SABB 3Q20 Results Webcast and call transcript

Operator: Welcome to the Third Quarter Saudi British Bank Financial Results Presentation Full Year 2020. At this time, all participants are on listen-only mode. Presentation will be followed by a question-and-answer session and, if you wish to ask a question, please press "star," "1" on your telephone.

Must advise your meeting is being recorded today on Monday November 9, 2020. And I would now like to hand the meeting over to the hosts today. With us, we have Mr. David Dew, Managing director, and Mr. Mathew Pearce, Chief Financial Officer. Gentlemen, the floor is yours.

David Dew: OK. Thank you, operator. A very good day to all of you and welcome to our results call for the third 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 third 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. The first message is that, in unusual times, our third quarter was a more normal quarter. Revenue and costs have settled into what I would describe as a post-pandemic world of low interest rates and subdued economic activity. Albeit, the underlying Saudi economy has proven quite resilient in the face of the twin shocks of the pandemic and low oil prices. Credit losses were low primarily for two reasons, i) we have built up a substantial provisions cushion and ii) our credit models indicated no need for additional provisions against future expected losses, i.e. the forward guidance is relatively benign at this point in time.

The second message is that our balance sheet is strong and we are positioned very well for when meaningful recovery can be sustained. Capital, liquidity and funding are all in very good shape.

The third message is that we continue to demonstrate excellent operational resilience in the face of the pandemic. We have fully achieved our core objectives of maintaining all services to our customers, keeping our customers and our staff safe and supporting our customers whenever we can.

The final message is that integration remains on track. We have achieved a lot by operating remotely and pressing ahead with our integration project. Our wholesale business is fundamentally fully integrated and our retail business remains on course for what we call Customer Day One in the first half of next year. Integration costs remain within budget and will drop away sharply next year.

In addition, we shall give you further details concerning synergy benefits in future updates, but we remain very comfortable with the synergy guidance already given. There are no real changes on the next three 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 in 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 and we have now replenished pretty much all the drop-in capital ratios that we saw on legal day one, despite the significant levels of provisions that we have taken.

The one metric we are not happy with is RWAs and we acknowledge the need to generate some balance sheet growth. I am sure we will return to this point in the Q&A. So now, Mathew, if I can hand over to you, please.

Mathew Pearce: Thank you, David. I shall start then on slide eight, focusing on pro forma results and particularly on what this bank looks like for the third quarter. This, of course, post the initial impact of COVID-19 on economic activity last quarter post the rate cuts, as David referenced, and post a fair bit of noise from credit losses and goodwill impairment.

The third quarter returned us to profitability, as we saw a low cost of risk on the back of significant provisions taken up until that point, and a rebound, to some extent in economic activity from the second quarter lockdowns and curfews, which is reflected in the non-fund income streams.

That, despite the negative flow through of the earlier rate cuts on yields as we guided at the last earnings call, as well as some cost increases, largely as integration activity picked up the pickup in integration activities actually indicative that we are on the home stretch now of our final major milestone to integrate to the technology platform Customer Day One, as David referenced. And, to reiterate what David said, that milestone is on track for the first half of next year.

Looking at key metrics in the 3rd quarter, NIM has now largely bottomed out and growth forward is a factor of loan growth and lending mix. You can see that our interest earning assets overall have remained very stable as net lending volumes have been supplemented by lower yielding securities, primarily government, which also have lower credit risk and lower to no capital requirements. Where our mix may be helped going forward is through the mix and overall lending size through retail assets and other segments of the corporate market.

Looking at other metrics, it is good to see that RoTE returned to double-digit return of third quarter. Yes, helped by the lower cost of risk for the quarter, but, going forward, our cost synergies will continue and our end goal of integration and the cessation of the associated delivery costs with that are within sight. So I feel now that we have moved into the double-digit ROTE level going forward, which is good progress.

Cost efficiency is still relatively high vs the sector but our cost structure has two key components that are not mirrored in the rest of the sector overall: we are doing a merger and the cost synergy part is ongoing and going well; and related we are spending on delivering the integration, the cost of which has a shelf life and will soon cease. Whilst I do not want to get overly bogged down in discussing projections of future ratios, suffice to say that I would expect us to continue to drive cost efficiency vs. the opportunity for the sector overall.

Whilst difficult to predict we should not be surprised by the direction of cost of risk into the 3rd quarter. Clearly we had taken much of the pain already and it would be reasonable to expect to run at a lower level for a period, albeit I would not wish to be held to a new baseline as low as 13bps over the medium to long term.

Our Capital base remains strong with CET1 finishing at 18.6% at the quarter end. You have seen in an earlier slide how we have rebuilt core capital during a challenging time and have ensured that our overall loss absorbency is very robust with our Tier 2 sukuk issuance in the 3rd quarter improving Total Capital Adequacy further.

On a full year to date basis for the 9 months of 2020, lower revenue by around 20% has been a significant factor affecting performance, driven by a 17% decline in NSCI. Costs are in good shape, and you will all recall of course our goodwill impairment and credit loss charges in the 2nd quarter, albeit our credit charges are lower compared to the prior year as part of our trend in improving cost of risk.

On slide 9, having highlighted the trend in NSCI, our major revenue line, to date, I wish to make two points: one, that our asset yield decline into the 3rd quarter in line with the guidance we provided at the half year, and two our cost of funding has generally levelled out in the 2nd quarter and continued into the 3rd quarter having made earlier successes in stripping out the funding costs as we tend to do and we are running at the second lowest cost of funding in the market and it is unlikely we should have made much more improvement from that leadership position since that 2nd quarter.

On to slide 10. On an underlying basis, operating expenses for the nine months fell by 5% compared with 2019. This excludes merger-related expenses and amortisation of intangibles and a few one-off expenses. On an underlying basis, and excluding the unwind of the fair value adjustment in revenue, the cost efficiency ratio was 37.9%.

Slide 11 shows the cost performance for the third 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. Cost synergy realization was countered by two factors: the implementation of the VAT hike and a temporary increase in depreciation related to the Alawwal Bank technology stack that is being depreciated down to the target demise date as we switch over to our end state stack and again that is a temporary increase and will fall off once we have completed the integration.

Slide 12 continues the longer-term trend on our underlying costs by quarter. 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 of SAR 51 million were 72% lower than 3Q19 and 96% lower than 2Q20. Cost of risk was 13 basis points for the quarter. Cost of risk in the first half and notably in the 2nd quarter was elevated, driven by some of the challenges faced by our customers in the current COVID-19 environment. The current quarter charge is lower and included reversals together with lower charges.

Our NPL ratio increased to 6.1% in the quarter mainly from a c. SAR 1 billion fall in overall gross lending balances and our coverage ratio of non-performing loans excluding POCI, at the end of the third quarter was 126%. We are well provided for but remain vigilant to the changing macro-economic landscape.

Slide 14 sets out the trend analysis on the balance sheet. Lending overall was up 1% compared with the end of 2019 but fell 1% in the 3rd quarter mainly in our corporate book and mainly due to the fact that repayments were higher than loan origination on a handful of accounts. Lending was marginally higher across the board in our retail portfolio in the 3rd quarter. It was good to see the higher sales volumes in mortgage lending start to show traction, albeit at a moderate pace.

Whilst total customer deposits decreased SAR 8 billion, our demand deposit ratio increased to 74% and this remains a competitive advantage for the Bank. Our funding and liquidity also remain strong.

Finally, a recap on Capital. An 18.6 percent CET 1 ratio is a comfortable position for us to support the Bank going forward through the next strategic plan period. On a year to date basis, CET1 improved 1.6ppt driven by our net profits together with a fall in RWAs partly offset by the payment of 2019 final dividend. Compared with the end of the second quarter, CET1 improved 0.5ppt from increased profits in the quarter.

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

David Dew: Thank you, Mathew. So, in closing, the key messages are i) a more normal quarter in a COVID-19 world; ii) strong balance sheet and robust operational resilience; iii) integration is progressing well; iv) good cost control, excluding one-offs and integration and v) our focus is returning to growth and, on our next strategic plan, we'll cover the five years out to 2025. So, with that, moderator, we can now commence the Q&A, please.

Operator: Thank you. Ladies and Gentlemen, if you'd like to ask a question, please press "star" and "1" on your telephone and wait for your name to be announced. Once again, it is star and one for any question. And your first question is from the line of Waleed Mohsin from Goldman Sachs. Please go ahead.

Waleed Mohsin: Yes. Thank you much for the presentation. A couple questions from my side. First one on loan growth. I was wondering – I mean if actually if you look at the last couple of quarters in the earnings calls, you talk about potentially better opportunities on the mortgage side. Just wanted to see what you see in the market so far because certain competitors, especially the retail-oriented ones, are growing quite rapidly in that regard and

Saudi British Bank continues to lag on that front. So, curious to hear your comments. What have you seen in the market? And the reason for not being able to catch up. Obviously, it's a long-term process, but – just want to get your thoughts on that. And secondly, if look at the central bank data overall for loan growth, we see that, even excluding mortgages, loans are going high single digits and corporate lending has also grown high single digits. So also wanted your thoughts on what you're seeing in the market versus what some of your competitors are achieving in terms of loan growth. So, that will be very useful.

And then, secondly, on the credit quality, I may have missed your comments, but just wanted to get a sense of what drove the recoveries in the third quarter, which made the cost of risk go even below two cycle levels. And, obviously, appreciate your comment that you have been much more conservative and have taken the pain upfront, but – just wanted to get your sense on when can we expect normalised levels. And what do you see them as in terms of cost to risk going into 2021? Thank you.

David Dew: OK. Thank you for those questions. I'll make some comments then I'll ask Mathew to add anything he'd like to add. So in terms of overall loan growth, you are absolutely correct. The market has continued to grow at reasonably robust levels. We have seen that essentially the market grew at about three percent in the third quarter and is up 15 percent year-on-year and it is very clear that SABB has not kept pace with that loan growth.

If I look at the two areas you highlighted, and they are the two areas to speak about, in terms of mortgages, we have been pretty clear essentially for risk appetite reasons, including the fact that a significant portion of the growth has come from customer segments that SABB has traditionally not participated in. But, nevertheless, we have started, as Mathew alluded to, and we can share with you that we generated, in the third quarter, in the region of SAR 1 billion of home loan sales and there's no reason to suppose something similar in the fourth quarter.

Now, you've got a look at that number so call it SAR 2 billion. In the context of a market that's probably going to see mortgage sales for the whole year in the region of SAR 100 billion. So, it is clearly a very, very important source of loan growth for the entire market and SABB has participated to a very limited extent.

Partly it's linked to the new strategic plan and partly we'd have taken some initiatives anyway, but we have decided to look outside our traditional customer segments, which, in retail, as most of you will know, was more focused on mass affluent. And, as I said, the growth has been essentially in the mass market and so we are going to participate more actively in that customer segment whilst not expecting – we are not suddenly going to become a mass-market retail bank, but we are going to participate a little more.

And we've also adjusted our risk appetite to some extent, including launching our equivalent of a two in one product, which, by the way, is driving most in our opinion of the personal loan growth outside mortgages. It's all related to homes and furnishing and equipping new homes etc. So we think the source of retail growth in the Saudi market is very much mortgages. So hopefully that gives you a sense of what we're doing and you can expect more of that to continue and sales in SABB to continue to increase next year.

On the corporate side, essentially, there's no real change in the story. There is some corporate growth. It's heavily driven by the public sector, by government-related entities, by some of the large signature projects starting to kick in, albeit in very, very early stages – but, nevertheless, we're seeing the pipeline develop. There's been some stimulus-related lending in the corporate space, but we have to tell you we are seeing very, very tough competition for those quality assets.

So we are competing reasonably aggressively. We will accept where we have to some impact on our lending margins to stay competitive. We are very much focused on credit quality. We are certainly not looking to book credit growth for the sake of booking credit growth, but hopefully that gives you a sense of the dynamics in the corporate market and those dynamics will probably continue certainly in the fourth quarter and probably continue for next year as well.

In terms of credit quality, I think you should expect two things. And they're both, in a sense, pretty obvious. One, given the provisions we've made last year and again in the second quarter this year. You should certainly reasonably expect lower cost of risk from SABB in the near to medium future than you've seen in the recent past, which frankly isn't saying a lot because it's sort of obvious. But I will space it anyway.

But the other thing I think you can expect is a level of volatility in the loan impairment line and I think you can expect that for at least two reasons. One, in a COVID world, I think we will continue to see shocks and impact and changes in direction. Let's see where the second wave globally takes us all, but I think it will lead to ongoing volatility on a quarterly basis.

And the second reason is, again, related to the fact that we've made strong provisions and therefore it's reasonable to assume that there will be some level of recovery in those provisions and the recoveries also can be quite lumpy.

So my two comments to you, in terms of credit quality and cost of risk are, as I say, that one, you can expect more volatility or volatility from quarter to quarter. I shouldn't say more volatility, but volatility from quarter to quarter. And you can expect lower cost of risk in the near to medium future than you've seen in the recent past. But, Mathew, you probably would like to add some flavor to those two very important questions.

Mathew Pearce: Thanks, David. Actually, I think you covered it pretty comprehensively. Unless there's any follow up from Waleed, I'll leave it with David's comments, which I support.

Waleed Mohsin: Well, thank you very much. That's very, very helpful. Very helpful comments. Just one follow-up. When you look at the health of the Saudi consumer at this moment, how do you see that? Because – and the reason why I say that is I'm sure many banks, or most banks, when they were doing their budgeting at the start of the year, particularly in the second – either first quarter or second quarter, they perhaps would not have expected as much loan growth as has materialized this year.

And the second part to my comment is that, when we look at the credit loss ratio, obviously there's a component which has – being impacted by mortgages because of the secured product, the government subsidies that also means that the credit loss ratio for the sector has come down just because of growth in mortgages.

So on that point, I just wanted to follow-up a see how surprised have you been with the quantum of credit growth in the market. And number two, how do you see the health of the Saudi consumer at this moment.

David Dew: OK. Again, very relevant questions. I always preface our answers on consumers to the fact that, at our heart, we are not a consumer bank. So you might take the view that other Saudi banks are better positioned to talk about the Saudi consumer than we are. And, as I said, historically, it's largely still the case today, but we have focused on the mass affluent. So what we are seeing in the consumer space is not necessarily a read across to the mass retail space in any case. But, with that caveat, yes. I would agree with you. The mortgage growth has been actually surprisingly robust, but we might argue from a relatively low position. So, mortgages as a percentage of GDP in the kingdom are low by global standards, and therefore there is plenty of room for safe catch-up. And, therefore, our view is that the overall health of the Saudi consumer is not bad.

Actually, as I said in my opening remarks, the Saudi economy has proven pretty resilient and has stood up to the pandemic and the impact of low oil prices pretty well. And that so far has applied to the corporate sector and it certainly applied to the consumer sector. There are undoubtedly some stresses, the elimination of COLA, the increase in VAT won't have helped, but, equally, we're seeing signs that Saudi consumers are saving more.

So overall, the health of both the corporate and the consumer in Saudi is not causing us any particular concern at this point in time and I would go so far as to say that, as we have this call, the overall health of the economy is probably a little better than we feared six months ago when we started to see the impact of COVID-19 globally and the impact has not been anything like some of the worst-case scenarios that we and probably other Saudi banks modeled and saw. So, so far things are okay.

Waleed Mohsin: Thank you much.

Operator: Your next question is from the line of Shabbir Malik of EFG Hermes. Please go ahead.

Shabbir Malik: Hi. Thank you very much for the presentation. I was wondering if you could just elaborate on the margin outlook. I think you mentioned that margins have largely bottomed out. If you can perhaps add more color to that. Do you expect any further compression and what could be the drivers?

And maybe more of a long-term question – in terms of – if I look at the liquidity in the banking system it looks pretty decent, but if growth eventually recovers on the corporate side and if oil prices continue to be low, how do you think you as a bank and maybe the sector will continue to fund itself? Because probably CASA growth will not – will not be as strong if the oil prices continue to remain low. Thank you.

David Dew: OK. Thanks, Shabbir. Mathew, do you want to go first on that one and then I'll add anything extra if I want to.

Mathew: Yes, I suppose the statement margin has bottomed out. I suppose initially it's a bit hard to add too much to that. We've guided before and we continue with that guidance now that, if you'll like, this is bottom-ish.

So where might the pressures come from. So, the negatives are really around probably two main factors. One is – this is on margin rather than NSCI is that, obviously, lending into high-quality names where we have very strong appetite and we have a very strong market share will come at lower margin. So there's a mix impact there that will affect margin, albeit it'd be good to see some more growth and we'd happily take that with a lower risk involved in the current scenario as well.

Were there to be any increase in non-performing lending if the economy were to deteriorate than as loans migrate to non-performing in Stage 3, then they cease to generate revenue. They literally become in effect non-interest earning and therefore that would impact margin as well.

If you were in – if you were deeply in the mortgage space, if you had been growing, which is speaking more to a number of other banks than obviously with the – with price pressure from the government's side on that, you might expect to see margins be compressed. But clearly, we are beginning to lend into that space. So it's not so much of an historic drag and, rather to the contrary, we would look to that as an upside in terms of yield on what is a lower risk and a lower capital consumptive type of asset. Of course, if we were to see continued pressure on our lending base then margins might also be compressed overall by growth in the balance sheet and in other lending areas like government securities etc. So it's more to do with mix and credit quality and some of the appetite around lending into high-quality names.

On the liquidity side, is there enough funding. And I guess sometimes the stuff can be a bit circular so if the – if the recovery requires an initial credit stimulant, then yes there's only so much liquidity in the market. So clearly, that's got to come from somewhere. If the recovery is coming with growth in economic activity, then that should actually improve the money supply overall anyway and we would expect to continue to get our share of the funding. Our NIBs ratio at 74 percent is our share because we punch above our weights when it comes to demand deposits (NIBs) ratio because of our franchise, but 74 percent is a decently high number, which means there's room for that to come down and still remain very comfortable with our NIBs ratio. And hopefully that would come because actually there was greater demand for credit in the market through recovery and you would historically get less margin pressure as there is the demand for credit and so your margin might be helped overall.

But we certainly think there's enough liquidity in the sector and, referencing back to points that David and I both made in the presentation, you can see from our numbers that SABB is in a very strong position to lend into a recovery. David?

David Dew: No, I think that's very comprehensive, Mathew. I've got – I've got nothing to add unless, Shabbir you've got any follow-up.

Shabbir Malik: Yes, so of – thanks for that. Just maybe if I look at the pre-budget from the Saudi Ministry of Finance, it kind of suggests that spending is going to be relatively flattish for the next two years. David, should we read too much into it or you think that these projects are not – the potential projects of the vision 2030 are not being captured in that budget statement?

Mathew Pearce: Yes, I mean one comment I was going to make and the thing we have raised in maybe in off-line sessions with some at times. We must understand now that the government overall has moved a lot of the investments, priorities and funding into the PIF. And the PIF has the responsibility to drive and invest in those rather than the core fiscal budget and coffers. So, whereas some years back, that government budget used to really represent all the type of spending and CAPEX budget, but it no longer does anymore because of the change in the way the government has structured itself. So, we should all really be looking more to what the PIF is doing.

David Dew: Yes, I totally agree with that and we should assess it in that light. Excuse me. I would also add that I generally do believe that the Kingdom has done a pretty good job economically and actually also from a health perspective managing this pandemic and there's nothing to suggest that they won't continue to do so and will continue to provide appropriate measures and appropriate support as the need arises. So if things deteriorate for any reason globally then I would anticipate some more support. And if things turn out better globally than perhaps people are expecting, then progressively some less support. So I think the government has calibrated its response and its actions actually quite well and I've got a high level of confidence that they will continue to do so.

In a sense, the country's been rather unlucky. We rolled out Vision 2030, in 2015, 2016. Lot of foundational work was put in place. Certain amount of upheaval because this was a major, major economic transformation.

There was certainly some pain at the beginning and then, just as things started looking quite interesting and quite exciting and I think a good chance that the benefits of those foundation blocks and building blocks were starting to come through, we got hit with the pandemic and we kind of got pushed backwards. So if we continue on this path, and I think we will, once we start to see some light at the end of the pandemic tunnel, hopefully next year, then I think we can start to see more interesting levels of growth, more exciting opportunities for employment, opportunities to continue to develop the Saudi economy etc.

So I think, and some of this is coming out in our strategic plan that I referenced, I think there are more reasons for optimism in the near to medium future than there are reasons for pessimism and we are certainly in the glass half full, not glass half empty mode and SABB's job is to make sure that we fully participate in that growth and help our customers to do the same.

The economy – after it's been through all of this upheaval, the surviving economy is going to be a lot stronger and a lot more robust. So, we've just got to get through it all and start to reap the benefits.

Shabbir Malik: Thank you. Appreciate that.

David Dew: Next question please, operator.

Operator: Thank you. Your next question is from the line of Saul Rans of Morgan Stanley. Please go ahead.

Saul Rans: Yes. Good afternoon. Thank you for your comments so far actually, most of my questions were answered already. But just a couple of things maybe. First of all, If I look at your Q3 and your Q2 reports, it looks like you received some further zero interest SAMA deposits in the quarter, maybe SAR 0.5 billion or SAR 1 billion. Is that the case and is there any reason to expect further deposits in Q4?

And then the second question would be – just picking up on the comments that you've made, David, about the fact that the economy has proved more resilient so far probably than many people expected, is there any one thing that you put that down to? Is it due to as you just hinted, perhaps more proactive government response or is it for any other reasons you think that the trend has moved that way? Thank you.

David Dew: OK. Thanks, Saul. Do you want to do the first one, Mathew? I'll do the second one.

Mathew Pearce: I'll take the first one. Fairly straightforward, Saul. Thanks for that. Yes, we did receive some more, as you said. I'm sure the other banks too. In terms of more to come, I think the only truthful response is maybe there isn't a tremendous amount of forward line of sight to what one may receive. But, obviously, if deferrals continue then we might expect to receive some more, but I think you can kind of see now that the trend has been that we received a fair amount upfront and now the incremental amounts coming through are not as significant. So maybe there's more to come. I don't have a high expectation. Thank you. David, you want to take the second question?

David Dew: Yes. Yes, so, in terms of the – this idea that the outcome is perhaps better than – and what I said, Saul, was some of the worst-case scenarios. There were some pretty bad scenarios out there and you look at the impact on the global economy – the Saudi economy in 2Q this year, it was pretty dire. They were unbelievable drops in economies all over the world and I don't think anybody knew how to model that, how to anticipate what would happen, what level of bounce there would be – we had all of these scenarios with different letters of the alphabet and frankly we're still talking about Ws. So, one of our fears was that we talk ourselves into a worse situation than was merited and I'm talking now from a global perspective. And one of our concerns was IFRS 9 and forward economic guidance and: "oh my gosh, the world is going to be terrible so let's make sure it really is terrible and have awful scenarios and massive macroeconomic overlays…" and all of this sort of stuff.

And so, there was a lot of concern at the beginning. I think some of that has settled down. I think regulators and governments all over the world have actually been quite pragmatic about all of this. Saudi Arabia certainly has. And it's helped to steady nerves and it's helped people to understand that, although things are serious, we're not talking doomsday. We're not talking the end of the world.

And so, I would argue a level of realism has now set in everywhere. People aren't talking it down anymore. There's still a level of concern as we continue to register. The pandemic may yet score some victories in terms of future economic problems, but, overall, we seem to be finding a way to manage through. And certainly, in SABB's case, the worst-case scenarios, and we are a reasonably conservative bank, as you know, have not come to pass and we no longer think there’s much possibility that they will come to pass.

Saul Rans: Thanks so much.

David Dew: Next question please, operator.

Operator: Thank you. Our next question is from the line Hootan Yazhari of Bank of America. Please go ahead.

Hootan Yazhari: Hello, gentlemen. Many thanks for the call. What I wanted to understand is the dynamics on the operating costs side. We've obviously seen a movement in the right direction there, but, if we re-approach this in 12 months-time, how much lower do you think your cost base could move?

The second question that I have is regarding your deposit base. We've seen the banking system benefiting immensely from the SAMA deposits. What sort of contingency planning are you now putting in place to wean yourselves off that SAMA funding. Obviously that is not going to last forever in terms of 18 months to 36 months, but, as time goes on, and those start to come out, what are you doing to mobilize deposits in order to ensure your cost of funding doesn't surge? Thank you.

David Dew: Mathew, do you want to do the cost base? And, if you want to touch on funding, by all means, be my guest. I've got one or two things I'd like to say on funding, but do you want to start with costs?

Mathew Pearce: Yes, David referenced in presentation that, in subsequent quarters, we'll start to give an update on where we actually are with the synergies themselves. We're making good progress. We're on track, but the flow through to the bottom line is actually delayed, even though you can actually see some of it in the actual numbers it tracks lower. So there's plenty more to come in terms of the actual reported P&L and that's still going to be actually a bit beyond 12 months because we've talked always about how 2022 is the full-year realization. So there's still a chunk to come out and think you kind of look at that cost efficiency ratio at around about 38 percent that we've said when you start stripping out integration costs, etc. and you look at where the market is at, and they are going to come under cost pressures, I think we would start to see us moving from a lower part of the table where we have been up more towards the top and maintain a cost leadership position.

So I think definitely does more to come out. I think our cost efficiency ratio will improve a lot and we'll move more up into the leadership position. It'll take a little bit more than 12 months in reported perspective that the actions are happening now and will happen into next year. And I think, when we give that fuller update in the coming periods that David mentioned, you'll get a better clearer sense of that.

On the second one, in terms of weaning off SAMA funding, we have a 74 percent demand deposit ratio and that excludes the SAMA funding, which we don't report in there. So, it doesn't really feel to me much like – we're dependent on it. In fact, we're not – I suppose, as a straightforward statement, we're not dependent on it at all. And so, I don't really feel at any time we'll have to wean off it at all. David, you wanted to make some comments?

David Dew: Yes. Sure. And, on that point, I would say that yes, interest free deposits are nice to have, but, in an ultra-low interest rate environment, the benefit of them is modest. So, I'll make two points on funding.

i) the work that we continue to do in terms of cash management is really good and the number of mandates that we continue to win is really exciting and therefore we get the core operating accounts and that is a brilliant source of funding and liquidity and we really do have very strong customer propositions in that area. And ii) and I think we'd all agree with this, is frankly I will be very happy if we – if we start to have to seriously think about funding issues because that would almost certainly mean a return to growth and a return to a more positive economic environment and I think we would all vote for that and we've certainly displayed over a long period of time that we are more than capable of handling situations like that. Indeed, the Saudi banking system is more than capable of handling that. So let's all actually vote for higher growth as some sort of modest pickup in interest rates perhaps in 2022 or beyond some sort of more normalized economic environment, rather than worrying too much about it.

The only point, Hootan that I'll add on the cost space one is that, as part of the strategic plan, we're also going to review strategic costs. Frankly, I suspect that's something that all banks should be doing. Most of them probably are doing it, but we're certainly going to take it very, very seriously and, in a digital world, banks have to look at their overall cost base and take a view in terms of strategic costs and that, of course, has also been amplified by the low interest rates. So best in class cost efficiency ratio of below 30 percent or best in class in the future might be closer to the mid-30s. I don't know. But we have to review our strategic costs and we have every intention of doing that.

Hootan Yazhari: Thank you very much.

David Dew: OK, operator, please.

Operator: Thank you. Your next question is from the line of Edmond Christou from Bloomberg Intelligence. Please go ahead.

Edmond Christou: Hi, David and Mathew. All my questions have been answered. Just to follow-up on the opportunity going forward on the retail side. We've seen some opportunity within the wealth management and you mentioned saving – probably we'll see more saving behavior in the Kingdom going forward. So what opportunity do you have there in terms of asset management fee generating revenue for the bank which is an opportunity definitely for the segment you target?

The other thing is on the migration of loans to Stage 2. Is this related to COVID? Restructuring of corporate? If you can give some highlights. And I believe you – if it's true, then you are being compensated for the fees through the SAR 50 billion programme. Thank you.

David Dew: OK, thanks, Edmond. The answer on the wealth one is pretty straightforward. You're absolutely right. There's a lot of opportunity there. We've done a decent job in the past and it's a very important segment for us, as you know, but I think there's plenty of opportunity to do more. What we need to do is bring the four strands together. The core SABB commercial offering and the core propositions we provide to our customers and the premier in the advanced propositions are an important element of that, bringing in the asset management and the brokerage from the AP, as you – as you suggest, and, actually, we've got some interesting strategic developments beginning to take shape there and we'll be able to tell you more when we're able to do so.

We need to bring in the bank assurance and the insurance businesses and particularly family Takaful, and do more there as part of a holistic wealth proposition. And then the final is certainly for the higher segments, some sort of international capability and we obviously have that through our partnership with HSBC.

So, as far as we're concerned, we've got all the tools that we need and it's all about execution and I can assure you that we will continue to take our wealth proposition very, very seriously and we see a lot of opportunity. Mathew, you want to take the Stage 2 one, please?

Mathew Pearce: Yes, thanks. I think, Edmond, you're referring to the Stage One to Stage Two movements in the third quarter. It's not exactly what you were thinking it might be. It's just a handful of accounts that have moved based on reviews and based on movements in payment status.

Again, with the reviews, you know we like to be conservative and there's some of that flowing through into the third quarter. You'll have seen that the overall provisions didn't move much because those accounts are overall protected in a good position, but nevertheless from a sort of credit quality deterioration metrics perspective. They move from first to second stage.

Edmond Christou: OK, thank you.

David Dew: OK. Thank you very much, operator. I have to say, I thought the questions were excellent. They covered the key aspects of our business. So, in some respects, I'm not surprised that we have run out of questions because I can't think of any other key issues that we should talk about.

So again, thank you very much, everybody on the call, for your questions. We hope you got some good value from it and we look forward to speaking with you on our next quarterly call. Thank you.

Operator: That concludes our presentation today. Thank you for participating. You may disconnect.

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