.
- **Operating result before ECL** shows an increase driven by the consolidation of Samba figures. The operating result before ECL as percentage of operating income remained stable in 1H 2021 when compared to the previous year (67% compared to 68%). The marginal decrease can be attributed to the impact of one-off merger related costs and the amortization charge for intangible assets.
- **Impairment charge for ECL** totaled SAR 2,687 mn with an increase YoY of +120%. This is due to the fact that under the purchase accounting rules that govern bank mergers, SNB was required to mark the acquired assets to fair value, a process which already implies the assessment of credit risk. On 2 April 2021 ("Legal day 2" or "LD2") SNB was required to build the reserve to cover the expected credit loss for the same portfolio already fair valued. The incremental ECL provisioning due to this has been quantified as SAR 1,375 mn.
- **The size of the balance sheet** increased by ~55% as a result of the merger and the purchase price allocation exercise and this is reflected on Investments, Financing and Advances and Customer Deposits in comparable manner.
- As illustrated in the table above, **EPS and Diluted EPS** show a decrease of ~11%, this is mostly attributable to the incremental ECL provision in Q2 related to LD2 accounting.

SNB Saudi National Bank

4. 1H 2021 pro forma results

Basis of preparation of the pro forma financial statements

The following pro forma financial information was prepared by consolidating the financial results of NCB and Samba as on 30 June 2020 and 30 June 2021 assuming the merger had happened on 1 January 2020. The fair valuation adjustments relating to the PPA exercise were adjusted as well as the integration costs and other merger related one-offs to enable a like for like comparison of the operating performances of the combined organizations.

Because of the nature of pro forma, this financial information addresses a hypothetical situation and therefore, does not represent SNB's actual financial results. Pro forma financial results have been calculated for illustrative purposes only, to enable an understanding of the period-on-period performance of the combined entity.

Reconciliation of the pro forma results with the reported results

The table below illustrates the reconciliation between 1H 2021 SNB reported net income and the pro forma results, illustrating the normalization required to enable a like for like comparison of the financial results for the period.

Reported results to pro forma reconciliation	**SAR (mn)**
Reported 1H SNB net income	5,565
Samba 1Q result	(476)
Pro forma 1H SNB net income	**5,089**
Samba 1Q one-offs	1,315
2Q merger related adjustments	
LD2 ECL provision one-off	1,375
Other 2Q adjustments (net of Zakat)	(74)
Total 2Q merger related adjustments	**1,301**
Normalized 1H SNB net income	**7,705**

In particular, the following elements have been adjusted to enable a pro forma like for like comparison:

- Inclusion of Samba 1Q results.
- Removal of Samba merger related one off in 1Q, mostly related to assets write offs, other provisions and integration related costs.
- Removal of the LD2 ECL provision driven by the one-off technical accounting entries consequence of the bank merger.
- Removal of other 2Q one-off costs and incomes related to the merger, mostly: effects of FV unwind, intangibles amortization, merger related costs, zakat effect.

1H 2021 pro forma results

The table below reflect extracts of pro forma financial position of SNB as on 30 June 2021 and 30 June 2020 and the financial performance for the six month periods then ending.

SAR (mn)	**1H 2021**	**1H 2020**	**Δ**	**Δ%**
Selected Income Statement items				
Net special commission income	11,013	10,993	21	0%
Operating income	15,439	14,861	578	4%
Operating expenses	4,993	4,754	240	5%
Operating results before ECL	**10,446**	**10,108**	**338**	**3%**
Impairment charge for ECL	1,730	1,870	(139)	-7%
Income from Operations (net)	**8,715**	**8,238**	**477**	**6%**
Net income of the period	**7,705**	**7,228**	**477**	**7%**
Equity holders of the bank	*7,665*	*7,151*	*515*	*7%*
Non controlling interest	*39*	*77*	*(38)*	*-49%*
Selected Balance Sheet items				
Investments	229,199	239,499	(10,300)	-4%
Finance and advances	508,024	464,386	43,637	9%
Customer deposits	588,105	567,658	20,447	4%
Selected financial multiples				
Basic EPS	1.79	1.64	0.15	9%
Diluted EPS	1.79	1.64	0.15	9%

***Note I**: pro forma balance sheet includes adjustments to neutralize the effect of purchase price allocation and fair valuation of Samba balance sheet*

The following commentary is on a proforma basis for movement between 1H 2021 and 1H 2020:

- **Net income of the period** for the initial 6 months in 2021 was SAR 7,705m on a pro forma basis. This is a reflection of the adjustments illustrated above. The result is slightly above the same period last year due mostly to changes in ECL provisions as well as generally positive operating performance in 1H 2021.
- The **operating result before ECL** is SAR 10,446m and shows an improvement of 3% over the same period last year, testimony of the good operating performance of the bank in the initial 6 months of 2021 on a like for like basis.
- **Net special commission income** of SAR 11,013m substantially in line with the same period in 2020. The results for 2021 are largely driven by the higher lending balances sufficient to offset the pressure on pricing.

- **Operating income** of SAR 15,439 mn for 1H 2021 was higher by SAR 578 mn mainly driven by an increase in the income from instruments held at fair value through the income statement by SAR 1,003 mn which was a continuing trend from the previous quarter. This increase was partially offset by a reduction of SAR 136 mn in gains from the non-FVIS instruments, a reduction in the exchange income of SAR 60m and a reduction in the other operating income of SAR 255m and other minor, not material, variances.
- **Operating expenses (excluding ECL)** of SAR 4,993 mn for 1H 2021 was higher by SAR 240 mn mainly due increased depreciation expenses of SAR 41 mn, an increase in payroll expense of SAR 58 mn, and higher IT costs.
- **Charges for provisions in expected credit losses** for 1H 2021 of SAR 1,730m were SAR 139m lower than 1H 2020 as a result of the improved general credit conditions of borrowers in KSA following elevated Covid-related credit losses in 1H 2020.
- **Investments** of SAR 229.2 bn were reduced by SAR 10.3 bn to capitalize on opportunities to realize capital gains.
- Improvement in the **finances and advances** of SAR 508.0 bn by SAR 43.6 bn reflects the banks' strong position in the market and improving economic conditions.
- Increase in the **customer deposits** of SAR 588.1 bn by SAR 20.4 bn with a corresponding CASA ratio of 77% demonstrating a strong funding position for the bank post-merger.
- As illustrated in the table above, **EPS and Diluted EPS on a pro forma basis** show an improvement of 9%, this is linked to the normalized performance of SNB once adjusted for one off integration costs and ECL provision taken on LD2.

Disclaimer

The Saudi National Bank (SNB) prepared this document on a proprietary basis as general background information about the activities of SNB. The information contained herein is given in summary form and for discussion purposes only. Some of the information that is relied upon by SNB is obtained from sources believed to be reliable, but SNB (nor any of its directors, officers, employees, agents, affiliates or subsidiaries) does not guarantee the accuracy or completeness of such information, and disclaims all liability or responsibility for any loss or damage caused by any act taken as a result of the information. This document including the information covered therein is not intended either to be relied upon or construed as an advertisement for, or an offer, solicitation or invitation to sell or issue, or to subscribe, underwrite or otherwise acquire any securities in any jurisdiction. It should and must not be treated as giving tax, legal, investment or other specialist advice or a recommendation to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Neither shall any part of this information nor the fact of its distribution form part of or be relied on in connection with any contract or investment decision or commitment relating thereto, nor does it constitute a recommendation regarding the subject of this document.

All statements included in this document other than statements of historical facts, including, without limitation, those regarding financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives) are forward-looking statements and may thus include words like "anticipate", "believe", "intend", "estimate", "expect", "will", "may", "project", "plan" and such other words of similar meaning. Such forward-looking statements are based on numerous assumptions regarding present and future business strategies and the relevant future business environment. Any forward-looking statements speak only as of the date of this document and SNB expressly disclaims to the fullest extent permitted by law any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Nothing in the foregoing is intended to or shall exclude any liability for, or remedy in respect of, fraudulent misrepresentation. Due to rounding, numbers and percentages presented throughout this document may not add up precisely to the totals provided.

SNB is not under any obligation to update, complete, amend, revise or keep current the information contained herein, and any opinions expressed herein are subject to change materially without notice. Accordingly, no representation or warranty, express or implied, is or will be made by SNB, their respective advisors or any such persons' directors, officers or employees, or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this document, and any reliance you place on them will be at your sole risk. Investors must rely solely on their own examinations of the Offering and relevant documentation in making a determination as to whether to invest in the securities described. An investor should seek independent professional advice when deciding if an investment is appropriate. Securities that may be discussed herein may not be suitable for all investors. Investors are required to make their own independent investigation and appraisal of the business and financial condition of SNB and its subsidiaries, the nature of the securities and the merits or suitability of the securities or any transaction to any investor's particular situation and objectives, including the possible risks and benefits of purchasing any securities. Any such determination should involve an assessment of the legal, tax, accounting, regulatory, financial, credit or other related aspects of the offering or the securities. Without prejudice to the foregoing, SNB, their advisors and any such persons' directors, officers or employees expressly disclaim any liability whatsoever, in negligence or otherwise, for any loss howsoever arising, directly or indirectly, from use of, or reliance on, this document or its contents or otherwise arising in connection therewith.