

SABB 4Q19 Results Webcast transcript

David Dew, Managing Director: Thank you, moderator. Good day to everybody and welcome to our Results call for the fourth quarter 2019. I am David Dew, the Managing Director of SABB and I'm joined today by Mathew Pearce, our Chief Financial Officer.

I will provide you with some key messages as they relate to the fourth quarter and a brief update on the progress of our merger. Mathew will take you through the key highlights of our financial results for the fourth quarter including a number of merger-related entries that will probably require further explanation. We will aim to take about 15 to 20 minutes following which we will have a Q&A session. So, let's begin with the presentation please.

In terms of this first page it's basically a brief update of some key highlights during the course of the year. I would like to mention three or four points. Firstly, as you're all aware we legally completed our merger on 16th June 2019 and as you would expect, we have been very hard at work and focused on integration during the remainder of 2019 and I will come back to that point in a few minutes.

We elected a new Board in December of last year, and I will speak about the new Board. And we maintained focus on our core business. And a very important message today is that in terms of our BAU, our business as usual, we are very much paying attention to our core business. And again, I will give you some brief updates, but there are some highlights there in terms of what we've been doing in terms of both Retail and our Corporate businesses.

In terms of our financial results for 2019 there is a fair amount of noise in the numbers, most of which is merger related and I will let Mathew take you through that in some considerable detail. But the point I would like to make is that in the fourth quarter of last year we saw some loan growth for SABB which is encouraging, and in fact we continued to see some loan growth in the first two months of this year.

In terms of our new Board there is one change since our last results call. Stuart Gulliver joined the board on 1st January, and Stuart also agreed to be the Chair of our Board Risk Committee. I'm sure I don't have to inform you of Stuart's vast banking experience over a long career culminating in his position as the Chief Executive Officer of HSBC Holdings. I think Stuart's addition to the Board, and when you look at the other Board members you can see it is actually a very strong Board and I think it is an important signal of SABB's ambition in the years ahead.

In terms of the next slide, Vision and Strategy, this is a slide more for the website and for general background. I don't intend to go into it in any detail although I'm happy to answer any questions. The key message I'd like to leave you with is that we have a very clear vision, a very clear sense of purpose, strong values and a strong focus on behaviours and how we will behave.

In 2020 we have three core objectives. The first one is to deliver integration. The second one is to deliver business as usual, BAU, and to continue to focus on our customers and meeting our customer expectations. And the third one is to prepare for the future, and during the course of 2020 we will embark on a new strategic planning exercise. I don't want to pre-empt the results of that strategic planning exercise. I can tell you that the Board will be very closely involved. I don't anticipate a radically different bank or a radically different direction as a result of this strategic planning exercise, but I do anticipate a heightened sense of ambition and considerably exciting prospects for the future growth of our bank.

In terms of the integration update the basic message is that we are on track. As a reminder we have guided in the past that we anticipate full systems integration will occur within 18 to 24 months of legal day one, which is essentially the first half of next year, 2021. We are obviously working hard to go faster than that but at this point in time we are not changing our public guidance.

In terms of the governance around the merger nothing has changed since our previous updates and so I don't intend to go into further detail in terms of the governance.

In terms of integration milestones as I said earlier, we have made considerable progress and we are essentially on plan with all the internal targets that we have set ourselves. So we have defined the target culture for our organisation, and we have started an expensive roll-out programme that will be rolled out to every single employee in our bank and is very much led by senior management of the bank but with the coordination and support of independent third party experts.

We have established a single organisational structure, so we have one organisation structure, we have aligned internal policies, we've co-located hundreds of staff and we have actually completed internal staff migration onto a common people management platform.

We've also unified relationship coverage model for all of our corporate clients. And we have commenced manual migration of corporate clients from the legacy Alawwal systems to the SABB system.

We have launched a number of hybrid retail branches serving retail customers of both banks from common premises. And indeed, I visited two of those branches in Riyadh this morning. Initial customer feedback is very positive, initial staff feedback is very positive.

We have harmonised retail customer pricing. We have selected the target IT architecture and core operating system, completed analysis to understand any gaps and indeed are hard at work closing those gaps.

So as I said, in terms of the overall integration plan, we are on track and there's actually no change on this slide compared with previous calls and previous updates.

The Synergies and Integration Cost page, there's actually no change on this slide either other than the bar charts in the bottom right-hand quartile of the page where we have updated the 2019 integration costs with the actual number of integration costs incurred in 2019. And we have somewhat revamped the future guidance to show 80% of future integration costs being incurred this year in 2020 and the balance being incurred in 2021. So again, consistent with previous messaging but essentially, we will incur the vast majority of integration costs in 2019 and 2020.

It is perhaps just worth reminding you of the underlying numbers. So in terms of the cost synergies, 15% to 20% of the combined cost base. And as I said that guidance has not changed. That equates to a number in the order of SAR500m to SAR700m. The revenue synergies are 2% to 3% of the combined revenue base and again no change to previous guidance and equates to SAR200m to SAR300m.

So as I said on the last call if you chose to go to the top end of the synergies guidance you would get a number in the order of a billion Riyals on an annualised basis, fully phased which we have guided is after three years of legal day one.

And then the cost - the integration cost guidance would come out at 750 million to 1.25 billion costs. Again, the majority being incurred in 2019 and 2020.

So there is no change in that guidance, and we remain very comfortable with that guidance. And I think in terms of 2020 things will start to get more interesting in terms of the trade off if I can call it that way between the integration costs that we will incur in 2020 and the synergies that we will start to book in 2020, but the numbers start to get very interesting indeed in 2021 and 2022.

I will now hand over to Mathew for the detailed financial update.

Mathew Pearce, CFO: Thank you David. I shall start from slide 11.

On a year-to-date reported basis, SABB generated net income before zakat and income taxes of SAR 3.3 billion. This includes returns from the acquired Alawwal Bank portfolio since the merger date onwards. The bottom line was depressed particularly by significant one-of credit losses experienced in the second quarter relating to the merger. 2019 was also impacted by merger-related transaction and integration costs that will be incurred primarily over 2019 and 2020 as set out on slide 9.

These factors also impacted our returns with a reported return on tangible equity of 7.6%. Returns will be enhanced in the future as a full year of post-acquisition profits are booked and as the benefits of the merger are fully realised.

On a proforma basis, net income before zakat and tax was SAR 3.8 billion, similarly impacted by the credit losses in the second quarter and the merger-related expenses. Total operating income (or revenue) increased 1% year on year and 2019 included the impact from the unwind of the fair value adjustment amounting to SAR414 million. This adjustment was recorded in Net special commission income and represents the unwind of the discount applied to the contractual cash flows of the acquired Alawwal Bank portfolio under the fair value exercise. Further details of this can be found on slide 12 of the presentation.

In an eventful year for SABB and Alawwal Bank with a major strategic merger underway and making good progress, 2019 witnessed a relatively benign domestic corporate credit market against a backdrop of subdued economic activity, and in parallel significant growth in the mortgage market driven by government stimulus in line with priorities under Vision 2030. Those more correlated to, and aggressive towards, retail mortgages would have seen growth in overall lending, and those more correlated to the corporate market would have seen limited net lending. SABB falls into the latter category and this is evident in the profile of net lending during the period.

Excluding the benefit of the fair value or PV unwind, Net special commission income fell reflecting lower lending balances compared to 2018. Whilst our margin widened slightly year on year, the repricing of benchmark rates in the second half of 2019, together with competitive pressures on spreads, began to curtail the extent of that expansion, partly offset by our reduction of expensive time deposits in line with the ongoing synergy realisation. The

challenging economic environment also led to a decrease in non-funds income, particularly in loan origination and trade finance fees, together with lower net fees from credit cards and merchant acquiring as a result of increased competitive pressures. FX income showed some improvement. Costs were impacted by merger-related expenses and also a number of other expenses that were one-off in nature. Excluding these, underlying costs increased 1% from seasonal items notably in the fourth quarter.

Our capital position remained strong with our CET1 ratio increasing in the quarter to 18.2%, having been impacted by a dilution of approximately 200bps in Q2 from the merger.

The fourth quarter net income before zakat and tax was SAR 1.0 billion, which was down 35% compared with the same period on a proforma basis, from increased costs and higher impairments partly offset by higher revenue from the PV unwind mentioned earlier. Fourth quarter annualised cost of risk increased to 164bps from a small number of corporate accounts that deteriorated further.

The rest of the presentation unless otherwise stated will focus on the proforma results.

Moving on to slide 12. Net special commission income, which represents some 80% of revenue, was SAR 2.3 billion for the quarter, and included SAR414 million of PV unwind, as mentioned earlier. Excluding the unwind, Net special commission income was 13% lower than the same period last year and 5% lower than Q3. This reflected decreases in benchmark interest rates and lower lending balances, whilst cost of funding was lower including a benefit from reduction in more expensive time deposits. Average interest earning assets fell compared with the same period last year but were stable compared with the trailing quarter. Net special commission income margin fell approximately 20 bps during the fourth quarter to 3.0%, in line with previous guidance.

The outlook for margin looks increasingly challenging given the announced US rate cut this week and continuing short-term uncertainty related to global events. There is no change to our previously stated guidance that a change in benchmark rates of 25bps would lead to a change in our NIM of up to 10 bps.

On to slide 13. On an underlying basis, 2019 operating expenses increased marginally by 1%. This excludes merger-related items and a small number of expenses that are one-off in nature. These one-off expenses included VAT dues relating to prior periods, provisions for legal cases, and an adjustment to employees' long-term benefit plans which impacted the fourth quarter together with operating losses relating to Alawwal Bank prior to the legal merger. On an underlying basis, and excluding the unwind of the fair value adjustment in revenue, the cost efficiency ratio was 33.5%.

Slide 14 shows the cost performance for the fourth quarter compared with the same period in 2018. On an underlying basis, excluding the impact of merger-related expenses and one-off cost items, costs in the fourth quarter fell 1%.

Total integration costs are still expected to be 1.5 to 1.8 times the expected synergies, unchanged from our previous guidance. We have updated the phasing of the remaining costs on slide 9 where the phasing is now expected to occur somewhat earlier as we press ahead with the integration.

Slide 15 continues the impairment analysis we presented at our last call. On a year-to-date basis, expected credit losses of SAR 3.0 billion, which equated to a cost of risk of 180bps, included one-off credit losses experienced particularly in the second quarter of 2019 relating to the merger, in the order of SAR1.6bn.

Q4 credit losses of SAR 655 million were higher compared to the same period last year notably from higher charges in our Corporate and Institutional banking portfolio. On a pro forma basis, this equates to a cost of risk of 164 basis points compared with 82 basis points in Q4 2018.

The NPL ratio of 4.4% was broadly unchanged compared with Q2 and Q3, in line with previous guidance, and our coverage ratio of non-performing loans excluding POCI, increased in the fourth quarter to 143%.

Moving on to our balance sheet. Gross customer lending balances increased 1% during the fourth quarter. Higher balances in the fourth quarter were mainly in the Corporate and Institutional banking business, with Retail Banking lending down.

Customer deposits increased to SAR192 billion during the fourth quarter. The year-end position included certain interest-bearing deposit related to our support of the Aramco IPO through our Corporate and Institutional Banking business which raised the overall level of borrowings temporarily during the last month of the year. Funding remains strong. SABB was able to begin optimising its funding base post-merger which led to a decline in funding since the merger as expensive surplus deposits matured. SABB's demand deposit ratio remained healthy at 64% and continues to be a competitive advantage for the Bank.

On to capital. Firstly, you will recall CET1 was diluted by approximately 200 bps from the merger. Thereafter, in both Q3 and Q4, our CET1 ratio has increased sequentially, closing at 18.2% for the end of 2019 which places us in the middle of the pack of a well-capitalised banking sector.

The increase in the fourth quarter was driven by 40 bps from the net income for the quarter partly offset by approximately 20 bps decrease through higher risk-weighted assets in line with the increase in customer lending in the fourth quarter. SABB continues to generate incremental capital and support both dividend distribution and credit demand from customers.

Finally, before I pass you back to David for closing remarks, a quick update on the purchase price allocation accounting for the merger.

As we continue to refine the PPA, for which we still have a 12-month window from legal merger date, as at 31 Dec 2019 we have recorded SAR13.1bn of goodwill and SAR1.9bn of other intangible assets net of cumulative amortisation. We commenced amortization of the other intangible assets in the fourth quarter of 2019, which represented 6-months of amortization cost since the legal merger date. As required by accounting standards, a goodwill impairment assessment was undertaken during the fourth quarter and we have concluded that goodwill is not impaired. Impairment testing will occur annually henceforth.

I'll now hand you back to David.

David Dew, Managing Director: Thank you, Mathew. So to sum up briefly 2019 was an historic year for SABB with the legal merger of SABB and Alawwal banks. Integration continues at pace and we've made considerable progress across all the major work streams. Our operating performance in 2019 remained resilient but was very much impacted by significant one-off merger-related accounting entries that Mathew has described. Our second half 2019 performance provides a more normalised set of operational results wherein we generated SAR5.4 billion of revenue and SAR2.3 billion of net income before Zakat and income taxes.

As Mathew said, the margin outlook remains challenging given the sequential cuts to benchmark rates in the second half of last year and more recently a few days ago. Uncertainty remains in terms of the Coronavirus and I'm sure there will be one or two questions on that as well as competitive pressures for quality assets in the Saudi market.

We saw muted corporate lending growth although we broadly maintained our corporate market share. And as I said earlier, we saw some modestly encouraging signs in the fourth quarter, and those signs have continued in the first two months of this year. We remain very well positioned to support our customers lending requirements. As Mathew said, our balance sheet, capital and funding all remain strong. Our resilient results remain strong and support our ability both to support our customers and indeed the future dividend distribution capacity.

That completes the presentation. I will now hand over to the Moderator and begin the Q&A.

Vikram Viswanathan, NBK Capital: Thank you for the presentation. I had a couple of questions. On the cost of risk, you have previously communicated that your normalised range is somewhere between 60 and 80 basis points. Should we expect the cost of risk to normalise as early as 2020? That's my first question. The second question is on the unwind, the present value of the unwind income on which you recorded SAR414 million in 2019. Is this booked every quarter or was it booked for the full year in the last quarter? How much should we expect on this line item for 2020?

David Dew, Managing Director: Thank you for the questions. I'll start with the cost of risk in 2020 and then I'll ask Mathew to add his perspective to that, and I'll ask Mathew to respond to the questions of the unwind of the fair value.

So in terms of cost of risk, actually we have typically guided in recent years that our cost of risk is 30 to 60 basis points over the economic cycle, so it's not the 60 to 80 you referenced. But in essence that guidance is nothing more than stating an historical fact and you can see that on the slides in cost of risk. But essentially through the cycle that is accurate guidance.

We would anticipate our cost of risk to be more volatile simply because we are essentially a corporate bank, 75% of our loan book is in our corporate business. And by definition that is more volatile because you can always have a problem with one or two corporates or indeed you can have a quarter or indeed a year where there are no corporate problems and then you get a low cost of risk. So our actual outcome is likely to be more volatile, which is why we guide through the cycle. In terms of 2020, I believe you should look at that historic range of 30 to 60 basis points but it's more likely to be towards the top of the range than the bottom of the range. But Mathew, your perspective please.

Mathew Pearce, CFO: Thanks, David. Actually on this occasion I've nothing else to add. I'll pick up the PV unwind question. So the amount that we've booked in 2019 represents six months (since the merger date). We began booking it in the fourth quarter and that was obviously an understandable timing because it takes time to do these things and hence that's why the accounting standards actually gives you 12 months in order to do that. But we began in 2019 and we booked six months at SAR414 million. However, you shouldn't assume that you should just double that and carry it forward. This is an unwind of a total amount of discount over a period of time and follows the effective interest rate method, whereby the amount of essentially discount you are booking in each period is on a declining basis, that's to say that the amount next year will be lower than it is this year. I'll give you a sense of how this might unfold but I will refrain from being too specific about giving a forward-looking guidance, but I think what I'm about to give you is decent enough. Over half of this will be fully recognised over the next three years - it's mostly upfront loaded. And in terms of each year on a declining basis it's pretty typical that 10% to 20% lower each year is the pattern as it goes lower. So you should generally expect that as you go forward each year you should be seeing that level of decline, 10% to 20% each year as it unwinds lower and lower.

So hopefully that gives you some perspective without me being overly specific. Technically the unwind will be done over a period of almost 20 years, but actually the vast majority which is correlated to the corporate book is unwound over a shorter period of time and hence my point about half of it is unwound over the next three years.

Edmond Christou, Bloomberg Intelligence: Thanks for the call today. It's just a follow-up on the cost of risk. So you feel comfortable with the upper end of the range of 60 basis points. I think when I look at your Stage 2 coverage actually it seems to be comfortable at 12% but when I look at Stage 3 it's falling to 40% if I exclude the acquired books. Is it something that you would like to increase going into next year and beyond to be more comfortable than 40% coverage ratio on the Stage 3? And the large write off, it was a bit of a surprise for me to happen in Q4. I think this is for the troubled corporate named we talked about before. Is this something that you expect more write-offs to happen in 2020?

The other question I have in mind is you made a good comment on the mortgage market to remain competitive and I just want to understand is it competitive because a new player is coming and competitive pricing? And really whether you see SABB positioning itself within the corporate and what type of client?

Mathew Pearce, CFO: Thanks, Edmond. In terms of cost of risk and you're referring specifically to coverage levels I would definitely guide you not to put together the Stage 3 lifetime expected credit losses impaired and the POCI portfolio. And the reason for that is because they have quite different accounting, in the sense that the POCI portfolio predominantly includes the acquired non-performing portfolio of Alawwal Bank and per the accounting we actually write that down to the net recoverable value. So you can see when you actually look at that part of the portfolio in our fourth quarter accounts, whilst we have 2.8 billion of exposures, we only have an expected credit loss provision of SAR61 million. That SAR61 million relates to the SABB originated portfolio, but the acquired one that we got from

Alawwal Bank is essentially written down to its net recoverable value and in a sense therefore carries no provision against it. So to add together the POCI portfolio and the Stage 3 portfolio would really be combining very different things, apples and pears. So I'd encourage you to look at them separately.

When you look at Stage 3 then for the fourth quarter we are carrying 61% coverage ratio; I think from period to period because the number of accounts in Stage 3 tends to be lower in volume than the more voluminous Stage 1 and Stage 2 portfolios you actually end up looking at this on an account by account basis. As accounts move into and out of that portfolio you generally tend to find that the percentage can move around somewhat because it's down to individual circumstances. As it currently stands for that portfolio, we are comfortable at the year end with our provision levels based on the facts and circumstances that we have in hand and engagement with those troubled clients.

David Dew, Managing Director: If I can add to that my perspective, I think overall we would regard ourselves as conservatively provisioned. And as we discussed in the second quarter, we took a number of provisions in the second quarter on the SABB book that in the absence of a merger we would probably not have taken. So I fully agree with Mathew's comment that not only are we comfortable with our provisioning, but we are conservatively provisioned.

I think when you look at the overall bank results for the fourth quarter for the whole banking system, you saw a significant decline in net profit in the order of 15%, 16% and essentially that was because of higher provisioning amongst a number of banks. As we've said on previous occasions we continue to see some signs of corporate stress in the market, so if one or two corporates do get into difficulties in 2020 then I think you could anticipate that that would be reflected in provisioning costs in the banking sector. But equally that's against a backdrop of very well capitalised banks and what we would regard as a normal economic cycle. And to some extent will also be offset by future loan growth and good loans being booked.

Your question on write-offs, again, we've approached this from a conservative perspective. We have taken a very close look at both our books and Alawwal books as you would expect. And in a year when there is considerable noise in our numbers if you want to take a view that we've taken the opportunity to clean up some of the more problematic exposures that probably would not be a bad way to look at it. So I don't think you should take that write-off number to be an indication of where write-offs might go in the future. I will touch on mortgages, but if Mathew wants to add anything after that on write-offs then I'll ask him to do so.

So in terms of mortgages, we've clearly seen for the banking system as a whole in 2019 the main loan growth came from mortgages where we saw actually very rapid growth in line with government objectives and in line with Vision 2030. The competition essentially comes from most of the banks being active in the mortgage market and indeed some of the specialised mortgage companies and finance companies also being active in the marketplace, and I have to say the Saudi Refinancing Company also playing a pretty important role in the ongoing development of the mortgage market. We expect that growth perhaps not quite at the same

levels but having said that we do believe mortgage growth will remain strong in 2020. And the pipeline for mortgages seems to be very, very strong.

Now, SABB has not necessarily participated fully in that mortgage growth. We have seen some mortgage growth but certainly lower than the overall market. I think traditionally that has been because we have not been a mass retail bank in terms of our retail business. We have focused more on the more affluent segments of the retail market and also to some extent on the expatriate segment of the retail market because of our partnership and association with HSBC.

I think you should expect some change in SABB's approach in 2020. We will shortly be rolling-out a more competitive mortgage product, but we would continue to expect to do so in a completely responsible, completely transparent manner so that our customers fully understand the commitments that they are taking, that we look at affordability and other key ratios very closely and do everything we can to protect both ourselves and indeed our customers. So we expect continued mortgage growth. We expect to compete more effectively in the mortgage market in 2020 than perhaps we did in 2019, but we intend to do so in a fully responsible manner.

Edmond Christou, Bloomberg Intelligence: If I understood correctly, I think there could be some room for a clean-up, in this year with some write-off. And that could explain why the cost of risk could be at the higher end of your 30 to 60 basis points.

Mathew Pearce, CFO: Obviously, if we start to see some growth that will obviously downplay the cost of risk numbers slightly as you're seeing in some other banks as they grow.

And with regards to write-offs we haven't historically written-off loans. So certainly within the portfolio there are a number of accounts that have certainly reached a maturity stage where it's time to start looking at some write-offs. Other banks write-off at a much earlier stage, so perhaps there's an element of catch-up here arguably if you like for a difference of approach. So I wouldn't necessarily bake in the same level going forward. But it's quite natural as you go through a credit lifecycle that at some point as you go through that you restructure some accounts, right-size them and for others they go to their end liquidation, fruition and you end up recovering and writing-off whatever else is there at that time. So that's probably pretty normal. And if we think about where we are and maybe are still to go in the credit lifecycle, I suppose an expectation of some write-offs would not be unreasonable.

Edmond Christou, Bloomberg Intelligence: I'll just follow-up on the POCI; it has increased from Q3 to Q4. Is there any reason? I think it was SAR2.3 billion in Q3 and Q4 it's become SAR2.7 or SAR2.8 billion.

Mathew Pearce, CFO: So with some customers we have extended some further financing and a little bit more is actually that the number of accounts recognised as POCI has

increased. So, you know that we have 12 months within which to complete the PPA exercise, so as we have been going through that we have identified some additional accounts and they have been moved into POCI.

Rahul Bajaj, Citi: Thanks kindly David and Mathew for the call. I have two quick ones actually. The first one is what would be your guidance for loan growth for 2020, especially since you mentioned that the growth seen in 2019 fourth quarter has continued into the first quarter and Aramco lending was in the fourth quarter numbers? Can the Aramco loan growth unwind sometime this year which would have an impact on the overall loan growth metrics? The second question comes on the strategic planning exercise that David mentioned earlier. I just wanted to understand - obviously you're not going into the details - but is this something you would come back to the market and guide in terms of what could be your near-term and long-term targets post this strategic exercise?

David Dew, Managing Director: Thank you for those questions. In terms of loan growth what I would say in terms of our growth in the fourth quarter, which was relatively modest at 1.4%, but nevertheless not too bad on an annualised basis. Only a small piece of that was Aramco. So, in terms of our guidance for 2020 loan growth, we are guiding to mid-single digits. And I think again, that should be taken in the context of 75% of our loan book being corporate and because of the rapid anticipated growth in mortgages that we've spoken about the expectation is that corporate loan growth will be more modest than retail loan growth. So our guidance for this year is mid-single digits.

In terms of the strategic plan as I said, although I don't want to pre-empt the plan in any way, I don't anticipate any significant changes in core strategy or core direction. We absolutely will update the market as and when we have anything to update in terms of strategy. And we will continue with our quarterly results calls and our quarterly guidance in terms of future years including any changes that may or may not arise from the strategic planning exercise.

Rahul Bajaj, Citi: Thanks, David. A quick one there on the strategic planning exercise what is the timing of this exercise if I may know please?

David Dew, Managing Director: It will basically go through the course of this year. As I said earlier, our focus this year is very much on integration and our BAU business, and then planning for the future growth, which in our mindset is very much 2021 onwards. So you can expect the strategic planning exercise to essentially go through the course of this year. It will be a thorough exercise facilitated by independent consultants.

Shabbir Malik, EFG Hermes: Thank you very much. I would appreciate some colour on your fee income line. What has been the trend in 2019 and how do you see various factors driving fee income changing this year? My second question is on your credit quality. If I look

at your Stage 2 loans - the proportion of Stage 2 loans, they look relatively high compared to the sector and I just wanted to understand whether it is because of your more corporate nature of your loan book where things are I guess more challenging than in retail? Given what we've heard about suspension of Umrah or Hajj potentially at risk as well, do you have any exposure to these industries which would cater to the Umrah or Hajj season or in Mecca and Medina? And finally, all the efforts that are being made are to improve your return on assets. What are your thoughts on your gearing, your asset over equity ratio, is there any scope for increased gearing over the coming years?

David Dew, Managing Director: Quite a number of questions there so I think I'll ask Mathew to kick off in terms of fee income please, Mathew.

Mathew Pearce, CFO: Trade is a big part of our fee income. We've seen some pressures there, just the economic activity but also competitive pressures around margins in trade. So that's certainly been a factor for us. A decent sized impact on our fee line is around loan origination fees. So I think when you look at a number of other banks that are growing and quite significantly in their loan book, you'll also see a growth in fee income. So you've seen from our presentation and you're familiar with our results that we've had some net downward declines in lending and then obviously in the environment there's not so much volume of new business, so we're not seeing as much fee income in that space particularly. We've seen some pressures in credit cards on a competitive perspective, so the notable example is that Al Rajhi Bank has entered the market from not having done credit cards before and obviously have a large customer base from which to tap.

It's more about retaining customers and the ability to compete; you generally tend to have to offer customers a better proposition in terms of a loyalty programme and how you address fees around the credit card propositions as well.

So I'd say recapping then trade, we are the number one leading trade bank in the Kingdom, so naturally you can expect that when there are challenges in trade then if you like our financials will suffer a bit. But also, we should bear in mind that as things improve having such a large leading market share position, we should also gain to the upside as well.

The other part then is on loan origination fees. And David talked about an expectation now that not only have we started to see some growth, but we expect to see growth going forward into the future. So that will be a positive going forward in terms of loan origination fees, notwithstanding competitive pressures around the commissions and margins with customers.

And then obviously in the credit card space, we do have a leading position. We do have the number one spend per card in the Kingdom, and we're number two in credit card balances. We have a very good credit cards proposition. We do intend to defend that space and so we continue to be competitive in credit cards.

David Dew, Managing Director: So if I can add to that and you know, Mathew's exactly right, we have considerable focus on our fee-generating businesses. We have a leading trade proposition. We have a leading cash management proposition. We have a leading investment

banking proposition. And indeed we have a leading cards proposition. So we're pretty comfortable without being complacent of the positioning of some of those critical fee-earning businesses. And I think as we continue to see growth in the economy and growth in SABB's balance sheet then we should start to see a commensurate increase in fee income.

In terms of the next question in terms of credit quality in Stage 2, I think I would again point to what we would regard as typically a conservative approach, one of the big challenges for banks all the time, but particularly in the current environment, is to try and decide when a short term liquidity problem becomes a more serious solvency problem. We are here to support our customers. We are here to support them through short term liquidity problems and if that means for example extending loans, rolling over loans then we should do that.

Equally, it is our responsibility when the situation as I say progresses to a more serious solvency problem, to call that problem and to have a more serious discussion with our customers and see if we can address the root causes of that particular issue rather than simply continuing say, for example, to roll over loans. So, if that means that we're a little bit more conservative and we tend to recognise problems and therefore if these move into Stage 2 and indeed in some cases Stage 3 then that is the result of a disciplined conservative approach.

In terms of the Coronavirus and specifically Mecca and Medina this is a worry. I think it's still too early to tell in terms of the impact both on the Kingdom, the Kingdom's economy, the banks etc. but I think we'd all agree that no way is this remotely good news. It is simply a question of how bad the news is and what the impact will be on certainly the global economy and then the Saudi economy. But it is a worry and we're not going to downplay that at all.

I don't think there's anything in SABB that would cause us to say that we are an outlier, or in any way sort of different. And so I think the question will be more - what is likely to be the impact on the broader Saudi economy? And our view is that it still too early to tell, but I'm very confident that the government, the authorities, the regulators will take the appropriate action to deal with what is in my opinion a serious threat and a very serious issue.

The assets in gearing, maybe if I can ask Mathew to pick that one up please?

Mathew Pearce, CFO: Thank you, David. Look obviously, from in terms of where we are with our gearing, as you know from the merger, we've obviously issued quite a bit of equity. So I think the headline numbers if you don't adjust for it, obviously you've seen that impact for the gearing ratio. Also as well we should reflect on the fact of where our lending is compared to where it has been as a combined bank. We've seen lending come down quite a bit, and so naturally that we would expect in terms of gearing improvement that actually over time we have plenty of capacity to see lending growth and drive the assets up. Our liquidity is good and our funding base is stable.

We don't need more equity at this stage, and don't foresee that in the near term. So really, it's about driving asset growth and utilisation of the balance sheet in that respect. We can consider in the future how we may tap the debt capital markets as needed, that's always a route open to us. We have a good position in terms of our credit rating in the market and a good stable bank institution, so we know we have the capacity to tap the debt capital markets

when needed. We haven't tapped it for a while, we don't have a large amount of outstanding wholesale debt and so that remains an opportunity for us.

But I think really, it's about actually utilising the balance sheet more and seeing some of the lending that David's indicated we expect to see going forward and as the economy picks up. And as many of the drivers and priorities of Vision 2030 start to come through, we believe that we're well placed to see that asset growth.

Analyst: Hi, just a very quick one from my end. You just mentioned that there's more competition for quality assets in the Kingdom right now, so are you indirectly saying that there is undercutting in the mortgage market?

David Dew, Managing Director: I think frankly both retail and corporate markets are competitive. Certainly now is a very good time to be a quality borrower in the Kingdom. The banks are competing very aggressively for quality corporate assets and we will compete likewise. But I think also the mortgage market is pretty competitive. Yields are higher there - in fact yields are good in the mortgage market. So I would anticipate some pressure on yields as the market becomes more competitive but definitely we're seeing significant price competition for quality corporate assets.

Chira Ghosh, SICO Bahrain: Hi, thank you David and Mathew. So you are the only bank or one of the few banks which are talking about the corporate loan book. So I just want to get a sense how does this strategically make sense considering that the interest rate cycle is on a downward trend? And economically also it's not the best time. So if you can give us some sense of the corporate loan book which are the sectors which might interest you? And for the moment let's assume there is no Coronavirus-related issues and on a more normalised scenario, which are the sectors you might be focusing on? That's my first question.

And the second one is related to the POCI, just to get a sense. So for the POCI, is 100% of this already provisioned for or it's only the recoverable amount which you've said? And if say for example you see uptake if you got a loan from Alawwal Bank and now that person defaults, so would it move to the POCI or is it in Stage 3?

David Dew, Managing Director: I'll let Mathew deal with the second one. In terms of the corporate business, I think it's very important that people on the call understand how important our corporate business is to us, but indeed how significant a player we are in the corporate space. So, in terms of corporate assets, yes, we are the number two. But in terms of corporate revenue we are the number one, and that is because we have market-leading positions in trade, in cash management, in investment banking and indeed in foreign exchange. So we are a very, very important player in the corporate space in the Kingdom. We absolutely intend for that to continue. We intend to continue to invest in that business. We intend to develop the very best people we can in that business and we intend to be a very, very serious ongoing competitor in the corporate business. Regardless of economic

cycles, regardless of Coronavirus, regardless of anything, we are at the heart of corporate business in the Kingdom of Saudi Arabia. In terms of POCI, Mathew?

Mathew Pearce, CFO: I think there were two parts to that question both in terms of what the written-down value represents and then also what happens in terms of Alawwal portfolio post the merger date.

So in terms of the POCI portfolio, about SAR2.8 billion at the end of the year. That has been written-down. That written-down value predominantly represents collaterals, so in a sense you could say it is largely written-down to the recoverable value of collaterals held. And that's why there's been quite a significant write-down against those loans.

Talking about what happens post legal merger date, I mentioned that the accounting standard gives you 12 months in which to sort out your accounting because it obviously recognises that these things are complicated and you need some time, and you can't get it all done in one day of the merger acquisition date when you combine with another organisation and that's why it gives you 12 months. However, the perspective of the accounting standard is that you're supposed to be reflecting facts and circumstances that existed at the merger date, and the 12 months is just time to gather up your information to allow you to be able to assess what was the position as at the merger date.

So, there will be circumstances where a customer moves into - for example, they might file for bankruptcy after the merger date, but actually the facts and circumstances show that really at the merger date they were already troubled and really moving into bankruptcy - and I use that as an example - was if you like just a factor of timing and natural evolution. But the customer was already troubled and therefore this is information that kind of guides you around the exact value that should have been applied at the time.

You could get the case where a customer legitimately moved into default post that merger date for legitimate reasons, but it was perfectly fine as at the merger date and some underlying cause made it move into a difficult situation. An example of that might very well be what we were discussing a moment ago in terms of Coronavirus, and that is an event that happened after the merger date, was not something that existed, that we were aware existed as of the merger date any significance.

So if a customer was to move into default, into trouble post the merger date and that was driven by for example this extraneous situation, that would be an example where it had nothing to do with the fair value as at the merger date and so that would move in the default, you would recognise an IFRS 9 provision and that would go into your P&L.

Mathew Pearce, CFO: Thank you, Moderator. I think that concludes the Q&A. I'll hand back over to David for closing remarks.

David Dew, Managing Director: So thank you everybody for attending the fourth quarter results call. We hope you share our enthusiasm for the prospects of our bank and the exciting journey ahead. We look forward to engaging with you at our next quarterly call and during any future events. Many thanks and goodbye.