SABB 1Q20 Results Webcast transcript

David Dew, Managing Director: Thank you, moderator. A very good day to all of you, and welcome to our results call for the 1st 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 first quarter results.

We anticipate that the formal presentation will take up to 20 minutes, and then we will be happy to answer your questions. Because of COVID-19, we are using a different format on this occasion. But I hope that it enables you to get the value you are looking for from the call.

If I may go to the first slide in our presentation deck, clearly, we are all managing an unprecedented crisis that has upended our daily lives. COVID-19 has caused significant disruption to economic and social conditions all over the world. It has caused severe hardship to tens of millions of people, and it has created considerable uncertainty and challenging economic conditions for us all. I would like to stress that the Saudi banking system remains strong, well-capitalized and liquid, and we are well-placed to weather the economic storm.

In SABB, we have two simple priorities. The first is to maintain critical services and support to our customers, and the second is to keep our staff and our customers safe. The slide on COVID-19 gives some examples of more detailed initiatives we have undertaken, and no doubt we will continue to do more. The two points I would like to highlight are the significant uptick in digital engagement with all of our customers, and indeed, with our staff and within the bank, and second, good levels of operational resilience throughout our business.

On the next slide, the key messages are, from a results perspective, we view the quarter as solid. You have all seen the results, and Mathew will take us through them in more detail. The second point from an integration perspective, we have continued to make good progress, and we have no reason to change any of our previous guidance on this important subject. I'm happy to return to this in our Q&A, if you would like to do so.

There is no real change on the profile slide. The important point to note is that we operate a well-diversified business, albeit with obvious concentration in the corporate sector for our loan book.

The partnership with HSBC remains an important component of who we are. I will not dwell on the board slide and we'll move to the vision and strategy slide that is similar to what you have seen on previous calls. It neatly encapsulates, on a single page, the key drivers and principles of our business. The only comment I would add is that we will embark on a strategic planning exercise, this year, to help position the bank in a world after COVID-19 and after we complete our integration.

I will now hand over to Mathew to cover the first quarter financial results. Mathew.

Mathew Pearce, CFO: Thank you, David. I shall start from slide nine and I will focus my comments on the pro forma results for comparability.

Net income before Zakat and tax was SAR1.2 billion lower than the first quarter of 2019 by 20 percent. This was driven by lower operating income and higher integration costs, whilst the underlying cost decreased. Expected credit losses for the quarter were lower.

Total operating income or revenue fell 15 percent reflecting lower average lending balances and lower margin. Increasingly challenging economic environment also led to a fall in non-funds income, particularly in trade finance, card issuing and card acquiring fees, as well as, loan origination fees as a result of both the economic environment and competitive pressures.

The first quarter of 2020 also included the impact from the unwind to the fair value adjustment amounting to SAR106 million. The adjustment was recorded in net special commission income and represents the unwind of the discounts applied to the contractual cash flows of the acquired Alawwal Bank portfolio under the fair value exercise related to the merger. This will be recognized on an amortizing basis over the life of the portfolio that was discounted. Further details of this and the profile can be found on slide 17.

Revenue also included a modification loss of SAR76 million, reflecting the impact from SABB's initiative to support our retail customers who are working hard in the healthcare sector at this time, by providing them with a deferral of repayments on all outstanding loans for three months. The impact of the SAMA led program to support eligible MSME customers through deferral of loan repayments over six months at no net impact due to commensurate funding support offered by SAMA. Return on tangible equity was stable heading into 2020 at 10.1 percent and our CET1 ratio remains strong at 18.4 percent.

Moving on to slide 10. Net special commission income, which represents around 80 percent of revenue, was SAR2 billion for the quarter, and included the SAR106 million of PV unwind as mentioned earlier. Excluding the unwind net special commission income, was 14 percent lower than the same period last year, and 1 percent lower than for 4Q19. The variance compared with one 1Q19 reflected lower lending and lower net special commission margin. Margin decreased due to cuts in benchmark rates during 2019 and in the first quarter of 2020, together with competitive pressures on spreads. These factors were partly offset by continued reduction of more expensive time deposits in line with our ongoing synergy realization program. The margin was broadly unchanged during 1Q20 compared to 4Q19.

In line with my comments during our full year results call, the outlook on margins looks increasingly challenging given the current macro environment. There is no change to our previously stated guidance that a change in benchmark rates of 25 basis points would lead to a change in our NIM of up to 10 basis points. Outside of benchmark rate impacts, pricing in the market is still competitive on asset spreads, and uncertain markets typically lead to a higher cost of funding premiums, albeit, we have not yet experienced undue pressure from the latter so far.

It was a positive sign that we experienced a second consecutive quarter of loan growth. However, we must be mindful of the subsequent challenges to the economy, a revised government budgetary approach, and the heightened degree of uncertainty. In current conditions, we are still seeing appetite from customers to borrow and this demand will be balanced with a sensible approach to risk.

Onto slide 11. On an underlying basis, 1Q20 operating expenses fell marginally by 1 percent compared with the same quarter of 2019. This excludes merger related expenses and amortization of intangibles. On an underlying basis and excluding the unwind to the fair value adjustment and revenue, the cost efficiency ratio was 36 percent.

Slide 12 shows the cost performance for the first quarter compared with the trailing quarter. On an underlying basis and excluding the impact of merger related expenses and one-off cost items, cost in the fourth quarter fell 4 percent from a fall in headcounts in line with our synergy realization program, together with some seasonality.

Slide 13 shows a longer-term trend on our underlying cost by quarter, where we have adjusted reported costs for integration related expenditure and other significant items or costs that are one-off in nature that can distort comparison between periods. Our underlying cost base of 1Q20 is broadly unchanged from the same period two years ago, which demonstrates the strong management of cost at SABB with much of the realization of merger synergies still to be booked.

Onto the impairment analysis on slide 14. 1Q20 expected credit losses of 254 million were 43 percent lower than 1Q20 and equated to a cost of risk of 63 basis points. The NPL ratio of 4.2 percent was lower than 4Q19, and our coverage ratio of originated non-performing loans, excluding POCI, increased marginally in the fourth quarter to 145 percent. In the first quarter, we updated assumptions in our expected credit loss model to incorporate some of the worsening economic expectations. This increased the expected credit loss for the quarter by SAR159 million. We will continue to assess the adequacy of provisions each quarter as we get more clarity on the extent of credit deterioration caused by the COVID-19 situation.

Slide 15 continues our trend analysis on the balance sheet. Gross customer lending balances increased 2 percent during the quarter. This is the second consecutive quarter loan growth. Higher balances in the first quarter were mainly driven by the corporate and institutional banking business. Customer deposits of SAR188 billion decreased SAR4 billion in the quarter, and our demand deposit ratio increased to 68 percent which continues to be a competitive advantage for the bank.

Onto capital, slide 16, we finished the quarter with a CET1 ratio of 18.4 percent. This included the impact of approximately 40 basis points from SAMA's regulatory COVID-19 support measures. Excluding this, our CET1 ratio decreased by approximately 20 basis points as the net income for the quarter of approximately 50 basis points was more than offset by a reduction in other reserves, from widening credit spreads and volatility in equity prices, a debt and equity securities recognized at fair value through other comprehensive income. I'll now hand back to you, David.

David Dew, Managing Director: Thank you, Mathew. So in closing, the key messages are, we had a solid first quarter, our integration program is progressing well, albeit with some impact from COVID-19. COVID-19 presents significant challenges and uncertainty, which I'm sure there will be some subsequent questions.

As Mathew has explained, we do face an ongoing revenue challenge, both from interest and non-interest income. We have an expectation that cost of risk will rise. We are demonstrating good cost control, excluding one-offs and integration related costs. And overall, we believe that SABB is strongly positioned, both from a balance sheet perspective and on operational perspective.

Moderator, we can now commence the Q&A, please.

Hootan Yazhari, BoA: Hi. It's Hootan Yazhari from Bank of America. Thank you very much for the call. What I was very keen to understand is very much to do with your provisioning going forward from here. Obviously, you took some heavy provisions last year, so we saw a year on year decline in your provisioning. However, looking forward from here, what I was keen to understand was, how much of the current environment is reflected in your ECL models, and hence, do you still need to undertake a big adjustment to adjust to the reality that we're currently seeing, or do you feel that the adjustments you took in Q1 very much address that?

The second question I had was regarding margins. You obviously have given the margin guidance and how each 25 basis points would lead somewhere to about a 10 basis point decline in NIM. I really wanted to understand what management steps you're taking in order to mitigate as much of that as you can, and how successful are you being in that? For example, you have indicated in the past that you might flirt with the mortgage market, is that somewhere you've been making progress, and any other sort of measures that you've taken would be interesting to hear. Thank you.

David Dew, Managing Director: OK, thanks Hootan. What I'll do is I'll give you some initial comments, and then ask Mathew to add any further colour he might like to do so. You actually asked quite a broad range of questions there, but we will do our best to answer them. In terms of looking forward and provisions, and indeed, future cost of risk, I would make two comments. One in a COVID-19 world and in a post-COVID-19 world, I do not believe that any of us knows with any level of certainty what the future holds. These are unprecedented times. We've all seen different scenarios as to how this will unfold with various letters of the alphabet, from Vs to Us, to Ws to two different variations, and I believe it is simply too early to tell with any degree of confidence. And therefore, for that reason, you've heard us say in the past that we guide in terms of cost of risk through the cycle of 30 to 60 basis points. I do not believe that that guidance is applicable in the current environment, simply because we are not in any sort of normalized cycle whatsoever. The word unprecedented is probably overused, but I don't think it's overused in the context of COVID-19.

So, all I can say is that we remain conservative, we remain defensively positioned, and we will review our models and our macro-economic scenarios on a quarterly basis, and update you and the market as best we can each quarter.

The second point I would make, and then I will ask Mathew to comment further on this particular point, is that you will know and you alluded to it, , that we have 12 months to conclude our merger accounting, that 12 months actually expires this quarter, so the second quarter of 2020. And in most of the mergers that we have looked at, and certainly, most of the mergers in the region, it is not uncommon to do some final adjustments at the end of the defined period for making those adjustments, i.e. the 12-month rule.

So, I think I'll stop there and then we'll come back to the margin question. Mathew, would you like to add anything on provisioning?

Mathew Pearce: I think you put it very well, David. The one extra thing I would add is that, you know, as much as you can try to front run through the macroeconomic model, which will change your PDs. The other key components of this in terms of what your provisions will be will actually be the staging of individual accounts. So as individual accounts their stress emerges more in full force and that is assessed, and should that require downgrades, then, not only will that result in a higher PD, but a result in a higher stressed PD through the macroeconomic models. So in such a scenario, you would start to see more provisioning again, so that there's two aspects to the provisioning model overall, and the staging part, the actual deterioration of underlying individual accounts is a very important and significant component. And I think as you look across the sector, and as people unfold their financial results, you probably haven't seen a notable shift there. As David said, you know, the range is wide, so it’s yet to be clear how much it should move, and so, as that moves, then you will likely see some change in provisioning amongst banks.

David Dew: Thank you, Mathew. On the margin question, yes, we continually aim to be proactive in managing our book. As you all know, essentially, from a loan perspective, we are a corporate bank, and therefore, it's the corporate market that moves the needle for SABB’s results, and we continue to see strong competition, both for booking quality assets, and indeed, for the pricing of quality assets. And to be perfectly honest, a little bit of that post-COVID-19 has surprised us, and we thought some of those competitive pressures may ease a little bit, but we really haven't seen too much evidence of that. Perhaps, a little bit at the margin, but not as much as we would have expected. So, the competition for booking quality corporate assets remains in place.

On the retail front, yes, you are correct. We have not been an active player in the home loans market in the last 12 to 18 months. We continue to keep our risk appetite under review. The recent REDF announcements, both in terms of down payments, and indeed, the interest subsidies seemed to us that, perhaps, nudge the market a little more in favor of where our risk appetites might be. And you can expect us to play a more important role in the home loan market than we have done recently. But I would stress that that's coming off a very low base. So, I would be surprised if you see in SABB anything in home loan markets that would significantly move the overall results of our bank. But we do intend to take a more active role than, perhaps, we've done over the last 12 to 18 months.

Mathew, again, I don't know if there's anything you'd like to add on margins.

Mathew Pearce: Yes. I think, I'll just add that, as you know, in banking, I think once you're already in a crisis, reacting to the crisis is not the most effective approach. We've always – not just liquidity and funding, but also capital, we've always tried to maintain a conservative approach even during, you know, the good times and the bad times to prepare ourselves for these things. So we think we're entering this with a strong balance sheet.

So what it means in terms of NIM and pricing is that we have the ability that David said to look at asset pricing. Also, our NIBs are holding up very well because of the focus that we've had on that throughout. When it comes to deposit pricing, I think two-fold, because of the strength in the balance sheet, we don't have to price up as much as the number of other banks, we didn't in 2016 and we don't need to at the moment. Also, as well, we've always maintained strategic relationships with deposit customers in the market. We've always sought to stay in the market. So, you can easily play the pricing game and just turn some of these things away during good times, but we've always tried to be present and relevant. So those customers will continue to come back to us now and will not be expecting extortionate pricing, and we continue to have a good relationship with those customers through the cycle. All those things help our NIM over time, and, at the moment our first quarter NIM is holding up. But, you know, just to guide you, benchmark rates are particularly lower and times are quite challenging. So I certainly wouldn't be guiding that NIM is going to widen from here – or, there's not going to be great challenges to maintaining them.

David Dew: And obviously, the big adjustment to benchmark rates occurred in the middle of March, so that's really not flowed through into the first quarter at all. So the impact of that is yet to be felt. Could we have the next question, please, moderator?

Saul Rans, Morgan Stanley: This is Saul Rans from Morgan Stanley. Just one question, actually, if I may, regarding on the topic of merger synergies. So, as we look forward, we can probably expect that the employment market in Saudi Arabia will weaken, probably, significantly. And I can imagine that one of the important elements possibly of your target for cost synergies from the merger may have involved natural staff turnover, so either voluntary departures or voluntary redundancies. So could you just give us an indication of whether that was an important part of your cost synergy target and what your comfort level is about being able to realize those cost synergies on the timescale that you originally envisaged? Thanks.

David Dew: Sure. I'm happy to do that. As I said in my opening remarks, our overall guidance in terms of integration, has not changed. That includes timing, and it includes synergies, and it includes costs. So while COVID-19 has had some impact, in terms of the overall project, as you would expect, it's not had an impact to the extent that we would need to change our guidance. Therefore, we remain comfortable with the synergy estimates that we have previously released to the market. Yes, we are anticipating some headcount savings through natural attrition. Our commitment – our firm commitment, so no involuntary redundancies remains absolutely in place, and I am quite certain that it will remain in place. But actually in a – in a COVID-19 world, people's aspirations continue to change, people's needs continue to change, people's family circumstances continue to change, and there is no reason to suppose, therefore, that an ongoing level of attrition will not continue to take place. For sure, it's entirely possible that that level of attrition may reduce somewhat. But, I repeat, we remain comfortable with the overall guidance that that we have in place for this very important integration project.

Next question, please, moderator.

Naresh Bilandani, JP Morgan: Hi, David, Mathew, thank you for the presentation. It's Naresh Bilandani from J.P. Morgan. So, and just a few questions, please. One is, Mathew, if you could kindly explain the bit that you are highlighting in the chart on capital, which says that, you are getting some capital support – or, the impact of the SAMA regulatory treatment of COVID support measures which equates to around 40 basis points, if you can please explain the background?

Second, David, would you kindly be able to share some color on what the trends have you seen in the business overall in the second quarter to date, simply, because, I think, in this quarter we've seen the results quite late? So, any thoughts you can share on what have been the trends on the corporate lending side, the demand from customers, any early trends that you are seeing on the asset quality side? That would be extremely helpful.

And, David, my final question would be, in your – in your previous comment on this call, you alluded to the recent changes on the home loan subsidies and these have garnered a lot of attention from the clients. If you could kindly elaborate on how that would affect the landscape overall, or what could be the impact overall on mortgages growth inside the system or the pricing? That would be extremely helpful. Thank you.

David Dew: Mathew, you want to take the first one, please?

Mathew Pearce: Yes, certainly. So, SAMA has allowed all banks to take the day one IFRS 9 implementation impact that they had begun amortizing through the capital calculation to date. So, originally, they were going to amortize it over five years and now they're allowed to reverse all that to date and not take anything this year or next year, and then amortize it over a three-year period after that from 2022 onwards.

David Dew: OK. So, in terms of the second question then, Naresh, what we're seeing in terms of business in the second quarter, it's a good question, a slowdown. And so, as I said in my closing remarks, we are seeing revenue pressures. Some of that is related to movements in benchmark rates, but some of it, particularly on the fee income side, is related to two things. One is some of the SAMA initiatives and some of the cancellation or waiver of fees for periods of time, but the other aspect is related to decreasing levels of economic activity. So we have seen that, certainly, in the context of our trade business, and we have seen some weakness in trade fees, and we've seen it in the context of our cards business and cards fees where we've clearly seen lower usage of cards.

I think the cards piece is, if you start to look at the overall consumer markets and consumer sentiment, and again, we have to caveat this, at our heart we're a corporate bank, we're not a retail bank, and it's entirely possible that you have much larger retail banks maybe experiencing different factors from what we are experiencing, you know, we can see a level of caution in terms of consumer behaviour.

And obviously, measures like the cancellation of COLA and then increase in VAT will undoubtedly add to that level of caution in the short-term. And we're also seeing obvious things like reduced travel or reduced entertainment. So we're seeing a general reduction in the consumer space.

The corporate space is more mixed and it obviously depends on the sectors of the economy. So, you all know very well the sectors that are most impacted by COVID-19 and the sectors that are least impacted by COVID-19. And what we're experiencing and seeing in the second quarter, and actually, what we expect to continue to see, at least, through the third quarter, if not, the fourth as well, will be a continuation of those trends and certain sectors will face considerable challenges, and other sectors, consumer, staples, healthcare, telecoms, just to name some examples, will probably continue to enjoy reasonably positive economic circumstances. So we're seeing quite a mixed bag.

In terms of asset quality, again, I will repeat the point that it's too early to tell, and Mathew made some comments around our models, and our probabilities, and our percentages around our stress scenarios. All of that pretty clearly points to a situation that will get worse before it gets better. I don't think there's any argument about that. There's argument about the shapes, as I said, but there's not much debate that the second quarter will be a difficult quarter globally and there's no reason at all to suppose that it won't be a tough quarter in the Kingdom, and the issue is how long that continues for the rest of the year and what sort of shape, and therefore, timing and strengths do we see in terms of the eventual recovery.

So I think that will give you a sense and a colour as to how we've seen the second quarter, and perhaps, to some extent how we expect the rest of the year to play out.

In terms of home loans, I won't say too much. We've been cautious for a couple of reasons, you know, we want with everything we do, we want to be sustainable, we want to be responsible, we want it to last, we want it to be right for our bank, right for our customers. And so, we have been concerned about some of the LTV ratios and some of the stretching that we think, perhaps, has gone on in the market, particularly in the lower income segments, albeit they are benefiting from interest subsidies, we understand that. And therefore, I just find it interesting that the latest REDF announcement does talk about down payment program and does talk about the interest subsidy program. So, for me, those are good steps, they're positive steps, and as I said earlier, I think that sort of helps to move the markets closer to where our risk appetite lies. And if we also nudge our risk appetite a little bit, you know, maybe there's a better chance that we will – we will start to meet in the middle.

Next question, please, moderator.

Shabbir Malik, **EFG Hermes**: Hi. Thank you very much for the presentation. I have a couple of questions. At this point that you made about the mortgage news, can you maybe elaborate a bit more what are the announcements and how does it change the situation in the mortgage market?

Second question is on GST. Now, that there has been announcement of tripling of GST, how does it affect your operating costs, or what kind of impact are you expecting for the bank this year because of this increase in GST?

I just want to also check. You've talked about the corporate sector and touched on credit quality as well. Have any of your corporate customers come in for restructuring, or have you seen a trend or pick up in customers coming in for restructuring of their loans? Any color on that would be very useful.

David Dew: OK. All right, on mortgages, I've said more or less all that I want to say. This is a very recent announcement. I believe it was yesterday. We are still digesting the full extent of it. But, as I understand it, REDF is reviewing, and as I understand it, probably stopping the down payment support programs, so they're looking at the down payment element of mortgage loans, and they're reviewing profit rates on interest subsidy program. Now, given that our participation has been very limited, we are not the best bank to ask for what may or may not be the impact on the mortgage market. So, my preference there, please, is to direct that question to one of the more active players in the mortgage market.

Mathew, I'll turn to you for the VAT, and if you want to add anything on the mortgage piece, please, and then I'll come back to the credit quality piece.

Mathew Pearce: No, that's fine on the mortgage. David, I completely agree with you. On VAT, the direct impact, as you know, it's a tripling of VAT, that should impact our cost base by about 4 percent. However, I would highlight that we have quite a few cost saving initiatives done, and in the pipeline where we expect to be able to offset this.

David Dew: OK. On the credit quality point, the short answer is, no, we have not seen any meaningful uptick in restructuring other than the SAMA deferred payments program for SMEs that I think we all understand very well. But having said that, it is still relatively early in the COVID-19 cycle, we remain as close as we can to our customers, and we remain ready to support our customers to the maximum extent that we can.

Shabbir Malik: Yes. So, just on the fair value unwind, how much is the total amount of fair value adjustment that needs to be unwound because of these – that we're seeing in net interest income? Is it the circa 9 billion difference in fair value acquired assets and book value of those assets?

Mathew Pearce: Yes, I'll take that one. Yes. So on slide 17, we tried to give you an indication of how this one unfolds, and you probably recall at the year-end I talked about how this tends to amortize down, sort of, 10 percent to 20 percent per annum as it goes through on an amortizing basis. I mean, particularly, if you look at the first quarter of 2020 that we've given here, if you extrapolate that, and collectively, with what we've booked then to date, you can work out the 50 percent to the right of that and you would end up coming up with a number of around about 2.5 billion. That's what you'd come up with.

Shabbir Malik: All right, thank you. Thanks a lot.

David Dew: Next question, please, operator.

Vikram Viswanathan, NBK Capital: This is Vikram Viswanathan from NBK Capital. Just a follow-up question on what you mentioned on the final adjustment that you would be making in second quarter as the merger comes to an end, are you allowed to make those adjustments through the OCI, or are these adjustments to be made through the P&L? That's my first question.

The second question is on the modification loss on the loans which are deferred. Is there a distinction to be made between conventional loans and Islamic loans because of the differential structure, or is it not any different? Is it the same regardless of the structure of the loan? Thank you.

David Dew: OK, I'll let Mathew answer those questions. I will just say, I didn't actually say we are making an adjustment. I said, in most cases that we've looked, at an adjustment is made. So it's a reasonable expectation, but I didn't actually say that we are making it. But it is a reasonable expectation. Mathew?

Mathew Pearce: Yes. On that first point, when anyone then makes these kind of adjustments, you're actually backdating it to a merger date. So this can involve effectively, it can involve some restatement of accounts going back. So, for example Vikram, if an account emerged subsequently as credit impaired that we wish to put – that we identify should actually go into POCI, it would have a different accounting had we had all that information at merger date, than how it might have been treated in the interim quarters within the 12 months. So for example, it might have accrued additional provisions that have gone through P&L, you would unwind all that and restate backwards what you – what you would do there.

So, effectively it's through equity, but what you're doing is you're backdating it all the way to legal day one.

On the modification loss, simply put, no IFRS does not differentiate.

David Dew: Next question, please, moderator.

Chiro Ghosh, **SICO Bank**: OK. Thanks for hosting this call. My name is Chiro Ghosh from SICO Bahrain. I just have a quick question. I think I missed it or not, I don't know. So what would be the amount of loan that has been deferred, right, related to SMEs and the health industry and what were the equivalent impact on your margin because of this?

David Dew: Mathew, can you do that one, please?

Mathew Pearce: Yes, I can do that. We haven't disclosed the specific amounts that we have deferred. So, we're not looking to disclose what are the exact amounts from the portfolio that's been deferred. But, in terms of what it means for the margin, actually, you maintain a constant margin. So, if you take the 76 million charge that we took through other operating income as the contracts were modified, you actually maintain through the effective interest rate a constant margin through our NSCI on these loans throughout their life.

Chiro Ghosh: So if I understood correctly if we have given the loan at 7 percent, now, you're assuming that around 6.8 or something like that because of the six months gone, or how exactly does it work?

Mathew Pearce: Yes. So, I mean, essentially, if you think about the 76 million which we've deferred for three months, over the next three months, we will not be accruing any interest on those accounts, will not be recognizing any interest. This 76 million unwinds through special commission income and effectively replaces that. So if you take the interest or the special commission income on those loans during the first quarter before the modification was done, that level of return will continue into the second quarter and beyond, so that it maintains a constant yield. But, obviously, the hit we've taken upfront on the 76 feeds into the total operating income.

Chiro Ghosh: OK, that's it from my side. Thank you very much.

David Dew: Next question, please, moderator.

Julius Bottcher, Fiera Capital: Hi, David. Hi, Mathew. This is Julius Bottcher from Fiera Capital. Thank you for hosting the call today. I've got two questions on asset quality. I followed the results of HSBC at the end of April with some interest, and, of course, they took a very, very conservative approach to provisioning upfront. And, if I look at the associate income they generated from the Middle East, it implies a much lower profit from your business. So I wonder if, at that time, you were expecting to take greater provisions, more in line with the provisions that HSBC themselves took? That's my first question.

David Dew: OK. On that one, please, we have to ask you to refer those questions to HSBC. We're not familiar with their accounting discussions, I'm certainly not familiar with their accounting decisions, and you would have to direct your questions on their accounting to HSBC, please. I don't know, Mathew, if you've got anything at all to add to that question?

Mathew Pearce: No, David, that's right. We're not privy to their information and those kind of conclusions.

Julius Bottcher: I guess the question is, were you expecting to take higher credit losses at the beginning of April? Have you changed your approach to your ECL model at all since then?

Mathew Pearce: I will just say anything in HSBC's accounts is not reflective of any considerations, decisions, or modelling that we have done at our end. It doesn't feed up into HSBC at all, and they're not privy to our models, and our decision-making, and governance is completely separate, so the two aren't done in concert with each other. There's no linkage or influence to be taken from what HSBC is doing, and I think, otherwise, I'd refer back to David's comments he made before about the range on ECL.

David Dew: I would absolutely echo that and we keep our models under constant review and they will be reviewed again this quarter.

Julius Bottcher: OK, understood. That is clear. Then, my second question, also, on asset quality, I'm looking at the macroeconomic overlay which you disclosed. If I remove that macroeconomic overlay and look at sort of the underlying cost of risk, it is actually very, very low and below your through-the-cycle guidance. So, I wonder is that the wrong way to think about it, or is your underlying cost of risk actually very, very low?

David Dew: I think that is actually a very interesting question. So let me – let me approach it this way. We have done this merger for very sound and very strategic reasons, and at least until we hit COVID-19, we were quite pleased with our progress. We also passed some fairly conservative merger-related accounting entries last year, and we said at the time, if anything, we were erring on the side of caution and a conservative approach, and we would always prefer to adopt that mind-set than the opposite overly aggressive mind-set. So, I think you could read into the first quarter results, absent the overlay that we've reported for COVID-19, that things were playing out as we expected, as we hoped, in line with our generally conservative approach, and we would probably, frankly, have been sitting here giving ourselves a little pat on the back. The problem is we've all been hit with COVID-19, and without labouring the point, this is a very, very significant shock to the entire global economy. And therefore, all the previous calculations, all the previous assumptions, all the previous growth models, etc. are all now being challenged to varying degrees.

And so, you know, we had a very, very good story, I'm sure others may have had a good story as well, and I'm afraid it's been kind of interrupted by factors outside our control. So that's my sort of philosophical way of looking at it. Mathew might have a more technical accounting way of looking at it.

Mathew Pearce: I'd echo what David said. It was going well, we were second consecutive quarter of loan growth, which, as you know, it is a positive signal, you know, we were looking for some consecutive periods of growth, so that's good. We were starting to get really good traction on integration and synergy, so the cost base was going really well. And I would hesitate in drawing a conclusion from a single quarter of cost of risk. But I would say that we were heading for our guidance level, so all was going well.

But clearly, COVID-19, the economy, interest rates have all hit us and everyone alike at this point. So, yes, you could try and draw some conclusions from the underlying cost of risk. I wouldn't advise at any point in time on a quarter basis, but, at this point in time, I'm not sure what drawing the conclusion on underlying cost of risk will mean much now for the foreseeable future. But, yes, interesting. Thank you.

David Dew: Next question, moderator.

Naresh Bilandani, JP Morgan: Hi, it's a Naresh from JP Morgan again. Thank you. Just one final question please. Mathew, in the – in the report, you talked about having reviewed your assumptions for macroeconomic metrics into the IFRS 9 models, and clearly, I think you have taken some conservative assumptions there. Would you be able to kindly throw some numeric guidance on what kind of assumptions have you applied to IFRS 9 right now from a macroeconomic perspective, and if you can throw some light on that, that would be super helpful. Thank you.

Mathew Pearce: Yes, sure. I think, you know, given that all the banks are consistently disclosing the same and we haven't disclosed the specifics, I'll give you hopefully, a good sense. So, one of the key drivers will definitely be the oil price, and obviously, there are correlated indices that feed off the back of that. In addition, then, as you know, you kind of take a view on how optimistic or pessimistic are you. So, definitely, in terms of oil prices, we had strayed towards a level of oil price that is certainly lower than what the oil price has been running out for the period of the first quarter. So we have taken a more conservative view in that sense.

Of course, as David has talked about a wide range, even through stressed scenarios, you can end up with some pretty wide ranges. There's no real historical precedent to be able to accurately predict this stuff. But we had – overall, when you take the oil price assumptions of the ranges, and you take the fact that we had weighted it more towards the pessimistic side, we were running for an economic scenario, particularly an oil price that was lower than what it was running out on average for the first quarter.

Naresh Bilandani: Got it. Thank you.

Operator: There are no further questions.

David Dew: OK. All right, then, thank you, moderator. So I think it just remains for me to thank all of you for your time today and for your questions. I hope you found the call helpful, and may I wish all of you Eid Mubarak. Thank you.