# SABB 4Q20 Results Webcast and call transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Fourth Quarter SABB Financial Results Presentation for 2020. At this time, all participants are in a listen-only mode.

After the speaker presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press "star" and "1" on your telephone. I must advise you that this conference is being recorded today on Thursday, the 4th of March, 2021.

On the call with us today, we have Mr. David Dew, the Managing Director, and Mr. Mathew Pearce, the Chief Financial Officer. I would now like to hand the conference over to your first presenter today, Mr. David Dew. Please go ahead, sir.

David Dew: Thank you, moderator, and a very good day to all of you and welcome to our results call for the final quarter of 2020. My name is David Dew and I am the Managing Director of SABB. As usual, I am joined by our CFO, Mathew Pearce, and together, we will take you through our fourth quarter results. We anticipate that the formal presentation will take up to 20 minutes and then we will be happy to answer your questions.

So if I may go to the first slide in our presentation and the key messages. I would summarize the key message as follows. The foundations are solid. We are about to achieve a huge milestone. Full integration is within touching distance. The two legacy banks, SABB and Alawwal, will finally become one next weekend. This is when customer day one takes effect and we operate all our business on one common IT system.

Corporate has done this progressively in recent months and now it is the turn of retail. This has been a significant project for us that has consumed considerable resource, but it is nearly finished. I liken it to going on a long walk with a heavy backpack. The walk will continue, but we can shed the backpack. We will be lighter, leaner, faster and more agile.

At the same time, we continue to demonstrate strong operational resilience in the face of the global pandemic. In fact, operating during the pandemic has pretty much become business as usual. Again, the foundations are solid.

Underlying financial performance was acceptable in the context of integration, COVID-19 and the decline in oil prices that we saw in 2020. Both the third and fourth quarters feel to us like normal quarters in an environment of low interest rates and subdued economic activity. Actually, the underlying performance in the two quarters was similar, while noting a little more revenue weakness in the fourth quarter.

And finally, the balance sheet remains very strong. Capital, liquidity and funding are all at healthy levels. The foundations are solid and we can start to build.

There are no real changes on the next two slides, which are provided for background purposes. We continue to operate a well-diversified business, albeit with obvious concentration in the corporate sector for our loan book, and the partnership with HSBC remains a core component of who we are and our positioning as the leading international bank in Saudi Arabia.

On the capital and liquidity slide, you can actually see the strong numbers I referenced earlier. The capital chart is particularly interesting. We were at exceptionally high capital levels in the quarter before the legal merger took place and we have now replenished all the drop in capital that we saw on legal day one despite a significant level of provisions.

I do want to spend a few minutes on the merger slide. You can see our cost synergies and also our revenue and funding synergies against the current guidance. The first point to note is that these are validated synergies that go through a robust internal check process. The second point to note is that we have already achieved SAR600 million in annualized synergies with more to come in 2021. As such, we remain very comfortable with our current guidance.

The third point to note is that the full annualized effect of all synergies will only be realized in 2022, again, as per our original guidance.

Finally, a point on integration costs. These are substantially all booked and will be finished this quarter. The final budget for integration is expected to be below the midpoint of the guidance we provided, which I believe is a creditable outcome. So all in all, this slide tells a good story and a story that will be even better next year. So again, the foundations are solid.

Now I would like to hand over to Mathew to take you through some of the detail in terms of our financial performance in the fourth quarter. Mathew.

Mathew Pearce: Thank you, David. I shall start from slide 8. 2020 marks the first full year of combined results since the legal merger in June 2019. You will by now be used to be discussing prior year results on a pro forma basis, which I shall continue to do here albeit for the last time as we enter 2021. The pandemic had a significant impact on all economies globally in 2020 and the Kingdom was not immune to this. The resulting correlation of our returns for the year is clear.

To recap on headline financials for the year: 2020 included a SAR 7.4bn charge for impairment of Goodwill that arose from the merger with Alawwal Bank. We explained in our public disclosures at the half year our perspective on the goodwill impairment and I shall defer to those statements. The key takeaway is that this non-cash, one-time accounting charge has no impact on our Capital, funding, liquidity, or our ability to serve our customers and generate future returns for our shareholders. 2020 also included temporary and higher expenditure to complete the merger. Excluding the goodwill impairment, merger-related expenditure and a small number of other expenses that are one-off in nature, we reported underlying pre-tax income of SAR 3.8bn, which was 13% lower than 2019. This was underpinned by 18% lower revenues, 4% lower underlying costs, and despite a 44% lower charge for expected credit losses.

The decline in top line revenue was impacted by significant benchmark rate cuts early in the year against a backdrop of a low consumer consumption and low corporate credit growth environment which all fed into the bottom line. Perhaps two areas where SABB diverged from the broader market trend were a reduction in underlying costs which benefited from our ongoing merger synergies, and lower expected credit losses where we had gotten off to an early start for conserving Capital in our book in 2019. While cost of risk was not low for 2020, it was lower than 2019 and was inside the range of the sector average for the year.

Our total return, exemplified through our underlying Return on Tangible Equity, was heading trend-wise in the right direction, albeit in absolute terms not yet reached where we would like to be. Going forward, a return to some growth, improved cost efficiency through further synergies, and a low cost of risk profile should underpin a double digit RoTE from which we can build.

Moving onto slide 9. We achieved an underlying net income of SAR 1.2 billion in the fourth quarter, excluding SAR 198 million of merger integration related expenses and SAR176 million of other non-recurring expenses. This was lower than the trailing quarter by 6% mainly from lower revenue, but higher than the fourth quarter of 2019 by 16% as lower expected credit losses and lower operating expenses more than offset the fall in revenue.

Our primary revenue line, NSCI, decreased in 2020 due to lower interest rates, which drove NIM down by 70bps from 3.2% to 2.5%. Average Interest Earning Assets increased from additional funding received from SAMA, leading to an additional negative impact on our NIM. NIM compression continued into the fourth quarter, albeit at a more moderate pace, from some additional yield compression. Cost of funding has bottomed-out at the current interest levels since the 2nd quarter. We have been running the second lowest cost of funding, supported by our synergies and a consistently above market average Demand Deposit, or NIBs, ratio. In the fourth quarter the PV Unwind declined temporarily in response to repayment and maturity pattern of the portfolio to date. We still expect the unwind to be up to SAR 2.3 billion over the life of the loans, with roughly half of this to complete its unwinding in the next 18 months.

On to slide 11. On an underlying basis, operating expenses for 2020 fell by 4% compared with 2019. This excludes merger-related expenses and a few one-off expenses. The cost position is supported by the realisation of synergies we have achieved on an annualised basis of SAR 0.4 billion as at the end of 2020. Our strong management of costs together with the extraction of synergies has more than offset the inflationary pressures that the entire sector has been under.

On an underlying basis, cost efficiency ratio was 39.4% which was an increase compared with 2019 but this is more reflective of the challenging revenue environment.

Slide 12 shows the cost performance for the fourth quarter compared with the trailing quarter. On an underlying basis, excluding the impact of merger-related expenses and one-off cost items, costs were broadly unchanged. In the fourth quarter our integration costs increased in line with a concentration of activity to support the migration of the corporate franchise and the preparation for the retail migration on CD1.

Slide 13 sets out a longer-term trend on our underlying quarterly costs. Our underlying cost base quarterly profile continues to show a good trajectory, demonstrating our strong management of costs at SABB including the progress on synergy realisation.

Moving on to credit quality and impairment charges. Expected credit losses in the second half of the year were significantly lower than the prior year and the first half of 2020. Our cost of risk for the last two quarters reflect the extent of provisioning taken to date. Whilst we do not advise taking such short term trends as a point of extrapolation, we do believe that it is reasonable to expect our cost of risk to remain relatively low for the time being. Our NPL ratio reduced to 5.8% in the quarter mainly from a SAR 0.5 billion fall in non-performing balances as a result of some progress in recoveries. Our coverage ratio of non-performing loans excluding POCI, at the end of the year was 133%. We are well provided but as always we remain vigilant to the changing macro-economic landscape.

Slide 15 sets out the trend analysis on the balance sheet. Lending overall was up 1% compared with the end of 2019 and up 1% in the fourth quarter mainly in our corporate book from term lending. Despite growth in mortgage originations in the fourth quarter, overall retail balances fell marginally. We are making progress in growing the mortgage portfolio as a result of new strategy, practices and appetite implemented during the course of the 3rd quarter, although we remain a small part of the overall market.

Funding remains a competitive strength. We possess a stable deposit base with our demand deposit ratio at 71%, with both our CIB and retail businesses contributing to this strong position. Our liquidity and funding ratios remain robust with a liquidity coverage ratio of 299% and a net stable funding ratio of 156%. Customer deposits increased in the fourth quarter and were broadly unchanged compared with 2019.

Finally, a recap on Capital. We closed the year with a CET1 ratio of just under 19% which, on a year to date basis, is an improvement of nearly 2 percentage points mainly from our underlying net income in the year. Our Capital is a position of strength, which will allow us to support future growth.

I'll now hand back to David for closing remarks before we move to Q&A.

David Dew: Thank you, Mathew. So in closing, I would like to say three things. The first, as I have said, our foundations are solid. SABB is well positioned both to support and to benefit from economic recovery and also from the fruits of our hard work over the past two years in completing our historic merger.

The second point, I read an interesting research report on SABB a few weeks ago that outlined some initiatives that the writer, who I believe is on the call, thoughts SABB should undertake. I found myself agreeing with pretty much all the initiatives, except the writer did make one small mistake. He referred to it as "David's to-do list," which brings me to my third and final remark. You will have all seen the announcement of my retirement after 11 years as Managing Director of SABB. It has been an incredible privilege to have been able to lead the bank for such a long period, in fact, the longest serving MD in SABB's history, but it would not have been possible without the incredible support of my board, my regulators, my colleagues and my staff and I am truly grateful to every single one of them.

My successor, who is an extremely experienced HSBC banker, is expected to arrive next month. We will complete a full handover and I will leave the bank in very capable hands with, as I have said, solid foundations on which I have no doubt Tony Cripps will build and grow and take the bank to new heights. Thank you and I will now turn it back to the operator for Q&A. Operator?

Operator: Thank you. As a reminder, if you wish to ask a question, please press "star" and "1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the "hash" key. Once again, to ask a question, please press "star," "1" on your telephone.  Your first question comes from the line of Waleed Mohsin from Goldman Sachs.  Please ask your question.

Waleed Mohsin: Yes.  Thank you much for the presentation and all the best to you, David.  A few questions from my side.  First of all, if you could talk about the competitive backdrop in the corporate banking market and if you could maybe talk about the pricing and if you're seeing any pressure on the corporate market and how do you see the corporate growth outlook?

That's my first question and then secondly, once the SAMA support program expires, what impact do you see on liquidity and credit quality, especially on your portfolio? That's the second question and my third question is on if you could provide an update on the efforts in the retail market, particularly mortgages, and re-engaging in that market?

And my final and fourth question is on your net interest margin, where do you – do you believe it's troughed, where do you see it troughing if it's not troughed already and how does the steepening of the yield curve provide you with an opportunity on the investment book?  Thank you.

David Dew: Thank you, Waleed, and that's a pretty comprehensive list of questions.  So I think what we'll do is we'll deal with them one at a time and I'll ask Mathew to join in in one or two of them.

So the first question in terms of corporate, as you all know, essentially our balance sheet is three-quarters corporate.  Overall, we see a subdued corporate backdrop. I'm aware that one or two banks have already guided for low or negligible growth in the overall corporate market.  We're not prepared to go that low, but equally, we don't see significant growth in the corporate market in 2021.

Our pipeline is reasonably robust, but equally, it's over a long period and certainly when you look at large corporates, when you look at the giga projects etc. drawdowns are likely to be prolonged, they're likely to be over multi years rather than multi months and therefore, we don't see significant growth drivers in terms of the large corporate and the government space.

We do see more growth in the MSME segment and in fact there was some reasonable levels of growth in the overall market last year in that segment, but traditionally, as you know, SABB has focused and Alawwal, to that extent, has focused a little more on large corporates and, in SABB's case, on the government and institutional space and so, again, when I translate that into expected corporate growth for SABB, I think we'd be looking at numbers in the mid single digit range.

We would hope to generate some market share gains. I think it's our turn now to generate some market share gains in the corporate space and that's what we will be looking to do.

Your second question in terms of the SAMA support programs, both the impact on the portfolio and indeed overall liquidity in the market, I think SAMA has proven to be a very, very capable regulator and a very, very capable manager of overall monetary policy in the Kingdom over many cycles and many, many – actually not even years, but decades and I've got no reason whatsoever that that won't continue to be the case.

At the moment, you know the banking system is very liquid, but I've got no reason to believe that liquidity will be any particular issue once some of these support programs start to be removed. And likewise, as you would expect from SABB, we model our portfolio carefully, we are conservative in terms of our overall provisioning, we feed our forward economic guidance into our macro-economic models etc. So we are very comfortable that the work we've done in modeling, the customers that are beneficiaries of these programs are adequately provisioned. So I don't anticipate any material impact whatsoever in terms of SABB. I think I'll pause there and ask, Mathew, if you want to add anything either to liquidity or indeed any other aspect of the support programs, please.

Mathew Pearce: Thank you, David. Not too much extra. I mean, in terms of liquidity, you'll have heard in my presentation how I quoted how strong our metrics are. We have SAR190 billion of customer deposits which constitutes the largest part of our liquidity. Outside of that in terms of deposits taken from banks in which we have the SAMA deposits, it just makes a very liquid bank even more liquid. So whilst less borrowings is less borrowings, I mean, it isn't actually what we would call an impact and it's not something that keeps us awake at night worrying about SAMA withdrawing the deposits. And yes, in terms of credit quality as the program itself and the deferrals roll-off, we have taken provisioning in the fourth quarter and before then and we believe that we are, for the time being, adequately provided for in this space. Thank you.

David Dew: All right. Thanks, Mathew. So on the retail question, again as we stress and as you all know in terms of retail loans, this is a quarter of our overall loan book. So we wouldn't necessarily see ourselves as being best positioned to comment on the retail market. You are all aware – so in the Saudi banking system as a whole last year, there was a couple hundred billion riyals of loan growth. More than half of that came from home loans and the vast majority of those home loans was in the mass market, using very much REDF products. So that was never an area that SABB traditionally played in. So if you break down our loan book even further, SAR160 billion of loans, SAR120 billion corporate, SAR40 billion retail, half of the retail, SAR20 billion more or less, is home loans. So even if we grow our home loans by 10 percent, by SAR2 billion, that's not much more than 1 percent growth in our total loan book.

Then when you factor in that last year, when you look at that growth, the growth in retail was three times – I'm talking the industry as a whole – three times the growth in corporate. So you can begin to see why the SABB loan book didn't grow in line with the market. I have to say we see more of the same in 2021, I think that the retail market, and driven by home loans, will continue to be robust. I think there will be continued growth in the MSME sector in corporate. What will change, as Mathew alluded to, is that we will participate a little more actively in home loans. We've started. We actually started in the second half. We became more active in the fourth quarter and we've continued to remain active in the first couple of months of this quarter and I fully expect us to remain active in home loans and to generate a bigger share of that particular growth market in 2021, but again, I return to those macro numbers that drive our overall numbers, that mortgages is SAR20 billion on a SAR160 billion loan book for SABB.

My final point or the final point on NIM that you asked, basically we believe that for SABB, the NIMs that you saw in the fourth quarter are indicative of where 2021 is likely to go.
We are seeing NIM compression and margin competition in corporate, particularly at the quality end of the market. That is clear and so there's ongoing pressure on margins for quality corporate assets and that probably won't alleviate in 2021, but we hope to offset that with some greater degree of retail growth at higher margins.

So overall, we think NIMs for 2021 for SABB will be broadly in line with where they were in the fourth quarter, but I will also ask Mathew, please, to comment on NIMs. Mathew.

Mathew Pearce: Yes. Thanks, David. I think you covered it well. I know there was an ancillary point maybe around steepening yield curves and investment portfolio. Just to cover that part then from my perspective briefly. Yes, a steepening yield curve in the Saudi space would be welcomed in the extent of how we deploy our commercial surplus. In the short term, I'm mindful that the vast majority of our SAR60 billion of investments portfolio is deployed into Saudi government bonds and of our overall portfolio, 75 percent is fixed rate. So obviously it requires the reinvestment opportunity as and when those securities roll off to take full advantage of a steeping yield curve.

So I don't anticipate some immediate short-term opportunities that would dramatically impact our overall NIM, but a move in that direction over time will certainly help us. That's a bit of an obvious point, but that's how I see it. Thank you.

Operator: And your next question comes from the line of Rahul Bajaj from Citi.

Rahul Bajaj: Hi. Hi, Mathew. Hi, David. Thanks. Thanks for this call. Rahul Bajaj from Citi. I have three quick ones actually. The first one is on the one-off costs that you have recorded in fourth quarter, excluding the integration cost. I see that there is an element of some accelerated depreciation in that one-off cost. Just wanted to get a sense of how should – I mean, how should we think about these one-off costs, excluding integration, into 2021? I mean, as I think David said that this quarter is probably the last quarter when you'll see integration cost. So I'm just trying to get a better handle on the one-off costs that is there. That's my first question.

The second question is around reversals. So if I remember correctly, in one of your earlier calls, there was a mention around some recoveries or reversals in portfolios where you've already taken provisions. So just wanted to understand how is 2021 looking in terms of those recoveries and what kind of offset impact should we expect for your cost of risk? So I mean, what could be the kind of gross number and net number post those recoveries?

So that's my second question and my third question finally, maybe for David, since you are now at the start of the new entity and at the end of the two-year merger integration process, what would be your one or two key things, David, you take out and say that this went better than what you expected, but maybe a couple of things where you think that certain things may not have gone as you expected during the integration process? Any broad thoughts there. Thank you.

David Dew: All right. Thanks, Rahul. I will ask Mathew, please, to address your first two questions and that will give me lots of time to think about your third question. So Mathew, over to you, please.

Mathew Pearce: Yes. Sure. Yes. While you prepare your self-assessment, David, I'll take on the first two. So yes in these one-off costs that we've broken out here, there's a decent size element of this which is this point you raised about accelerated depreciation. What this is all about is the Alawwal systems that we then finalized our plan for demising, so we accelerated the depreciation of that to take into account that when we merge the systems next weekend, as David highlighted, at that point forward, there'll be no residual value to these assets. So we've accelerated that depreciation down effectively when we get to the next week, we have zero on the books and so we've taken that into account.

So you should be looking at this and not expecting this to continue going forward. That's it now. So all that's gone and we will no longer have that coming through. Hopefully that's clear on that point.

Reversals and recoveries in 2021. I mean, we don't break this out for you. I know you're looking for more detail. We do have a plan to see recoveries come through. If I was to pull into this virtual room the team that focuses on this, they'll tell you that you can't be too precise about timing and they're right, but as a general concept, we do actually have expectation internally of recoveries over those period.

So I will just talk really about net cost of risk in 2021 and you know we won't give too specific guidance, but having taken over the last couple of years, anywhere from sort of 1 to almost up to 2 percentage points of cost of risk charge, we now think that we've seen the back end of that elevated level and so going forward for the foreseeable future, we expect to get back inside a more normalized range.

And slide 14 for us in the presentation is where we've always tried to pull out this more normalized range and you can see here between effectively the back end of the Financial Crisis and the more challenging recent times, that we've got this range that we've always quoted, around the 30 to 60 basis points. So in the short-term, and you can take 2021 as an example of short term, we expect to get back inside that range.

David Dew: Thank you. I guess before I conduct my self-assessment, I would just like to emphasize the point Mathew has just made around loan impairment costs and the outlook. We really do believe that we are well provisioned. You've seen the numbers in the third and fourth quarters in terms of cost of risk. We're certainly not suggesting you extrapolate those forward through 2021 because they are very low, but we deliberately took some further significant provisions, as we explained in the second quarter last year.

So absent any seriously negative movements in the global pandemic and absent any individual corporate one-offs, which are always a possibility in our business, but we're certainly not saying to you we see any level of probability at this point in time, then, as Mathew said, we think we're in a good position in terms of overall cost of risk in the coming period.

So when I look back, and I think the focus was more on the merger than anything else, I'll perhaps make two or three comments. First, this really was a significant project and I am actually very proud of the way that we have managed this and the team that we put together that, at its peak, was perhaps 100 dedicated people, but many hundreds, existing SABB and Alawwal staff, who contributed and who spent time on this project.

But if I had to add up all of the hours that we've spent on it, it would be a very, very significant number. You've seen the cost, we've told you the cost, but that's simply numerical. Doesn't really reflect the time, the resource allocation and at times, yes, a level of distraction.

We were also unlucky with COVID. I still believe probably this is one of the most significant financial services mergers ever that's been done in the middle of a global pandemic and although it knocked our timetable back a little bit, we still met the guidance we gave you in terms of committing to that CD1 in the first half of this year and that is also no small achievement.

But we perhaps haven't done a good enough job of communicating just how significant a project this was, but that's why I'm genuinely excited and why I repeated the message that the foundations are solid because we now have greater scale, greater efficiency, a single bank, a single culture, etc. and therefore, I am confident that the combined bank will return to its historic position in terms of top quartile key financial metrics. That's our aspiration and I don't see any reason why we can't return to that position. So hopefully that gives you a sense, Rahul.

Rahul Bajaj: Yes. That's very useful, David and Mathew. Thank you and good luck, David.

David Dew: Thank you. And the next question please, operator.

Operator: Your next question comes from the line of Saul Rans from Morgan Stanley.

Saul Rans: Yes. Good afternoon. Just going back to a comment that you made, David, earlier where you said that you think that 2021 is maybe the time when it's SABB's turn to gain market share in corporate lending and so I have a couple of questions around that.

First of all, maybe you could just comment on the extent to which being freed from that burden, as you described it, of integration of the two banks, to what extent is that a factor? Maybe you could just elaborate a bit more on what that actually means – what does that do in terms of freeing up top management time from that process and is that a factor that's behind your confidence there?

And then secondly, also I appreciate you were slightly down playing the impact in the short term of drawdown of loans from giga projects, but again, maybe you could just elaborate to some extent on as those loans start to get drawn down to what extent you see SABB is particularly advantaged in capturing a good share of that business. That would be my question. Thanks.

David Dew: Sure. No. Thank you, Saul. So in terms of why I'm confident that we can regain some corporate market share – and I stress here I'm talking corporate. The home loans market is a totally different market with totally different set of dynamics, but for corporate, not only have we been somewhat cautious and somewhat conservative in recent years and if you wish, you can accuse us of being too cautious, too conservative, that is your prerogative, but we've always said that we are at the conservative end of the risk spectrum. I think if you look at SABB's market share (on a natural pro forma combined basis, it's essentially time for the last three years. It's not just a one-year event. It's a three-year event. Last year was modest. According to our calculations, our corporate market share slipped from 13.6% to 13.2%. So a modest decline, but a decline nonetheless and frankly, after three years, we don't want any further declines and we've calibrated our risk appetite to make sure that we don't have any further declines.

We were cautious when global oil prices declined in 2015-2016 because we saw an impact on the Kingdom and the corporate sector in particular. We were cautious when we unveiled Vision 2030 not because we're not fully supportive, we think it's absolutely the right thing for the Kingdom and actually the country's doing a good job in terms of implementation, but we saw significant disruption in the early years and sure enough, that materialized.

And just as we started getting ourselves comfortable with what was going on in the environment and our risk appetite – and I remember we had two consecutive quarters of loan growth at the end of 2019 and the beginning of 2020 – along came COVID and, again, we had a relatively conservative approach to COVID again. Rightly or wrongly, that is what we did.

So I really do see some of those risk appetite anchors, if I may call them that, being lifted to some extent and then to your point, the resource point, the RM's time point, is also a very, very real factor. So our RMs have spent a lot of effort in recent months, actually for a year now, migrating Alawwal customers to the SABB operating stack, SABB cash management, SABB trade systems, etc. That was time well spent in terms of helping our customers through this, maintaining our customers, etc. but it wasn't necessarily time spent on growing and I think one of the interesting things for you to track will be what we report on revenue synergies in the coming quarters as we seek to build on a strong corporate client base.

So those are some of the reasons why I am genuinely optimistic. Plus, let's be honest, our biggest corporate competitor now, NCB Samba, is also going to be engaged in some of the integration work that we've had to go through over the last year. So we wish them well, I'm sure they will do a good job, but they will also find that it's a significant amount of work that they need to work through. Hopefully that gives you a flavor of where we're coming from on this.

Saul Rans: Yes. Thanks very much.

David Dew: Next question, please, operator.

Operator: The next question comes from the line of Shabbir Malik from EFG.

Shabbir Malik: Hi. Thank you very much and, David, all the best to you. I have two questions. First one, hopefully this year would be much better for you than 2020 and you'll have a profitable year. Is it fair to say that dividend payout ratios could go back to 2019 levels for you in 2021?

My second question is I know you seem to be in a very well position in terms of provision buffers, but for maybe the industry as a whole, how long do you think it would take for cost of risk to kind of reach a more normalized level? Yes. I think those two questions. Thank you.

David Dew: OK. Thanks, Shabbir. I think, Mathew, I'll ask you to go first on both of them, please, and then maybe I'll add something if I think of anything, please.

Mathew Pearce: Sure. Thank you, David. Hi, Shabbir. In terms of dividend payout ratio, as you've seen and from our publications for 2020, given that we reported a loss, the board has not recommended a dividend for 2020. That was primarily the goodwill impairment charge that was driving that and we've talked about how that's a one-time matter. So when we return to profitability, and we will return to profitability this year, there is no impediment to returning to dividend payout ratio that we were running before. So I look at it as a one-time thing for 2020 and returning in 2021. It is, of course, subject to board decision, but nevertheless, the capacity to pay would return in 2021.

In terms of when will the market as a whole reach a more normalized level, I suppose there's a few questions in that, isn't there? What's a more normalized level for the market as a whole and when exactly will that be and where do people currently stand from it? We have guided before how we thought that the market overall would likely see an increase in NPLs from where they were on average and an increase required in provisioning and charges. That has borne out per our expectations and we've seen that as banks have been reporting, progressively across the year, their charges, how they've increased. Is that enough? Is there more to come? I think I would just say that as for the sector overall, we are still operating in still a challenging environment. COVID has not gone away.

The SME portfolio is an example. It still needs to be looked at by the sector as a whole as it rolls off the SAMA support program and throughout this entire probably last four or five years, we haven't really seen any kind of corporate defaults. So I wouldn't say we're out of the woods yet and that 2020 was the last of it for the sector as a whole.

So for 2021, we look at ourselves as having come out of the woods. I think it's a good question for the other banks when they host their calls, what their outlook is on 2021, but I would say that to kind of say that the whole sector in 2021 reverts back to a lower norm I think would be a bit of a stretch in my mind.

David Dew: Thank you, Mathew, and if I may just add a little bit of color on the cost of risk question from my perspective. I really do think you've now got to break it down into retail and corporate and you've got very, very different dynamics in those two core sectors. For corporate, I still see some additional provisioning for the industry in 2021; again nothing out of line with a normal economic cycle, nothing out of line that the banks, with their very robust capital ratios, cannot comfortably manage, but I do see corporate NPLs and corporate cost of risk for the sector as a whole remaining at a relatively higher point in terms of the overall economic cycle.

I'm not at all sure that that's the same case for retail. In fact, I think probably not. As we continue to see growth driven by home loans, as we've discussed, if anything, that might put downward pressure on the overall cost of risk in the – in the retail sector and it would take time for some problems and for some delinquencies to start to show up in that sector.

So my perspective, industry as a whole, pretty benign for retail, but staying at the upper end of economic cycles in the corporate space, but as we've tried to explain, we think, in SABB, we've done most of that. We've done what we can see we need is necessary and so we should be in a relatively good position vis-à-vis the overall market.

Operator: Your next question comes from the line of Hootan Yazari from Bank of America.

Hootan Yazari: Hi there, gentlemen. Real pleasure to speak with you and wishing you all the best, David. My question really focuses around corporate strategy. You've obviously reached an inflection point with the integration process now coming to an end, management time being freed up and there was always talk of putting out a new five-year strategy to lay out the roadmap of how the bank is going to compete going forward from here.

So first thing I want to see is where do we stand in that process and the second thing I wanted to ask is is this a process that's now being effectively passed on to Tony and it's now being waited until Tony comes on board and will he have much more to do with defining the next five years or is this something that is being done now and we'll see some changes to it as the succession plan is implemented? Very keen to get your thoughts on those matters. Thank you.

David Dew: All right. No. Thank you, Hootan. It's a very relevant and very good question. Hopefully both Mathew and I have a reputation for being pretty good at answering your questions and I will do my best on this one without really giving you the information that you are looking for.

So firstly, it is absolutely right that our new MD, Tony Cripps, has full ownership of strategy, full ownership of strategy execution and that he communicates all of that to you and I am quite sure that he will do that sooner rather than later and our current expectation is that that will happen next quarter.

But I wouldn't want to leave you with the impression that we're just sitting on our hands waiting for Tony to arrive, no matter how capable Tony is, but nothing is happening until that time. That would not be correct and is not correct.

Our board is extremely engaged on a lot of things, including strategy, and we've had a lot of very, very interesting and very productive sessions on strategy with our board and I would say a lot of what we intend to do is pretty clear, but it is right that there's a good level of engagement with the new managing director before that is finally and publicly communicated.

So the two messages would be we're hard at work, we've got a pretty good sense of what we're doing, we know what we're doing, we're confident that the future is very, very bright, but please be patient, the second message, give us a few more weeks, let Tony get here and then he will be in a position to communicate further detail to you. I don't know, on this one, Mathew, anything at all you'd like to add or you feel that that covers it?

Mathew Pearce: Yes. I would just like to add that we're looking forward to Tony joining and all the experience and skill that he will bring in terms of the strategy and what it is. Actually I think when you look at banking strategies these days, it's all about execution as opposed necessarily to the direction.

Now, notwithstanding that there can always be reviews of that on an ongoing basis, I think it really all comes down to execution and execution on that starts now and it starts and it continues as Tony arrives and Tony will have a huge responsibility to drive and be part of the execution over the next few years and in terms of driving execution, clearly it's not going to be one single individual. It's going to require a number of individuals and the whole organization to move forward and we have a lot of talent in SABB and we have some very talented executives running the businesses. Lots of questions around corporate for example, our deputy managing director is working on execution of that right now as we speak and the same for retail as well. So I feel confident that when Tony arrives, he will have a good team around him that is already focused on execution, has already got CD1 behind them and will support him in driving the strategy forward. Thank you.

David Dew: Thanks, Mathew. So hopefully, Hootan, that gives you a flavor.

Hootan Yazari: Yes. I appreciate that. I understand it's a difficult question to be answering at this stage, but I'm very grateful for your comments. Thank you so much and all the best.

David Dew: Thank you. Thank you. Next question, operator.

Operator: Your next question comes from the line of Naresh Bilandani from JP Morgan.

Naresh Bilandani: Hi, David and Mathew. Thank you for the presentation. It's Naresh from JP Morgan. Just literally one question, please. Mathew, if you could please kindly explain the difference between the numbers represented in the chart on slide 10 and slide 22 with regards to the PV unwind.

There's a slight difference in the – well, I wouldn't say slight. There's a difference in the numbers that has been presented, especially if you take a look at the PV unwind for the fourth quarter. So if you could please just elaborate on that, that would be super helpful.

Mathew Pearce: Sure. Slide 10 and did you say 21?

Naresh Bilandani: Slide 10 and slide 22. So slide 10 shows that the PV unwind for the past three quarters has been SAR89m, SAR82m and SAR18m and that, in slide 22, represents them as SAR93m, SAR106m and SAR110m.

Mathew Pearce: So the slide 10 shows the unwind on NSCI only, whereas slide 22 shows the total unwind. So we do actually have PV unwind on non-funded positions and that comes through non-funds income. So that's the difference, but the vast majority is obviously in the net interest income line.

Naresh Bilandani: OK. And the SAR2.3 billion across the life of the loans, that is across both NII as well as non-funded income or NII only?

Mathew Pearce: It's the total.

Naresh Bilandani: It's the total. OK.

Mathew Pearce: Yes.

Naresh Bilandani: Is there any broad split how we should think of between NII and the non-interest income?

Mathew Pearce: Yes. I mean, generally speaking, given the profile it operates to, if you take the actual numbers we've shown you so far, so your slide 11 and your slide 22 and you apply that proportion, then you're about there.

Naresh Bilandani: OK. Got it. Thank you very much.

Operator: Your next question comes from the line of Waruna Kumarage from SICO Bank.

Waruna Kumarage: Hi. Thank you, gentlemen. Just very quickly, my question is on the deferred SME loans. In your notes to the accounts, it's mentioned that the total deferred installment is around SAR6 billion, whereas carrying like outstanding balance of these loans are SAR5 billion. So I want to know whether are these kind of short-term loans for this to happen or if you can shed some color on that.

Mathew Pearce: Yes. They're a – they're a mixture actually. So they're a mixture of tenors, generally shorter term than the rest of our portfolio, but it's a mixture of tenors up to anything over a sort of three-year period.

Operator: And our final question comes from the line of Ibrahim Al Shamasi from GIBC.

Ibrahim Al Shamasi: Yes. Hello and thank you. I just have a couple of questions regarding first the mortgages. Could you give us what is the total mortgage book that you have? And the second question, I see the POCI coverage ratio is very low. Are you comfortable with the coverage ratio of this amount? And that's it.

Mathew Pearce: So very simply, with 25 percent of our total loan portfolio being retail, half of that is the mortgage book. So it's just a tad under 12 percent of our total portfolio of SAR160 billion is mortgages. With regards to the POCI coverage ratio, I'll try and be as quick as I can, but if it's still unclear, then we can take it offline to make sure you've understood.

So with the POCI loans, they are recorded at their written down value. So there are two components to that POCI portfolio. There's an element which is SABB originated where they were written off previously and now those loans have come back on balance sheet and they've come back on balance sheet because the underlying retail customers have now moved in a position where they're actually able to pay, whereas we didn't think they were before we'd written the loans off so they've been recorded back on the balance sheet. And under the accounting, we record both the gross exposure and the provision.

The vast majority of that category is actually the loans that we acquired from the Alawwal Bank portfolio. They are recorded in a written down value. That is the provision is de facto netted against the gross value. So you have a lower exposure and you have zero provision against them.

So the POCI category looks like a really low coverage ratio, but the fact of the matter is that it needs to be thought about in a very different perspective because we've actually written the loans down to their recovery value which primarily is the collateral that we hold against those positions and the vast majority of uncollateralized exposure has already been written down or written off, depending on how you want to phrase it. If that's not clear, then please contact me offline and I'll walk you through it.

Ibrahim Al Shamasi: Sure. Sure. Thank you. No, no. It's very clear and just then to clarify, so when you acquired the Alawwal loans, it was already taken and written off?

Mathew Pearce: That's right. That's how the acquisition accounting requires us to record it. We record it at the net value. We don't buy in a provision and a gross exposure. With regards to these accounts, like any other non-performing account, we made a determination at a point in time and the realization of what practice over a period of time as that account is worked out as it's recovered or it's normalized may differ from the decisions based on the information made when it was originally booked. So I wouldn't discount the fact that information and practice over time can change that. However, we feel very comfortable with the implied provisions against that because, as I mentioned, it's really all down to the collateral now predominantly.

David Dew: I think with that, operator, thank you to everybody. If we could conclude the call, please.