

# 4Q 2022 Results

Tuesday, 21<sup>st</sup> February 2023

**Sirish:** Hello and welcome to our results call for the fourth quarter of 2022. As mentioned by the operators, we have our CEO and Managing Director, Tony Cripps, our CFO, Lama Ghazzaoui, with us on the call today. Tony will kick off the call, summarising the key updates for the quarter and year-to-date, followed by Lama, who will provide the usual summary of our financial performance and our guidance for 2023 on a range of metrics.

We aim for the presentation element to be roughly 15 minutes and then we will open up the call for the Q&A, which will take place over the phones. Slides are available to download from our website and our webcast. So, without further ado, I will hand you over to Tony to start the presentation.

Tony Cripps

*CEO & Managing Director, Saudi British Bank*

#### **4Q22 Key messages**

Okay, great, thanks a lot, Sirish. Welcome to the call everyone. Well, 2022 was a very strong year for SABB and across five KPIs that I set myself for the year, if I look at our financial results, they are obviously very strong and driven, as all of you would be aware, by the interest rate shifts that we saw and guidance that we gave all year was how sensitive we were to that in a positive way.

Our digital delivery was excellent and recognised by our customers in all sorts of ways through our net promoter scores and other independent measure that we use against that delivery. And that's both from a retail and a corporate level.

Our focus on ESG in building a framework around what we're delivering was also very good progress. And fourthly, our culture in the feedback we get from our own staff of their engagement in the strategy and, post the merger, the cultural integration of two large banks, was also very strong in improvement.

And lastly, our governance. We made significant strides in refining and making more efficient our governance across all of the working groups and committees that we operate. So, all in all, very pleasing and a big thanks of course goes to the excellent teamwork of our staff.

#### **2022 Summary**

But 2022 was challenging, of course. The macro environment was difficult but in Saudi and the Middle East in general, we were blessed with very strong economies. We were confident that was the case and so we always maintained a strong growth bias, even with some of the uncertainties. And we pushed hard on the areas in which we knew we could grow.

We also fully expected that the guidance on interest rates at the start of the year was not where we would end up. It was clear that inflation was coming and that central banks would have to respond. And again, we managed our portfolio and our book with those assumptions in mind.

Onto slide one, just to summarise some key points. Our growth on our loan book was around 9%, similar to the previous year. We built significantly, particularly from the retail progress that we made, prior year, our retail growth, our net retail growth in mortgages was around 5% and you will see the 2022 result, that doubled to 11% net. Total retail growth was 15%.

Our originations were above 50% on the prior year. So, we've made very good progress in building the platform, as we said we would, to be in all products. And the technology, our ability to process has improved and our online availability of products and services has improved greatly.

And on corporate, we grew about where we were the previous year. We're a large corporate bank, as you know, and even though we worked very hard on the SME sector growth, which was significant, it is a small part of our book, it's 5% or less and we intend to double that. But last year it's really the large corporate, the institutional space that drove the growth and improvement in our financials.

And, related to the giga-projects, we've seen strong loan growth associated with those and SABB has been a top-line contributor to all of the financing of those projects.

We grew revenue 26% to 9.7 billion SAR, and fourth quarter revenue was strong at 2.9 billion SAR, 17% up on the prior quarter. We exited the year with very strong NIMs, close to 3%. And, as I said, we are the beneficiary of rate rises. If I look at our assumptions for 2023, based on the recent moves in the Fed's own statements and the yield curve shifts that we've seen, it's pretty easy to assume that our NIM expansion will continue with rates being at higher levels and for longer. The first-rate cut isn't factored in now until 2024.

The cost of risk, which, Lama will go into in a bit more detail on financials, was low, and that was pleasing, given the volatility in the global economy. And, as I said, it was not impactful in Saudi Arabia. Inflation was managed well, and GDP growth was very strong.

So, we delivered a ROTE of 11.5% for the full year, and fourth quarter ROTI of 13%. We made very good decisions on the lending that we did in terms of quality, so our cost of risk was below our guidance, and we still see a very strong risk forecast within the 2023 plan. We haven't seen stress yet across any of the portfolios. But we did make some overlay modelled assumptions in the fourth quarter on the basis of higher interest rates and the ultimate impact it could have in 2023.

Our liquidity in funding is very strong, 17.7% CET1 ratio and LCR ratio of 172% and a strong NIBs position. Our loan to deposit ratio is in the mid-70s and so we are one of the most liquid. And, therefore, going into 2023 with a strong backdrop for growth, we have plenty of capacity to continue to grow the balance sheet and grow our client numbers as well.

So, all in all, very pleasing and the guidance that has been provided that we can talk about is strong again in 2023.

So, with that, I will pass you over to Lama, who will give you some more details on the financials. Thank you very much.

## **Financial Report**

Lama Ghazzaoui

*Chief Financial Officer, Saudi British Bank*

Thank you, Tony, and welcome all to our call and happy Founders day to our beloved Kingdom. We start on slide three, we generated SAR 5.8 billion of net income before zakat and income tax for the full year, up 47% year-on-year, and SAR 4.9 billion of net income after zakat, which was up 52% on last year.

And comparing the fourth quarter's net income after tax of SAR 1.2 billion with the fourth quarter from last year, we were up significantly, and the more recent trend remains fairly stable with a trailing quarter.

On a year-to-date basis, that income, before zakat and income tax, was up 47%, which was driven by higher revenue, partly offset by higher costs. I will explain later the main drivers in the next two slides. But the key takeaway here is that the quarterly trend on revenue continues to build.

And, as Tony mentioned, we exited the year with a fourth quarter NIM of 2.9%, reflecting our sensitivity to rates. We still expect some further expansion, and we have indeed seen that during the first month of this year.

As we have mentioned before, our book is roughly three-quarters corporate, which is mostly all on a floating basis. And our book generally reprices in three to six months. The fourth quarter also included a one-off gain of SAR 155 million related to the acquisition of the retail asset management, margin lending and brokerage business from HSBC Saudi Arabia.

Costs increased 7% but also included close to SAR 160 million of one-off costs relating to specific investments, but also some charges relating to prior year. And, stripping these factors out, our costs increased 2%, which reflects the focus on continual cost optimisation, beneficial changes to depreciation policies, which were partly offset by the on-going investment in people and processes.

Expected credit losses were broadly in line with the prior year and represented a cost of risk of 24 basis points. Cost of risk did step up in the fourth quarter and this was reflective of an overlay for the potential impact of the rate rises, which we mentioned in our last call. The year-to-date cost of risk of 24 basis points still remains below our guidance of 30 to 60 basis points.

Our return on tangible equity for the year was 11.5% and for the fourth quarter discrete was 13% and, of course, we're very pleased with the build-up in the returns.

And, from a balance sheet perspective, we booked 9% growth during the year, whereas the fourth quarter remained stable. The quarterly profile during the year was 5% in Q1, flat in Q2,

4% in Q3 and then flat again in Q4. However, the originations remained stable, if not even growing towards the end of the year, and therefore, we're happy with the progress we're making in building up the loan portfolio. But, as always there is still more to be done.

Customer deposits are up 15% during the year and up 6% in the quarter. But we've seen a fall in our NIBs ratio, which is now 66%, which reflects the current rate environment that Tony mentioned. And, of course, our capital remains strong and healthy. We closed CET1 at 17.7%.

Onto slide four, the left-hand chart shows the year-on-year revenue build, showing 24% underlying growth if you strip out the bargain purchase gain, and our special commission income growth comes from volume growth as well as the repricing in our corporate portfolio.

The right-hand chart shows the quarterly trend on revenue. And it is pleasing to see that we are now at a quarterly revenue rate of SAR 2.9 billion, which is higher than pre-pandemic levels, and also the highest quarterly revenue number we have ever reached.

All our businesses are contributing to this and we expect this to build further into 2023.

Onto slide five, we generated SAR 2.3 billion of net special commission income in the fourth quarter, which equated to a NIM of 2.9%. Yields have increased as we've travelled through the year, but margin compression has also continued and we have seen increasing pressure on our cost of funds as our customers, of course, demand higher returns from their deposits.

With this slight shift in our deposit base, our NIM sensitivity has fallen, but we expect it to be between 4 and 6 basis points in the short term. However, despite the increased competition and the resulting margin compression, we are confident that we will see further NIM expansion in the short-term and have actually seen this in the first month, as I said, of this year.

Slide six attempts to unpack the movements in non-funded income, and stripping out the bargain purchase gain, underlying non-funds income grew 9%, mainly from higher exchange income and higher trading income. Optically the fee income fell year-on-year on a like for like basis, but this is driven by fee-related VAT expenses from prior years being absorbed during 2022. Normalising for some of these fee-income related charges, annual fee income stands at approximately one billion SAR, and this has remained stable.

During the fourth quarter, we have undertaken a review of a range of fee-related expenses, mainly related to cards and merchant acquiring, which were previously recorded in operating expenses. These have now been moved to net fee income, and therefore, we have restated prior year for fee income and operating expenses.

Fee income before and after the restatement is shown in the top right chart, showing the size of the restatement. And, in addition, we also recorded some similar VAT related expenses from, as I said, pre-2022, mainly in the fourth quarter, which also brought fee income down.

Expenses for the year increased 7% year-on-year, and this takes into account the restatement mentioned which is related to fee income. And included in the 2022 expenses were approximately SAR 160 million of one-off expenses, some of which related to our strategic investments and some relate to prior year expenses. Removing these one-off expenses, underlying costs increased only 2% from the ongoing investment in people, absorbing 100% of the cost base of the three acquired businesses from HSBC Saudi Arabia, partly offset by the changes to depreciation policies and continued cost optimisation.

As we previously said, our cost base is going through an inflection point as the costs related to our investment phase starts to impact the income statement, together with inflationary pressures. Cost efficiency ratio improved to 37.8%, which is the sub-40% we mentioned before and the lowest it has been since the merger. As a reminder, we achieved our synergy target saving over 20% of the combined pre-merger cost base of the two banks, following the integration.

Moving on into credit quality and impairment on slide eight, cost of risk for the quarter were 45 bps and the set up reflects an overlay in our customer business for the potential impact of the rate hike.

Full year cost of risk of 24 bps remains below our long-term guidance and lower than market cost of risk. Our non-performing loan ratio of 4.3% or 2.3% if you exclude the POCI balances, remains stable this quarter and has throughout the year. And, as a reminder the POCI balances were the acquired balances, which we wrote down to their net recoverable value during the merger accounting. Our coverage ratio of non-performing loans, excluding POCI improve to 140%.

And, as we mentioned in our last call, we continue, of course, to monitor the portfolio for any signs of, or any indications in increased pressure or risk. And, however, we are well provided for an always remain vigilant to the changing macro-economic landscape.

Onto customer lending, on slide nine, our gross loans have grown 9% this year. And, as a reminder, also grew 9% during 2021. Our year-to-date growth of just under 15 billion SAR is roughly split 55/45 between corporate and retail business.

The quarterly profile of lending remains lumpy, and in part reflects the significant ticket sizes we have given our skew towards larger corporate, institutional business and multi-nationals. As can be seen in the top right-hand chart, corporate originations have been increasing in the second half of the year, so the activity remains strong and the pipeline, as Tony mentioned, is promising.

Net corporate lending was marginally lower during the fourth quarter, driven by planned but also unplanned or earlier than scheduled repayments. The corporate activity remains across a broad spectrum of sectors and includes working capital facilities, project-related financing and

others. I want to remind the listeners that we did sell an account during the year and that is also reflected in our net balances, a corporate account.

Retail momentum continues with a closing portfolio of SAR 46.4 billion and our mortgage portfolio is now SAR 22 billion. Performance in mortgage and personal lending has resulted in 23% growth or 11% CAGR in retail lending in the last two years. More recently, our market share of mortgage originations has also grown significantly with SABB taking over 7% of origination market share in the fourth quarter, compared to just under 5% in the third quarter and 2.3% in the fourth quarter of last year. In addition, we continue to grow in personal lending and credit cards.

On slide ten, funding and liquidity remain competitive strengths for SABB, our high-quality customer base provides the bank with a rich source of funding. And, despite a drop in our funding ratio, we are comfortable that we can maintain a core level of NIBs given our corporate business, which provides roughly 60% of our NIBs. However, as we said on a number of occasions, the liabilities side will come under pressure due to the rise in rates and the pace at which the rates have risen.

Moving on to return on capital on slide eleven, as we've already mentioned, our returns have continued to build, with our year-to-date return on tangible equity of 11.5% and a quarter to date annualised RoTE of 13%, excluding discontinued operations. Our CET1 ratio decreased during the quarter, closed at 17.7% and the key moving pieces in this quarter were roughly 60 basis points from net income, offset by roughly 70 basis points from growth in RWA. And capital remains, of course, a fundamental strength, so we are ready to deploy it for the opportunities that lie ahead.

## **Conclusion**

On slide twelve, finally a few words of conclusion before we can start the Q&A. We continued the delivery of improving financials, strong revenue, and profit growth. We controlled the cost base while continuing to invest, leading to sustained improvement in returns. Our loan origination continues at pace with 9% year-to-date growth in line with our plans. The corporate nature of our book, of course, continues to translate to a lumpy profile, but the pipeline is still positive.

The macro-environment, which continues to shift, still has the ingredients for a prosperous banking sector and the wider economy. The strategy is on track and our investment journey continues to progress, but as we've always said, we aim to take market share and therefore more to be done.

## **2023 Guidance**

Onto 2023 guidance, we expect total market growth of high single digits for 2023. We would expect to grow at least in line with the market for the first half of the year and then start building back some market share as more of our investment starts to bear fruit in the second half of the year, and therefore we are targeting low double-digit loan growth in 2023.

We had an average NIM in 2022 of 2.5% and exited 2022 with a fourth quarter NIM of 2.9%. We expect further expansion in this and therefore are targeting a 2023 NIM of at least 3.1%. As we've mentioned earlier, our planning assumption is that rates will fall at some point, but whether this happens during 2023 remains to be seen. So, we would expect a little further expansion in the first half of the year and then fairly stable NIM in the second half.

We therefore expect further improvement in our cost efficiency ratio. We achieved sub-40% cost efficiency in 2022, the first time ever since the merger. And, as the revenue profile continues to build, we expect further improvement in cost efficiency, and we are aiming to hit a ratio of between 33 and 35% for 2023.

We expect our cost of risk to move within our 30 to 60 range but in the lower half of the range for 2023 and therefore, expect it to be between 30 and 45 basis points. This reflects in part our move into the mid-market and SME area, but also reflects more recent interest rate environments we are in.

And then, finally, with all the above, we expect to generate a return on tangible equity in the low to mid-teens range.

That concludes the presentation, thank you. Operator, we can start the Q&A.

## Q&A

**Operator:** Thank you, just a reminder, to ask a question you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. Please stand by while we compile the Q&A queue. Our first question comes from the line of Waleed Mohsin from Goldman Sachs, please go ahead, your line is open.

**Waleed Mohsin (Goldman Sachs):** Yes, good afternoon, thank you very much for the presentation. Three questions from my side. First, we are almost halfway through the first quarter, and you actually put a relatively solid guidance for net interest margins, further expansion from your exit NIMs. So, if you could talk a little bit about the trends that you've seen during this quarter, you know, given that we are already halfway through this quarter? What are you seeing in term of liquidity? I know, you know, your liquidity position is quite good, and you've got the lowest cost of funding, but some colour on market trends and how you stack up during this quarter will be very helpful.

Secondly, in terms of loan growth, you mentioned that you guide for double digits, which is good, ahead of what you expect the market to grow, which is high single digits, why would you expect first half growth to be in line with the market, especially given that you have an advantage with the liquidity position and the market is getting impacted by tight liquidity? So, I would have expected that even the first half, you would be able to actually grow ahead of the market, especially as some of your competitors struggle with liquidity. And what would change, as you said, some of your investments bearing fruit, what actually triggers that? What changes, which helps you move away from the market in terms of the second half?



And my third and final question is on your fee income; if you look at the normalised numbers that you report, 996 million SAR for 2022 versus 972 million SAR in 2021. You know, despite the high single digit growth, the growth in fee income is relatively muted. Is this a classification thing? Some of your kind of fee-related income is going into FX, other income? Any clarification on this would be very helpful. And, if this is not the case in terms of classification, what would drive fee income as you continue to grow your book? Thank you.

**Tony Cripps:** Hi, Waleed, it's Tony. On the liquidity side, there's been a lot of discussion around this, as there was last year. I think we've seen relative stability so far in this year. SAIBOR has remained a little bit elevated, but not volatile like it was last year. It's just consistently at slightly wider levels. So, we don't see a liquidity issue per se in the system. And, certainly for us, as you pointed out, we are the more liquid end of the scale, if you like. But we haven't seen any stress in the system and, as we've made statements publicly, SABB is doing an excellent job and keeping an eye on that, and we would expect that to continue.

On your second question on growth. Yes, maybe we're being a little bit cautious, and we hope that we would surprise and delight you with taking more market share in the first half. But I think some of it is just knowing where our path line sits and some of it is the drawdown structure of our lumpy corporate book. And we see an increase in drawdowns in projects that we are exposed to coming through increasingly and accelerating into the second half. And, obviously, these are related to giga-projects.

On the mortgage side, we think we could, to your point, have advantages in our cost of funding, and therefore absorb margin compression and offer great rates, which we did in September last year. And, I think, in one-month last year, when we offered the best mortgage rate pricing, we took 9% share in one month in September, and we could run campaigns like that again, and we will. But remember, on a total balance sheet basis, the retail book is 25% of the total and mortgages sits at about half of that. So, even if we do grow mortgages a lot stronger, it doesn't necessarily push the overall growth, depending on how lumpy the corporate business is. So, hopefully that helps.

But we will be pushing, as we guided, on faster than market growth over the course of the year, and it could come earlier to your point, and we will use our advantages and cost of funding and the ability to absorb lower pricing in the corporate business through an ancillary platform that is amongst the strongest in the kingdom.

So, on question three, I will pass to Lama, thanks.

**Lama Ghazzaoui:** Waleed, please can you repeat the question?

**Waleed Mohsin:** Yes, so, on the fee income side, Lama, if you look at your normalised number that you report, I think it's SAR 996 million. That number is not too far from the 972 million SAR that you reported for 2021. So, I was wondering, I mean, relative to the growth that you had this year on your book, the growth in fee income seems to be quite muted; why is that the case? And what would change this?

**Lama Ghazzaoui:** Yeah, we did last year, you know, during our calls, we did say that we were doing some catch-ups post-2021, some clean-ups and especially in the fee line. So, 2021 did have also one-offs. This is why you would, optically, you would consider that the fee line growth muted, but actually 2021 had some one-off revenues booked back then.

**Waleed Mohsin:** Got it, got it. Thank you very much. Very helpful. Just one last follow up from my side. We also noted that there seems to be a conscious shift during the fourth quarter more allocated to the investment securities line. If you could talk a little bit about the strategy on the priorities side, that would be very helpful.

**Tony Cripps:** Yeah, I'll take that one, thanks, Waleed. When we look forward to 2023 and beyond, you know, we have sensitivity to rates in the positive sense, but you have to start imagining perhaps a response to these rate hikes at some point in the future. We don't quite know when. But with rates peaking in the fourth quarter, fixed rates peaking in the US at around 4.5% on the ten years, we took action in the fourth quarter to start investing more in the investment book and more in fixed rates, to build the yield on that book significantly. And that will act for us as a macro hedge, if you like, on the risks of a significant slowdown in the US and perhaps rates peaking at the end of 2023. So, that's why you saw our pick up, it was a conscious decision to invest in fixed rates when they were high.

**Waleed Mohsin:** Got it. Thank you very much, Tony, thanks, Lama.

**Operator:** Thank you. We will now move on to our next question. Please stand by. Our next question comes from the line of Shabbir Malik from EFG, please go ahead, your line is open.

**Shabbir Malik (EFG):** Hi, thank you very much for this presentation. I have a question around your NPL coverage, which, compared to end of last year is a bit lower. I would like to understand that, going into 2023, would you focus on building these coverage levels? Or, if you can maybe provide some additional colour in terms of how much does your coverage look with collateral? So, that could maybe answer the question.

My second question is around the NIM guidance that you've provided. I was wondering, what is the base case customer mix that you are assuming to have by the end of next year that is driving this NIM forecast? Thank you.

**Lama Ghazzaoui:** Thank you, Shabbir. So, on NPL coverage, we intend to continue to build the coverage. Of course, our coverage was impacted this year by the sale of the loan that I mentioned earlier, and we did mention it in our Q2 results. So, excluding this impact, we actually would have stayed at the same levels like last year. But we intend to continue to build it in line with the requirements for the portfolio. So, this is on NPL coverage.

Your second question on NIM guidance and the base case. Of course, with pressure from interest rates and pressure from customers for returns on their deposits, you know, we will continue to cater, but of course, in a very selective approach. We do have a base case that we intend not to drop below, but, then again, we need to make sure that we are retaining our customers and growing the customer deposit base. This base is usually looked at very frequently and stressed even at further level, but we do look into this in a very pragmatic way as and when the environment dictates.

**Shabbir Malik:** A small follow up, in terms of your deposit base, what percentage would you say is more operational in nature, hence, I guess, tends to be more sticky?

**Lama Ghazzaoui:** Yes, we do have a significant amount of operational accounts, we do have also, you know, we do bank most of the multi-nationals in the kingdom, so, yes, these accounts are for operational usage. And we do also bank, as we said, we are skewed towards the large corporates in our corporate segment, so these inflows are usually significant and material, but

they also tend to be significant and material when there are outflows. And hence, you know, we do maintain a healthy stickiness in our base.

**Shabbir Malik:** Fair enough, thank you.

**Operator:** Thank you. We will now move on to our next question. Please stand by. Our next question comes from the line of Frederik Nye from Morgan Stanley, please go ahead, your line is open.

**Frederik Nye (Morgan Stanley):** Hello everyone, thank you so much for taking my question and also, congratulations on the results. I have two quick questions from my side, if I may? So, the first one would be, if you could just briefly discuss what are the key drivers behind your low double digit growth outlook for 2023? So, in other words, what do you expect to be the main drivers in SMEs, large corporates, et cetera?

And then, my second question is, if you could maybe discuss what you see as the key risks to loan growth, for the loan growth outlook this year, both on a sectoral level and also for SABB? Thank you.

**Tony Cripps:** Okay, thanks, thanks for your comments. And I'll take that question. So, when we thought about the year in the planning process and the guidance we just gave, with higher interest rates it is logical to expect that some of the growth across the interest rate sector, sensitive sectors will be impacted. And we haven't seen it yet, and so we're not being overly negative, of course, and maybe those assumptions are conservative, but I think, you know, having been around for a very long time, when you see interest rate moves of this scale, and cost pressures, which have so far been absorbed mainly, but there is – there is capacity that is sort of running out, if you like, on the ability for companies to pass on cost pressures.

The second half could be a bit slower as the delay in the interest rate impact, which is normally six to twelve months historically, starts to come into effect from the middle of the year, across the global economy I'm talking about and then what impact that would have specifically in Saudi?

Our GDP outlook for Saudi remains 3-3.5%, so very healthy, very well managed. So, that's why we think high single digits, a little bit lower than '22, when growth was clearly much higher and interest rates were close to zero. I think it's just a relatively conservative outlook.

The things that could change that relatively positive outlook would clearly be a deeper than expected US recession at this point, and the impact that might have on energy prices. And I think most people now are remaining confident, because, as China particularly re-opens up, there's a hope, I guess, that the balance of global growth will be slightly weaker in the US, but stronger in China. And therefore, you sort of muddle through in the middle ground, and that is also possible. But, yeah, we've just built in some assumptions around potentially slower growth globally in the second half as the impact on higher rates takes hold.

**Frederick Nye:** Thank you so much, that's helpful. If I could kindly just follow up on one point I think I might have missed, but just to confirm, it's your expectation for sector loan growth in the high single digits, is that it? Or if it's not, if you could elaborate on what your expectations are?

**Lama Ghazzaoui:** For the sector loan growth?

**Frederick Nye:** Yes.

**Lama Ghazzaoui:** Yes, yes, high single digit.

**Frederick Nye:** Thank you very much.

**Operator:** Thank you. We will now move on to our next question. Please stand by. Our next question comes from the line of Naresh Bilandani from JP Morgan, please go ahead, your line is open.

**Naresh Bilandani (JP Morgan):** Thank you very much. Hi, Tony, Lama, Sirish, it's Naresh from JP Morgan. Thanks for the presentation. A few questions please from my side. The first one is on your cards business; just, you know, after the restatements you've done, I'm just keen to understand if the representation of the cards fee income and expenses is comparable to what is reported by your peer banks? And, if we take a look at the numbers, it seems that this business is reporting a loss. So, it would be very helpful to understand what strategic steps you are taking to turn this business around? That's the first question.

Second is, you know, there has been a sharp pick up in the provisioning for off balance sheet exposures in the fourth quarter, could you please explain what you would attribute that to?

And the third one would be, any particular reasons you would attribute your pickup in the employee costs and G&A expenses this year?

And, my last and final question is, could you please elaborate the impact of any that you've seen on the capital ratios from application of Basel IV or Basel III reforms, as they are termed, that would be extremely helpful? Thanks a lot.

**Lama Ghazzaoui:** Thank you, Naresh. We will take them one by one. So, on the cards business, you know, we have had the restatement between the OPEX and the fee income for some of the fee-related expenses, especially for the merchant acquiring and the cards business. We have also restated some of the prior year period expenses and the quarterly numbers, we've shown them on the slides. But despite the restatement, the cards fee income in 2022, yes, it does show a net loss relating to the fees and the current period also still includes some significant charges that relate to prior periods, which we've booked this year, like the VAT. So, we did re-map some costs from the OPEX line to the fee line, but we also did some re-assessments of our VAT liabilities, and we did some catch up on the VAT expenses during this year but related to prior years.

When we look at the cards business, Naresh, we look at, of course, the net special commission income that the business generates, the FX income that the business generates, and in aggregate, when we look at the returns, they are positive, although it is not the biggest contributor to the bottom line, but it is a positive return when we look at it in a holistic manner.

And, in terms of how we address it, we are expanding the customer base, we are putting a lot of solutions for the customers that would actually enhance these fees. We are also continuously looking at the fee structure with the customers, especially the large ones.

On your second question on provisioning; for the off-balance sheet, if I heard correctly, there was some element of overlay done in this, specifically, as we said, on the impact, on the potential impact on the interest rate movement. So, this is one of the major elements of the changes.

On the pick-up in G&A, as I said again, you know, with the restatement that happened between OPEX and the fee line, one, we take this into account. And on a like-for-like basis the G&A OPEX has increased around 30%. Again, as I said, some of it relates to some one-off investments we did in the businesses. It reflects our investment, the impact of our investments that started last year on the infrastructure, the people, et cetera, and of course, some inflationary pressure.

But if we remove these one-off costs, the underlying cost is fairly muted, to be honest. The underlying cost growth, I mean, is fairly muted, which is, again, the impact of the continuous optimisation that we try to implement within our cost base. But we have always guided, Naresh, that our cost is in somehow an upward trajectory, because we have embarked on the investment cycle since last year.

Lastly, on the Basel capital ratios, we are now going through the detailed assessments and this is probably one of the reasons we did not give a CET1 guidance, we are going through all the elements of the impact from Basel III and we will see some elements of this impact penalising for us, especially that we are largely a corporate bank. You know, we can see some benefits for the more retail-focussed banks and especially with some of the re-class from Pillar 2 to Pillar 1, but still we do carry currently a healthy level of capital and we would – we intend to be maybe announcing the impacts as and when we conclude on them.

**Naresh Bilandani:** Thank you, Lama, that was very clear on all the questions. Just one very, very small follow up, just if we think of going into 2023, the presentation of the cards business, the fee income and expense on the overall cards business you report, would we expect the overall net fee income from cards business to start turning positive? Or on the balance on this line is likely to remain negative still going forward?

**Lama Ghazzaoui:** No, the plan is to turn this around, of course, you know, as much as possible. But, as I said, we look at the card business in a more holistic way than just the fees. I probably did not – maybe I forgot to mention the level of deposit collection that we do within the card business, this is more than 60% above last year. This is close to 90 billion SAR of collection is done through the card business, so this impact is not shown within the fee line, but it does also contribute to the overall returns.

But, yes, the aim is to actually look into the details of, you know, we are already started to look into the details of each element of the card business and manage it accordingly.

**Tony Cripps:** And as Lama said, remember, on a holistic basis, if you look at the net special commission income and the FX that we generate, our cards, our average balances and our cards are the highest, I think are the highest in Saudi per card. And then, we have a more affluent client base and therefore, a client base that tends to travel internationally, and therefore again, we get significant FX revenues. So, if you build those, the special commission income and the FX business, it's a very good business. So, I wouldn't want an impression just if you are only looking at the fees, to think that it wasn't a very good part of our retail franchise.

**Naresh Bilandani:** Okay, thank you very much, Tony, thanks, Lama.

**Operator:** Thank you. We will now move on to our next question. Please stand by. Our next question comes from the line of Gabor Kemeny from Autonomous Please go ahead, your line is open.

**Gabor Kemeny (Autonomous):** Oh hi, thank you. A couple of quick follow ups from me please. The first one on the NIM guidance of 3.1% for 2023, so does this presume any significant changes in your current deposit mix relative to Q4, or are you assuming a similar deposit base over this year?

And then the second one will be on provisioning. Could you specify how much all the late provisions you have now and whether you assume any releases or creations in this 2023 guidance? Thank you.

**Lama Ghazzaoui:** So, I'll start with the second question. The bulk of the fourth quarter charge was actually the overlay. We don't give the actual number, but the bulk of it was actually the overlay due to the modelling of the interest rate environment impact. And we continue to do that every quarter, we look into all changes happening around us in the dynamics and we make sure that the portfolio is as adequately covered as possible.

On your first question on the NIM guidance, I mean, of course, with the current interest rate level, we should factor some pressure, as we said, on the NIMs level as we cater for some of our customer's demands or for retention purposes or for expansion purposes in our customer base. This is factored already in the 3.1% NIM guidance.

**Gabor Kemeny:** Thank you, Lama, would you be able to quantify that please? I mean to what extent would you expect that position to move towards client deposits?

**Lama Ghazzaoui:** What we say is overall, for the sensitivity, it is not for the shift in deposit base or the change in mix. We talk about the sensitivity overall for every 25 bps, what we expect. 4 to 6 basis points, which actually factors the repricing on the loan side, and the pressure on the deposit side.

**Gabor Kemeny:** Got it. Thank you.

**Operator:** Thank you. There are no further questions, so I will hand the call back to Tony.

**Tony Cripps:** Okay, well, that's great. Thank you for the questions everybody and hopefully we've given you the answers that you require. Just in summary, once again, we were pleased with the results last year across not just our financials, but in the other areas that I talked about, and we are confident that 2023 is going to be another good year for us, notwithstanding some of the risks that may build in the second half. The Middle East and Saudi in particular have a robust pipeline for the financial sector across both corporate and retail and we think that will continue, albeit at a slightly slower pace. So, thank you once again and look forward to talking to you all later in the year.

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