Transcript

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Banque Saudi Fransi Q4 22 Earnings Call

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Ribal Hachem Hello, everyone, and thank you for joining us today. This is Ribal Hachem and on behalf of Arqaam Capital I am pleased to welcome you to Banque Saudi Fransi's Q4 22 earnings call. With us today from Banque Saudi Fransi is Mr Bader Alsalloom, CEO, Mr Ramzy Darwish, CFO, Mr Zuhair Mardam, chief treasury and investments officer, and Mr Sander Aardoom, deputy CFO. Now, without any further delay, I will turn over the call to the CEO, Mr Bader Alsalloom.

Bader Alsalloom Thank you very much and thank you, everyone, for joining us today on this earnings call. I'll start by taking you over our year-end high-level results before handing it over to my colleagues. From a balance sheet perspective, we continue to grow our high-quality loan book by 8% year on year to 159 billion. Even between our commercial and consumer lending group from a percentage perspective, on the deposit side, 11% year-on-year growth. Our investment book grew by 2% to 44.5 billion. On the income statement side, 12% top-line growth, mainly on the back of 13% growth from a net income perspective and 11% from non-fund growth. Our NIM average for the year grew by four basis points to 3.06% and our net income grew 4%, mainly offset by increased impairments to 3.575 billion. On the asset quality side, NPL and NPL coverage ratio is broadly stable year on year. NPL stood at 2.54%, one basis point higher. Our NPL coverage ratio for the year dropped by three basis points to 120%. Cost of risk, 0.85%. Capital funding and liquidity remains strong, comfortably within regulatory limits. We saw a decline in T1 ratio from RWA growth, mainly on the back of MTM on investment securities.

Next slide, please. Now, digging into our four strategic business pillars for the year, on our corporate banking side, which is our main core business of BSF, corporate loans grew to 120.5 billion. That is a 6.6% year-on-year growth. Deposits surpassed… Our loan growth grew by 30.6% year on year to 80.3 billion. Corporate banking finished the year with operating income of 20.4% year on year. On the retail banking side, we grew our retail loans by 9.5% year on year. Net income grew by 120% with our operating income growing by 22%. Private banking loans grew by 24% year on year with net income growing by 45% year on year. Operating income was 27.5% and our cross-sell income grew to 84%. Last but not least, of course, our global banking, our global markets group. Investments slightly grew by 1.5% to 44.5. Fee and other income grew by 14.7% with FX income growing 41%.

Moving along to the next slide, when it comes to key strategic enablers from technology and digitalization, the main focus for 2022 and 2023 and beyond of course is our core banking system, which is expected to be rolled out with a final release by the end of this year. In 2022 we also continued to work on our omnichannel, which is our new retail digital platform and app, which is expected to be released in Q2 of this year. On the corporate side of course we also are rolling out our new integrated corporate portal. Customer experience and brand… We are expecting a release of our new BSF brand by the second half of the year. From risk perspective, we continued to strengthen our cybersecurity framework, updated our operational risk framework, and also strengthened our early warning signs and watchlist monitoring framework. From a people perspective, we grew our female employment to 22.5% and we currently maintain a healthy [unclear] ratio at 91.3%.

I'll now hand it over to my colleague Ramzy. He'll take us through the [unclear] performance.

Ramzy Darwish Thank you, Bader, and a warm welcome to everyone taking the time to join us today for Q4 2022 earnings presentation. I just wanted to briefly introduce myself. My name is Ramzy Darwish. I recently joined the bank as the CFO at the tail end of last year. My experience has been in the financial services industry for close to 18 years and I'm really super-excited to be joining this incredible organization with a great pedigree and a really super-talented team. I very much am looking forward to walking you through the results today but also for future calls and interactions in between.

With that being said and starting off with our balance sheet on page seven, the bank grew total assets by 8% year over year. This was mainly driven by lending growth. On a sequential basis, total asset growth was flat to slightly higher, mainly due to repayments which typically occur at year end. When we zoom in on this loan growth figure, we had a similar 8% growth in loans and flat to marginally higher lending volume on a sequential basis, delivering lower than anticipated loan growth. Investments increased by 2% year over year and 3% sequentially for the quarter to manage overall liquidity ratios and opportunistically capture market opportunities. It is important to note that the HQLA book remains more than sufficient to maintain adequate liquidity levels. To fund this balance sheet growth, liabilities grew 10% year on year and similarly were flat on a sequential basis. In order to maintain the headline loan-to-deposit ratio, the growth was mainly driven by 11% year-over-year customer deposit growth and more specifically from interest-bearing deposits. We will dive deeper into the deposit data in the next few slides.

Total equities declined 2% year over year but did grow 2% for the quarter and the changes here were driven by internally generated capital via earnings offset by the dividend and mark-to-market on debt securities as well as the cash flow hedges. For greater context, the debt securities were marked 0.8 billion riyals lower whereas cash flow hedges were marked lower by 1.1 billion riyals. This component of equity will be gradually recycled into the income statement as time passes and until maturity, where it will be more than compensated for by higher interest margins. Variations in other assets and other liabilities were caused by changes in the positive and negative fair value of derivatives and payments of dividends. And then variations in other balance sheet positions during the quarter were driven by short-term liquidity management. [Unclear] government grant deposits dropped to 3.5 billion in 2022 due to maturities and short-term interbank funding dropped by 4.2 billion year to date.

On the next few slides we will be unpacking some of these major balance sheet items, starting with the largest portion of assets, loans and advances, on page eight, which of course over the course of the full year grew a healthy 8% year on year, albeit with a smaller 500 million riyal growth in Q4 from commercial lending. Commercial loan growth was 7% for the year and picked up again slightly in the fourth quarter by 500 million riyals even after repayments and early settlements. The bulk of the full-year increase is highlighted in the top middle chart with contracting, mining, and commerce reflecting increases offset by decline in the manufacturing sector as the banks start to diversify and target certain segments. Competition remains strong and we are avoiding price wars that challenge margins and overall return on capital, but we remain vigilant in protecting core relationships while balancing portfolio growth at adequate margins. The pipeline for commercial lending still presents attractive prospects for growth, especially with strategic projects now picking up steam, and our aim is to bottle up as much as we can effectively and efficiently given the healthy liquidity and capital position, which we will dive into later.

On the consumer side, loan growth was 8% and flat for the quarter, indicating slower trend growth. Mortgage lending, where competition remains strong, grew 10% year over year and 1.5% for the quarter, continuing to deliver broad, stable growth over the past year. We're very proud of the auto loan growth, registering a 24% growth year over year, this especially in the face of a declining market. Saudi Fransi Leasing captured a significant chunk of the non-bank FI market share for the year. Lastly, personal loans, another area with increased competition, was a touch lower by riyals 200 million for the quarter.

On slide nine you'll find that in order to fund the majority of this balance sheet growth, the bank achieved strong growth in deposits, reflecting the appetite and ability to demonstrably grow the deposit base. Total deposits grew 11% year over year and were relatively flat for the quarter, driven by more limited funding needs in the quarter and by tapping longer-term alternatives and wholesale funding. Deposit growth for the full year was mainly driven by interest-bearing deposits, growing 31%, whereas we are very happy with non-interest-bearing deposits showing a growth of 1% in a declining market. For the quarter more specifically, interest-bearing deposits grew 11% whereas non-interest-bearing deposits were lower by 8%, stemming from transient corporate deposits in addition to increased competition in retail. All in all and although non-interest-bearing deposits increased for the full year, due to the remaining funding increases in interest-bearing deposits, the proportion of non-interest-bearing deposits out of total deposits were at 61% compared to 67% last year.

Together, the balance sheet items have provided an opportunity for the bank to grow net income, and this is on slide ten, growing net income by 4% year over year to reach 3.5 billion riyals from operating income growth. The main drivers included net interest income, up 13% year over year and 27% over the previous quarter last year, accentuated by NIM expansion of four basis points for the full year and 46 basis points over the same quarter last year. Non-interest income was up 11% year over year and 50% versus Q4 last year and 27% versus the previous quarter, mainly due to higher FX income. Operating expenses were 8% higher year on year and 7% sequentially from higher employee-related and G&A expenses. Impairments were at 1.36 billion riyals, 61% higher than 2021 and 37% higher on a sequential basis, driven by isolated pockets of stage migration in the commercial book. It's also very important to highlight that the underlying business remains solid, especially with interest rate tailwinds providing support, and this is evidenced by the record quarter for pre-impairment operating income.

As a result of all this, the impact of the ratios included on the table below… You'll see, from a business margin perspective, the NIM improved from 302 basis points in 2021 to 306 basis points, again up four basis points for the full year, and we will delve deeper into the NIM within the next few slides. On operational efficiency, both cost over average interest-earning assets as well as cost to income strongly improved thanks to economies of scale from loan growth and better interest margins leading to higher earnings. Finally, on profitability, return on average equity improved thanks to higher profits driven by loan growth, improved margins, higher capital utilization driven by the loan growth, and by lower equity driven by negative MTM valuations in OCI.

On the next slide we will unpack the main driver in operating income. This is slide 11 and one of the topics that gets the most interest, the net interest income, which witnessed a growth of 13% as earning asset growth and NIM expansion both played positively. Net interest income was at 6.4 billion riyals, up 13% year on year, shown in the graph at the top of the page, with the main drivers being average interest-earning asset growth of 11% while the composition of interest-earning assets were relatively stable and an average interest-bearing liabilities growth of 13% year on year with an increase in the share of interest-bearing deposits from 30% to 33%. The bottom-left graph shows that the year saw a real dramatic rise in cyber, following the US Federal Reserve and other central banks globally in an attempt to impede inflation.

At the same time, this chart paints the picture on NIM since the start of 2022. We have seen quarterly NIM recovering from 284 basis points in the fourth quarter of 21 to 286 basis points in the first quarter, 293 basis points in the second quarter, 316 in the third quarter, and settling at 330 basis points in the fourth quarter with the monthly NIM continuing to improve as market rate increases throughout the year continue to reprice our book. In the middle chart you will note that the year-to-date NIM developed more gradually and was at 306 basis points. The NIM waterfall shows that the positive impact on the bank's NIM of improved yields on loans was, year-on-year, more than compensated for from the negative impact of increased cost of funding on customer deposits and declining spreads on cash flow hedges.

This brings us to one of the largest performance drivers given the bank's overall structure and interest rate standing and that's on slide 12. That is the positive positioning for a rising rate environment. The bank's interest rate sensitivity is included on the annual disclosures in our financial statement and concludes a ten-basis-point positive sensitivity for a 100-basis-point rise in rates on the assumption of a stable balance sheet structure. The bank's interest rate sensitivity reflects the net long position in variable rate assets caused by a balance sheet which is skewed towards a corporate type of balance sheet with a relatively high proportion of variable rate loans in combination with a relatively high proportion of fixed rate liabilities or non-interest-bearing deposits.

Traditionally the bank has mitigated the interest rate risk exposure and resulting earnings volatility through cash flow hedges. The size of the cash flow hedge portfolio is driven by the development of the bank's balance sheet structure, for example, the lending of fixed rate retail loans in addition to the bank's interest rate risk appetite and structural market trends. In the year, the cash flow hedge portfolio decreased by 7%. The NIM contribution of the cash flow hedges decreased to a positive five basis points, caused both by a lower notional amount but also a lower accrual spread between the received fixed and paid float interest rates. The contribution can be negative. However, this is more than compensated for by higher lending yields in the P&L. It's also important to note that the cash flow hedge book has a relatively low average maturity of around two to 2.5 years. As such, with our current balance sheet structure, we will maintain a portfolio of cash flow hedges to manage our interest rate risk position and we'll closely follow the market to assess opportunities to change the size of this book.

Moving on to zoom in on non-interest income, this is on slide 13, where we witnessed an 11% year-over-year growth and a 27% growth on a sequential basis. Non-interest income grew as improved foreign exchange and trading income added to a slightly increasing fee commission income. FX income was up 41% year over year in both corporate and retail segments on a low base still impacted by COVID and driven by the generally higher economic activity and margins. Trading income was up 17% whereas net fee and commission income increased 1% year over year as trade finance and other fees offset lower brokerage and asset management income.

The final element of the net operating income is on the expense, and here we jump to slide 14, which had a growth of 8% year over year or 7% on a sequential basis due to employee-related expenses and non-recurring expenses. Employee-related expenses were up on higher FCEs from higher utilization of the FCE budget. Other G&A expenses were also higher, partly driven by the bank's increasing business activities, BAU, and also partly by some non-recurring expenses such as operational risk and seasonal expenses. The bank continues to enforce a disciplined cost control system and continuously works on process improvements and automation, which enable the bank to absorb higher business volumes without addition of staff. Next to doing such investments in transformation, we have also identified various levers to control cost such as the zero-based budgeting process, the zero-based spend discipline, and the strong procurement process to reduce unnecessary spend. Again this has resulted in a better cost-to-income ratio, improving 120 basis points to 33.1% from 34.3% in 2021.

On the next slide, slide 15, the credit quality of the bank's portfolio did deteriorate during the quarter, mainly driven by an isolated pocket of migration in the corporate book. Non-performing loans were up 16% year to date while the non-performing loan ratio was at, year to date, 2.54%, relatively stable on 8% loan growth and an 8% rise in NPLs. Impairments were, year to date, 1.36 billion, up 51% year over year, driven by lower impairments in 2021 and Q4 2021 in particular in addition to credit stage migration and the related increase of coverage of some stage-two and stage-three loans in the commercial book. The resulting cost of risk was therefore 85 basis points year to date, up 18 basis points year on year. The NPL coverage ratio fell 2.8% to 119.9 but was up 3.1% in the fourth quarter. Stage-three NPL coverage was up 4.6% to 65%. Stage-two coverage was up 1.8% to 14.8%. Finally, stage-one coverage decreased on better economic conditions from 0.39% to 0.29%. The year-to-date trend in credit metrics was significantly impacted by one corporate legacy exposure that migrated to stage two in the second quarter of 2022 and to stage three in the third quarter of 2022. Underlying credit quality excluding this exposure improved year on year. For example, excluding this exposure, our cost of risk would have been in the 40-basis-point range.

This brings us to the section which, from a macro or system perspective, gets a lot of publicity these days. That is on slide 16, the liquidity, funding, and capital levels. For BSF specifically, the liquidity position is comfortable while capital ratios declined due to RWA growth, dividends, and the mark-to-market revaluation of debt securities. One example highlighting the liquidity position is the LCR, which improved 17% year to date to 196%, mainly thanks to lower cash outflows driven by a higher proportion of corporate deposits but also due to alternative funding and wholesale funding. NSFR also improved 4% year to date to 122%, mainly due to diversifying funding and longer-term wholesale prices. The headline LDR ratio improved 4% to 101% and our [unclear] weighted LDR improved 3.6% to 83.3%, supported by an increase in longer-tenure deposits with higher weights.

To ensure we have, going forward, sufficient stable funding to fund our lending growth, the bank intends to diversify its funding sources. This was evidenced by the establishment of the $4 billion [unclear] programme in addition to other potential issuance programmes and continuing to look at the syndicated and club loan markets. Total capital was stable at 42.8 billion as net retained income generation was offset by dividends, the negative mark-to-market on debt, and cash flow hedges. RWA has increased 6% during the year to 214.7 billion, mainly driven by loan growth. The capital adequacy ratio is at 19.92% and the tier-one ratio was at 18.9%, both moderating since the start of the year, again on lending growth and resulting RWA growth. Our capital position is still comfortably within risk appetite with required capital gradually increasing while we grow and therefore reduce excess available capital and improving ROE while noting that, based on our ICAP process with the regulator, we will have adequate capital for the foreseeable future.

Finally, this brings us to the guidance section. This is on slide 17. This is guidance for the full year where we still see a healthy outlook for 2023, especially given the NIM tailwinds and expected loan growth. On loan growth specifically we expect high single digits with the balance expected across both consumer and commercial lending. For NIM it is expected to be in the range of 3.3% to 3.5% or an increase of 24 to 44 basis points over the course of the full year as the majority of the asset book reprices. On cost of risk, we expect to settle into the 70 to 80-basis-point range, an improvement from the current year. On cost to income, we are also expected to improve as we guide for below 32%, driven mainly from higher income. Return on equity is another area where we are guiding for improvement, starting from 9% into a range of 11% to 13%, driven by the majority of the items already highlighted on this page. Lastly, the CET1 ratio is expected to improve to a range of 17% to 18% as capital generation via earnings is supplemented with partial reversal of mark-to-market.

With that, we have concluded our section on the earnings presentation and we can move to Q&A.

Operator Thank you. If you would like to ask a question, then please dial in to the conference call and press star followed by one on your telephone keypad. If you change your mind, please press star followed by two. When preparing to ask your question, please ensure that your phone is unmuted locally. As a reminder, that is star followed by one to ask a question. We will pause for a moment to allow questions to be registered.

Our first question comes from Ashwath P T from Goldman Sachs. Ashwath, please go ahead.

Ashwath P T Hi. Thanks for taking my questions. I have three questions. The first being, with more than half of 1Q behind us, can you talk to us about some of the trends you've seen since 4Q in terms of the term deposit pricing as well as the deals? The second question is if you could kindly provide a mark-to-market on your sensitivity as it stands now and when you expect margins to peak. The third question is around project financing pipeline and how that looks currently and when you would expect to see the passthrough of project spending to loan growth. Thank you.

Ramzy Darwish So just so we can confirm… Hi again, Ashwath. Thank you for the question. So the first question is on the trends in time deposit pricing. Is that correct?

Ashwath P T Yes. That's right.

Ramzy Darwish And the second is on the mark-to-market sensitivity for the interest rates and when we would view margins peaking. And the third is on project finance. Anything specific to project finance? Sorry. We didn't catch that.

Ashwath P T Yes. It's specifically when you'd see the passthrough of the spending from the project financing growth that translates into loan growth. I mean from the pipeline.

Zuhair Mardam Hi. This is Zuhair. So with regards to trending prices on time deposits, obviously, with a higher interest rate environment, we expect that our cost of funding would increase. We have witnessed a slight migration from some of our current accounts into time deposits in spite of having a higher [unclear] base throughout the year. I would expect this to continue trending higher given the higher interest rate environment and our expected credit growth. Moreover, with our plans on wholesale funding, we expect that the wholesale funding will take a little toll on our cost of funding overall throughout 2023.

Ramzy Darwish And on the second question in terms of mark-to-market sensitivity, we've highlighted in the presentation that the mark-to-market for the cash flow hedges and the fixed income position is roughly around 2 billion riyals. The duration again is fairly low, so we would expect a lot of this to reverse over the course of the duration of the portfolio, which for the cash flow hedges is two to 2.5 years. In terms of the peaking of margins, we would expect that to happen sometime between the second and third quarter of this year purely based on the forecast interest rate that we see in the market now.

Bader Alsalloom On the project financing side, when it comes to the passthrough of the recent activities, of course, when it comes to the mega and giga projects we are already seeing that passthrough come through. A major driver when it came to our loan growth in 2022 was on the back of the giga and mega projects, either from a project financing perspective or from a [unclear] contracting or subcontracting perspective. When it comes to, of course, our pipeline going forward, we are seeing also the project finance or the giga projects actually take a big portion of our pipeline. Currently, 20% to 25% of our pipeline for 2023 is coming on the back of project finance.

Ashwath P T Thank you very much.

Operator As a reminder, to ask a question, please dial in to the conference call and press star followed by one on your telephone keypad.

Our next question comes from Shabbir Malik from EFG Hermes. Shafir, please go ahead.

Shabbir Malik Thank you. Hi. This is Shabbir Malik. I have a question, please, on your credit quality. Given that the economic environment in 2022 was quite robust, it was a bit of a surprise that provisioning was a bit elevated. I think you've mentioned that it was driven by a legacy client, but if I look at even your 2023 guidance, it looks quite conservative. So if you can please comment on that. I think you've mentioned that without this exceptional client, your cost of risk would have been around the 40-basis-point range. So some colour on 2023 cost of risk guidance, which I believe is about 70 to 80 basis points.

Sander Aardoom Yes. Hello. Thank you for the question. This is Sander here. So indeed, in the guidance we mentioned that our cost of risk will gradually normalize. We'll take, let's say, the first phase in the coming year. I would think that for a corporate bank headed through the cycle, risk costs are not really in the 40-basis-point area but probably more around the 60 basis points. So in that sense we see a gradual normalizing of our risk cost and making indeed a little bit of room in our provisioning for potential clients getting into trouble because of the higher rates. However, I have to stress that we don't see those signs at the moment at all. Also, that is the main reason for not going back in one go to 50 or 60 basis points but keeping in this range.

Shabbir Malik That is very helpful. Maybe if I can ask a follow-up question, on your loan growth outlook you have said high-single-digit loan growth and you have mentioned both consumer and commercial lending. I just wanted to understand, given the high interest rate environment, do you see any risks to this pipeline, especially on the corporate side, that some projects might get delayed maybe into 2024 or those projects could wait for maybe a lower interest rate environment? So, please, if you could highlight some of those points, please.

Bader Alsalloom Well, on the loan growth for 2023, it is expected to be somewhat dampened by the higher interest rates. Hence our guidance in the single-digit area. However, we are also seeing the roll-out or more traction when it comes to giga and mega projects, which are more working capital project finance in nature. We don't expect it… And of course, longer-tenured and mostly on a floating basis. So we don't expect that the higher interest rate environment will actually highly affect project finance projects going forward.

Shabbir Malik Thank you. Just a last question from my side. On the mortgage, there was a refinement of the subsidy recently. I don't know if you've gotten a chance to look at that. Is there anything to highlight with regards to that? Has there been anything that's maybe made the subsidy less attractive for potential borrowers?

Bader Alsalloom Well, more specifically for us, given that most of our mortgage book growth comes from non-REDF, when it comes to the changes to the subsidies, we expect it to be very minor when it comes to our mortgage book.

Shabbir Malik Great. Thank you very much.

Operator Thank you. Our next question comes from Rahul Bajaj from Citi. Rahul, please go ahead.

Rahul Bajaj Hi. Thanks for taking my questions. Two quick questions. One is clarification from the previous one. You mentioned non-REDF mortgages are the bulk of your mortgage portfolio. Can you please remind me what percentage of your loan book is REDF mortgages and what percentage is non-REDF mortgages, if you have that handy? The second question is on your NIM guidance of 3.3% to 3.5%. I just wanted to understand. What are you breaking it into in terms of interest rate trajectory into this guidance? How many rate hikes have you baked into this guidance and have you baked in any cut down the line into this guidance? Thank you.

Ramzy Darwish Thank you for that question. I think on the first one, for the split between REDF and non-REDF, it's something that's not necessarily public, that we can share, but it's something that we will be looking into maybe in future earnings calls. For the second question, in terms of the projections on interest rates, we obviously have to build around what is forecast in the market. So we utilize the Fed fund futures as the primary base curve and then we'll build scenarios, either higher or lower, beyond that. I can tell you that from our expectations we are not expecting a cut this year and that's based on historical precedence we've seen from the central banks. Very little pivots have happened from the US central bank. It's more going to be a pause that we are expecting. So with that, a lot of what is repriced… Sorry. A lot of what [inaudible] up until about the third quarter.

Rahul Bajaj Got it. Thank you.

Operator As a final reminder, to ask a question, please press star followed by one. Our next question comes from Aybek Islamov from HSBC. Aybek, please go ahead.

Aybek Islamov Yes. Thank you for the conference call. Three questions from me. The first one is, what underpins the NIM expansion guidance in 2023? Is it to do with hedges or repricing of the corporate loans? Which factors contribute how much in terms of the NIM expansion for the full year? That's the first question. The second question is on the non-REDF mortgage portfolio. Can you securitize that if you want to? Can you securitize it with a

Saudi refinancing company, for example? And thirdly, I'm just curious of your thoughts around corporate loan growth. Do you think it is going to be more capital-intensive from now compared with the past few years? If so, what does it mean for the asset-to-equity multiple that you can earn on your corporate loans?

Ramzy Darwish Thank you, Aybek. I'll maybe begin with the first question in terms of NIM expansion. In terms of the drivers there, we see it really coming mainly on the repricing of the asset book, namely the loans. Again, a lot of the impact we have seen from interest rates does take time to feed through the balance sheet fully. A lot of the cost implications happen fairly quickly given the shorter duration there. But on the loans, it does take typically between three to six months for that fully to feed through. Given the rate hikes we saw in the fourth quarter and even in the first quarter that we are expecting to see more of this year, they would feed in over the next three to six months beyond that date.

On the second question in terms of non-REDF securitization, I think for securitization overall we are not in a position right now to really look at that as an opportunity to generate capital or funding because we're really quite strong on both those fronts at this moment. So we would try, I think, to keep as much of that earning power on the balance sheet. It is something that we've looked at in the past and we will continue to look at more actively going forward.

On the final question on corporate loan growth, if you could just, sorry, give a bit more clarity to that.

Aybek Islamov Yes. So on corporate loan growth, do you expect it to be more capital-intensive, as in, it would consume more core tier-one ratio going forward compared to the past?

Ramzy Darwish So I think maybe the implication you are referring to is on Basel, the new Basel regulations that kick in this year. So there are changes across the board in mortgages but also in the corporate space, namely again on project finance, delineating between the operating project finance versus non-operating. Taken at a holistic level, we don't see any drastic changes on our capital utilization there. Taken at an even higher level for Basel 4 overall, we do view it as actually being positive for the bank. So it will create additional surplus capital that can be utilized.

Aybek Islamov Thank you. Just one follow-on question. If you see other banks actually securitizing and selling mortgages, would you be in the business of buying those mortgage-backed securities? Can you comment on that?

Ramzy Darwish I think we would have to look at every situation on a case-by-case basis. As of now, it's not something that we particularly have too much track record on, so we would have to do really a lengthy due diligence process to ensure that it's right for the bank in terms of returns and liquidity and right for the shareholders as well. But I would maybe caveat that, saying, we would be open to opportunities, but we will have to study them as and when they come by.

Aybek Islamov Understood. Thank you.

Operator As a reminder, to ask any further questions, please press star followed by one on your telephone keypad. Our next question comes from Farid Aliani from SNB Capital. Farid, please go ahead.

Farid Aliani Hi. Thank you for taking my question. I just have one quick one regarding your cost of risk guidance. Would you say that your guidance of 70 to 80 basis points is something that we can consider an over-the-cycle medium-term average cost of risk for the bank or would that number be a bit different from this one?

Sander Aardoom Yes. Thank you for the question. I'd like to repeat that for us, being a predominantly corporate bank [unclear] at this moment 80% loan portfolio in corporate. Through the cycle, our cost of risk will be more or less in the range of 60 to 70, so not in the 70 to 80, which will be our guidance for the coming year. [Unclear] risk also gradually normalize and [unclear] to the 60 to 70 bips.

Farid Aliani Sure. thank you.

Operator Thank you. As a final reminder, to ask a question, please press star followed by one on your telephone keypad. We have no further questions being… We have a follow-up question just registered from Shabbir Malik from EFG Hermes. Shabbir, please go ahead.

Shabbir Malik Yes. Thank you. Can you please comment on the accounting or the reclassification particularly on the fee income side and on the write-off of loans, please? You've shown a schedule where you've shown there have been some changes in the processing fees on lending and also you've moved recoveries of write-off of loans from other operating income to provisioning. Is that driven by a new accounting standard or are you trying to align yourself more with the sector?

Ramzy Darwish So applying the accounting standards, I think, fully and completely is something other banks have done a couple of years ago. Some are in the process of doing it. We're finally able to get the system and model to account for this accurately. So this is why we adjusted it. It was in line with what IFRS is recommending. Going forward, it will continue as such. We have restated the past just for that comparison purpose as well.

Shabbir Malik Great. Thank you.

Ramzy Darwish Thank you.

Operator Thank you. We have no further questions being registered at this time, so this does conclude today's call. Thank you for joining us. You may now disconnect your lines.