



Q3 2023 Results webcast and call transcript

Wednesday, 8th November 2023

Introduction

Sirish Patel

Head of Investor Relations, SAB

Introduction

Hello and welcome to our results call for the third quarter and the first nine months of 2023. As mentioned by Sarah, we have our CEO and Managing Director, Tony Cripps, and our CFO, Lama Ghazzaoui, with us on the call today. As usual, Tony will kick off the call summarising the key updates for the quarter, followed by Lama who will provide the summary of our financial performance. We aim for the presentation to be circa 15 minutes, and then we shall open up the floor for Q&A, which will take place over the phones. Slides are available to download from our website and our webcast.

I'll now hand you over to Tony to start the presentation.

Overall Performance

Tony Cripps

Managing Director & CEO, SAB

Great. Thanks, Sirish, and welcome to the call everyone.

Going straight into it. We had a good quarter and positive growth trends that we saw in the first half largely continued in the third quarter and some have even accelerated, which was pleasing. The business is shifting. We are in a strong growth trajectory. And what's pleasing is that our retail and our corporate business are now growing very strongly. So the mortgage market, which has been key to retail asset growth, was something we invested in a couple of years ago post the merger, and what we saw this year is an acceleration of that investment capacity, and it's ongoing. We achieved 10% origination market share during the year so far and 13% alone in the third quarter. Going back, this compares to the starting point of the strategy when we were just at 2.5% back in 2021. So that's pleasing.

On the SME digital-led strategy, we're starting to make significant inroads now with automation. We're achieving new client growth, which is quadruple the growth we saw last year. It's a small base, but it's growing quickly. Our work with some of the headline vision 2030 projects, the giga projects, continues at pace and some key awards on NEOM-related activities and drawdowns on some of our tourism-related projects have increased. This includes deals with some of the key project sponsors, but also our corporate clients, the large corporates and MNCs that will drive these projects and programmes going forward.

And this translates into our numbers. Lama will get into the detail, but year-to-date performance on net special commission income, revenue and net income growth exceeded market levels, with NSCI growth of 49%, revenue growth of 39% and net income growth of 43%. We generated SAR9.5 billion of revenue for the first nine months of the year, which is close to the entire period of last year. Third quarter revenue and NSCI were at record level for

the bank. Costs and impairments remained within planned levels, and we grew our quarterly ROTE further to 16%, resulting in a ROTE for the first nine months of the year of 15.2%. Two years ago, again, we were only achieving half these levels. So it's a pleasing set of numbers.

On the balance sheet, lending accelerated with 6% quarter-on-quarter growth, bringing the year-to-date growth numbers to 15%, again exceeding market levels. Our corporate book grew 16% and our retail book grew 11% year-to-date. Off-balance sheet, our trade-related balances grew 22%. We continue to maintain our number one position, and this has given us a boost of fee income during the quarter. But it also emphasises the growing value in the relationship with HSBC and capturing cross-border flows.

I'll leave it to Lama to take you through the details of the financials, but I wanted to add some comments on the current rate environment and outlook.

SAIBOR remained at the 6.3% mark and the outlook for benchmark rates is, by consensus, higher for longer, although that does shift virtually on a weekly basis. And the market has again softened some of its expectations for 2024 in the US. And rate cuts are now built into the latter part of the fourth quarter. We haven't seen a weakening in our own loan demand, which is obvious through the numbers. And so, the Saudi economy remains very resilient, with the non-oil sector particularly strong. There has been a migration for the industry, of course, to time deposits from current accounts from NIBS, which will and has supported the rising cost of funding for the industry and for us as well. And we expect logically this trend to continue if rates remain high at these levels. And all things being equal, there is pressure still going into 2024. However, the strength of our corporate franchise means we still enjoy a better than markets NIBS ratio, which ended the quarter at just under 60% compared with the market ratio of the mid-50s. So our NIM came down marginally on the third quarter given the NIBS movement. But we more than offset this from higher loan growth in the third quarter, which will be the focus in the next stage of our strategy in order to maintain ROTE levels going forward.

So our strategy remains on track. We're pleased with the numbers and the bank's in a position to continue executing against its strategy in its areas of strength. So with that, over to Lama. Thank you.

Financial Results

Lama Ghazzaoui

Chief Financial Officer, SAB

Thank you, Tony. We start at slide three. On a year-to-date basis, we generated SAR6.1 billion of net income before Zakat and income tax, which was up 45%, or SAR1.9 billion on the first nine months of 2022. This was driven by higher revenue, both increased NSCI and higher non-funds income. These factors were partly offset by higher impairments and higher operating expenses, although these are still both in line with our plan, and, again, translates into solid cost of risk and cost efficiency ratios. The year-on-year movement in net income before Zakat and income tax can be seen in the bottom left chart. Very pleasing first nine months of the year, and, as Tony mentioned, we are leading the market on year-to-date growth on NSCI revenue and net income.

Cost efficiency remained at 32% for the nine months of the year as a result of the strong revenue performance, together with a disciplined approach on costs, which are, again, in line with the plan. Cost of risk of 34 basis points remains within our expected range. The asset quality remains strong, and our NPL ratio, excluding POCI, stand at 1.8%, and there are no indicators of any additional stress in the portfolio.

On a quarterly basis, we generated SAR2.1 billion of net income before Zakat and income tax in the third quarter. This was up 22% on the third quarter of last year, mainly driven by higher net special commission income from both the shift in rates and also the higher average volumes. Compared with the second quarter of this year, net income before Zakat and income tax was up 7%, and this is mainly from higher fee and exchange income, together with higher NSCI, where volume growth more than offset the marginal fall in the quarterly NIM. Our fee income was up 30% on the trailing quarter, largely driven by an increase in loan origination fees and increased trade-related income. Exchange income was also up 23% from increased customer activity, and also reflect some seasonality. Third quarter NSCI and revenue were both records for the bank, as we mentioned earlier.

Third quarter NIM contracted marginally, as our cost of funds increased. The excellent growth in loans we have seen has largely been funded through interest-bearing deposits. This and the higher-rate environment, which has caused greater time deposit adoption and therefore a fall in our NIBS ratio, has also caused the increase in our cost of funds. Although, I would add that we still have one of the lowest, if probably not the lowest cost of funds in the market, we do expect this trend to continue, given the higher for longer rate environment, but we continue to be pleased that we can grow NSCI through the loan volume growth.

During the quarter, our spot and average NIBS ratio fell to just below 60%. From the central bank data published last week for September, banking sector NIBS ratio were at the mid-50s level, and so we continue to remain well above the sector. As per our comments earlier last quarter, much of the banking sector has experienced a drop in NIBS ratios as customers look for a higher return on their deposits given where the SAIBOR levels currently are; and we continue to support our customers where appropriate and dependent on the relationship with certain requests.

On ROTE for the quarter, it stood at 16% and 15.2% for the nine months. We remain very pleased with the build-up of returns since the launch of our strategy.

Moving on to the balance sheet, loans were up 6% in the quarter and 15% year-to-date, driven by the strong performance across both businesses, corporate and retail, where we are now outgrowing the market. Customer deposits were up 6% year-to-date and our simple LDR ratio was 93% and regulatory-weighted LDR ratio stood at 79%, and we still have sufficient capacity, of course, to grow and support our customers.

Lastly, on capital, our CET1 closed at 16.3% as growth in loans accelerated. And as you will have seen, we have raised SAR4 billion of additional tier 1 through a private placement. This will add around 1.4 percentage points to our tier 1 ratio, which enables us to build on the next stage of our strategy with sufficient levels of capital.

On to slide four, the left-hand chart shows the usual quarterly revenue build by segment. Corporate and Institutional revenues grew to SAR1.8 billion for the quarter and Wealth and Personal Banking revenues grew to SAR0.9 billion, as the business continues to show strong

momentum in growing its asset books. Treasury revenues remain robust at SAR0.5 billion for the quarter.

The top right-hand chart shows our NSCI build, where the third quarter grew to SAR2.6 billion. Gross yields improved in the quarter to 5.1%; but this was more than offset by a steeper increase in cost of funds which led to the marginal fall in quarterly NIM, although remains at 3% on a rounded basis. This can be seen in the bottom right-hand chart, and as often the case, cost of funds do tend to rise faster than on the asset side. October results have seen a further improvement in yield in line with the normal lag the business usually experiences, but year-to-date NIM stands at 3%.

As a reminder, our treasury team have taken proactive steps over the last 12 months, utilising our investment book to lock in current yields for a greater length of time as a defensive manoeuvre against the expected fall in rates to a more normalised level. Historically, SAB has seen significant drops in revenue in falling rate environments and the steps the team have taken have reduced our sensitivity to rates for the medium term and protects our income statement, and using the investment book also means we have the flexibility in the future with future rate cycles. This does not mean a permanent shift in the balance sheet structure.

On to expenses, costs for the first nine months of the year increased 18% year-on-year, and the third quarter costs were up 5% on a trailing quarter from higher amortisation costs, following the capitalisation of some of our investment in digital solutions, and some spend on our ESG initiatives; and these were partly offset by lower staff-related costs, although this is also related to timing. Year-on-year movement largely reflects the continuation of our investment phase, mostly people-related but also including digital investment spend, whilst also absorbing 100% of the SAB invest business – our 100%-owned subsidiary, which was formerly known as Alawwal Invest. Cost efficiency for the nine months was 32%, which is significantly better than the 37.8% for the full year of '22.

On to credit quality, our cost of risk for the quarter remained stable at 27 basis points and 34 basis points for the nine months. Our NPL ratio fell to 1.8% on the SAB-originated basis, which is closer to the recent Saudi banking sector averages and also a significant improvement on the ratio directly after the merger. Asset quality remains strong and there are no indicators of any stress in the portfolio.

Again, it's good to take stock of the performance here. Three years ago, our NPL ratio on SAB-originated loans following the first full year after the conclusion of the merger, accounting stood at 3.7%. We've brought this down through the diligent focus from our risk and special assets management team, who have extracted significant value from the impaired portfolio. NPLs in riyal terms have also fallen at the same time as growing total assets.

Our coverage ratio for the quarter improved to 153% and our approach to risk remains prudent, especially given the current rate and the macroeconomic environment.

On to customer lending and off-balance sheet, on slide seven, our gross loans have grown another 6% this quarter, taking us to over 15% year-to-date. Growth accelerated in our corporate and institutional business, and our retail business also continues its strong momentum since the launch of the strategy. Corporate originations accelerated to SAR27 billion in the third quarter, driving a net growth of SAR10.2 billion, which translates to 7% growth in the quarter, which is faster than the sector, based on the September central bank

data. This has come across a number of sectors, including construction, real estate, aviation, utilities. Of course, some of it is connected to the Vision 2030 giga project activities.

We've added a chart to show the strong growth we've also seen in off-balance sheet assets. During the year these balances have grown 22% to SAR116 billion. These balances include trade letters-of-credit, acceptances and guarantees; and much of this is captured due to our close ties with HSBC and the volume of MNCs we attract via this relationship. Capturing these flows are a key part of our strategy and a major differentiator for SAB, and these relationships will also bring in future deposit flows and potential lending opportunities.

Retail growth of SAR2.5 billion translates to 5% quarter-on-quarter growth and 14% year-on-year growth. So pleasing to see the continued growth in our retail franchise, following the steady investment we have made to this business since the launch of the strategy. The overall retail portfolio now stands at SAR52 billion with a mortgage portfolio, which has been a key driver of the retail performance, now standing at SAR26 billion. Total market mortgage originations increased in the quarter, and our market share of originations also increased further to just under 13%, bringing year-to-date origination market share to 10%. It demonstrates our continued build-up of market share, of course, and our mortgage book has grown over 18% during 2023 – another fantastic achievement.

Our cards business continues to do well, and we remain the number one with respect to spend per card, and the overall business remains a highly profitable business.

On to slide eight. Our deposit base, of course, remains strong, closing the period with SAR228 billion of customer deposits. Regulatory LDR at 79%, as mentioned. And our spot NIBS, or CASA ratio, did fall during the quarter, but we still have an edge compared with the market, and we have the liquidity to support the customers' aspirations.

Moving on to slide nine for returns and capital, our ROTE for the first nine months was 15.2%. Excluding zakat and tax provisions relating to prior years, our underlying ROTE was actually 15.5%. The top left-hand chart shows the progress we've made over the last few years on this metric, and the investments we're making will also be accretive in the long run. Clearly the outlook on rates will influence this, but with the steps, we've taken over the last 12 months to neutralise ourselves from the sensitivity should mean that we can build on these levels of returns.

We closed the quarter with a CET ratio of – a CET1 ratio of 16.3% and a total capital ratio of 18.4%. As I said, we've raised the SAR4 billion additional tier 1 through the private placement. We concluded the transaction last month on a floating rate basis of three months SIBOR plus 125 basis points. The deal was run in partnership with HSBC and concluded swiftly with very strong demand. This, as I said, will add around 1.4 percentage points to our ratio and will enable us to support our future plans.

Finally, a few words of conclusion before we move to Q&A. Our plan remains on track. We continue to demonstrate delivery of strong financials from asset quality metrics to revenue generation to loan growth. Our loan growth has primarily been funded through interest-bearing deposits, which has resulted in a higher cost of funds during the quarter. But overall, returns are growing with asset growth more than offsetting cost of fund growth.

And with that, we can move to guidance for 2023. Loan growth performance has been very strong, and our pipeline remains strong. Q4 can tend to be softer than the start of the year, and we are expecting some planned repayments. Despite this, we would expect to grow the portfolio from Q3 levels, but potentially not at the rate we've experienced so far this year. Therefore, we would upgrade our guidance to the mid-teens level.

For NIM, given the trends we've witnessed and our expectations on ongoing customer behaviour with NIBS and time deposits, we marginally downgrade our NIM 2023 full-year guidance to a range between 2.95% and 3.05%. Hitting the midpoint of this guidance would still be a 54 basis points improvement on NIM year-on-year, which is market-leading. And now, given the steps we've taken to neutralise our balance sheet from the higher sensitivity levels we've historically had, we would expect that in the next part of the rate cycle we will be less impacted compared to the previous cycles.

Cost efficiency targets of 32-33% remain, and we are confident of hitting this range. No changes to the cost of risk guidance, as we're not witnessing any notable incremental stress on the portfolio. And finally, no changes on our ROTE guidance, which remains at the mid-teens level.

This concludes the presentation. Operator, we can start Q&A.

Q&A

Operator: Thank you. If you would like to ask a question, you'll need to press star one and one on your telephone and wait for your name to be announced. And to withdraw your question, you can press star one and one again. Thank you. We'll now take our first question. Please stand by. This is from the line of Waleed Mohsin Goldman Sachs. Please go ahead.

Waleed Mohsin (Goldman Sachs): Yes, thank you much. Good evening and thank you for the presentation and a good set of results. Three questions please, from my side. Firstly, starting on your non-interest income. So there's been some volatility in the fee income and the exchange income line during the year. And we've seen a nice pickup during the third quarter, which is in tandem with the pickup in trade assets. So I wanted to understand, if you could please elaborate on this a little bit, what drove the movements during the year and if the pickup during the third quarter is indeed related to the pickup in trade assets, and what do you deem as the recurring run-rate on fee and exchange income? So that's the first question.

Second, I wanted to understand the funding strategy. You did a SAR4 billion tier 1 riyal issuance. I want to understand why a riyal AT1 issuance, especially given your capital position, and why not a senior unsecured issuance, perhaps even in dollars. So your thoughts on that would be very helpful.

Third and final question, on net interest margin, I want to understand the guidance a little bit better. You've already delivered 3.04% for nine months, and your guidance for the full year, 2.95-3.05%, implies a very wide range for the fourth quarter. I mean, if I just look at that range, it implies something between 2.7-3.1% for the fourth quarter. So I just want to understand the reason for this wide range, especially given that you've already delivered 3.04% and if you are missing something. And then just link to this, if you could remind us of the latest interest rate sensitivity post this quarter. Thank you.

Lama Ghazzaoui: Hi Waleed. So, on your first question for NII in Q3, our fee income improved quarter-on-quarter from higher loan origination fees. Of course, given the level of originations that we've reached in the third quarter, trade-related activities also were very robust, which also drove some of the increase. Don't forget, 50% of our fees come from the trade business. And our FX activities in the quarter were also high. Part of it is seasonal impact, of course, because of summer and spend. The Q4 NFI, we don't expect it to be as Q3, again, given the seasonality effect, but it won't be much lower. I would take the average of the first three quarters, maybe to project the fourth quarter.

On the second question, on our AT1 issuance, why it was not senior unsecured? Part of the planning was to support the capital base, to support the future plans and the pipeline, etc. We analysed all the options available and AT1 private placements at these rates was selected. So it really ticked all the boxes, especially from capital and funding plans growth.

Tony Cripps: The other factor, Waleed, was we wanted to go to the market with a floating rate issue, which was a first. And that's obviously because of a view we have in-house of interest rates peaking. And it was highly successful. So that turned out to be a very good strategy as interest rates for our funding costs will drop in relate to that issue.

Lama Ghazzaoui: The question on the latest sensitivity, interest rate sensitivity with all the activities and the investments that we've done so far to neutralise this sensitivity, we now stand at almost two to three basis points for every 25 basis points cut. So I think, by definition, this is very neutral.

Sorry, part of the third question was the wide range on NIM and what to expect for the fourth quarter. Look, Waleed, we directed, and we've been very transparent, and like all the other banks, definitely the pressure on NIBS because of the higher interest rates we've seen, and we will continue to see, especially that the rates are still at – especially SAIBOR is still at the same level. So we're funding the loan growth primarily from the interest-bearing deposits. If we wanted to keep NIM at certain guidance levels, we could dial down loan growth and not utilise time deposits. But we are offsetting this growth in the cost of funds through the bigger increase in the loan growth and hence the increase in the returns. But the consequence was some marginal pressure on the NIM. And this will continue into the fourth quarter.

Sirish Patel: And sorry, Waleed, just add to that. Yes, it's a wide-ish range, and as you rightly point out, our year-to-date NIM is at 3.0. So we would hope that would be at the top half of that range. But you guys can do the math and see the trends on the quarter and draw a line, and you'll probably get there.

Waleed Mohsin: Got it. Thank you much, Lama, Tony and Sirish. Very helpful. Thank you.

Lama Ghazzaoui: Thank you.

Operator: Thank you. We'll now take our next question. Please stand by. Next question is from the line of Gabor Kemeny from Autonomous. Please go ahead.

Gabor Kemeny (Autonomous Research): Yes, hi. A couple of questions from me, please. First one, you touched on the trade-off, practically, or relationship between loan growth and margin. It seems like you are growing volumes actually more quickly than you expected, but maybe the new business comes with a lower margin. So I guess my question is, at what stage do you expect this loan growth to translate into meaningful NII growth as well?

Another question would be on cost. It sounds like you are investing in the business as you prepare for yet further growth. Can you expand on this point a little bit? What are you actually spending on, and how you expect this to drive the business? Thank you.

Tony Cripps: On the first question, in terms of client margins, we're not seeing much change in client margins at the corporate level. Where the – I think the point you're making is the cost of funding is going up, so it's still business we want to do even with a higher cost of funding and client margins are maintained as competitive, but still very bankable and profitable.

On investing in the business, we invested heavily in our retail business. We invested in digitising our SME capability, our product range through our platforms. And so, we're in good shape from a client-facing point of view. We are upgrading our trade technology, which is market-leading today. But we're investing significantly \$35 million over the next 18 months in taking that to a brand-new technology stack, which will further enable us to maintain that position in the market. But what we talked about next year with a focus on protecting levels of revenue growth compared with prior years, from interest rate sensitivity, we – having made these investments, we now want to measure, and we do track the returns on these investments. And also, we want to focus more on the operational automation of the back-end, which allows us higher volume processing at lower incremental costs. So this is something the management team talked about in the middle of the year and described it as cost efficiency, for want of better description. But we're going to be spending in terms of percentage growth, lower levels, but it's going to be focused on that operational efficiency and risk automation.

Gabor Kemeny: Thank you, Tony. Just a small follow-up on your point on loan growth. So you expect long growth to drive incremental NII growth as well. Is that the right interpretation?

Tony Cripps: Yes, that is the right interpretation, yes.

Gabor Kemeny: Very clear. Thank you.

Tony Cripps: Thank you. Thanks for the question.

Operator: Thank you. We'll now take the next question. This is from the line of Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik (EFG Hermes Research): Hi, thank you very much. I have a question regarding 2024. Is there – would it be possible to give any preliminary expectations of at least credit growth for next year? Or at least maybe talk – maybe you can talk about what do you expect are going to be the main drivers on the corporate side and on the retail side.

Secondly, you let some of your investment book, or you ran down some of your investments this quarter. Is this because you're finding better, more profitable opportunities in lending, or do you have more comfort around rates environment? So, just want to hear your thoughts on that.

Thirdly, in terms of your AT1 Sukuk that you've raised this year, this quarter, could this be used to replace some of your time deposits? Is it more cost-effective to use AT1 relative to time deposits? So, could that benefit your cost of funds or cost of deposits? So those three questions, please. Thank you.

Lama Ghazzaoui: Hi Shabbir. So we will be able to give more light on 2024 guidance in our next results call. Look, we can talk about the fourth quarter, of course. We expect it to be

slightly softer and with some scheduled repayments occurring, but we are planning to build from the September level, of course; but I wouldn't annualise of course, the third quarter growth so far. But the pipeline still is healthy and hence, we upgraded the 2023 guidance. The main drivers, of course, would still be the Vision 2030 programmes, the giga projects, energy, etc.

On the investment book rundown, this is normal balance sheet management. This is business as usual for us. And on AT1 used to replace TDs, the main purpose of the AT1 was to strengthen the capital base, taking into consideration all the pipeline and the plant growth, capital was priority. We can still source funding from TDs, and we are very efficient in our cost of funding so far. As I said in my narrative, we're one of the lowest and most efficient. But AT1 was largely for capital purposes.

Shabbir Malik: Thank you for that. Maybe just one point on the fee income. You said there was a bit of seasonality. Is this like travel card spend, international card spend? Is that what drove, or at least part of the increase in fee income?

Lama Ghazzaoui: Yes, part of this is the summertime. There was a little bit of spill over from Q2 into Q3 because of Eid holiday which fell at the end of June. So yes, part of the seasonality also.

Shabbir Malik: Clear. Thank you.

Lama Ghazzaoui: Thanks.

Operator: Operator: Thank you. We'll now take our next question. This is from the line of Naresh Bilandani from JP Morgan. Please go ahead.

Naresh Bilandani (JP Morgan): Yes, hi, it's Naresh from JP Morgan. Thank you very much for the presentation. Tony, Lama, Sirish, appreciate it. Just three quick questions from my side. One is, we've seen – if I go back past four to six quarters, there's been a sizeable pickup in the overall LD ratio. I mean, this was something that was a key selling point for you, a low LD ratio. And clearly, I think because of the loan growth, it's kind of stretched a bit. I'm just keen to understand the level to which you are okay to stretch the headline LD ratio. I know the regulatory LD ratio is a focus for the regulator, but your willingness to stretch the headline LD, I'm just keen to get some thoughts on that. Also, in the same tone, if you can please confirm what your current quarter regulatory LD ratio is? That's one.

Second is, would you please be able to throw some light on the composition of the corporate credit growth that you've enjoyed in this quarter? Could you please tell us, in the past nine months, what sectors have been the key drivers and the portion that this was split between large corps, mid-corps and SMEs? That would be – some colour on that would be very helpful.

And third, the drop in investments, is this – I doubt this was a conscious sale. Please, Lama, correct me if I'm wrong; was this a result of maturities? Because the bond market valuations in the third quarter were pretty horrendous, so – and I'm not seeing any impact on come through on the P&L. So you probably didn't book a loss on a real sale of these investments. So, was this drop a result of maturities and you shifting that liquidity more towards loan growth? Just trying to get some sense on that. That would be appreciated. Thanks a lot.

Tony Cripps: Yeah. The answer to the last question is yes. It was just normal maturities. And essentially, we have higher loan growth, so we're happy with the outcome.

Lama Ghazzaoui: Hi, Naresh. Your first question on LDR. So, currently the headline LDR is 93%, still lower than most of the peers and the average. And when we speak about – and we expect that with the growth of the deposits, the denominator, even with the growth and the lending, we would continue to be in these ranges. And as you said, when we discussed with the regulator, with the regulatory LDR in the mid-70s, it reached 79 in Q3, still big room for growth there. So, again, similar levels planned.

Your second question on corporate credit growth and from which sector it came. I mean, it came from a wide range. We had construction, we had, of course, the giga projects, like the NEOM. We had energy sector, aviation, automotive, utilities. It was a wide range of growth. Anything else we missed, Naresh?

Naresh Bilandani: No, that's broadly it. Just to reconfirm, did you say your regulatory LD ratio is now high-70s? Did you say 79%? Is that the number you mentioned?

Lama Ghazzaoui: We closed – yeah, we closed Q3 at 79%. I mean, soon after that with our lumpy structure, it went back to the mid-70s. So we always range between the 74-76%. This is the range we've always observed recently.

Naresh Bilandani: Got it. And the composition of loan growth between large corps, mid-corps and SMEs, would you be able to provide some colour?

Lama Ghazzaoui: Largely – it was largely from large corporates.

Naresh Bilandani: Got it. All right, thank you very much, Tony and Lama. I appreciate it.

Tony Cripps: Thank you.

Operator: Operator: Thank you. We'll now take our next question. And this is from Edmond Christou from Bloomberg. Please go ahead.

Edmond Christou (Bloomberg): Hello. Good evening. Thanks for the call. Just want to follow up on the simple LDR. What will be your internal guidance for the headline LDR? I mean, now is 93%. Are you seeking an LDR below the 100%? So, keeping it between the 93-100% is probably where you are aiming for next year, given higher for longer interest rate?

And the other question, I think, just a question on the statutory LDR, if I hear correctly, is 79% in Q3, is that including the AT1 issuance? And again, what we hear from other bank is anything below the 85% it's acceptable by the central bank. So 85 is probably where things get a bit alerted. So is this – just try to understand where the internal guidance on the statutory plus the headline LDR which will be useful.

The second question is – it's a two-part question. So the AT1 was issued to help capital. You already have strong capital, but also, I understand that, correct me if I'm wrong, it also gives you room to go into fixed rate exposure and reduce the EVE exposure since you have built a lot of fixed rate exposure over the last two years for hedging purpose. So going forward, should we expect more cash deployment to happen into the fixed rates investment and the retail into 1H before you see a cut in the interest rate? And second part of this question is when I look at your loan origination on the corporate, if I'm correct, I don't have the data next to me now, I think you are this year SAR67 billion riyal of corporate loan origination. If you are saying that

this is being channelled into the giga project, etc., so I expect that a large portion of this to come not in riyal or current currency, it should be in dollar. So, how are you able to swap these currencies from the funding into the lending? Is it the central bank who is swapping the currency for you? Because you issue a local currency, so you will expect liquidity on the dollar should be in demand as well. Thank you.

Lama Ghazzaoui: Yes, thank you for the questions. I hope I don't miss anything. So the first question was on the simple LDR and the guidance internally. So yes, we are at 93%, and we don't expect that we will get closer to the 100, or we don't plan to come closer to the 100. So we should stay at similar levels, the mid-90s.

On your question on AT1, yes, we did strengthen the capital. Yes, we have good capital levels, but we don't look at the current capital levels only. We look at the future growth plans, and we factor those into consideration. We factor the regulatory requirements, etc. And hence we went for the AT1. It does give us room to grow in all businesses. So we are going to grow both businesses, retail and corporate. And we will – and we utilised the investment book as sort of a virtual hedge because it's largely fixed. Our EVE exposure and our EVE to tier 1 ratio is also very healthy. So this was not an issue for us.

On your question on loan origination, majority of the demand and the originations that we've had so far are in riyal. We've had some in dollars, but the majority is in riyal. And so we don't have issues with swaps, and we're very selective on the dollar side, and we do have the liquidity to cater for the dollar demand. Did I miss anything?

Edmond Christou: Thank you. So, I should expect more deployment into investment, fixed rate investment into 1H as well, right, and two lock in higher rate? Is this sensible to model it?

Lama Ghazzaoui: Okay. We are planning to grow both businesses, corporate and retail. And of course, we support the investment book. Corporate is largely floating, retail is fixed. And of course, the investment book that we've currently built, these levels we're comfortable with because it is acting, as I said, as a virtual hedge for the book when the interest rate environment changes. So we will grow both businesses. But if you remember, when we first kicked off our strategy in 2021, we said we wanted – the composition of our book back then was 77-23, 77% being corporate, and the target was 70-30 over a span of five years. We have moved into the 75-25 space, and we're growing both businesses at the same time. So we're not shifting the construct of the balance sheet largely.

Tony Cripps: And also the fixed rate book in treasury has grown from SAR55 billion up to SAR90 billion. So there has been a significant increase in our fixed rate investments in the investment portfolio.

Lama Ghazzaoui: Yes.

Edmond Christou: Okay, thank you. This is helpful. Just to follow up. The last one is going into next year as a thematic for the sector. I will assume that dollar lending will be required for this giga project because there will be a lot of import of material that could be hard to secure from the local market. Maybe we are not in this stage because it's still in the early stage of construction, but going forward, you will need the dollar liquidity. Is this a sensible assumption?

Tony Cripps: We don't see a challenge to dollar liquidity at this point. We always keep our mind open, and increasing access to the capital markets is also an improving position. So we're not worried about that at this point.

Edmond Christou: Okay. Thank you.

Tony Cripps: Thanks.

Operator: Thank you. Well, now take our next question. And this is from Mohammed Al-Rasheed from Ashmore. Please go ahead.

Mohammed Al-Rasheed (Ashmore Saudi): *Salaam alaikum.* Thank you for the presentation. I have three questions from my side. The first question is regarding using the investment book to reduce the NIM sensitivity. So, I have noticed that majority of the growth in your investment book was classified as fair value through other comprehensive income. So under the scenario of lower long-term yield, the value of this investment book will go up massively depending on the long-term yield. And this will theoretically reduce the interest income yield as a percentage. So, I just want to confirm this understanding and hear your view on this. And why did you decide to classify it as a fair value to other comprehensive income? Is it to keep the optionality of selling this investment book to recognise some capital gain or is it related to some regulatory metrics?

My second question is regarding your market risk. So I noticed a significant drop from the first quarter to around SAR15 billion, and this quarter just SAR1.3 billion. So if you can just help me and understand what are the drivers behind such a huge drop.

My final question is regarding the AT1 issuance. So I just want to know, is there a difference from a calculation point of view between a variable AT1 and a fixed AT1, or they're just basically the same? Thank you.

Tony Cripps: On the first question in the investment book. Yeah, you're right. The split between held to collect and available for sale was deliberate to give us the flexibility of realising P&L if we want to do that at some point, and that will depend on our view on the interest rate cycle. So that's correct, that assumption, we built the book up as a hedge. Specifically, it's more optimal than using derivatives, and we earn a yield on it, obviously.

Lama Ghazzaoui: On the market risk drop. After we've implemented the Basel reforms project, we continued our exercise on optimisation of the book, on finding any avenues of optimisation in the RWAs, especially relating to market risk. And hence, some of this drop is because of further, let's say, look through into the book. But there's also some normal business as usual drop into the market risk RWA.

Your question on AT1 difference, sorry, we didn't get that difference in classification?

Mohammed Al-Rasheed: So basically, you issued additional tier 1 with a variable rate. Usually, it's fixed. So I just want to understand from capital adequacy perspective calculation rate is the same?

Lama Ghazzaoui: No, it has no impact. Whether it's variable or fixed, it takes the same impact from a capital perspective.

Tony Cripps: And I said earlier it was again as part of the strategy of expecting interest rates to peak. So we wanted to issue floating.

Mohammed Al-Rasheed: Okay. And the follow-up on the first question. So, basically, your assets yield might be pressured from low – or your investment yield might be pressured in the case of lower long-term yield environment because the market value of these bonds will go up massively. So as a percentage, it might be negative for your NIM, right? Percentage-wise, not absolute.

Lama Ghazzaoui: This is if we sell, you mean?

Mohammed Al-Rasheed: No, if you keep it, the market value of these securities will go up. So while the absolute amount is constant, so as a yield or as a percentage, it will be lower, it will contract, so.

Lama Ghazzaoui: Yeah, but this has always been the strategy behind increasing the investment book. It is yes, we understand now – and we know that the yields on the investment book, they are fixed, and they are lower than the loan yields, but this is, we call it short-term pain for longer-term gain because of our position on the interest rate environment. 80% of the portfolio is now fixed.

Mohammed Al-Rasheed: Okay, that's helpful. Thank you for the clarification.

Operator: Thank you. Just as a reminder, if there are any further questions, you can press star one and one on your keypad. Please stand by while we check for any further questions. We'll now take our next question. This is from the line of Nida Iqbal from Morgan Stanley. Please go ahead.

Nida Iqbal (Morgan Stanley): Hi, thank you for the presentation. I have a few questions. Firstly, there was a jump in G&A in this quarter. Just wanted to get a sense of, is this going to be a sustainable run-rate going forward, or were there any one-offs involved in here?

Secondly, there's a draft law regarding a new corporate tax in Saudi Arabia, whereby there's expected to be a 20% corporate tax for companies with international strategic shareholders as well. Would that apply to SAB?

And then finally, assuming a higher-for-longer rate environment, asset quality so far has been resilient in Saudi Arabia. Do you see any risks as you look out to 2024? Thank you.

Tony Cripps: On the last question, of course, we're always looking at trends. So far, in the book, in '23, we haven't seen what models would historically predict in terms of sensitivity to higher rates, but we took provisions in Q4 '22 ahead of that. But we haven't seen those trends develop. I think, yes, it's logical, if you assume higher for longer, that there could be some more pressure in the credit markets from a global macro point of view. In Saudi specifically, we still remain, from a macro perspective, positive on both the corporate market and the retail market. The sensitivity has not slowed growth. Growth in retail mortgages, of course, is lower, but there's still positive growth, and our book being more skewed to an affluent, unsubsidised market is still very healthy. And on the corporate side, yes, there could be potentially higher risks if rates stay where they are for too long and the economy slows more than currently expected, but at the moment, the forecast of 4.5% non-oil sector growth, which is very healthy for the diversified lending that we're doing, the commitments to giga projects is strong, the oil price is in the 80s. So all of that leads to a generally positive macro-outlook for Saudi, at least for next year. If the assumption on higher for longer turns out to be a soft landing scenario, and US rate are cut in the second half of '24, well, all in all, that's not a negative for us now in

terms of our own outlook, and it would be a positive macro support for the economy in any case, and lead to volumes that were – healthy. So, yeah, we're looking at risks always, but we're not overly pessimistic on those risks at this point.

Lama Ghazzaoui: I'll take the other question. Hi Nida. Your question on G&A, we planned on a range of SAR1 billion per quarter of total cost, staff and non-staff. So we are still within the plan. On G&A specifically, the increase was from a couple of factors. One is we've always said that we are investing, and we're completing our investment in digitisation and all the strategy initiatives. So part of the increase is because of the kick off of the depreciation and the capitalisation of these completed projects. We have some ESG initiatives. For example, we've sponsored the climate week a while back, and there's the support for the live projects. So all in all, we're still within the planned ranges for G&A.

The question on corporate tax, we're already – because of the ownership of HSBC, we already implement corporate tax. So this should not be a further burden on SAB.

Nida Iqbal: Thank you very much.

Operator: Thank you. We'll now take our next question. This is from the line of Ryan Ayache from Jefferies. Please go ahead.

Ryan Ayache (Jefferies): Hi, good evening. Good afternoon. Thanks for the pres, this is Ryan from Jefferies. My question is as follows. In the early part of the presentation, CEO comments, there was a reference made to something that could be, I hope not misunderstood, as further shift towards growth, as interest rates have likely peaked. Second to which you've done an AT1 issuance now. So if you're going to continue to grow strongly, and you've raised a little bit of capital, how should we think about dividends for this year and going forward?

And then I'm also curious, generally speaking, are we doing a strategy update or refresh from Saudi Alawwal Bank, and if so, will that include something dedicated to ESG? Because I recall from earlier conf calls that you had said an ESG strategy is forthcoming, and I have seen updates on the website, but as yet, we haven't had really a chance to discuss that with the street. Thank you very much.

Tony Cripps: Okay, just on the last point on ESG. I'll leave the dividend question to Lama. Yes, we have continued to provide leadership in ESG, working with SAMA. SAB chairs the ESG Advisory Committee,. And we've made significant progress in establishing this working group which now have commitments from over 60 representatives from the banking industry and is designed to work on work streams in helping develop policies and regulation around ESG growth. So we're quite pleased with that. We published our ESG strategy. We have a website dedicated to that. So, I look forward to hearing your feedback once you've had a chance to go through it. So we're very engaged in this. We see ESG as a growth sector for Saudi and given our ability to tap into international networks around best practice, we think we have a great opportunity for growing in this area. So we're pleased with results so far.

Lama Ghazzaoui: On the dividend question, look, we've been distributing around 50-55% of our earnings. And all things equal, we take, of course, the growth plans and supporting the capital regulatory requirements, etc. The policy is to grow dividends in line with earnings, while of course, as I said, staying compliant with everything else. But this is the level, usually we

plan around the 50-55% payout ratio. And of course, strengthening the capital with the issuance is, in the first place, aimed at supporting the balance sheet growth.

Your question on strategy refresh, within the quarter four results call, we intend to give, of course, guidance on 2024. Also some colour on the medium-term outlook, as well as some strategy refresh updates.

Ryan Ayache: All right, thank you much.

Operator: Thank you. And we'll now take our next question. This is from Shane Mathews from WhiteOak Capital. Please go ahead.

Shane Mathews (WhiteOak Capital): Yes, thank you for the opportunity and congrats on the results. One question from my end. So growth is coming in quite strong for SAB at 15% YTD and growth on corporate and retail. Just want to understand how management is thinking about balancing growth versus ROE because let's say competition environment in Saudi is still there, right? Funding costs are still on the rise. So how is the management team thinking about balancing between ROE and growth? And so, what level of ROE is, let's say, SAB targeting, and would be something we can envision for the coming years?

Tony Cripps: Hi, thanks for the question. Yes, thank you. Our loan growth has been a focus for, particularly our retail business in this year, having built capability in '22. So it's pleasing to see that come through. On the corporate side, our management guidance at the start of the year was we wanted to exceed sector growth. Now, I think sector growth has been a little bit higher than most people thought probably at the beginning of the year because at the start of the year there was a lot of negativity around US growth outlook given higher rates. So maybe not surprisingly, now that's happened, the sector has been a bit stronger and true to our commitments, we've grown at a pace that's a bit faster. I mean, broadly speaking, we think those trends will continue for SAB, in looking at outpacing growth. And the balance between origination and the impact on ROEs, well, the way in which we offset, sensibly offset on a risk-assessed basis, of course, a higher cost of funding is by growing the balance sheet at a faster pace, we maintain return on tangible equity at these high levels, even though the cost of funding is a bit higher. So, hopefully, that answers your question.

Shane Mathews: Got it.

Tony Cripps: Thank you.

Operator: Thank you. And there are no further questions at this time, so I will hand back to the speakers for any closing remarks. Thank you.

Tony Cripps: Thanks very much, everyone, for the call. We are pleased with the first nine months and expect trends broadly to continue into the end of the year. Beyond the end of the year, even though the outlook is perhaps less predictable next year than it was in '23, in '23 interest rates were going to go up and that happened. We knew the impact on our business, and that came through in the ways that we guided or above the way we guided. I think next year it's still a very positive story for the Saudi economy, notwithstanding potentially the changing view on whether interest rates are going to stay up for a long period of time, perhaps all the way through '24, or whether in fact a softer landing in the US will see interest rates come down at the back end. Either way, we're comfortable with our outlook for positive growth, continued growth, and as I said, our focus will be on a more constrained revenue growth outlook

because rates have peaked for the industry. Cost efficiency will be a focus for us next year and overall growth, of course, will continue.

So, thanks again very much for the call, and look forward to speaking to you again on the next call. Thank you.

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