1Q 2022 Results

Wednesday, 18th May 2022

PUBLIC

Operator: Welcome to the Saudi British Bank First Quarter 2022 Results Webcast and 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 a 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, Wednesday, 18th May 2022. I'll now hand you over to Sirish.

Introduction

Sirish Patel

Head of Investor Relations, Saudi British Bank

Thank you, Operator. Hello and welcome to our results call for the first quarter of 2022. As mentioned by the telephone operator, we have our Managing Director, Tony Cripps, and our Chief Financial Officer, Lama Ghazzaoui, with us on the call today. Tony will kick off the call, summarising the key updates for the quarter, followed by Lama, who will provide the usual summary of our financial performance for the quarter. We aim for the presentation element to be circa 10 to 15 minutes and then we shall open up the floor for Q&A, which will take place over the phones. Slides are available to download via the webcast.

Without further ado, I'll hand you over to Tony to start the presentation.

Q1 Highlights

Tony Cripps

Managing Director, Saudi British Bank

Great, thanks Sirish. Welcome everybody. I'll provide a brief summary introduction, then straight into the financial results, handing over to Lama. So the quarter, in a nutshell, continues the trends that we talked about last year of getting SABB to industry growth in Retail and maintaining our growth trend in Corporate, or even above growth in lending in Corporate. And so slide one just summarises the main highlights of the strategy.

So on loan growth in particular, it was a pleasing start. Our portfolio growth was 5% across the whole bank. Even though not all banks have published, you can safely say that was in line across the industry, possibly slightly faster on the Corporate side.

We continue to play our rightful part against the Vision 2030 commitments, highlighting the funding of the Red Sea development in green format, and SAR5 billion project financing deal and to manage the utilities' infrastructure. And also another highlight was financing the construction of the Avenues-Riyadh, which is one of the region's largest shopping, tourism and entertainment projects. And the pipeline remains strong on the lending side in Corporate.

Retail growth accelerated in the quarter, with 7% growth. And as we highlighted in the fourth quarter last year, once the product range completion was in place, which happened at the start of the year, we were very confident that we would see our growth in line with the market, and that's exactly what's happened. On our Retail book in particular, I'll just comment that the proportion of our book which is non-subsidised is about 50% or thereabouts, which is higher than many of the other banks. And on the softening that we saw in mortgage lending in the first quarter, more of it was on the subsidised part of the market, so our overall growth is held up because of our non-subsidised lending.

Looking forward, we think the momentum will continue and our forecasts for the year remain positive, and we expect that there will be still strong demand in the final part of the year on the Corporate side. And despite, kind of, the high levels of origination and corporate repayments, as there is still considerable liquidity in the system, we expect to achieve our growth targets, as we've previously highlighted.

On revenue, we saw 4% growth year-on-year and 6% growth quarter-on-quarter, with a flattish NSCI base and an improvement in non-funds income. Lama will give you more colour on that. I highlight during the quarter, starting in about February, we started to see a sharp acceleration in rates through SAIBOR, which not only was because of the trajectory of LIBOR in the US, but also because the margin between SAIBOR and LIBOR widened as well. So this will be a positive for us and that's starting to come through in the trend in the numbers, and we expect that to continue as those rates flow through.

As said in the previous call in February, we were not expecting a material improvement this quarter because there is a lag, essentially, but that should start to come through in the second quarter. And we've seen the start of that, which you'll see in the numbers.

Non-funds income also grew, with fee, exchange and trading all performing really well. The cost of risk and asset quality are all in line with the plan, and the sustained improvements are as we forecast post-merger and the tougher approach we took to cleaning up the book. So the cost of the risk on the first quarter was 13 basis points, reasonably low. Our NPL ratio, excluding the POCI balances, was 2.3%.

So all of this leads to the fourth point, which is on the slide, which is we are delivering an improvement on ROTE. In the first quarter it was 9.7%, which compares to the full year last year of 7.8%, and we expect to see that continuing trend as the rate cycle feeds through into income. So clearly there's more to come, especially with the strategic levers we're using as well; and a more normalised, kind of, global benchmark environment with rates; and the growth strategy we've got, leveraging our technology advantages that we're rolling out at pace. And we enjoyed very healthy capital liquidity and funding positions; 18.5% CET1 ratio, 76% NIBs ratio and LCR of 156%.

And the last comment I'll make is that the strategy, from a Board point of view, recognise that we're well on track to deliver on the second year. We're very firm in our investment plans and so our technology upgrades will continue at pace this year, with a strong focus on our affluent capability in Wealth, which is very exciting, in the second half, which we'll be announcing shortly through various initiatives. Our relationship with customers, clients and regulators is strong and deepening, and our partnership and collaboration with HSBC is more structured than it has been in the past and, therefore, delivering on the strategy around Wealth, as I've mentioned, and in other areas as well.

So the ingredients are there. As Managing Director, or CEO, I am very happy with the performance in the first quarter and it gives us a strong platform to deliver in two, three and four. The markets are obviously volatile and expected to remain a bit jumpy, but we're not forecasting an adjustment to our growth forecast at this point in time. We just expect to manage that volatility as we go forward. So we remain optimistic for the future.

Thank you. And I'll now hand over to Lama.

Financial Results

Lama Ghazzaoui

Chief Financial Officer, Saudi British Bank

Financial Update

Thank you, Tony, and good afternoon to everyone. I'll take you through the regular financial update for the first quarter. We generated SAR1.2 billion of net income before tax, which was around 2% up on the same quarter from 2021, and almost double what we achieved in the fourth quarter of last year. Comparing with the first quarter of 2021, net income before Zakat and income tax was higher, mainly because of higher revenue, although this was partly offset by higher ECLs and higher costs. Revenue was higher and this was driven by increased fee income, exchange income and trading income. Fee income did show a strong rebound, with improved business activities, and also included a handful of one-offs, which won't necessarily repeat. Exchange income was up from increased customer activity, and trading income was up as we took advantage of opportunities from the heightened volatility witnessed in the first quarter.

The ECL charge in the first quarter of SAR60 million represents an annualised cost of risk of 13 basis points; lower than our through-the-cycle guidance of 30 to 60 basis points, but it was higher than the prior period, given some of the extremely low charges we witnessed during 2021. And this metric remains ahead of the market.

Costs were up by 4%, but if you remove the merger-related costs from the prior period, underlying costs actually increased by 8%, which reflects the investment stage we are currently in and is in line with the guidance and the comments we've made in the previous calls.

The graph on the bottom left-hand side shows these movements, and the chart next to it shows the main movements compared to the fourth quarter. We generated a return on tangible equity of 9.7%, which compares favourably to the full-year ROTE of 2021 of around 7.8%. We would expect this to step up as we advance through our strategic plan and as we return to a more normalised rate environment.

From a balance sheet perspective, we grew our loan book by 5% in the quarter and 12% year-on-year. Growth was broadly spread across both Corporate and Retail and is a strong continuation of the growth achieved last year. Our customer deposits grew 6% in the quarter, and we achieved a closing NIBs ratio of 76%. Although this fell away from year-end high, yet it remains a significant strength, particularly in an environment where the rates are increasing.

And finally, liquidity and funding remained robust and capital levels remained healthy. Our CET1 did fall in the quarter to 18.5%, but the drop was driven by the accelerated loan growth that we witnessed and also impacted by the proposed final dividend for 2021, which was paid in April.

Moving on to the next slide, revenue analysis. During 2021, revenue was largely stable throughout the year at approximately SAR2 billion per quarter. And in the first quarter of 2022, revenue of SAR2.1 billion marks a step-up from that position and is largely driven by non-funds income in the Corporate business.

Net special commission income was broadly unchanged compared with the fourth quarter of 2021. But the prior period included a small one-off catch-up in the Retail business. So the underlying trend was actually positive with Corporate NSCI improving quarter-on-quarter and Retail NSCI being broadly unchanged.

Clearly, SAIBORr has increased significantly towards the end of the first quarter. And therefore, we would expect to see the benefits of this materialising more in the future periods, given the re-pricing lag but it was very pleasing to see our monthly NIM improving throughout the first quarter and it continues to do so.

We saw a strong increase in non-funds income driven by increased fee, exchange and trading income. And as we mentioned earlier, fee income showed a strong rebound from improved business activities, but it was also supported by some one-offs that are not recurring in nature. These items are driven by our trade business and merchant acquiring, which can by its nature have some time-related one-offs.

Expenses for the quarter increased 4% year-on-year but fell 8% compared to the trailing quarter. Given the move into our investment phase, the first quarter of 2022 costs are not really comparable with the first quarter of last year, and there were also a handful of one-offs items in both quarters. However, the first quarter of 2022 run rate seems like a fair representation of costs for the remainder of the year.

We received a number of questions on our cost to income ratio compared to the market. And we've laid out, on the right-hand side, essentially the change in our cost efficiency ratio, which we've gone through. The two main points I would draw out of this is that cost management has been very robust and the higher-than-history ratio is caused really by the lower revenues largely from the lower rate environment. And second, pre-merger, we had a market-leading cost efficiency ratio and we aim to go back to that position over time.

Moving on to credit quality and impairments. Cost of risk for the quarter was 13 basis points, representing an ECL charge of SAR60 million. This can be further broken down into a charge of SAR190 million offset by recoveries of SAR130 million. We still anticipate cost of risk remain within the 30 to 60 basis points range for the full year. And as can be seen in the chart on the left-hand side, our quarterly ECL profile can vary quarter-on-quarter given the corporate focus of our book and, therefore, cost of risk remains at the lower end of the banking sector.

Non-performing loan ratio continued its steady decline with a total NPL ratio of 4.4% or 2.3% if you exclude POCI. These were the acquired balances, which we wrote down to the net-recoverable value during the merger accounting, and our coverage ratio for these non-performing loans, excluding POCI, remains very stable at 158%.

And as we would always do, we continue to monitor our portfolio for any signs or indications of increased pressure or risk. And we are well provided for, and we'll always remain vigilant to the changing macroeconomic landscape.

Onto customer lending. Our gross loans grew by SAR8.6 billion or 5% in the quarter, and 12% year-on-year. Corporate growth of SAR5.9 billion was broadly spread across a number of sectors, including drawdowns on some of the big giga projects. Retail loan growth of SAR2.7 billion in the quarter represented a 7% increase. It was also very pleasing to see the continuation of personal lending and mortgage growth. We also saw an acceleration in our Wealth segment, which represented roughly half the quarter's Retail lending growth. This can be short-term in nature, but given the strategic importance of the Wealth segment, our pipeline remains robust.

Mortgage originations increased by 45% compared with the fourth quarter, which is in part driven by tactical product developments we made towards the end of last year, enabling us to offer a more rounded suite of REDF products and features.

And as I mentioned last time, delivering consistent growth is one of the main ingredients of our strategic plan. And after roughly a year into strategy, we have grown our book by SAR22.5 billion since December 2020. It equates to around 14% growth in loans. So we're on track, pleased with performance and, as always, we'll do more to win back our market share.

Funding remains a competitive trend. We possess a consistently high and stable deposit base and have maintained a very strong level of NIBs, closing the period at 76% and our liquidity and funding, as usual, remains very robust.

Onto capital. Our CET ratio, down to 18.5% during the quarter, again, as we mentioned, mainly driven by the accelerated growth in lending. And nevertheless, we do enjoy a very strong capital position, which is always ready to deploy for the opportunities that lie ahead.

Finally, before we go to Q&A, just a few words for conclusion and to address some of the enquiries that we've been receiving regarding our outlook. Our messages for the quarter are essentially the same as what was mentioned at our full-year results webcast. We are delivering a resilient set of financials, continued loan growth, improvements in revenue, sustained improvement in asset quality metrics, and a healthy NIBs ratio supported by both our businesses, Corporate and Retail.

The noise of the merger is hopefully behind us and we continue to look for improvements across processes and procedures. The direction of SAIBOR is pleasing to see as is the current consensus for the benchmark rate hikes. The normalisation of the rate environment will be extremely beneficial for SABB and to our revenue base.

A year into our strategy, we are pleased with the progress, especially in a high competitive marketplace. However, there is still more to be done and our aim continues to be to outgrow the market. And finally, it goes without saying, we possess always robust levels of capital, liquidity and funding.

And then I would like to end the section with a few comments on guidance. We rapidly saw that some of our longer-term financial expectations on growth that we published in May of last year when we announced our strategy, they were quickly out of date as market expectations of growth became significantly more encouraging. And then secondly, the rate environment that we now expect to be in for 2022 is much different to what we had originally planned for.

So we'd like to make a few comments on what to expect for 2022. And with the ever-present change, we are currently experiencing, we feel that another quarter of performance would be ideal before providing more numeric guidance.

So on loan growth, we expect to grow at least in line with the corporate market for the remainder of the year, and we look to build on the momentum we have made across our Retail portfolio, across mortgages and other products. And we have made a number of investments and continue to do so this year, digitising the key customer journeys, which should provide definitely a more accelerated growth in to 2023.

On revenue, we would emphasise that our NIM sensitivity, which is around 10 bps for every 25 bps shift in market rates. We are well-positioned to benefit from rising rates and have seen a welcome improvement in monthly NIMs towards the end of the quarter, which has continued. Nevertheless, there is also an increased level of competition and we expect this to increase as customers are repriced.

On costs, we expect our current quarterly run rate to largely hold for the remainder of the year. And therefore, any benefits of cost to income ratio would come from revenue expansion.

On cost of risk, we expect to be at the lower end of the market on cost of risk and so it's the lower half of our through-the-cycle guidance. And, however, we must note the lumpiness of both charges and recoveries.

On capital, we would expect to run between 18% and 19% CET1 for the remainder of the year, and this is in line with our previous plans.

We hope these comments have been helpful and over to you, Operator, for Q&A.

Operator: Thank you. As a reminder, to ask a question, you will need to press star one on your telephone. To withdraw your question, please press the hash key. Please stand by while we compile the Q&A roster.

Your first question comes from the line of Shabbir Malik from EFG Hermes. Please ask your question.

Shabbir Malik (EFG Hermes): Thank you very much for this presentation. Can you hear me?

Lama Ghazzaoui: Yes, we can.

Tony Cripps: Yeah. Loud and clear, thanks.

Shabbir Malik: Yes. Okay, great. So Tony made a comment about a potential risk of repayments because liquidity is relatively good. If I look at the sector, banking sector, the liquidity seems to be tightening, so it would be great if you can add some more colour on that comment. What pockets are you seeing the better liquidity? And actually, this could be actually quite encouraging considering where we are in terms of this sector, in terms of loan to deposit ratios.

The second question, you've mentioned that your NIM has started to show a positive upwards trend in the first quarter. How should we think about the NIM direction in the coming quarters? Should we expect NIM to start recovering in 2Q or the more – or there'll still be a lag and the bulk of the increase will start coming through in the second half of this year?

And my final question is in terms of your associate income. How should we think about your associate income for the rest of the year? 1Q was pretty strong. So if you can provide some colour on that, that would be useful. Thank you.

Tony Cripps: Great. Thanks for the questions. I'll take the first one and then hand over to Lama for the second and the third. So the comment on liquidity, yeah, as a general run, there was perceived, kind of, pressure on funding in the earlier part of the year and there was an assumption that there was some liquidity concerns within the overall market. What we've seen recently is that the demand for term deposits and funding has fallen back to more normal levels, so the premiums have come out of the market.

So I think actually the pressure on funding early was more of a move by banks who were anticipating higher rates and, therefore, they were front-loading funding that they saw, so increasing term deposits and generally increasing funding. So that has started to normalise now.

The strong liquidity position that I referenced was much more about our own liquidity than anybody else's because I don't really know everybody's, but I think the general pressure has been alleviated. And also I know from discussions with the regulator that they're quite comfortable with the overall position of the banking market and the amount of liquidity and the conservative balance sheets that exist through capital ratios in Saudi. But we have a very strong liquidity position, as Lama has highlighted.

So even though we expect strong recycling in the Corporate book, which we saw last year, healthy competition in margins, etc., we're comfortable that the overall demand for loan growth will offset what we're seeing in terms of the run-off. Lama?

Lama Ghazzaoui: Yes. On NIM, despite seeing SAIBOR increasing during Feb and March, largely towards March, the impact of these shifts we would expect to materialise more so in the second quarter and onwards, especially with the pricing lag. But we always guide towards the impact of any 25 basis points increase. Everything else remaining constant, for every 25 bps increase, we expect 10 bps of impact on our NIM for the current book. Again, there's an element of the heightened competition that we're witnessing, but we would definitely be tackling this according to the value that this brings.

And so we're not – we are turning down some deals as and when they don't fit our criteria, but we are also very keen on making sure that we do gain our market share back in both Corporate and Retail. And we do see that the consensus on market rates have been much better than before when we first started to plan for the year and, therefore, we're being very sensitive to interest rates movement. We're probably one of the biggest winners.

On associate income, so our associate income currently comes from IBSA or HSBC Saudi Arabia, which is not consolidated with our overall book, because it is an associate, not a subsidiary. And it has been healthy, yes, because of the market trends and the deals that have been under their management. After we transfer the business from HSBC Saudi Arabia to our wholly owned subsidiary, which is expected in the second half of the year, we should expect that part of this income, which relates to Retail brokerage and Retail asset management, will start being consolidated with above-the-line and the associate income will reflect only the business that remains with IBSA. This will start being more obvious once we start publishing Q3 numbers onwards.

Shabbir Malik: Thank you.

Operator: Your next question comes from the line of Rahul Bajaj from Citi. Please ask your question.

Rahul Bajaj (Citi): Hi, thanks for taking my question. This is Rahul Bajaj from Citi. I have three quick questions, actually. So the first one, Tony, I think mentioned that the HSBC strategy now is more structured. I would really love to hear more thoughts around it. I mean, what do you mean by HSBC strategy is more structured and what does it mean for SABB in terms of growth prospects, and which areas you think HSBC's, kind of, involvement or, kind of, partnership can help SABB really bridge some of the missing gaps or block some of the missing gaps? So that's my first question.

The second question is following the comments you made earlier, which is that there's been some easing of the liquidity conditions in the last few months. Just wanted to understand, has there been any discussion with the regulator on the regulatory LDR, the SAMA-adjusted LDR? Is the regulator thinking to move that, kind of, 90% goalposts because not yourself, but I think maybe most of the other banks are already past 85% on that SAMA-adjusted LDR. And if you could kindly please also share your SAMA-adjusted LDR because I can't see that in the deck, but as you might already know, almost all of your peers disclose that data point, so that will be useful.

The third and final question is this, I think Lama mentioned about some one-offs in the fee income. Is it possible to quantify that one-off, please? Thank you.

Tony Cripps: Right. Thanks for the question. And I'll take the first one. So I mentioned the relationship with regards to strategy is more structured. So what I meant by that was when I arrived last year, working with Stephen Moss, who's the CEO for HSBC Middle East, we set up four workstreams between SABB and HSBC, global work streams with HSBC designed to identify and access strategic partnerships, which helped us deliver strategy.

So the Wealth proposition through WPB at HSBC, which is, as you know, the combination of the Retail bank and the Private bank, working with the local team here, have a regular dialogue about what can be shared and how we can facilitate the implementation of our strategy for RBWM for SABB. And as a matter of fact, Nuno Matos, the Global Head, is visiting next week and who chairs this committee but has been a regular visitor. So that's one workstream.

There's another one on IT. There's another one on human capital. And there's another one on the corporate and institutional business. So that's what I meant by more structured, these are regular kind of bi-monthly catch-ups. Some of the technology that we'll be using from the HSBC Group, we'll be announcing in the third quarter and they will – in the area of Retail banking, Private banking, they will give us some significant unique propositions for the Kingdom in terms of international wealth. So I'm not going to give you those announcements today, but hopefully, on the next call, we'll be able to talk about them.

And in the Corporate space from a technology point of view, we've got the strongest transaction banking platform in the kingdom with HSBCnet. Thats the technology behind SABBnet. There is a programme of work specifically on trade where we're – again, we're leveraging the HSBC Group trade transformation. We have the strongest trade platform already in the Kingdom, and we want to maintain that leadership. So there will be some upgrades specifically on the trade financing side. And as you'd expect, a lot more digitisation in relation to that automation and efficiency. So lots more to come in the second half.

Lama Ghazzaoui: Hi Rahul, on your second question on the easing of our liquidity ratios by the regulator, our position, as you said, is a bit more unique in terms of having a maybe lower LDR than some other peers who are under more pressure because of their recent growth. We currently as at March end, we – our regulatory LDR is around the very low 80s and on a spot basis of course. And this is why this is not an issue for us. Sometimes it goes even below 80%. It depends on the deposit position.

On fee income, these one-offs, there are a couple of reasons for that. One is we continue to explore any further opportunities from the portfolio even one year into the merger, and after CD1 we continue to do that. So there was an element of some catchup. There's an element of time lag because of some specifics of the trade business or the merchant acquiring. We do expect that this would start normalising towards the rest of the year. **Rahul Bajaj:** Understood, thank you. Thanks Tony, thanks Lama.

Operator: Thank you. Your next question comes from the line of Naresh Bilandani from JP Morgan Chase Bank. Please ask your question.

Naresh Bilandani (JP Morgan): Yes, hi, it's Naresh Bilandani from JP Morgan. Thank you very much for the presentation. Tony, Lama, just three questions please. One, Lama, you just spoke about the fee income. Could you kindly just refresh us once again on the fee income recording policy at the bank? Because it seems to be, sort of, like, aligned to a very strong loan growth so I'm just trying to understand if you could spare a few seconds to just highlight to us what fees will be recorded upfront on a loan origination and what will be the ones that are recorded and accrued over the loan life? That would be the first question.

Second is, your tone on the net interest margin is definitely sounding much more positive than what we have heard from all your peers in the season. While I'm fully aware of the strong balance sheet sensitivity that you have to rising rates, I'm just very keen to understand at this point in time, what is differentiating you compared to your peers in the current environment? Still, let's not – I mean, Tony, you say so that the liquidity is improving in the system but definitely this is an environment which is being marked by somewhat irrational competition at this stage. So just keen to understand what's your strategy around pricing and what is differentiating you compared to the peers in being able to enjoy a better NIM in the rising rate environment, which some of your peers are still struggling with.

And my third and the final question is on the cost-income ratio. It still remains at the higher end of what we are observing in the industry and definitely yes, there should be some improvement on the revenues as rates rise but just keen to understand what steps are you taking specifically on the OPEX line to improve this metric further? And if you can please also throw some light on what areas in your day-to-day operations are the ones that are being significantly affected by the higher inflationary pressure trend that we are observing globally and across the region? Thank you.

Tony Cripps: Okay, hi, it's Tony. I'll take the second question, then hand back to Lama. Yeah, as we've highlighted before, the SABB book is sensitive to rising rates. We have much less of a fixed rate proportion of the balance sheet. Some of the other banks clearly have large fixed-rate balances which have been based on very strong retail mortgage growth in the past, which, as you know, SABB did not participate in over the last several years. So our book is still 75% Corporate and 25% Retail and we've grown, kind of, both balance sheets pretty equally. So it remains in that position and, therefore, our book is more floating than just about everybody else's, and it resets faster. So the rising interest rate environment does not result in margin NIM compression for us, as you've seen with other banks, because our proportion of the book is not as high in terms of fixed rate.

On margin compression, as interest rates rise and volatility is picking up, we're seeing less pressure on margin compression than we were last year in the fourth quarter. It was getting perhaps a little bit extreme, particularly in the areas of personal finance in the fourth quarter, but some of that is now changing. And I think as you see the cost of funding going up, banks who were fighting that game are less able to because their cost of funds are going up. So we didn't really participate in the silly part of that competition.

On the Corporate side, where margins are compressed for highly prestigious deals, because our cross-sell ability is higher than most, with our transaction banking capability, our extremely strong treasury capital markets capability, we get a lot of cross-sell. And also we have a very high proportion of NIBs – if not the highest, the second-highest or one of the top. And so our cost of funds is low. So we can absorb some of the pressure on margins.

So hopefully that answers your question. Lama, over to you.

Lama Ghazzaoui: Hi Naresh. On your first question on the recording policy, of course for fee recognition we do – we are compliant to the IFRS 15 rules for fee recognition and the amortisation policy. But don't forget that approximately 50% of our fee base is trade-based and this by nature is short-term and more volatile than the lending fees. But as we continue – we've revamped our processes, our offerings and our propositions. We have been exploring and making sure that we get the best benefit out of the portfolio. We've actually been gaining market share in the trade business. So it's now starting to pay off. We would have –

we would expect some – a bit of volatility or lumpiness in the fee line as and when we recognise some previously unrecognised fees.

On your third question on cost to income ratio, look, we are at an inflection point costs currently as we go through the investment phase. Costs have been robustly managed, I assure you, with underlying costs down and the longer-term trend showing that the synergies are starting to offset some of these inflationary pressures. But we need to invest in people and processes as we look to progress and as we look to digitise the bank. We've seen that – we've seen this as the quarterly costs have ticked up in, sort of, the second half of last year, where we've averaged around, I don't know, SAR950 million for operating expenses excluding merger-related costs. But directionally we would expect to be at a similar level in the short-term considering the investments that we're putting into our system, into products, into people, etc.

Naresh Bilandani: Got it. Thank you Lama, thank you Tony.

Operator: Thank you. Your next question comes from the line of Waruna Kumarage from SICO Bank. Please ask your question.

Waruna Kumarage (SICO Bank): Hello. I have a couple of questions from my side. Following up on the question on the cost, I think Lama mentioned that this is – the first quarter is the rate that we – the run rate that we can expect for the rest of the year. So I want to understand beyond 2022, how is it going to look like? Given that you I think initially indicated a certain amount, about SAR1 billion to invested over a period on your operations. So is it going to be the same or can we expect further increase beyond 2022? That is my first question.

And second question on net interest margins. Now, sorry to go back to the same thing but looking at the asset repricing schedule, what I can see is out of the corporate loans, probably 80-90% of the loans are maturing within three months as per your own financials. So is it fair to assume that SAIBOR increases will be pricing within three months so that we can see a notable impact in the second quarter based on what we have seen – the rate increases that you have seen in the first quarter? That – those are my two questions.

Tony Cripps: Yeah, on the second one, that's exactly right. The book is highly sensitive to rising rates and repricing, short-term. 77% of the book is Corporate and as you rightly point out, the rates reset. So we expect to see acceleration in Q2 and beyond.

Lama Ghazzaoui: Yeah, on your first question, it's actually SAR1.5 billion of investments that we had – we intend to put into our infrastructure products, etc. And this is a five-year strategy and a five-year investment plan. But it is not linear. We don't intend to spend the same amount every year. We actually accelerated our investment starting last year so we bring them forward so that we can get the benefit early on. So you would expect the CAPEX investments to be at higher levels in the first couple of years of the strategy plan. And then we start seeing this flowing into the upper line as well as the depreciation line or the rest of the OPEX. But for now the level of investment that we have already realised and we've already recorded the average of the quarter or the guidance for the rest of the year, is the average of this quarter.

Waruna Kumarage: Thank you everyone, that's very clear. Thank you.

Operator: Your next question comes from the line of Farid Aliani from SNB Capital. Please ask your question.

Farid Aliani (SNB Capital): Hi, thank you very much for this call. I have three quick questions. You very kindly mentioned that – the first one, you very kindly mentioned that the – your loan growth should be in line with the corporate market expectations loan growth for 2022. So some colour on your expectations for the Corporate market growth for this year will be really helpful and subsegments that will be driving it. So that's my first question.

The second one is around your ROTE guidance, your return on tangible equity guidance for this year. You did about 9.7% in the first quarter but it did include some trading income elements that might not repeat. So would it be a good proxy – the first quarter ROTE would be a good proxy for the guidance for the full-year? That's the second one.

And finally, your NIM sensitivity that you have very kindly provided, would you say that it includes the impact of any competitive pressure that you will see going forward in the year? Or it does not take into account that margin compression that might come from the competitive landscape? That's it from my side.

Tony Cripps: Okay, on the last question, yeah, the projection for the year is continuation of strong corporate loan growth for the industry in general in line with last year's loan growth. I don't see personally margin compression being a big issue in the second part of the year, in the last three quarters, for two reasons. Credit conditions have tightened globally and, therefore, the cost of funding has gone up. So the ability for banks to squeeze on margins further I think has changed considerably. And there will be continued volatility but our own forecasts include our assumptions on competition. And as I said, our position is very strong and our sensitivity to rates is high and our ability to price because of our low cost of funds is excellent. So we expect to see strong corporate loan growth for ourselves in the second half and the three quarters remaining. Lama?

Lama Ghazzaoui: On your question on ROTE, even with some elements like the trading income that are different quarter-on-quarter, we did end with 9.7% of ROTE and we aim to maintain an increasing trend in ROTE, especially with interest rate environment changing. And as and when we realise the benefits from the interest rate, this RoTE definitely will be in an upward trend. The expectations have been very changing. At the end of last year, there was probably no talks about interest rates and the consensus was completely different. So we do not plan ROTE targets including interest rates per se. We do plan them from actual revenue as and when they get realised. But definitely as with our sensitivity to interest rates, ROTE will be also positively impacted.

Your first question on loan growth on the Corporate side, this is largely currently, in the first quarter, from the big projects, the giga projects or the large corporates. This is in the Corporate side. We do understand the pipeline that the business is currently managing is very healthy in terms of drawdowns and in terms of new lending. But having been more as a corporate – SABB's Corporate book is more skewed towards large corporates, we do expect that the majority of the growth would come from the big projects or the upper segment. But overall, in the lending book, mortgages and personal lending in the first quarter have been big contributors to the growth. And we expect with our – the ramp-up of our products we – in the mortgage space that we expect to see more gains in that aspect.

Farid Aliani: Thank you, really helpful.

Operator: Once again if you wish to ask a question, please press star one on your telephone. Your next question comes from the line of Amit Mamtani from Goldman Sachs. Please ask your question.

Amit Mamtani (Goldman Sachs): Hi, thank you for the call. Most of my questions have been answered already. Just a follow-up on loan growth. So you just explained that the growth during the quarter was largely from mega projects. So just to follow up on that, how are you differentiating yourself to win market share, both on these mega projects and also on Corporate – in the Corporate segment in general? So are these loans – are you winning market share because of some complex ancillary business where you have an edge, or is it mainly pricing which currently works in your favour given your liquid balance sheet and high CASA mix? Thank you.

Tony Cripps: It's a combination of both. We're able to compete on pricing unless it's completely stupid. And we are able to offer the full range of products where the ancillary is important for the customer. And therefore we win the right to be on that deal, whether it's bilateral or in most cases for these large projects, of course it's syndicated. And capability like green financing management is also important to some of the financing we're doing, like the Red Sea, where the collaboration with HSBC was really important in making that a green format loan. And, therefore, SABB won the right to be on that balance sheet commitment.

Trade, our leadership continues and we've grown market share in trade because of product – because of that specific product leadership. So, again, it helps us win the right to be on these giga projects where that component's important.

Amit Mamtani: Thank you, that's helpful.

Operator: Your next question comes from the line of Mohammed Al-Rasheed from Ashmore Investment. Please ask your question.

Mohammed Al-Rasheed (Ashmore Investment): Good afternoon, thanks for the presentation. I just had a follow-up question regarding the repricing table. So according to the 2021 financials, around 80% of your loan book gets repriced within three months. And the average SAIBOR during the first quarter this year has increased by 152 basis points, yet your assets yield has actually declined on a quarter-over-quarter basis. So if you can just at least clarify why we didn't see an improvement in assets yield and why it's not aligned with the repricing table that you shared with the financials? Thank you.

Lama Ghazzaoui: So the repricing table you're looking at is for the year-end financials, I assume, for the 2021. And, yes, the repricing profile of 80% of the book, of the Corporate book is around three months. And this comes – I mean, the interest rate increases. We witnessed it towards the end of the first quarter. So as and when the repricing started to happen, and we follow on this very, very closely, the new rates have started to be utilised or to be recorded. But there is a time gap here because anything that is repriced at the end of quarter one, you would see the benefit of that in the future quarters, towards the end of quarter two or during quarter three. So there's the time factor here. Again, you're talking about large corporates, mega projects. Sometimes these are – by nature the NIM of these deals is thinner than others. But this is really across the system. So all the banks have really been witnessing the same impact.

Having said that, we are following, again as I said, very closely on the impact of the interest rates in our monthly and even though we can't comment on quarter two yet, but we continue to be very positively sensitive and impacted by the changes of the interest rate.

Tony Cripps: Yeah, as I said earlier, the SAIBOR move up really only started in March significantly, and then accelerated very quickly. So if you want to assume a three-month pricing reset, then you can work out yourselves when we're going to see the 10 basis points of improvement that Lama mentioned for every 25 basis points of increase in SAIBOR. I'll leave you to do the maths.

Mohammed Al-Rasheed: So it's fair to assume that although 80% of the number gets repriced within three months, the majority of it comes towards the end of the quarter, of the third month.

Tony Cripps: Yeah, you'll see it flow through in Q2. That's how it will… So as I said, we're not going to make forecasts on this call but you can do the maths, I'm sure.

Mohammed Al-Rasheed: Yeah, it's clear. Thank you.

Tony Cripps: Thank you.

Operator: As there are no further questions, I would now like to hand the conference back to management for any closing remarks.

Tony Cripps: Yeah, thanks very much for everyone who attended the call. I was pleased with the momentum that we saw in Q1. We've implemented many of the hygiene factors around our technology programme in 2021, which has given us the platform for the growth we alluded to once those hygiene factors were closed in terms of product and the delivery through our technology to our clients. That is in place and that is delivering.

I'm pleased with the macroenvironment and what we're seeing in terms of growth in the Kingdom. And that is aligning to our own forecasts and our own balance sheet growth. And the rate increases, as we've been very clear, the sensitivity of SABB to rate increases is the highest in the Kingdom according to many. And those rate increases have been much higher than most people anticipated in Q4 due to inflationary pressures, which do not have as much of a negative impact on consumer demand in Saudi as it does in other markets. So actually the benefit of higher rates far outweighs the risk of higher inflation at this point.

So overall, pleased with Q1 and the momentum in Q2 is expected to be strong. Thanks very much everyone.

Operator: That does conclude our conference for today. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]