

Tadawul Announcement

Alawwal bank announces entry into a binding merger agreement with The Saudi British Bank

Further to the 1/9/1439H (corresponding to May 16, 2018G) announcement of a non-binding agreement between the Saudi British Bank ("SABB") and Alawwal bank with respect to the exchange ratio of their proposed merger, Alawwal bank would like to announce to its shareholders that it entered into a binding merger agreement on 3 October 2018G with SABB under which the two banks agreed to take the necessary steps to implement a merger by way of a statutory merger pursuant to Articles 191-193 of the Companies Law and Article 49(a)(1) of the Merger and Acquisition Regulations (the "**Agreement**").

Pursuant to the terms of the Agreement, SABB and Alawwal bank will merge and all of the assets and liabilities of Alawwal bank will be transferred to SABB. On completion of the merger, SABB will continue to exist and Alawwal bank will cease to exist as a legal entity and its shares will be cancelled and new shares in SABB will be issued to shareholders of Alawwal bank. Reference to the combined bank in this announcement means SABB following the completion of the merger.

If the merger is completed, Alawwal bank shareholders will receive 0.48535396 new SABB shares for each Alawwal bank share (the "Exchange Ratio"). The new shares will be issued by way of a capital increase, which will increase the SABB paid-up capital by 37.0% from SAR 15,000,000,000 to 20,547,945,220 and the number of its issued shares will increase from 1,500,000,000 to 2,054,794,522.

Based on the Exchange Ratio and the closing price of SAR 33.51 per SABB share on 14 May 2018 (the last business day prior to the cautionary exchange ratio announcement), the merger values each Alawwal bank share at SAR 16.26 and Alawwal bank's existing issued ordinary share capital at approximately SAR 18.6 billion.

This represents a premium of 28.5% to the closing share price of Alawwal bank of SAR 12.66 on 14 May 2018 (the last business day prior to the cautionary exchange ratio announcement) and a premium of 14.5% to the share price of Alawwal bank of SAR 14.20 on 3 October 2018 (the last business day prior to this announcement). This also represents a 12.8% premium to the implied exchange ratio of 0.430 based on 6-month volume weighted average price (VWAP) of SABB and Alawwal bank shares on 14 May 2018 and a 12.0% premium to the implied exchange ratio of 0.433 based on 6-month VWAP of SABB and Alawwal bank shares on 3 October 2018.

On completion of the merger, SABB's existing shareholders would own 73.0% and Alawwal bank's shareholders would own 27.0% of the combined bank on a fully diluted basis.

The Board of directors of SABB, who have been so advised by Goldman Sachs Saudi Arabia ("GSSA") as to the financial terms of the merger, consider the terms of the merger to be fair and reasonable. In providing its advice to the Board of directors of SABB, GSSA has taken into account the commercial assessments of the Board of directors of SABB.

The Board of directors of Alawwal bank, who have been so advised by J.P. Morgan Saudi Arabia Company ("JPMSA") as to the financial terms of the merger, consider the terms of the merger to be fair and reasonable. In providing its advice to the Board of directors of Alawwal bank, JPMSA has taken into account the commercial assessments of the Board of directors of Alawwal bank.

On completion of the merger, the main shareholders of the combined bank will be HSBC Holdings B.V. (29.2%), Olayan Saudi Investment Company ("Olayan") (18.2%), NatWest Markets N.V.

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(10.8%) and the General Organisation for Social Insurance ("GOSI") (9.9%). NatWest Markets N.V. (formerly The Royal Bank of Scotland N.V.) is the legal entity representing a consortium of international shareholders comprising The Royal Bank of Scotland Group plc ("RBS Group plc") (indirectly holding 4.1% of the combined bank), Stichting Administratiekantoor Beheer Financiële Instellingen ("NLFI") (indirectly holding 3.7% of the combined bank) and Banco Santander, S.A. (indirectly holding 3.0% of the combined bank) ("Santander", and together with RBS Group plc and NLFI, the "Consortium Members").

Subject to regulatory approvals, NatWest Markets N.V. intends to split the shares it will hold in the combined bank after the transaction has completed and NatWest Markets plc (an affiliate of RBS Group plc that is expected, subject to regulatory and internal approvals, to hold RBS Group plc's stake in the combined bank following the completion of the merger), Santander and NLFI will become direct shareholders in the combined bank.

SABB and Alawwal bank have received non-binding statements of support for the merger from HSBC Holdings plc (which is the parent company of HSBC Holdings B.V.) and NatWest Markets N.V., respectively. On 3 October 2018, HSBC Holdings plc confirmed its current intention to support the merger in a letter to the Board of SABB, which sets out the basis of its support, including with respect to the satisfaction of the conditions summarised in this announcement. NatWest Markets N.V. is also currently supportive of the merger (as confirmed in a letter dated 3 October 2018 to the Board of Alawwal bank), subject to the final approvals of the Consortium Members and any regulatory approvals.

The merger will create the Kingdom's third-largest bank¹, a top-tier retail and corporate bank, and provide unrivalled access to a global banking network to facilitate the flow of investment capital into Saudi Arabia and the growth of international trade.

The combined bank will set new standards in training and talent development and offer exciting career opportunities in a much larger organisation. No involuntary staff redundancies are expected as a result of the merger.

There will be no immediate change for customers as a result of today's announcement. Both banks will remain independent and continue to operate a business as usual service until the merger has completed. The combined bank will be well placed to support customers seeking to benefit from the ambitious agenda of Saudi Vision 2030, by providing funding and financial products targeted across key segments of the domestic market – from large corporate and international institutional companies investing in Saudi Arabia, to Saudi consumers wanting to buy their own homes or make long-term savings plans.

On a pro forma basis, the combined bank will have a loan to deposit ratio of 86.6% and assets of SAR 268 billion (US\$ 71 billion) as at 30 June 2018. It will expect to remain diversified across the economy with loans to corporates and retail clients representing 77.0% and 23.0% of the pro forma combined bank loan book² respectively, as at 30 June 2018.

Merging the two institutions forms a bank with a stock market capitalisation of approximately SAR 64.6 billion (US\$ 17.2 billion), which will create the third-largest bank in the Kingdom on this basis³.

¹ By 30-June-2018 total assets

² Based on performing loan balances

³ Based on SABB and Alawwal bank market capitalisations as of 3 October 2018

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It is expected to be accretive to earnings per share for SABB and Alawwal bank shareholders as a result of anticipated annual cost synergies in the range of 10-15% of the FY 2017 combined cost base realised over three years post-completion⁴. This statement should not be interpreted to mean that earnings per share of the combined bank will necessarily be greater than earnings in the financial periods prior to the completion of the merger.

The combined bank is expected to benefit from a more efficient platform, optimising infrastructure from both banks, greater scale and negotiating positions with suppliers. SABB and Alawwal bank also expect that, in common with all large organisations, the combined bank will be able to optimise its team over time. Revenue synergies are primarily expected from cross-selling, increased customer penetration, and fund-raising diversification.

The merger will be subject to customary accounting adjustments related to business combinations under IFRS 3⁵. An evaluation of these accounting adjustments is being undertaken and the combined bank will have a 12 month period post-completion of the merger to finalise these adjustments. At this point, based on the information currently available, it is expected that these adjustments may have a dilutive impact on the combined bank's tier 1 capital ratio. Having said that, the pro-forma tier 1 capital ratio of the combined bank is expected to remain at robust levels, taking into account the substantial capital buffers existing at both banks which will be reinforced through strong capital generation from the combined bank's financial returns.

The combined bank expects to pay dividends bi-annually in the form of an interim and a final dividend following the completion of the merger. SABB's ordinary course final dividend for 2018 will be paid to SABB shareholders prior to completion of the merger, subject to approval by its Board of Directors and regulators. Pursuant to its undertakings under the Merger Agreement, Alawwal bank will not pay a dividend for 2018. The resolution not to pay dividends will be put forward to Alawwal bank shareholders in due course.

Subject to receipt of relevant regulatory and shareholder approvals, it has also been agreed as part of the merger agreement that the necessary steps will be taken so that upon completion of the merger the Board of the combined bank will be increased from 10 to 11 members with the following composition:

- seven of the current directors of SABB, three of whom will be from the persons currently appointed by HSBC Holdings B.V.; and
- four persons to be proposed by the current board of Alawwal bank.

On completion of the merger, it has also been agreed that the necessary steps will be taken to implement the following:

- Lubna Sulaiman Olayan, who will be one of the directors proposed by Alawwal bank, will become Chairman of the Board of the combined group;

⁴ Based on SABB and Alawwal bank earnings per share as of 31-December-2017 and fully phased synergies

⁵ International Financial Reporting Standard 3 ("IFRS 3") establishes principles and requirements for how an acquirer in a business combination recognises and measures acquired assets, liabilities and goodwill, and determines the necessary disclosures

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- the Vice-Chairman of the Board of the combined group will be nominated for appointment from amongst the directors of the combined bank who are current directors of SABB; and
- David Dew will become the Managing Director of the combined group.

The new Board and executive management appointees will assume their roles when the merger completes. In the interim, Mr. David Dew and Mr. Soren Nikolajsen will continue to lead the two banks independently as Managing Directors of SABB and Alawwal bank, respectively.

The combined group will draw on its broad expertise and harness the talent in both banks to optimise the benefits of the merger for customers and shareholders.

Both banks will retain their existing names and logos while the merger process is underway. A branding review will be undertaken by an independent market research company and further announcements will be made in due course once research results are known. According to the terms of current contractual arrangements between SABB and HSBC Holdings plc, the combined bank will continue to retain the right to utilise the HSBC logo.

It should be noted that the merger involves related parties given that Olayan and GOSI are substantial shareholders in, and have representation on the Boards of both banks.

Lubna Sulaiman Olayan, the representative of Olayan, Eyad Abdulrahman Al-Hussain, the representative of GOSI and Sulaiman Abdullah Al-Kadi who is currently a board member of Alawwal bank and holds shares in SABB, have declared their conflict of interest to the Alawwal bank Board and did not vote on the Alawwal bank Board decision to approve entry into the Agreement.

It is expected that the merger will complete during the first half of 2019. The timing of the extraordinary general assembly meetings of each of SABB and Alawwal bank will be subject to the publication of a firm intention announcement and the completion and publication of an offer document and shareholder circulars that are required by applicable regulations. Such documents will include information relating to the merger, including in relation to the risks associated with the merger and the issuance of the new SABB shares. After publication of the EGM resolutions there will be a 30 day creditor objection period before legal completion. Only at legal completion will the two banks effectively become one.

The merger requires the approval of Saudi Arabian Monetary Authority ("SAMA"), the Capital Market Authority ("CMA") and the General Authority for Competition and the Saudi Stock Exchange. Both banks anticipate that they will meet the qualifications that may be necessary to obtain all required regulatory approvals. The merger is also subject to approval by non-conflicted and independent shareholders representing at least 75.0% of the shares represented at the extraordinary general assembly meetings of each of SABB and Alawwal bank.

The merger is also subject to agreed contractual conditions, which include:

- I. there being no material adverse change in the respective financial conditions of SABB and Alawwal bank;
- II. SABB and Alawwal bank complying with certain key conduct of business requirements;

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- III. the TSA Amendment Agreement (as defined below) being approved by the SABB shareholders (which is expected to be sought at the EGM of SABB which will be held to approve the merger); and
- IV. the New Settlement Agreements and the Termination Agreement (both as defined below) being approved by the Alawwal bank shareholders (which is expected to be sought at the EGM of Alawwal bank which will be held to approve the merger).

On 3 October 2018, SABB and HSBC Holdings plc ("Holdings") entered into an agreement (the "TSA Amendment Agreement") making certain changes to the existing technical services agreement between SABB and Holdings.

On 3 October 2018, Alawwal bank entered into:

- I. three conditional settlement agreements (the "**New Settlement Agreements**") with each of the Consortium Members in respect of an aged receivable in the amount of the aggregate of SAR 656,250,000 and US\$ 116,920,195 (plus accrued interest) due from NatWest Markets N.V. (the "**Aged Receivables**") which will replace the existing settlement agreement in respect of the Aged Receivables, entry into which was approved by the Alawwal bank shareholders at the extraordinary general assembly meeting held on 2 May 2016 and which was executed by Alawwal bank and NatWest Markets N.V. on 22 July 2016 (the "**Current Settlement Agreement**"); and
- II. a conditional agreement with NatWest Markets N.V. pursuant to which the Current Settlement Agreement will be terminated and replaced with the New Settlement Agreements (the "**Termination Agreement**").

The key operative provisions of the New Settlement Agreements and the Termination Agreement are also conditional on the approval of the Alawwal bank shareholders and the completion of the merger. Upon completion of the merger, the rights and obligations of Alawwal bank under these agreements will be assumed by the combined bank.

Pursuant to the Termination Agreement, Alawwal bank and NatWest Markets N.V. agree to:

- terminate the Current Settlement Agreement; and
- fully, and finally, settle and release all alleged claims dealt with under the Current Settlement Agreement which either Alawwal bank or NatWest Markets N.V. may have against the other, the Consortium Members or any of their affiliates, or any of the directors, officers, employees and agents of such parties.

Pursuant to the terms of the New Settlement Agreements, each Consortium Member undertakes to pay the combined bank its pro rata share of the Aged Receivables upon the occurrence of certain events and in any case by the expiry of three years from the date of the completion of the merger.

None of the merger conditions may be waived or amended. Alawwal bank notes that it cannot be guaranteed that the conditions will be satisfied or accordingly that the merger will complete.

Moreover, pursuant to the terms of the Agreement, the Agreement will terminate with immediate effect upon the occurrence of any of the following events:

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- I. The date on which SABB or Alawwal bank makes an announcement through Tadawul that either the SABB or Alawwal bank Board has decided to withdraw or adversely modify its recommendation to their shareholders to approve the merger.
- II. Written notice to terminate is given by one party to the other party following:
 - breach by the other party of the Agreement where such breach has a material adverse effect on the other party, the merger or its implementation;
 - if the merger effective date does not occur within one year of the date of the Agreement; or
 - the parties agree to terminate the Agreement, in writing.

Lock-up arrangements have been agreed with NatWest Markets N.V., NatWest Markets plc (an affiliate of RBS Group plc that is expected, subject to regulatory and internal approvals, to hold RBS Group plc's stake in the combined bank following the completion of the merger), Santander and NLFI. NatWest Markets N.V., NatWest Markets plc, Santander and NLFI have agreed that they will not transfer any of their shares in Alawwal bank pending completion of the merger (subject to customary exceptions) and NatWest Markets N.V., NatWest Markets plc and Santander have further agreed that they will not transfer any of their shares in the combined bank until six months following completion of the merger (subject to customary exceptions). The post-completion lock-up will not apply to NLFI.

After obtaining the necessary regulatory approvals, SABB will issue (i) to its shareholders a circular containing full details of the merger; and (ii) to the shareholders of Alawwal bank an offer document that contain the details of the offer. Alawwal bank's Board will issue a circular addressed to its shareholders setting out its views on the merger. These circulars will contain full details of the merger and will be published in due course, subject to regulatory approvals. Any vote in respect of the resolutions to be proposed at extraordinary general meetings of SABB or Alawwal bank to approve the merger, or related matters, should be made only on the basis of the information contained in these circulars.

It should be noted that this announcement is not meant to be a firm intention announcement by SABB for the purposes of the Merger and Acquisition Regulations issued by the CMA. The firm intention announcement will be made at a later date following the fulfilment of certain conditions of the Merger Agreement and in any case before the publication of the circulars referred to above.

Goldman Sachs Saudi Arabia is acting as financial adviser to SABB. J.P. Morgan Saudi Arabia Company is acting as financial adviser to Alawwal bank. Abuhimed, Alsheikh & Alhagbani Law Firm in cooperation with Clifford Chance is acting as legal adviser to SABB. Legal Advisors, Abdulaziz Alajlan & Partners in association with Baker McKenzie Limited is acting as legal adviser to Alawwal bank.

The Boards of directors of SABB and Alawwal bank convey their appreciation and gratitude to the Custodian of the Two Holy Mosques and HRH The Crown Prince for their support and encouragement of the financial sector in the national economic development of the Kingdom.

The Boards of SABB and Alawwal bank also express sincere appreciation to SAMA, the CMA, the Ministry of Finance, Ministry of Commerce and Investment and the Saudi Stock Exchange for their consistent cooperation and constructive support for the parties in relation to the merger.

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For more details on the merger, please refer to the Investor Presentation published on the banks' respective websites.

Important Notices

The new SABB shares to be issued pursuant to the merger are not being offered to the public by means of this announcement. This announcement does not constitute a prospectus, a shareholder circular or an equivalent document.

No profit forecasts or estimates

Nothing in this announcement is intended, or is to be construed, as a profit forecast or to be interpreted to mean that earnings per SABB or Alawwal bank share for the current or future financial years, will necessarily match or exceed the historical published earnings per SABB share or Alawwal bank share.

Forward-looking statements

This announcement, including information incorporated by reference in this announcement, made regarding the merger, and other information published by SABB and Alawwal bank contain statements which are, or may be deemed to be, "forward-looking statements". All statements, other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on assumptions, expectations, valuations, targets, estimates, forecasts and projections of SABB and Alawwal bank about future events, and are therefore subject to risks and uncertainties which could cause actual results, performance or events to differ materially from those expressed or implied by the forward-looking statements. The forward-looking statements contained in this announcement include statements relating to the expected effects of the merger on SABB, Alawwal bank, the combined bank, the expected timing and scope of the merger and other statements other than historical facts. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "budget", "targets", "aims", "scheduled", "estimates", "forecast", "intends", "anticipates", "seeks", "prospects", "potential", "possible", "assume" or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Although SABB and Alawwal bank believe that the expectations reflected in such forward-looking statements are reasonable, SABB and Alawwal bank can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risks (known and unknown) and uncertainties (and other factors that are in many cases beyond the control of SABB and/or Alawwal bank) because they relate to events and depend on circumstances that may or may not occur in the future.

There are a number of factors that could affect the future operations of SABB, Alawwal bank and/or the combined bank and that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include the satisfaction (or, where permitted, waiver) of the conditions to the merger, as well as additional factors, such as: domestic and global business and economic conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, industry trends, competition, changes in government and regulation, changes in the policies and actions of governments and/or regulatory authorities (including changes related to capital and tax), changes in political and economic stability, disruption

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in business operations due to reorganisation activities, interest rate, inflation, deflation and currency fluctuations, the timing impact and other uncertainties of future or planned acquisitions or disposals or offers, the inability of the combined bank to realise successfully any anticipated synergy benefits when the merger is implemented (including changes to the Board and/or employee composition of the combined bank), the inability of SABB to integrate successfully Alawwal bank's operations and programmes when the merger is implemented, the combined bank incurring and/or experiencing unanticipated costs and/or delays (including IT system failures, cyber-crime and fraud), or difficulties relating to the merger when the merger is implemented. Other unknown or unpredictable factors could affect future operations and/or cause actual results to differ materially from those in the forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors.

Each forward-looking statement speaks only as of the date of this announcement. Neither SABB, nor Alawwal bank nor any of their respective associates or directors, officers or advisers, provides any representation, warranty, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Forward looking statements involve inherent risks and uncertainties. All forward-looking statements contained in this announcement are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers are cautioned not to place undue reliance on these forward-looking statements. Other than in accordance with their legal or regulatory obligations, neither SABB nor Alawwal bank is under or undertakes any obligation, and each of the foregoing expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.