Ribal Hachem: Hello, everyone. Thank you for joining us today. This is Ribal Hachem, and on behalf of Arqaam Capital, I'm pleased to welcome you to Alinma Bank Q1 2022 earnings call.

With us today from Alinma Bank, Mr Abdullah Ali Al Khalifa, CEO, Mr Adel Abalkhail, CFO, Saleh Abdullah I. Alzumaie, Senior VP and head of retail and digital banking and Mr Ahmed Sager, IR manager. Now without any further delay, I will turn over the call to the CEO, Mr Abdullah Ali AlKhalifa.

Abdullah Ali Al Khalifa: Thank you. Good evening, everyone. Thank you again for dialling in to our earnings call for the first quarter of 2022 and, as usual, we will give a brief presentation followed by the Q&A session. I will take you through our presentation. On page four you will find an overview of the bank in terms of its financial positions, in terms of market share, in terms of stock highlights, as well as well as the retail, digital snapshots.

On page six are the highlights of our financial performance. Our CFO, Mr Adel, will take us through a detailed presentation but on a high level our assets reached SAR 179.5 billion. Our total operating income increased by 13%. Our net income increased by 28%.

We had a strong performance on CASA, which we had increased this year by 10% year-to-date, reaching SAR 88 billion, and as a result its percentage of total customer deposits almost reached 69%, the highest ever. Our NIMs is 331 basis points.

On the next page, which is page eight, I will take you through two slides, just reminding the audience of our current five-year strategy that we started implementing last year basically being the youngest bank, which means we have the most modern IT infrastructure. We want to leverage this, basically targeting to be the fastest and most convenient bank in the country. We want to be number one Net Promoter Score and, of course, employer of choice in the bank industry.

On the retail side, we want to be the most digitally advanced, fastest and most convenient retail bank in the country and we want to be, obviously, the corporate bank with the best customer experience and the fastest turnaround time and be the most innovative Shariah-compliant Treasury.

If I go into further details on page nine, obviously targeting to become the fastest and most convenient require investment in technology and digital and hence we're building a digital factory. We're developing our advanced analytics to basically rely on data-driven decisions rather than intuition. We want to transform the culture in the bank, not only to attract but also to retain talent in the bank.

In retail, we want to focus on three main areas, affluent and high-net-worth customers. We want to grow our market share and penetration in youth segments and want to offer the best customer experience.

In corporate, we want to be the core bank, not only for large-end projects but also mid-corporates. We want to develop the SME business, as well as cash and trade. For treasury, we want to become core partner for our customers' needs, whether it's hedging or investment needs. We want to expand our FI franchise, as well as maintaining and evolving a high quality ALM function.

Now, let's talk about the update. If you recall, some of you participated in our earnings call for last quarter, Q4 2021, we've been talking about 66 initiatives under the strategy. Now, we've actually increased this by seven this quarter. Those seven came from our newly-developed, multi-year digital strategy. We added seven more initiatives for our strategy this year.

We have already implemented, fully completed 24 initiatives out of the 73, 13 bank-wide, one retail, five in corporate and five in treasury. Some of the activities that were taking place in Q1, that digital factory is now up and running. We've completed the digital academy training curriculum. We launched a degreed educational platform, as well as leadership programme.

In retail we launched multiple tailored products. We established a dedicated credit team for self-finance. We installed seven more digital zones in our branches, bringing the total branches with digital zones to 77, with the idea that we will have, in all branches, digital zones by mid of this year. We reduced the turnaround time for both consumer loans and mortgage.

For corporate we implemented a new simplified three-track process for credit approval that resulted in reducing the turnaround time by 30%. Our mid-corporates are now fully established in all three regions in the country, resulting in an increase of 48% of our assets in mid-corporates. And we launched E-Trade.

In treasury, we expanded the customer base for derivatives. We've added five more FI or correspondent banks and we're progressing very well on the implementation of the new treasury system.

This year, in 2022, on page 11, we will be working on 44 initiatives, 13 bank-wide, 17 retail, seven in corporate and seven in treasury. We'll be working to expand the digital factory to cover other areas. We continue our journey in developing advanced analytics towards establishing an Advanced Analytics Centre of Excellence. We're targeting this year for the new hires to be 35% ladies and the Saudization level to increase to 95%.

In retail, we're designing an exclusive affluent experience programme. We're enhancing the family ecosystem. We're strengthening our efforts in terms of customer acquisition through partnerships.

In corporate, we're expanding mid-corporate capability and presence. We're enhancing structuring and originate-to-distribute offering within project finance. We're going to continue to grow SME business through expanding through corporate suppliers, as well as programme-based lending. We increase corporate operating accounts in our effort to increase the cash in the bank.

In treasury, we going to continue improve on the cross-selling process and we want to fully implement the treasury system before the end of this year, diversify our investment portfolio in order to have a better blended rate on the investment portfolio. We want to also develop long-term funding products as well as enhancing savings and investment products.

Before I hand over to the CFO, we added a section on ESG. I direct, also, your attention to the fact that our Annual Report 2021 has a full section now on ESG for the first time. As you know, it's a journey but at the moment I'll give you some of the highlights that we've done.

We continue to invest in digital and I mentioned digital zones as well as process re-engineering to reduce the usage of paper. Our branch network fully now relies on LED lighting, no more conventional lighting. We've started installing timers for air conditioning and our experience in those branches that we have installed timers is that we reduce electricity consumption but 13%.

In all three regions we installed solar panels in some of the branches. It is an experience programme. Based on our experience, hopefully it will be part of a result that will lead us to installing solar panels on all our branch network.

On the social front, we conducted more 55,000 employee training hours, as well as six townhall events that we've done. Also, our shareholders had approved a few years ago up to 1% of net income to be used for CSR activities.

The women's empowerment programme that we launched last year has obviously, as I mentioned before, resulted in increasing our women's participation to 16% but we're targeting this year, as mentioned before, 35% of new hires to be ladies. In Q1, we managed to achieve 32% of the new hires in ladies.

We're focusing on community financing through SME financing, through two programmes, the Kafalah programme and the point-of-sale financing. We experience significant growth in both programmes.

On the governance side, obviously we are a fully-compliant Shariah bank. We do have a Shariah audit team. We're fully compliant with also all the relevant regulations, whether it is the central bank or SAMA being the regulator of listed companies.

Last year, we established an Investor Relations unit and we started conducting earnings calls. We started becoming active, participating in investor conferences as well as meeting investors and analysis one-to-one all the time.

Below you see some of the current ratings that we have on our ESG. I'm pretty sure that will continue to move because this is, I think, basically based on public information and not taking into effect the section we added on ESG in the 2021 Annual Report. I believe that has now become part of the public information that hopefully will lead to a better rating on ESG.

As said, it's a journey we started. We're going to focus on it. We're going to continue to have a positive impact on all three fronts on ESG. With that, I hand the floor to our CFO, Adel.

Adel Abalkhail: Thank you and good evening all and welcome again to our evening call for Q1 2022 results. I will be glad to run you through the financial performance in more detail. As we can see in slide number 14 on the balance sheet trends, we've seen a growth. In the quarter the balance sheet totalled 3%. Nearly 2% is from financing portfolio growth and 8% in the investment portfolio. In the bottom right-hand graph, the total liabilities grew by 4% and, as you will see later, it is mainly driven by 6% growth in the customer deposits.

In the next slide, which is basically relating to the P&L trends, net income year-on-year for Q1 has grown 28%. This is coming mainly from the total operating income growth of 13% and also we've had lower impairment charges quarter-on-quarter by around 29%. So, this was driving the 28% growth year-on-year.

Funded income year-on-year has grown 9%. We have 24% growth in non-funded income. This was offset by a growth in operating expenses by 18% and also the contribution to that was, as I said, 29% lower than the charges this quarter versus the same quarter last year.

On slide 16, on financing, as mentioned on a sequential basis, we have from Q4 2% growth in the overall financing. This was mainly driven by 10% growth in the retail portfolio. In detail, 8% was in mortgage financing. We have around 13% growth also in personal financing and other retail products. Corporate growth is flat from Q4 last year, and 2% growth in the SME portfolio.

Financing gross composition still remains 74% for corporate, SME remains 3%. We have seen a pick-up from 10% what personal financing represented from the overall financing, reaching now 12% from the overall financing portfolio.

On slide 17 a further breakdown on the deposits. We have seen really good growth in CASA. You can see in the central graph what CASA represents from the overall deposits as of Q1 2022, reaching 68.7%.

So, the overall deposits grew by 6%. We have CASA alone 10%. And the total deposits, as you can see in the left bottom graph, the non-retail deposits as of March represented 71%. 29% retail and non-retail 71%. Sorry, retail is 71% and 29% is non-retail.

The details on the income from financing and investments, we've seen as an absolute amount, a growth during the quarter of 1%. 6% growth in absolute amount, 6% in financing and 27% in investments. In the central graph, as you can, see, net profit margin remained flat with the position in Q4. 3.31% is NIMs, which is lower than Q3. We have some one-offs in Q3, as you can see, where the NIMs was 3.62%.

In the next slide we'll come to the fee and other income. We have a seen a 24% growth in the non-funded income from the end of last year. As you can see in the top-right graph, the main growth was in the other income and also we have good growth in exchange income, 45%. Also, we have the investment gains, 73%.

We've seen a slight decrease in fee from banking services, basically driven by more fee-related expenses. This is the net amount. The composition of the fees, as you can see, 35% was in fund management, card business 27%, brokerage representing 10% and also trade finance activities also 10% of the overall non-funded income.

Operating expenses. We can go directly to the cost to income ratio. It stands at 35.5%. Operating expenses increased 18% year-on-year, reaching SAR 642 million for Q1. This was mainly due to higher salaries and also an increase in commercial expenses for point-of-sale terminal deployment, higher communication expenses and also some of the VAT-related recoverability rate changes. Higher operating expenses year-on-year contributed to a 1bps per thousand increase in the cost to income ratio, increasing from 33.8% to 35.5%.

Slide 21, on the impairments for financing, you can see cost of risk declined 45 basis points from, as mentioned earlier, 30% lower impairment charges during the quarter. Impairment charges of 241 versus last year same quarter impairment charges 347. The allowance composition, still 89% relates to corporate, 11% relates to retail. This is the impairment allowance, the impairment charges. We can see cost of risk is going down from 1.18% to 73 basis points.

NPL and NPL coverage ratio. We've seen NPL ratio increase by 26% during Q1, reaching 2.01% but improved year-on-year by 24 basis points. Also, coverage ratio improved 17.3 basis per thousand year-on-year, yet we have seen a decline in coverage ratio by 27.1. We can see stage 1 and stage 3 coverage ratio has improved YTD. We have seen stage 3 coverage slightly decreasing and this due to some movement of heavily provisioned obligors who were in stage 2 and moved during the quarter to stage 3.

On capitalisation on slide 23, in capitalisation and liquidity in general, we're maintaining very healthy ratios. You can see in the top-right the graph we have an improvement in ROAE reaching 12.6%, reflecting the good results we had in Q1 and also improvement in ROAA from 1.6% to 1.9%. Maintaining the LDR ratio at 84.3%, well below the regulatory limit, and also LCR and NSFR are well within the regulatory minimum.

On the next section, we're going through the guidance. As you can see, there is no changes to the guidances given when we discussed Q4 results or the year-end results. The growth year-on-year in financing, 10% year-on-year. The guidance is mid-teens, unchanged. Still driven by strong growth in mid-corporates, SME, retail and also the corporate growth based on expected credit demand.

We have ten basis points year-on-year contraction in the net profit margins, reaching 3.31. Unchanging, the net profit margin is still 10-15 basis points on the expectation of the rising interest rates.

Cost to income ratio guidance remains below 35%. The actual as of Q1, as mentioned earlier, is 35.5%. Return on equity, the guidance above 13%, the actual 12.6%. That is driven by improvement in profit margins, also efficiency, along with expected lower cost of risk.

Cost of risk actual is 73 basis points. Still the guidance unchanged to be 65-75 basis points in 2022. Common Equity Tier 1, 18.2% as an actual in Q1 and the guidance unchanged to be between 16% and 17%. With that, we'll open the floor for any Q&A.

Operator: As a reminder, if you'd like to register a question, please press * followed by 1 on your telephone keypad. If you change your mind, please press * followed by 2. For those of you connecting online, you can register a question with the flag icon. Again, that's * followed by 1 or the flag icon to register a question. Our first question comes from Waleed Mohsin, of Goldman Sachs. Waleed, the line is yours.

Waleed Mohsin: Thank you very much. Thank you for the presentation. Three questions from my side. First, I wanted to get your thoughts on the competitive pressures, both on the lending and the funding side. We've been hearing of increasing competitive pressures on both sides, so I wanted to get your thoughts on what you're seeing in the market, especially with SAIBOR remaining elevated, given the spread between SAIBOR and LIBOR.

Linked to that, is that one of the reasons you haven't upgraded your net interest margin guidance, which was based on a lower number of rate hikes and now the market is factoring in a lot more than when you actually presented this guidance? That's the first question.

Second, in terms of loan growth, positive trends on mid-corporates and retail loan growth, but corporate loan growth remains muted. If you could talk about repayments or delays in drawdowns or delays in projects. What is causing corporate growth to remain muted?

My third and final question, very pleasing to see the pick-up in CASA ratio and that is different from what we're seeing in the market, whereby the demand/CASA ratio is dropping in the market. I wanted to get your thoughts on what is driving the success, especially given that liquidity seems to be quite tight in the market with LDR close to 100% and the regulatory LDR also moving close to the 90% mark. So, your thoughts on that would be much appreciated. Thank you.

Abdullah Ali Al Khalifa: Thank you, Waleed. On the competition pressure, let me first ask our colleague Saleh to comment on the competition on the pricing on the retail side, and then I'll cover both the corporate and the funding. Saleh, please. Saleh, can you repeat that? I think the connection is not good. Sorry, Saleh, the connection is not good.

Operator: Can you get closer to your microphone, please, Saleh?

Saleh Alzumaie: We, at Alinma Bank, have refrained ourselves from going into this price war. Actually, we focus more on customer experience and turnover time, and this actually worked for us, as you can see from the presentation by our CFO.

We've already increased our personal loan portfolio and also we increased our market share in mortgage without going into this price war. We have produced more products, more services and we do some bundles, so that gives us a competitive advantage and it actually works without going into this price war.

Abdullah Ali Al Khalifa: Thank you, Saleh. On the corporate side, surprisingly, despite the fact that funding cost is going up, I'm not referring just to the increase in SAIBOR but the fact that banks are paying more than SAIBOR now, are competing for good deposits because of the healthy growth in loans.

That pressure, we felt it on the corporate side, in terms of pricing. I think we did very well last year in terms of growth on the corporate loans. Some of our competitors either had a decline or a flat growth and this may trigger them to be more aggressive in pricing. That's actually, to be honest with you, this is one of the reasons we didn't show strong growth in corporate in the first quarter this year.

We've lost some of the deals. We've lost some of the facility we had in pre-payment and we know that some of customers were really offered unheard of pricing honestly, especially in this time when cost of funding is going up because of the competition on deposits. I think, in a way, I also address now the funding because we feel it is still going on, the competition on deposits.

The loan growth, we had a very healthy loan growth on the retail side, as Saleh mentioned. On the corporate, I explained the reason. We had a pre-payment. We have lost some deals because of pricing and, in theory, we could have met those prices but the idea is always about not on the balance side only, it has to be the impact on the income side.

It doesn't make sense to offer a customer, honestly, we've seen prices as low 55 basis points above SAIBOR while most banks, generally speaking, they're paying up to 30, 40 basis points above SAIBOR for their term deposits. Hopefully, that will be short-lived. I don't think it is sustainable by some of those banks. Maybe they achieve some growth in the slowdown or maybe realise the pressure on the funding costs.

On CASA, yes, we did a very good job there and I think, if you recall at the beginning of last year when we implemented a new strategy, at least in the first earnings calls to investors we said the main sources of NIMs in the country has also been the affluent and high-net-worth and we have not been focused on that segment.

Now, we have fully-dedicated private bank with a large team, experienced arms and we're succeeding in getting more and more customers acquired and more and more customers increasing their balances. The service experience they're getting has shown its impact.

Also, the drive to grow the mid-corporates is obviously leading to us acquiring more and more customers there which, as a result, some the important accounts are coming back to us.

I think I mentioned before an important point, that bank was focused on lending in the old days, not on getting most of the business with the bank, including operating accounts, including payrolls and so on. Now, we're really focused on this. We no longer just write cheques. We require the other business of the customer to come, including operating accounts and that's helping to drive the CASA.

The other areas also that helped us in this is our focus on cash management. As I mentioned, this is an area that was fragmented, now it is centralised. Now, it is much more focused. We have product specialists hired and our drive is also helping.

We're signing up, as an example, payroll services. A number of merchants on a weekly basis. I get a report on a weekly basis. All of these factors, plus obviously our success in getting more even on the mass segments, all of these factors are helping us to increase the CASA.

Waleed Mohsin: Thank you very much. One follow-up is on the net interest market. With that trend, given that you've been very selective on deal selection, CASA has gone up, your margin guidance is unchanged. Is that just conservatism or just the market trends?

Abdullah Ali Al Khalifa: As you've seen from the presentation of the CFO, we had a ten basis point decline compared to first quarter last year and the main reason for this, if you look at SAIBOR movement, it really started increasing in a significant way starting in February this year and, as you know, it takes time to reprice.

Typically, deposits are shorter-term. You have one-month deposits, you have 40-day, 50-day deposits and two-month deposits. This gets repriced much quicker and that has a negative impact on our NIMs, as well as the fact that in Q2, for example, we will have more than 50% of total corporate loans repriced in Q2 and that will help us.

I think it's too early to make an assessment about the overall NIMs movement for the year. I think we will be in a better position following Q2 to have a fresher look at the NIMs expansion. At the moment, we're fairly confident to achieve a ten to 15 basis point increase and we will have much better clarity following Q2, once we have the impact of this repricing that I mentioned before.

Waleed Mohsin: Thank you very much. That's very clear. Thank you very much for your answers.

Operator: Our next question comes from Naresh Bilandani, of JP Morgan. Naresh, please go ahead.

Naresh Bilandani: Hi. Thank you very much. It's Naresh Bilandani, from JP Morgan. Sorry, my questions are going to be very similar again to what Waleed just presented. I think the first is just on the NIM guidance. It is indeed a bit surprising. I was quite hoping to see an upgrade to your guidance simply because the balance sheet, as we understand, is actually quite rate sensitive.

I'm just keen to understand, if you could please clarify how many rate hikes are you building into your assumptions. I think the market is already looking for somewhere between seven to eight hikes this year. Is that fully factored in now, within your guidance at this stage?

My understanding was also that you're trying to avoid getting into this price war, as you mentioned, but a simple pass through of the SAIBOR that we've already seen increase by about 150 basis points or so in the first quarter should automatically start boosting the net interest margin quite significantly.

Even if that was not reflected in the first quarter, my assumption was that the outlook for Q2, Q3 and Q4 is probably looking much more cheerful than what your tone suggests at this stage. So, if you can please just throw some light on that, that would be very helpful.

My second area is also once again on retail asset pricing and, as you probably are aware, the messaging from most of your peers also during the previous conference calls was we are seeing some very ridiculous levels of retail loan pricing. Do you see that changing in a better direction in any form?

Also, as you kindly pointed out in the presentation, your non-mortgage retail mix has improved quite handsomely. It would be very helpful if you can please guide, even if in any broad terms what was the yield that this new portfolio was generated at. So, that's the second question.

The third and the final question is on operating expenses, especially related to employee costs. Could you please guide whether this was relating to new hires or were there any adjustments to salaries for existing personnel or if there are any one-offs in there? Thank you very much.

Abdullah Ali Al Khalifa: Thank you, Naresh. As far as NIMs, as I explained, if you look at SAIBOR movement, it really started picking up in a significant way in February this year. What gets repriced first is your shorter-term liabilities, the one I mentioned, the one-month deposit, the 50-day or 40-day deposits and so, two-month, you name it. Unfortunately, most of the corporate repricing happened in October/November last year. So, we will have a significant portion of our corporate loans repriced in the second quarter and that will show much better positive results.

I think you also mentioned in your question how many rate hikes that we used. When we do our business plan, we take the forward yield curve, and the forward yield curve obviously represents the market expectation of rates built into it whatever is the rate hikes and so on.

So, we've taken that. This is where our guidance is, on ten to 15 basis points. We've already lost ten basis points, as I mentioned, before and we will see the impact of repricing that will take place this quarter and hopefully will refresh the outlook of the NIM expansion following Q2.

If you look at SAIBOR, by the way you said 150 basis points, to go back to your point. What really matters for the Saudi banks is the movement in the average SAIBOR for the period. We're not complaining. We have almost 88 basis points on average. If we take year-to-date average until today compared to the year-to-average for the same period last year, there's a difference of 88 basis points. That really is the one that really matters.

So, yes, I agree with you. Even without growth in corporate, even if it would not in a worst-cast scenario, the SAIBOR impact or repricing that will take place in Q2 will have a positive impact on that.

I'm going to direct the question on retail pricing and the competition on pricing to Saleh. Just to comment, is the competition on pricing the same or has it died down a little bit? You can take that question.

Saleh Alzumaie: I think the last market intelligence report we did actually at beginning of this week, we are seeing some increase but actually it is not really in line with the increase in the interest rate. We're still seeing five-year loans at 1% or below 1% from some banks. So, they responded but not fully responded, actually, to the increase of the interest rate.

Our response was immediately. The increase of the increase rate during came during the rate holiday so we called the team and we already factored this in our new pricing, so the prices will be up and they will have the new prices. There is a little increase but not fully in line with the interest rate increase.

Abdullah Ali Al Khalifa: Thanks, Saleh. By the way, Naresh, I refer to your comments that these prices are irrational. I wish all of us shared that view but unfortunately that is not the case. Adel, do you want to come in?

Adel Abalkhail: Yes. The question on the opex and the employee costs, that 16% growth quarter-on-quarter, that is basically a mix of both, as you rightly mention. This is reflecting the new hires that have happened since Q1 last year but also reflects the increases and the adjustments that usually happened during Q1, so it's a composition of both.

Abdullah Ali Al Khalifa: Just adding one more impact I think, Adel, a layer, was annual salary increments. It hits you day one on the end of service.

Adel Abalkhail: Right. On the end of service it comes one time with the annual adjustment and then normalises.

Abdullah Ali Al Khalifa: And that impact of the end of service now will dilute as time goes past but it hits you one time and it is one quarter, so it has more impact.

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

Operator: Our next question comes from Rahul Bajaj of Citi. Rahul, please go ahead.

Rahul Bajaj: Hi. This Rahul Bajaj, from Citi. I had two quick questions, actually. The first one is on financing, just following up from the first question from Waleed. Basically, on financing I see your guidance remains unchanged at mid-teens. The first quarter was somewhere around 2% year-to-date. That kind of points to 4% on average growth or slightly higher over the remaining quarters on a Q-on-Q basis.

I just wanted to understand are you comfortable with that kind of growth projection? Where do you see the growth will come from, especially given the fact, as you just mentioned, that you are not entering into price competition with some of the various relative peers in the market, so where will with this growth come from? That's my first question.

The second one is on exchange and non-funded income, basically. That trend remains very strong in the first quarter. If I may ask, please, what is driving this very strong exchange income trend and to what extent is the trajectory in non-funded income that we've seen in the first quarter is sustainable for the remainder of the year? Thank you.

Abdullah Ali Al Khalifa: Thank you, Rahul. I'll address the first part of your question and then Adel will take care of the other part. By the way, when I say we're not entering into a price war, I'm not trying to suggest that we're ignorant as far as we have to compete. We have to compete. So, there have been multiple cases, actually, where we had to lower our price in order to keep the customer.

But I was referring to similar to what we had in retail in a way. We start seeing a rush of pricing also and the corporate. We mentioned the 55 basis points. It is a real example we've seen the market, as well at 60, 65, 70 basis points. I don't go to that level. We don't go to that level because we believe it is not supportive of our business, if we go to that level.

The demand coming on the credit from corporate is significant, so significant. By the way, really literally, I wouldn't say every day but at least every month, basically a new initiative has been announced. Yesterday or day before yesterday the Ministry of Transportation announced that they will expect to invest in the transportation business, whether it's airports or new airlines or trains or underground trains, everything, over $100 billion up to 2030. Then you add to that the renewables, you add to that all the other initiatives and deals, whatever, you name it, it is a huge demand coming.

So, why should I go very aggressive on pricing and really cut my spreads to ridiculous levels? By the way if I offer 60-70 basis points, I'm not getting 60-70, as I mentioned, because banks are paying more than SAIBOR to good customers as well. So, in effect, my spread will be significantly lower than this. I can't imagine giving 55 and ending up with net 30 basis point after you pay for the deposit. That's ridiculous pricing.

Nonetheless, we do compete. We do in certain cases have to reduce pricing but not to that level. So, yes, we had 2% in the first quarter growth. We're fairly confident about reaching our guidance. There is a good, healthy pipeline coming, utilisation expected to be better in Q2.

Strong growth in retail continuing. Retail growth actually is much higher than our guidance but because of the size of it, still it's more competitive overall but it's growing. So, we're fairly confident that we will be achieving this and we'll see following Q2.

We've been talking about a specific drawdown expected in Q2 and specific proposals being improved. We will see how that impacts. If it is not out of our expectation, we may change the guidance but, honestly, I think at this time we're confident about guidance. On the exchange and the funding, Adel?

Adel Abalkhail: Back, Rahul, to the 45% growth we have seen year-on-year on the exchange income, this is basically a mix of three things. We have seen, generally, an increase in the volume that was reflected in the exchange income during the quarter versus the volume we had in the same quarter last year.

Also, we start to have more and more of the FX forward. In the past, it was really driving also the FX income more and also we have done some special deals in certain currencies as well during Q1 that has also overall reflected on this growth percentage.

On the other income, we've had one-offs in Q1 relating to some of the investments and this is basically a gain that we have booked in Q1, not something that we book every quarter. We've not seen the same activity as last year in Q3 but it has happened in Q1 and we can see it is a one-off during this quarter.

Rahul Bajaj: Understood. Thank you so much.

Operator: Our next question comes from Adnan Farooq, of Jadwa Investment. Adnan, the line is yours.

Adnan Farooq: Salaam alaikum. Thank you for the call presentation and congratulations on the strong set of numbers. I have a couple of questions. There was a slight uptick in NPLs. If you could highlight which sector it was related to. Is it something that had been on the books for a long time and now has been classified as NPLs or is it something unexpected that came through?

The other questions are mainly on the same lines that some of the other colleagues of ours asked. I just wondered if you could quantify the one-off nature in the expenses. You mentioned that end of service comes as one-off during the first quarter. How much would that be? As well as the one-off nature in the other incomes, how much is one-off in nature out of the total other income?

Abdullah Ali Al Khalifa: Thank you, Adnan. On the NPL, as you know, the first time the account deteriorates to multiple effects, whether it is delayed repayments, whether it's loss of major contracts, whether it's loss of senior management, the different factors, whether the business is no longer or a deterioration in the performance of the company then, under certain conditions, this exposure will move to stage 2 and remain in stage 2 for a period of time. Either things improve and, of course, there is a queuing period, so it may stay for up to a year. Or things did not improve and continue to deteriorate and then they'll move to stage 3. So, we had some movement in Q2.

I can't recall exactly the industries. I don't know if you know, Adel, but there are a few names. There is not one significant exposure that moved. There are multiple names moved in there. On the one-offs?

Adel Abalkhail: On the one-off income, the one I was talking about usually, this represents, you can say, 55-70% of what you see in this other income this quarter. Again, back to the salaries mix and how much is really relating to the hirings and how much is the end of services and the normal adjustments.

Well, basically, as you know the bank has been rehiring in the main positions, especially in what is related to the strategy as already mentioned by the CEO, and we always track this as part of the strategy process. But the big portion will still remain the normal adjustment, as you can see, with the impact that you always get it in Q1. As you can see, this gets one hit in the first quarter and then goes normal usually in the subsequent quarters.

Abdullah Ali Al Khalifa: As an example, Adnan, if you have on the end of service, if you offer your employees, let's say, an annual increment, just as an example let us say a 4% annual increment, that means on the end of service reserve automatically will be increased by 4% day one. As soon as you do that, it hits you there. There is no further until next year, annual increase. There is obviously an increase due to the fact that employees stay longer and longer but the one-off that is really significant that impacts the end of services typically happens in Q1.

If some banks push the effect of the annual increments, let's say, to April, then that will hit in April. But, because I think we're effective in March, it showed up there. Nothing specific to mention as far as the amount. We're always going to have one-offs. This is the nature of the business. You have one-offs here and one-offs there but typically it is not significant.

Unfortunately, this quarter because of the negative impact on NIMs that we've seen in Q1, we didn't have a good growth on yield income. As you know, yield income is the biggest component of overall revenues. We had unfortunately a negative close this quarter where growth in operating expenses was faster, but we're fairly confident. As you recall, we're saying cost to income will reduce to be below 35%, so we're fairly confident that we will achieve positive growth before the end of the year.

Adnan Farooq: Very helpful.

Operator: Our next question comes from Nauman Khan of SNB Capital. Nauman, please go ahead.

Nauman Khan: Thank you for taking my call and taking my questions, as well. Most of my questions have been answered but just a couple of follow-up questions. One is on the loan growth guidance. I think one of participants asked earlier that it translates into about 4% growth per quarter in the coming quarters if we want to assume mid-teen growth. Again, with the interest rate scenario going up, with probably six or seven rate hikes, wouldn't the repricing or the early loan time be a factor that would dampen the loan growth?

Secondly, again with the new interest rate scenario, wouldn't that also lead to a higher ECL provisioning as well changing in the macro environment? So, wouldn't that have an effect on the cost of risk because your cost of risk assumptions haven't actually changed? Wouldn't that also have an impact there as well? I think these were the two questions that I wanted to ask.

Abdullah Ali Al Khalifa: Thank you, Nauman, for these questions. On the increase in rates on the demand for loans, at the moment even today, today's three-month SAIBOR is 260. We are not talking about the 4% and 5% that we had many years ago that will have potentially some impact on some of the investment decisions by some of the corporates, we're talking about 260. Even if you had 120, so it is 380, it is still a level that I don't believe will have a significant impact on this.

There's a lot of demand coming from the PPP projects that I have been talking about before, the public and private partnerships. A lot of these projects result, for example, in offtake agreements, whether it is a new hospital to be leased to the Ministry of Health or it's a new school to be leased to the Ministry of Education, it's an offtake of electricity generation or water and so on, they always have a clause actually for increase in interest rates to adjust for that.

So, in a way, I would not say that none of the customers in the Saudi market will be negatively impacted by interest rates, of course, they would be. It is always a positive impact if the interest rate is much lower, on investment decisions and so on. But I think what is coming in the country, with the demand that you've seen and the fact that most of these projects have a clause to adjust in case interest rates go up, I think the demand is still healthy. On your other questions. Sorry, I missed the question.

Cost of credit, as we've seen, is reduced from last year as a result of the coverage ratio that we've seen but mostly importantly the outlook. You've seen economic activity. The Saudi economy had a very strong growth in Q1. We're expecting that growth to remain for the year, not at the same level but the growth to be very strong this year.

The impact of all these initiatives, all these activities and the unemployment declining and more people getting a job and more bankable customers, it's tremendous. We don't expect a deterioration of credit quality and that's why we gave guidance lower than year. Of course, it's too early to talk about 2023 but I would imagine it should not also pick up compared to 2022. It would at a similar level, if not lower.

Nauman Khan: Thank you. These were my questions. Thank you.

Operator: Our next question comes from Aybek Islamov, with HSBC. Aybek, please go ahead.

Aybek Islamov: Thank you for the conference call. I have a couple of questions. The first one is about the Shareek programme, the corporate investment programme. Is there any new colour that you can share with us as to what kind of benefits or subsidies you may get from the government in exchange for reinvesting into growth and funding projects and so on and so forth? That's the first question.

The background is that I'm hearing that some companies in the materials sector, petrochemical companies, they're already having some guidance from the government agencies as to what kind of subsidies they may get under the Shareek programme. So, I wonder if you have some colour on this.

The second question is do you think there is a consumer awareness in Saudi Arabia that rates will be a lot higher one year from now? Do you think that consumer awareness is playing into retail growth space? How do you think the higher interest rates would impact retail loan growth, which is obviously growing quite well to date? That's my second question. Thank you.

Abdullah Ali Al Khalifa: Thank you, Aybek. Obviously, I am not an authority on the SME and Shareek. My understanding on the bank side, there are no specific benefits given to us by the government participating in the financing of some of those Shareek. However, we benefit as banks because the demand will grow.

You have companies that committed to invest in the local economy which when you thematically say invest, you're also referring to financing requirements which means more demand coming on the credit side. So, that's the direct benefit for us. More demand on credit and hopefully that will lead to less price competition because the buy is increasing and you don't really need to be aggressive on pricing.

On the consumer awareness on the interest rates going up in the future, Saleh, do you want to add? Saleh, by the way, I forgot to introduce him. Saleh Alzumaie has very long experience in retail, as well as digital. He joined us last year as Head of Retail and Digital. Saleh, do you want to comment on this one?

Saleh Alzumaie: I cannot say that all of our customers, they have the literacy of interest rate hikes. Some of them, yes, but most of them no. We have seen some customers, they are taking loans and they don't need it because of holiday lower price. 29 bps was a very tempting price, so they took it and they put it in a savings account.

SAMA is requiring us to do this financial literacy as part of the financial inclusion that SAMA is leading and I'm telling you our customers tend to take loans today and they will do a top-up most of time after two years or two years and a half. Some of the customers have financial literacy but most of them I don't think so. They take loans because of the lower price offered by the banks.

Abdullah Ali Al Khalifa: Thanks, Saleh, but I just want to be clear here. The 29 basis points that Saleh mentioned, that's other banks that were offering, not ours.

Saleh Alzumaie: Exactly, yes. I am speaking generally about other banks, not only our bank.

Aybek Islamov: Thank you.

Operator: Our next question comes from Edmond Christou, of Bloomberg. Edmond, please go ahead.

Edmond Christou: Hello. Thanks for taking my question. If you can help me to understand this. The spread between the SAIBOR and LIBOR has significantly widened end of March, into April. I see tightening liquidity and banks paying a premium for liquidity and on the other hand we talk about a strong pipeline that will help you achieve your guidance and we haven't seen the high oil prices filtering through.

The deposit growth still on the government side is falling. We have seen some improvement on the businesses. But how can I project the year if liquidity continues tightening or the level of deposit growth is not growing at the same level as the credit growth in terms or margin compression and also the end of the price war as you mentioned before in the previous call? So, we should see the price war ending or easing as long as the spread between the SAIBOR and LIBOR are widening or continue to widen. Is that correct? That's one thing.

The other thing is it is also my understanding that retail pricing should improve because the corporate-based lenders should focus more on floaters now and focus on their bread and butter and ease the competition on the retail side. Do you see this is happening or this should be expected to happen down the line, down the year.

The third one, when we talk about mortgage buyouts you mentioned in the presentation, I understand the switch and the new law. Do you see this as happening and what is the incentive, if it is happening, for a client to move from one bank to another? Do you see any particular clients that are at high risk of switching?

I think the last one is on margin. I think our conversation was last time that your margin guidance for expansion anticipates that CASA will improve, which we have seen it improving. Do you expect more improvement in this CASA within this margin or do you see it will be difficult to improve it further from here?

Thank you.

Abdullah Ali Al Khalifa: Thank you, Edmond. The spread between the Saudi riyal and dollar, we've seen it in periods before. Again, I keep referring to relatively recent, 2016, that was a time when we saw SAIBOR increase significantly even though there was no rate hikes and so on and the gap or the spread over dollar was significant.

That was driven by, as I mentioned before, the fact that loan growth was strong in the industry. Some of the institutional depositors, especially pensions, selected to invest in government bonds that were issued at that time and did not roll some of the rollover on some of their deposits. That led to this tightening of liquidity.

We've seen it this year, not due to the fact of institutional investors but strong growth on the loan side and we have not seen similar strong growth on deposits. Historically, the Saudi market has had a certain significant amount leaving the country, whether due to imports, financing imports for the construction, for the building, whatever is happening, for the household furniture and so on, due to the increase in the housing mortgage to finance this. So, there are lot of payments go overseas.

You have also the impact of expats remitting their money home every month. That is also always there. It goes up and down but it is always there. And you have also the impact of Saudis leaving the country for vacations and spending money outside the country, whether it's purchases, whether it's accommodations and so on. This has always been there.

Now, the question is the growth on oil price has not affected the growth in deposits. As you know, Aramco gets a lot of dollars from the sale of oil. They don't keep all that money in the country. They always have, obviously, either some of the international contractors to be paid. You have amounts to be deposited into national banks.

So, whenever there is a strong demand the money comes back. I don't think it is a systematic risk. So far it is actually a competition, it is more a cost rather than the ability to maintain growth. The central bank, as you know, is also the bank of the government, so there is a lot of money that they manage on behalf of the government. A lot of that is placed overseas.

The central bank, I don't speak on their behalf but we've seen it before. The central bank put some money in

2016 in banks as customer deposits on behalf of the government and if the need is there and if they feel that the growth of loans is hindered due to the lack of deposits, you're going to see deposits flowing back to the country.

So, I'm not worried about the ability or the concern for us to grow and the Saudi markets to grow but it's just adding costs. As the moment it is just reflective of cost of funding. On the retail prices, Saleh, and mortgage, do you want to cover that one?

Edmond Christou: Can I just follow-up on this? Sorry.

Abdullah Ali Al Khalifa: Go ahead, Edmond.

Edmond Christou: This is very clear. Your expectation is that central bank will be ready to inject liquidity if needed to meet the big projects or the PPP?

Abdullah Ali Al Khalifa: I am not saying there is a commitment or anything. I'm just saying we've seen this is always the case.

Edmond Christou: Yes. They've been supportive of the sector stability always. In this case, the spread of the cost of liquidity should come down. So, from your point of view, do you see competition continuing because if liquidity improves later on there will be incentive for other banks to continue to be competitive?

Abdullah Ali Al Khalifa: You can think about the positive impact on the debt investors. I think what you've seen here will encourage more and more banks to tap into capital markets, whether it is Tier 1, Tier 2, or senior debt, that is not significantly tapped by the Saudi banks. So, that is an option also for them to do because that is actually part of the calculation of loan disqualification and, in fact, they get higher weight because typically they're longer duration of debt, that is included in the calculation of LDR.

Edmond Christou: That should increase their cost of funding, which means that should ease their pricing price in theory, yes?

Abdullah Ali Al Khalifa: I'm not sure. Honestly, in my honest opinion, I don't think the pressure on funding will ease off significantly because the economy is growing. These initiatives are coming into the pipelines and require financing. So, there is going to be, in my view, strong credit demand in the next two to three years easily and that will continue to have some pressure on cost of funding.

However, it will not hinder the ability, that is the point that I wanted to stress. It will not hinder the ability for banks to grow or lend. They still have pay a little bit more. They're going to explore other options to unlock capital markets.

You're going to see some money flowing back if pricings become more attractive, whether it's high-net-worth individuals who have money overseas or some of the institutional investors or pensions, they may have also money overseas. They can bring it in. As well as the ability of the central bank to inject more liquidity as customary in the past, to enable the banks to continue. But competition or pricing pressure on funding, I think that will remain for a while.

Edmond Christou: Very useful, thank you. On the retail, please.

Saleh Alzumaie: I think your question is about the loan buyouts the mortgage buyouts. Correct?

Edmond Christou: Yes and if you see corporate lenders are moving more into their bread and butter with the floaters now helping their margin. So, do you see easing competition from corporate-based lenders on the retail side, especially the mortgage?

Abdullah Ali Al Khalifa: You're right. Sorry, Saleh. Typically, if your outlook for interest rates is to continue to increase, you want to lend in products where you're able to reprice this loan that you give every three months or six months versus giving a fixed rate loan to retail.

However, and theoretically in retail still, they have the benefit of having a higher spread in certain cases, not what we've seen recently but theoretically when you have long fixed rate, you can have a better margin or a better spread. You're able to get deposits from those customers. You're able to cross-sell other products like credit cards, revolving credit card or personal loans and so on and you can benefit from the relationship much more than just the pure financial benefit of a single loan but mortgage is also important. Saleh, comment on the buyouts for mortgage.

Saleh Alzumaie: I think the benefit for the mortgage buyout for customers is very obvious. Either you shorten the period of the loan from 15 to ten years or the loan instalment amount will be less, so the customer can have [unclear]. What we are focusing today on the mortgage loan buyout, as mentioned, is that we will incentivize our agents if they do cross-sell.

If you buy a loan, you have to cross-sell the credit cards with this or any other product like a personal loan or at least a charge card. In this case, we are compensating the lower price that the customer is getting but cross-selling another high yield product like credit cards.

Edmond Christou: Do you see activity in the buyout?

Saleh Alzumaie: There is some activity. Actually, we will be the least bank impacted by this loan buyout because our mortgage portfolio is still not very big compared to others. I think the big players will be impacted more by smaller banks or mid-sized banks like our bank because if you go back five years ago or six years ago, you see the yield for mortgages is extremely high. So, this is an opportunity to buy it at a price that will give us benefit, as well as to the customer.

Edmond Christou: Very useful. Thank you.

Saleh Alzumaie: Good. Thanks.

Operator: Our final question comes from Chira Ghosh, of SICO. Chira, the line is yours.

Chiradeep Ghosh: Hi. This is Chira Ghosh from SICO Bank. A very quick question and it's a long one. I see that a big part of your lending growth came from the mid-corporate. First of all, if you can share what is the size of your mid-corporate versus your large corporate, the breakdown.

The second is even if you can give me a ballpark, it would help me understand the market much better. Typically, a large corporate has a NPL ratio of around 2%. What would be typically the mid-corporate asset quality scenario? Similarly, from the retail side, I just want to get a sense if your strategy is moving from larger corporate to mid-corporate, how would it impact your asset quality and how would impact your margins?

Abdullah Ali Al Khalifa: Thank you, Chira. Just to be clear, we're not saying in our strategy we're moving out of large corporates and into mid-corporates. We're saying we're going to continue to be a major player in large corporate. However, we also want the mid-corporates, to have activity there.

If you look at the number of companies, I don't have the statistics now, but for us, by the way, the mid-corporates are the ones that are generating revenue in excess of 200 up to a billion. We call those mid-corporates. If you look at the number of companies versus the number of companies that is over a billion, it's a much larger number of companies, much more population in terms of companies.

So, these are not small companies. The ones that are generating 200 up to a billion riyal of sales, they're not small. In terms of the size, by the way, we just started, as you know. We just literally started, so it's still small compared to the overall but we're building it. It's growing fast.

These companies tend to give you more diversification. Rather than one large single loan, you have multiple customers taking multiple loans and so you get the diversification. You typically tend to get more successful in obtaining other business from them versus large corporates.

Larger corporates, if you're getting 30% of their business, that's a significant portion of their business. You'll be called their main bank if you do 30%. But in a smaller medium size corporate you get a better chance of getting the payrolls, of getting the LCs, of getting the operating income. If they have outlets, you get point of sale and so on. So, that is quite attractive to us.

In terms of risk, typically risk profile, large corporates, the blue chip companies have stronger financials and so but it's not always the case. You always have also some cases. There are big names throughout history that failed, so it is not always an indication if you go with smaller company, that means much higher risk. In fact, they tend to have smaller leveraging when you compare them to the large corporates.

So, generally speaking, we don't expect building the franchise, the mid-corporate franchise, shifting from large to mid. We're going to continue to be a significant player in large as well as project finance but we want to develop also the SME and mid-corporates.

Chiradeep Ghosh: Just in relation to this, the government support is only for the SME side, there is nothing for the mid-corporate side?

Abdullah Ali Al Khalifa: Yes, it is SME. SME is on the Kafalah programme.

Chiradeep Ghosh: The Kafalah programme, yes. That's it from my side. Thank you very much.

Abdullah Ali Al Khalifa: All right. Thanks.

Operator: We have no further questions on the phone lines, so I will hand back to the CEO for any closing remarks.

Abdullah Ali Al Khalifa: As we said at the beginning, we thank everyone for their participation in this earnings call and we look forward to the next earnings call.