Saudi British Bank 4th Quarter 2021 Results

Operator: Welcome to the Saudi British Bank fourth quarter results call. With us today we have the Managing Director, Mr Tony Cripps; the Chief Financial Officer, Lama Ghazzaoui; and the Head of Investor Relations, Sirish Patel. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star zero. I'll now hand you over to Sirish.

Sirish Patel: Thank you. Hopefully you can hear me loud and clear. Hello and welcome to our fourth quarter 2021 results presentation. As mentioned by our telephone operator, we have our Managing Director, Tony Cripps, and our Chief Financial Officer, Lama Ghazzaoui, with us on the call today. Also on the line we have Majed Najm, our Deputy Managing Director for our Corporate and Institutional business and Mohammed Al-Shaikh, who is the Deputy Managing Director of our Treasury business, also on the line for the Q&A session.

Tony will kick off the call, summarising the key takeaways from an eventful year, followed by Lama, who will provide our usual summary of our financial performance for the quarter and year-to-date. We aim for the presentation element to be roughly ten minutes and then we shall open up the floor for Q&A, which will take place over the phones. Slides are available to download by the webcast and are also available on the reports page of our website. Without further ado, I'll hand you over to Tony, to kick off the presentation.

Tony Cripps: Great, thanks, Sirish. Welcome all and thank you for joining the call. At the end of the year, I wanted to provide a summary of the progress we've made during 2021. As we articulated throughout the course of the year, the turnaround strategy for the retail bank was always going to be a hockey stick, given the investment that we needed to make. What was very pleasing was the acceleration and delivery of that strategy in Q4. In hindsight again, it shouldn't have been ever a linear proposition. So, that was very pleasing. So the five-year plan hasn't changed. The confidence around the delivery of that from a CEO perspective is quite satisfactory and on track. So slide 3 summarises the key elements of the progress we've made.

So firstly, loan growth. As I said, we accelerated in Q4, particularly in retail. As we mentioned in earlier calls, the overall strategy is SABB is back to growth, and we delivered nearly double-digit growth across the customer loan portfolio. And the fourth quarter makes our fifth consecutive quarter of growth.

So given the backdrop, coming out of Covid, the restructuring we needed to do in terms of product development post the integration of the two banks, which had slowed down our proposition in retail relative to the competition, that gap has closed, and we've started to see market rates of growth for SABB, as you'd expect if we had the full product range.

So we ended up pleasingly surpassing our more conservative expectations and what we had given guidance for in the middle of last year. So it was pleasing to outgrow the market in some areas and to catch the market in others. The growth has been excellent in corporate, and the retail growth has also, as I said, accelerated in Q4. And we've been involved in most if not all of the landmark giga-projects in 2021.

On revenue, our margins continue to stabilise overall in 2021. NIMs and revenues broadly unchanged through the year despite heightened competition and some compression in margins from market rates and spreads. Given the current sentiment on rate increases, which most of you know I flagged in Q4 that we hadn't built that into the AOP, but it was fairly obvious that inflation would accelerate, and the rate cycle would accelerate, which is obviously what's supporting the idea that revenues will go up, if that indeed is delivered in 2022. SABB in particular has a sensitivity to the floating rate balance sheet. Our NIBs are extremely high, and the other side of our balance sheet is, as you know, 75% corporate and with regular rate-sets as opposed to the fixed-rate side of the retail mortgage book.

So, on investment, as we highlighted last year, we intend to invest over the course of 2021 and right out to the end of the five-year plan, SAR1.5 billion to modernise and transform. That started in 2021 and excellent results were achieved. Something like 145 projects were completed. That accelerates slightly this year, in year 2, to spend a little bit more and some more projects around not just the front end but the transformation of our infrastructure, which allows us far more straight-through processing and the ability to connect to clients in a way that embeds financial solutions.

So during the year, as I said, the promise was to set up a digital office, which has been done. And that's aiming to coordinate across the front, middle and back end holistically what we're doing in getting the best spend for our money. And we've made excellent progress.

The bank completed the integration work with SABB and Alawwal customer day one and the original guidance at that time, in March last year, was cost synergies of between 10-15% of the combined SABB and Alawwal cost base, which was later upgraded to 15-20% with an anticipated cost-to-achieve the integration of between 1.5 to 1.8 times the annualised synergies. Throughout the year and following customer day one, in March, we continued to look at opportunities to improve. And at the end of 2021, we've achieved SAR700 million of cost synergies, which equates to the upper end, about 20%, of the combined SABB and Alawwal 2017 cost base. Our cumulated integration spend is 1.5 times current annualised synergies. So that's a really pleasing result overall for the bank.

Strong risk management across the bank has weathered the last few years. Cost of risk has been very low, although Lama did highlight that that cost of risk was somewhat artificially low and it would be going up. Non-performing loans continue their trend down following the merger, with SABB-originated NPLs at below 2.5% of the total book.

We've got a very healthy capital liquidity and funding position across the bank, with 19.3% CET1, 82% NIBs ratio, which is amongst the highest in the Kingdom, and an LCR of 178%.

So before I hand you over to Lama to go through the financials, I just wanted to make a few closing remarks. So, as I said, the growth has been very good. We need to do more. The margin compression that we saw and the interest rate sensitivity in 2021, which was an explanation for the slight shortfall in revenues versus the plan, because the assumptions were slightly wider on rates and margins, the opposite of that is true in 2022. The assumptions on rates are going to be higher, without question, because we haven't built that into the AOP.

We want to outgrow the market, as we said. Last year we were catching the market in retail but in the wholesale market, the corporate market, the institutional market, we were at market or maybe a little faster than market. And in some areas in particular, we gained market share, like in trade finance, we widened our margin to the number two player, and we're doing significant investment in automation in the trade finance area.

And look, if you think about the relationship that SABB has with HSBC and the special access we get as a result of that, not just within Saudi capability but into the global network, we are perfectly aligned and somewhat unique in our position with the Vision 2030 opening up of the Kingdom. So, end-to-end, we provide retail, corporate, institutional, investment banking services, inbound and outbound, that I don't think anybody else can, actually. So we're confident about the environment and we're executing the plan at pace.

So, the ingredients are there: sustained growth, resilient financials, and a global and a local market that, of course there's always challenges and at the moment of course geopolitical uncertainties, which is creating some volatility but notwithstanding what's unpredictable, we feel very confident that the macro environment and the reflationary environment post Covid is very supportive of what's happening in the Kingdom.

So, the next couple of slides are there just to explain the business and the strategy, which you've seen before, and I'll let you read at leisure. I'd now like to hand over to Lama for the financials. Lama.

Lama Ghazzaoui: Thank you, Tony and good afternoon to everybody on the call. I'll take you through our financial results for the fourth quarter and the full year.

We reported net income before zakat and income tax of SAR3.9 billion for the year and SAR600 million for the fourth quarter. If you recall, we impaired our goodwill during 2020 by around SAR 7.4 billion. Removing this and removing merger and integration related expenses in order to give a more comparable view, our underlying net income of SAR 4 billion was up SAR 392 million or around 11% for the year. This was mainly driven by significantly lower impairment charges, lower operating expenses, but partly offset by lower revenue.

Expected credit losses were lower than 2020 by around SAR 1.2 billion and it reflects the early actions taken on provisioning. The prior period had significantly higher charges, which reflected provisions taken against SABB-originated customers that were classify their POCI in the merger accounting, an increase in retail provisioning and, thirdly, increased charges against certain corporate customers. Fourth quarter charges increased in line with our guidance after 12 months of very low charges, and it reflects our conservative approach. The cost of risk for the year stands at 27 basis points, which is at the lower end of our through-the-cycle guidance of 30 to 60 basis points, and the increase in fourth quarter charges is driven by a small handful of names.

Operating expenses, excluding merger-related expenses, stood at SAR 3.6 billion, which was around SAR 100 million lower than the prior year. And further information is provided on slide

9 but this continues the trend seen over the last few years reflecting our solid cost management. Costs in the fourth quarter increased compared with the trailing quarter, but this is mainly from an acceleration in our investment in people and processes.

Revenue was down year-on-year due to lower net special commission income from the decrease in benchmark rates at the end of the first quarter of 2020 and the continued increased competition. However, it was promising to see a resilient revenue and net special income trend on a quarterly basis and of course more information on this on the next slide.

Our underlying ROTE of 8% for the year was down 0.6 percentage points on the prior year. Much of this is reflective of course of the challenging revenue environment we have been in, not least driven by the low-rate environment. We are optimistic with our resilient costs and cost of risk position, a stabilised revenue base, a loan portfolio that has shown sustained growth alongside growing NIBs and an outlook that is moving towards a more normalised rate environment, that returns will improve, given we have the right financial ingredients.

And finally, liquidity and funding remain robust and capital levels remain healthy with a CET1 ratio of 19.3%.

To emphasise, the fourth quarter discrete net income of SR 600 million is not representative of a typical quarter, as it reflects a higher charge for expected credit losses as we anticipate a return to our 30 to 60 basis points charge, and also includes an acceleration in our investment in people and processes via our operating expenses line.

Moving on to the next slide, the revenue analysis. As mentioned earlier, total revenue for the year was down, mainly from lower net special commission income from the decrease in benchmark rates at the end of the first quarter last year and the continued, of course, increased competition. On a quarterly basis, fourth quarter revenue of SAR 2 billion was marginally higher than the third quarter but really remains broadly unchanged over the last four quarters.

Net special commission income, which represents around 70% of total revenue, has increased marginally in the quarter, but in essence as can be seen in the chart on the top right-hand side, our net special commission income position reflects the continued stabilisation with our volume growth broadly offsetting the margin compression from the prevailing competitive environment. The third quarter, as mentioned last quarter, also was dampened by some tidying up of our Alawwal-originated loan portfolio and this stabilisation can also be seen in our NIM, which has held at the 2% level for the last 12 months.

Taking a step back, our net special commission income for the year was SAR 5.7 billion, which was down SAR 1.1 billion year-on-year. The main driver for this was the drop, as we said, in the benchmark rate, being one of the most sensitive banks to changes in benchmark interest rates. Clearly there is a lot of expectation for 2022 for rate hikes and we feel we are well positioned to benefit from any such increases.

Total non-funds income of SAR 2.2 billion for the year was up year on year by around 10%. On a quarterly basis, fourth quarter non-funds income of SAR 568 million was up around 2% over the third quarter, mainly driven by gains on disposals in our investment portfolio, and a 7% increase in exchange income from improved customer flows. Fee income fell in the quarter; however, this is driven by a re-mapping of some revenue-related expenses from the operating expenses line. And as we mentioned in our last call, the third quarter also included a year-to-date tidying up or catch-up of trade income, therefore to some degree inflating the third quarter.

Moving on to slide 9, our total costs fell 12% year on year, mainly driven by a reduction in integration-related costs. Removing integration costs from both periods shows a 3% reduction in underlying operating expenses.

We have continued throughout the year to look for further opportunities to synergise the combined banks' cost base and despite successfully closing out customer day one earlier on the year. With this came further integration-related expenses in 2021, which totalled around SAR 106 million for the year. However, it's very pleasing to see that our total annualised cost synergies achieved of around SAR 700 million, which brings us to the top end of our guidance, having delivered around 20% of the combined SABB and Alawwal 2017 cost base.

Total cumulative integration costs including deal costs were approximately SAR1.1 billion since the start of the project, which also puts us at the lower end of the planned spend, which was originally 1.5 times to 1.8 times the annualised cost synergies.

Costs in the fourth quarter increased 9% and included a tail of integration-related expenses. And it also includes an acceleration in our investment in people, systems, and processes.

The bottom right chart shows our cost base over time, removing integration and merger-related expenses, using a four-quarter rolling average. We've added this in to show the improvement in quarterly run rate over time, so continual optimisation and realisation of synergies, which have more than offset inflationary pressures. However, as mentioned in the earlier last quarter's call, we're at an inflection point in our cost base as we start to increase our investment required for achievement of the strategy.

Moving on to credit quality and impairments and as mentioned earlier, our expected credit losses were lower than 2020 by around 72% or SAR 1.2 billion. The prior period had significantly higher charges, which reflected provisions taken against SABB originated customers that were classified as POCI in the merger accounting, and then increase in retail provisioning and increased charges against certain corporate customers.

We have benefited during 2021 from lower than usual charges but have been signalling for some time that we would expect our charges to increase and converge more towards our through-the-cycle guidance of 30 to 60 basis points. We saw this starting in the third quarter, although the effect was offset by higher recoveries, and has continued into the fourth quarter. This was driven by a handful of names in the corporate business. Cost of risk for the full year was 27 basis points.

Our NPL ratio continues its steady improvement throughout the year and stood at 4.6% at the end of the year. This was mainly driven by a fall in the SABB originated non-performing loans and excluding all POCI balances, our NPL ratio is now 2.4%. Our coverage ratio stands at 158% excluding POCI.

As we always do, we will continue to monitor our portfolio for signs of or indications in increased pressure or risk and having a corporate-focused book, we always expect a slightly lumpier profile in ECL and coverage. We are well provided but as always, we remain vigilant to the changing macro-economic landscape.

Moving on to loans. Lending increased 2% in the quarter and 9% year-on-year. Growth in the quarter was across both corporate and retail, with 2% and 4% growth respectively. We are pleased with the consistent growth we have seen throughout the year, with a fifth consecutive quarter of growth.

Our retail book grew with notable growth in mortgages and cards. Our mortgage book, as previously explained, has a higher repayment rate given the significantly older portfolio, and therefore despite the solid growth in mortgage origination, net growth has not grown to the same degree. However, as we grow our new book, it make up will evolve with repayments becoming of a lesser issue, although as previously mentioned, this will be gradual in the short term.

As can be seen in the chart, originations have almost doubled compared with 2020. And the during the year 2021, we made a series of tactical product developments enabling us to offer a more rounded suite of REDF products and features. This work is now largely complete and we successful piloted a number of these enhancements at the end of the year, and we have commenced the steps to market and sell these additional products.

Delivering consistent growth is one of the main ingredients in our strategic plan and is a welcome return, given the increased deleveraging that SABB has undertaken over the last few years. However, there is more to be done to win back market share. But to reiterate, we are still at the start of our five-year strategic programme.

On funding, funding of course remains a competitive strength. We possess a consistently high and stable deposit base and our strength in NIBs or demand deposits has grown considerably over the period, with a closing NIBs ratio of 82%, with both our businesses, CIB, and retail, contributing to this strong position. Any movements in the deposit base have largely been due to the deposits that are somehow transitory in nature or where we have chosen not to renew more expensive term deposits, but we have built a strong, dependable, and sticky deposit base, and our liquidity and funding ratios remain robust.

Moving on to capital, our tier one grew in the year from 19% to 19.3%, with growth from profits partly offset by the repayment of our first-half dividend, together with a drop from increased RWAs. And earlier this week we also announced our second-half dividend of 0.36 riyal, which equates to a pay-out ratio of around 56%, which is in line with our first-half dividend. The bank continues to enjoy a very strong capital position, which is ready to be deployed for opportunities that lie ahead.

And finally, before we go to Q&A a few words of conclusion. We look back at the year, it's great to see the return to consistent loan growth, revenue stabilisation and a return to profitability for the year, a marked improvement in asset quality metrics and exceeding our delivery of cost synergies. We've been in a low-rate environment for some time now and it has had its impact on our revenue but the current consensus of global benchmark interest rate expectations for 2022 should hopefully start the process of normalisation in both rates and our revenue base.

We are at the start of our five-year strategy execution and all our businesses have performed well in a very competitive marketplace. And of course finally it goes without saying but we do possess robust levels of capital, liquidity, and funding to keep supporting our customers' needs and the goals of the national growth agenda.

That completes the presentation element of the call. We're ready to start the Q&A.

Moderator: Thank you. As a reminder, to ask a question, you will need to press star one on your telephone. To withdraw your request, please press the pound or hash key. Once again, please press star one if you wish to ask a question. Please stand by while we compile the Q&A queue.

And the first question comes from the line of Rahul Bajaj from Citi. Please go ahead.

Rahul Bajaj (Citi): Hi, this is Rahul from Citi. Three quick questions from my side. Thanks for taking my questions. The first one is on cost. So, as Lama kindly said about fourth quarter increase in costs which has been driven by people and processes, I just want to understand, how should we think about cost going forward. I mean, to what extent the fourth quarter run rate in cost is sticky in nature. And this also reminds me, Tony mentioned about the second year of 1.5 billion in people and process costs coming in 2022. So what kind of magnitude of additional cost from these investments should we bake into our models for 2022? So generally, kind of guidance on cost, that would be helpful, that's my first question.

The second question is on the recent REDF announcement wherein they've allowed subsidised mortgage owners to kind of refinance their mortgages and move to other banks. Now, just wanted to gauge how you are looking at this development. I mean, is this a net positive for you in the medium to long term or you don't think that it will move the needle in any meaningful way? So, if you just talk around that, the regulation change, will be useful. And finally on dividends. I see the dividend pay-out ratio for 2021 has kind of settled around in the 50s. Is this the new normal? Is this the new kind of run rate where we should expect dividends going forward or do you think there is room for dividend pay-outs to get back to the 70% kind of pay-out levels where they were prior to Covid? Those are my three questions, thank you.

Lama Ghazzaoui: Thank you, Rahul. So, on the first question on the cost, it's fair to assume that directionally, we would expect in the short term to remain at the similar levels of the fourth quarter. And yes, we are at an inflexion point with costs as we currently go through the investment phase, and costs have been and will continue to be robustly managed with underlying costs down and the longer-term trend showing our synergies offsetting the inflationary pressures. But we do need to invest in people, in systems, processes and the strategy implementation as we look to digitise the bank, of course. And we've seen that this has impacted our quarterly costs that have sort of picked up in the second half of the year, but we still averaged around the same level that we had expected to end with. So really directionally, we expect to be at similar levels in the short term.

On the latest REDF announcements, to be honest, we see this as levelling the playing field for SABB because given our back book, which has a large portion of non-REDF, it has always been susceptible to customers moving to other banks for a better deal. So now this is levelling the playing field, as I said, and it should be positive for the customer and for a bank like ours. Yet we will accept customers that really fit SABB's risk criteria and SABB's customer mould. On your question on dividends, we have always been disclosing that our policy is to distribute dividend between 50-60% of earnings. So our pay-out ratio is now back to pre-merger levels of the 50-60% pay-out.

Rahul Bajaj: Thank you.

Operator: Next question comes from the line of Saul Rans from Morgan Stanley. Please go ahead.

Saul Rans (Morgan Stanley): Yes, good afternoon. Just a couple of questions for me regarding loan growth. Just to clarify, I think you mentioned the comments about product innovation and completing the range of mortgage products. Did I understand correctly from the comments that that process was really not particularly affecting you still by the end of 2021, but you'd expect to get the benefit of that going into 2022? So, any comments on that front.

And then on corporate loan growth, any comments that you could share with us about particular areas that have been positive for you in terms of generating loan growth in your corporate book, and any areas where you are more optimistic of growth in 2022? It would be interesting to hear that, please. Thank you.

Tony Cripps: On the product innovation front, we completed that work really at the end of Q4. So it wasn't relevant for most of the growth we saw because it was really only December where that went live. What we've seen already in January and February is the new product range has contributed a bit more than 20% of the new origination. So it's added to our volumes as we expected.

And on the second question, as I mentioned, we've been in involved in if most, if not all, of the large giga projects and the spinoffs in the economy coming from these large deals is where we're seeing significant growth in 2021. Although, as we've mentioned before, we have, as part of the five-year plan, significantly more focused than historically we've had on SME. And the build out of that similar to retail was happening in the second half of 2021, and the platform has been strengthened, but there is more to do in 2022 to accelerate that participation in the SME segment.

Saul Rans: And maybe it could I just follow, hopefully with one question on giga projects. How do you think about the impact on your margins if you are successful in generating more growth from giga project lending? I know there's a certain kind of scepticism about the margins that are available on some of those loan deals potentially. So are you concerned that it'll be dilutive to a margin or is that not the case?

Tony Cripps: Yeah, it's true that those projects are tighter margins, no question. I think we have a significant advantage in many ways against other banks in the Kingdom because of our ability to service with ancillary business in the capital markets, for instance, both onshore and offshore through our excellent GLCM infrastructure where we were in a strong leadership position in that area. And other ancillary products, whether it's FX or – we have a full range, and therefore we can offset the loan compression as a pure deal standalone with a lot of ancillary business. And we're quite successful at that.

Saul Rans: Right. Thanks very much.

Operator: Thank you. Next question comes from the line of Waleed Mohsin from Goldman Sachs. Please go ahead.

Waleed Mohsin: Yes, thank you much for the presentation. Three questions for my side, please. First, as you point out, you've had good success with positive trajectory on your retail volumes. If you could please share some numbers on customer acquisition which you've had in the last 12 months or so, just to get a feel of the customer number, how that's evolving. That's the first question. Secondly, if you could talk about to the extent you can any preliminary 2022 guidance or some key drivers that you see for 2022. I know you've laid out the plan for 2025 but would be helpful to get some perhaps a few numbers around 2022.

And my final question is on net interest margin. So your demand deposits have improved significantly over the last 12 to 18 months, almost 82% of your book now, which should mean that your net interest margin sensitivity should have improved further. If I recall correctly, last time you mentioned for every 25 basis points, you see your 10-basis points improvement. With improvement in demand deposits, would you upgrade that? That would be one part, and the last part to this question would be what trends are you seeing in the market at this moment in terms of pricing competition, both on the retail and the corporate side? Thank you.

Lama Ghazzaoui: Thank you, Waleed. I'll probably start with the NIM question. So previously we did say that for every 25 bps, we expect 8 to 10 and now we more so expect 10 bps than the 8 to 10. So, all things constant, of course. And sorry, your second question. There was a problem in the line. Can you please repeat the second question before we move to the first?

Waleed Mohsin: Yes, I was saying just guidance for 2022, any preliminary guidance that you can share for 2022?

Lama Ghazzaoui: Okay. So yes, we don't give short-term guidance, but I can say few words on 2022 generally. So, we did achieve around 9% growth in corporate loans, 7% in retail loan portfolio for 2021. This was ahead of our internal five-year strategic plan for 2021. And of course, the environment has evolved rapidly and the recovery from the pandemic has really been a bit more, a bit faster than what we predicted, but still the key point is we expect to grow and to make market share. This is very important to us. So we would expect to see a faster growth in 2022 in the retail book due of course, to the product enhancements and introduction of the new products that we did at the end of 2021. And we would definitely expect our corporate book to also grow at least the same rate as it has grown in 2021. On your first question on retail volume, Tony?

Tony Cripps: So on customer numbers, as opposed to volumes on our premier segment, we achieved growth of about 3 or 4%, and actually it was similar across the whole book. So we add about 10,000 new customers per month on average. So in the middle of this year, as I think we mentioned last year where we'll be coming to market with a new international proposition for retail, which will be linked to the HSBC network globally. And we think that'll be a great acquisition tool, particularly in the affluent space, obviously.

Waleed Mohsin: Perfect. Thank you so much. That's very helpful.

Operator: Thank you. Next question comes from the line of Naresh Bilandani from JP Morgan. Please go ahead.

Naresh Bilandani (JP Morgan): Thank you. Hi, Tony, Lama, Sirish. It's Naresh Bilandani from JP Morgan. Thanks a lot for the call. Three questions please. The first one is on interest rates. Could you, okay, let's put this way; how is the current interest rate outlook that we have? Like the market is pricing five to six rate hikes before the year end. How does this compare to the previous one that you had when you created your five-year strategy, which was in Q1 last year? Do you see any room to change the medium-term targets in any manner or it's still too early for you? But any colour you can throw on that, that would be super helpful. That's the first question.

Second is if you can please speak in broad terms on the competitive landscape on loan pricing, somewhat similar to what Waleed just asked, but specifically in areas like mortgages and personal loans. I'm just keen to understand if I think of the new origination rate on these products for your typical borrower. Can you please share some numbers on what is the pricing currently and how this has changed over the past couple of quarters? Because the undertone that we are sensing in the bank management is that the competition has increased quite aggressively over the past couple of months. Just keen to understand what's happening on the pricing more specifically at this stage.

And my third question is a bit broader, but again something that I've posed to your peers in the system also, that we've seen relatively sluggish growth overall on the corporate side over the past year. Despite sensing a strong opportunity inside the country, we haven't seen this translate into numbers specifically. Would you be able to guide what is the constricting factor here, if any, and how should we see the corporate loan growth trend for the system as such over the next year or two? That would be great. Thank you.

Tony Cripps: I'll take the first and the last and Lama will take the difficult one in the middle. So when the five-year plan was put together, the assumption on interest rates back then at the end of 2020 and beginning of 2021, somewhat impacted by the uncertainty around COVID probably, was that there wouldn't be any increase in interest rates until 2023. So that's the plan. So if you expect interest rates to be increased four to six times in the next 12 to 18 months, it is a benefit an upside benefit to the delivery of the plan because of the improvement in NIMs we get, which Lama has the specific figures on. But we haven't built that in, as I said, a couple of times earlier into the AOP. So, we haven't taken any of the upside projections, profit or revenue and built it into a higher cost base, for instance. So, if it happens, it'll be an upside surprise. I think the market is pricing fairly in my personal view, but that's not a forecast.

On the last question. So sluggish, I wouldn't describe the loan growth in the market as sluggish. It was highly competitive, and I think the industry achieved 6 or 7% growth in corporate loans and SABB achieved a 9% or nearly 10% growth. So we grew faster than market. So and we were very pleased with that, as I said, we concentrated on balance sheet growth, but we've also concentrated on making sure we won the ancillary business associated with these large projects, particularly. Lama, over to you for question two.

Lama Ghazzaoui: On your question, Naresh, on the competitive landscape, this is not on mortgages only. We are seeing this impacting the other products like personal loans and we are seeing a different or attempts to acquire market share and to sell at very low rates in the market. We speak about yields; and a couple of years ago mortgage yields in general were 6-8%. As we speak, we are looking more towards 4-6% probably more so towards the 4 sometimes. And the depending of course on the customer base, but the new origination rates are definitely less than what they used to be. And the competition is now, I don't like to say price war, but the competition is very fierce on all products at all levels on all sectors, whether they are corporate or retail. But specifically, your mortgage and the yield specifically, I can speak about the yield. We've seen a drop in the general yield from 6-8%, to around 4-6%.

Naresh Bilandani: Thank you, Lama. That was very clear. Tony, one follow-up question, please from my side, six to 7% at the industry level, 9% at SABB level, do you see the industry potentially trending to north of 10% this year, or do you think that the rising geopolitical risk that we have seen globally might put an end into this growth opportunity? Any thoughts there?

Tony Cripps: Look, this is a guess, who knows about the geopolitics, but outside of that, we'd expect growth, our assumptions assume growth of roughly similar levels for the industry in 2021. Without the geopolitics and with the continuing reflation we're seeing, you could expect a little more because optimism in the giga projects is very high. And the ancillary that flows from that is very strong and clearly government revenues are very strong with the oil price at $90 plus, but it's not built into our assumptions that we get that acceleration, because there are still some uncertainties and with rate hikes comes a question of how fast and what impact might that have in the second half. So that's a question. So we're being quite conservative.

Naresh Bilandani: Thank you very much for your replies. Thanks a lot.

Tony Cripps: Thank you.

Operator: Thank you. Next question comes from the line of Taseer Abbas from the Derayah Financial. Please go ahead.

Taseer: Thank you so much for the presentation and the opportunity to ask questions. Most of my questions have already been asked. I just want to follow up with the mortgage question that was asked. How comfortable do you see the numbers at 2021 levels going forward? Do you see the competition and the demand there? And if you could correlate this with the home ownership target, that would be very, very much better.

And the second question is on the provisions, was it driven by some specific event or it's the ECL or any target coverage level that the management is targeting? Thank you.

Lama: Yes. Thank you. On your first question on the mortgage, we are very comfortable with how we size the market, especially now we have the full product suite that we can offer. And we expect that there is still room for growth, definitely because the home ownership target is not yet fully achieved at the 70%. I think couple of months ago we heard that we are at the 63% level, so there is still room for growth. There is still potential. And SABB has shown great potential so far. We have doubled our originations in 2021. Even with only 60% of the product suite, we managed to acquire and originate much higher origination loans than 2020. So still we see a lot of room and hence the investment that we've done in our product suite, in our systems and our journeys, customer experience, and of course the direct sales.

On your second question on provisions, really, this was largely driven by only a handful of clients, specifically customers that are corporate segment. And this is not sector-wide or portfolio-wide provisioning for the fourth quarter. Really, fourth quarter is not indicative of where we would want to be, but the overall cost of risk for the year was at 27 basis points, lower than even our guidance for the year and for the five-year strategy.

Taseer: Thank you. Thank you so much.

Operator: Thank you. Next question comes from the line of Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik (EFG Hermes): Thank you very much. Just a follow up question more of a big picture question. With all these geopolitics, do you see any direct impact for Saudi banking system, or do you see it being more of a domestically driven story that might be relatively immune to these geopolitical events?

Second question is on dividends. I felt that the dividend for the second half was a bit light. Was there any, I think you've mentioned that the pay-out ratio has returned to the pre pandemic level, but was there any specific levers that you wanted to kind of pull to, or already had certain growth targets for 2022, which triggered your dividend decision for the second half of 2021?

And finally, I think you mentioned that this new proposal of being able to buy mortgage portfolios from other bank is potentially positive, but I've not completely understood what the incentive is for the mortgage or the client to switch mortgages between banks. If you could kindly elaborate on that, that would be very useful. Thank you.

Tony Cripps: So on the macro question, so categorically, the geopolitical situation happening at the moment in Europe is not a negative for Saudi. It's creating higher commodity prices, which obviously Saudi is a benefit overall. And if you think about the areas of focus for investment globally, which would be considered high return from a macro point of view, and obviously not where the trouble is, then the Middle East is obviously right up there in terms of a place invest. So definitely not a negative. Take your pick on whether you think it's positive, but definitely not a negative. And on the other questions, I'll hand to Lama.

Lama Ghazzaoui: On dividends, Shabbir, we have a very optimistic strategic plan for growth, challenging in certain areas, but we do intend of course to direct our capital to growth in the first place and to support the growth agenda. And going back to the to the 50-60% payout ratio has always been our strategy, and we do have capacity to distribute more, as I said previously, because of the statutory reserves having reached their cap and no need for further allocation to statutory reserves, but the priority is to support growth and the growth agenda, and the rest will all go towards dividend distribution.

On your question on the mortgage, it's all about price. The incentives for any customer to move their mortgage from a bank to a bank is really, it's all price. The culture has not been that when you are hooked with a bank for 15 to 20 years for a mortgage that you can easily shift to other banks, it's now a new thing thats yet to be tested, but it's all going to be around price because almost everybody offers the same products, the same services, etc. So it's really around price.

Shabbir Malik: So, if I understand correctly, the pricing or the profit on the mortgage is subsidized by the REDF. So for the customer, what's the incentive for him to switch banks? If that's not something, if that's not a burden that he or she is bearing.

Lama Ghazzaoui: It is. This is why we are speaking about a new, this is newly introduced and it's yet to be tested. And the customer's preferences will, are still to be taken into consideration, but what puts SABB at a better edge is the enhanced after sales services or the customer experience overall that we've revamped and we've invested in the ability of the customers, of course, to access the other products within the bank or the overall experience as we say. So for now this is still a fairly new introduction of a regulation, which I think we can't yet figure out the full impact of it.

Shabbir Malik: Fair enough. Thank you. Thank you very much.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one. And the next question comes from the line of Farid Aliani from SNB Capital. Please go ahead.

Farid Aliani: Hi. Thank you very much for the insightful call. I just have a question on the cost efficiency ratio. If I understand right, it is currently standing at 45% and in your medium-term target, you're talking about a 32% cost efficiency ratio. So, just wanted to focus on the short-term aspect of it, understand that the cost will remain at around similar level to the fourth quarter. So how do you basically plan to move from 45 to 32% over the next five years? And will it be more toward the tail end of it, or we will be seeing a gradual move toward 32%? A bit of colour on that would be really helpful. Thank you.

Tony Cripps: Yes, well, revenue is the short answer. Manage costs efficiently, and we expect the revenue numbers to go up because of growth. Now, if you want to believe the market on interest rates, you see significant upside to exceed this because of the pickup and interest rates. But as I said, that wasn't built into the plan. Rate hikes were not targeted until 2023 in the original plan. So if the rate hikes come through, you'll see an acceleration as it drives revenue higher. So, a 5% in increase in revenues drives a 250-basis point CER benefit. So, take your assumptions on rate hikes, and plug that into the revenue uplift, and you'll get an answer on the CER benefit.

Farid: Understood. Thank you very much.

Operator: Thank you. I would now like to hand back over to the speakers for final remarks.

Tony Cripps: Well, thanks very much everyone for joining the call again, and thank you for the questions, I hope we answered them to your satisfaction. And just finish once again by saying that the macro environment here is positive, notwithstanding geopolitics. It's reflationary, as we know, and there's parts of the world where that is a benefit. We're very confident in our plan and our areas of focus and the execution we achieved in 2021 post mergers started to produce real and tangible results around that. There is an upside benefit that we have given the structure of our book, if the rate hikes come through, and going forward beyond this year, Vision 2030 is really delivering the most exciting economic change that we've ever seen in the Kingdom. And we are very happy with our growth agenda around that vision. So, with that, thanks once again.

Lama Ghazzaoui: Thank you very much.

Operator: That does conclude our conference for today. Thank you for participating.