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Transcript

SNB 3Q 2023 Earnings Call

Thursday, 02 November 2023

Iyad Ghulam Good afternoon. On behalf of SNB Capital, I would like to welcome you to this conference call with SNB management regarding the bank's Q3 2023 results. Today's call is being recorded. Please note, that this call is open for analysts, investors, and shareholders only. Any media, please disconnect at this point. Today's speakers are Mr Talal Alkhereiji, Acting CEO, Mr Ahmed Aldhabi, Group CFO, and Mr Abdulbadie Alyafi, Head of Investor Relations and Market Intelligence. I will start by handing over to the SNB Head of Investor Relations and market intelligence. Please go ahead.

Abdulbadie Alyafi Good afternoon from Riyad. Welcome to SNB's call on Q3 2023 results. We would like to thank SNB Capital for hosting today's call. As usual, please take note of page two of the earnings presentation, which provides important information regarding today's discussions and disclosures, including the use of forward-looking statements. With that, I'll hand over to our CEO, Mr Talal Alkhereiji. Over to you Abu Ahmed. Please go ahead.

Talal Alkhereiji Good afternoon and a very warm welcome back to everyone joining us. It's truly a pleasure to connect with you today and share a great set of results for the quarter once again. We've continued to aggressively pursue our strategic priorities, delivering momentum across all key business lines and achieving record levels of growth and profitability, while simultaneously maintaining healthy capitalisation and liquidity. The domestic operating environment continues to be robust and supportive, with a promising outlook. Let's start with the key performance highlights for the period. Total assets surpassed SAR 1 Trillion this quarter, which is the first milestone of its kind in the kingdom for any bank. Similarly, our net income reached a record SAR 15 Billion in just nine months.

These milestones were achieved while improving the return on tangible equity to 17.5%. Financing is up 9% overall, supported primarily by a 10% gain in both corporate and mortgages. At the same time, CASA makes up around 73% of customer deposits, and we continue to optimise our funding franchise to pre-empt, with agility, the rate environment. In order to support the achievement of these robust results, we're implementing key operational initiatives that help us adapt our business and operating model to an evolving, competitive environment. Specifically, we are focused on pursuing our lean operating model and Zero Back Office strategy, allowing us to increase the efficiency of operations, while maintaining careful cost discipline.

In that vein, and in order to run the most efficient business possible, we continue to invest in STP, Robotic Process Automation, and implementing Cost Optimisation Initiatives. Together, these drivers allow us to boost man-hour productivity, standardise and speed up business processes, and upgrade to global best practice excellence. All of these investments support the digitisation of services and increased convenience for our customers at the front end. We continue to deepen our digital footprint by increasing the digital functionalities in our services, expanding end-to-end digitisations of customer journeys across wholesale and retail. And enhancing the user experience with the aim of attracting more business from both existing and new clients and improving customer satisfaction.

An interesting example, a case in point of this, has been the intersection of our one SNB strategy to drive ancillary revenue and increasing digitisation with our global transaction banking business. By focusing holistically on our clients' needs, deepening the digital solutions we offer in the trade business, such as LCs and LGs, and increasing the convenience of our cash management and POS solutions, we are capturing market share while also growing fee income and trade finance and cash management. We also have other interesting projects in our digital pipeline, for example,

our digital venture initiatives remain on track. Our pilot was successfully launched last quarter and is progressing well. We continue to push ahead for the commercial launch, including securing the necessary approvals.

Finally, we remain prudent in our risk management approaches. The underlying credit quality remains stable and improving, while collections and recoveries were unusually strong for the year-to-date period. Here I would like to take a moment to highlight some of the key strengths of our franchise. SNB holds a dominant market position in one of the world's most attractive economies, which, as you know, continues to demonstrate robust fundamentals and ambitious growth plans. We enjoy a well-diversified balance sheet that provides resilience and allows us to capture revenue opportunities from the full spectrum of customers in the Kingdom, across wholesale, retail, and capital markets.

Our scale and breadth are important competitive advantages, which were both elevated through the successful completion of our merger and the ongoing delivery of cost synergies ahead of target. To date, we have realised almost SAR 1.5 billion in cost synergies on a run-rate basis. This is a further 5% ahead of our previously upgraded target of SAR 1.4 billion. As a result, the merger has helped deliver a Cost to Income Ratio of 26.2 for the bank, excluding the international business. Finally, the bank enjoys a healthy capitalisation and ample liquidity, with a strong single A credit rating range. Moving onto the next slide, I'll expand on the outlook for financing growth.

We are optimistic about the strong outlook for financing, which is supported by significant non-oil activity. Real non-oil GDP is expected to reach 5.9% in 2023, building upon 5.4 growth in 2022, and 7.2% in 2021. Looking ahead, SNB will benefit from the structural growth in the Saudi banking sector, which is supported by ongoing Vision 2030 projects and initiatives, including the National Investment Strategy. As the largest financial group in the Kingdom, SNB is at the forefront of Vision 2030 related financing, and growth has been very healthy across both wholesale and retail. Actually, our focus on the sizeable opportunities in retail will continue, but looking forward into the intermediate term, we anticipate an even higher cadence of wholesale activity.

To support this, we are deepening and broadening our relationships across the spectrum of all segments. For example, our SME business has grown over 11% this year and we have secured financing agreements across diversified sectors with exciting new opportunities, such as renewable energy and the Kingdom's flagship projects. Our healthy pipeline of business is reflective of the sizeable opportunities in the Kingdom's robust national plan and continued infrastructural investment initiatives, which are well underway. SNB is uniquely positioned to benefit from these sizeable growth opportunities. With that, let's move on to the outlook and guidance.

As we've been saying all along and highlighting, the outlook for the Saudi operating environment and macroeconomic backdrop remains strong and supportive. The expected modernisation of overall GDP for 2023 to around 0.03% doesn't reflect the performance of non-oil GDP, which remains very strong. Moreover, fiscal policies are keeping inflation at generally moderate levels. With respect to interest rates, we saw another 25 basis point hike by the Fed. The US Fed Funds Rate is currently at 5.33% and is expected to remain in the range of 5.25 to 5.5 until the end of the year. Against this economic backdrop, we delivered solid financial performance for the first nine months of the year, in line with our full-year guidance with two exceptions.

First, we have downgraded the projected Cost to Income Ratio from below 27% to below 28.5%, due to inflation impacts in Turkey. Second, we have improved our cost of guidance by 20 basis points to be within the range of 10 to 30 basis points, given the strong collection and recovery activity, as well as stable credit and improving quality. Our CFO will go through the details of these later, but the good news is that these revisions are broadly offsetting and do not result in revisions to our return on tangible equity guidance range which keeps getting stronger. With that, I'll hand it over to our CFO for discussion of our financial results in more detail. Please go ahead, Abu Faisal.

Ahmad Aldhabi Thank you, Abu Ahmed. Good afternoon. It’s a pleasure to speak with you today and discuss the year-to-date financial performance. Our financial performance for the period was driven by broad-based momentum, strong recoveries, stable credit quality, and continued focus on domestic cost discipline. Looking first at the balance sheet, we delivered solid financing growth of 9% during the period, rising from 13% wholesale and 8% growth in retail, where mortgages grew by 10%. On the funding side, deposits grew 10% year to date, where CASA grew 6%. On-time and other deposits increased 21%. As expected, this resulted in moderation of CASA issue to 73%, which remains at a very comfortable level. The SAMA LDR was 78%, well below the regulatory limit. At the same time, a stronger stable liquidity position was maintained.

Operating income grew 4%, driven by NSCI expansion, resulting from domestic balance sheet momentum, while fee and other income grew 9% mainly from international. As a result, NIMS stand at 3.07%, seven basis points lower year on year, mainly from international, and three basis points higher sequentially. Looking at the cost ratios divergence trends, which will be discussed more later. But to summarise, operating expenses increased 6%, where cost discipline in the domestic bank was offset by international inflation pressures. Cost of Risk, on the other hand, improved from stable underlying credit quality, elevated credit recoveries and fair value remeasurements. Combining these elements, we see improving profitability and returns, where net income grew 9% to SAR 15 billion for the first nine months, with improvement to both return on tangible assets and return on tangible equity.

Let's move now to the details, starting on page eight. Briefly, on the balance sheet evolution, assets 9% to over SAR 1 trillion, driven by financing and investment growth, which were mainly funded by deposits. We will cover this trend in more detail, starting with financing on the next page. Financing grew by over SAR 50 billion or 9% during the first nine months of the year, to reach SAR 596 billion. The key drivers of this growth were as follows. Retail financing grew 8% or SAR 22 billion during the period from continued mortgage growth of 10%, while other retail grew 5% mainly from personal and OT financing momentum. We have managed to increase market share in retail, even considering high rates and re-pricing have had their effect market-wide.

Next, in terms of wholesale, this grew 13% year to date. Within wholesale, corporate is up 10% for the year, following a 5% quarter-on-quarter pick-up, driven by robust underwriting activities, particularly in the large corporate segments. Our pipeline remains strong, although naturally, we may see repayments in Q4, this is similar to observed behaviour in the previous years. Looking at FI, most of the year to date growth happened in Q2 where we took advantage of attractive opportunities, growing SAR 7.4 billion in nine months. For the remainder of the year, we expect FI to remain relatively stable in the last quarter of the year. It is also worth reiterating that the SMEs, which span both the wholesale and retail portfolios, grew 11% year to date to reach SAR 40 billion. As our CEO mentioned earlier, we remain on track to achieve the low double-digit financing growth guidance for 2023.

Moving to the next page. The investment portfolio increased 3% during the year to date to reach almost SAR 267 billion. This was driven primarily by other fixed-income portfolios, which increased 14% or SAR 10.5 billion during the period, mainly in fixed-rate, high-quality securities acquired in developed countries. Next, deposits grew 10% during the first nine months to SAR 625 billion. CASA is up 6%, driven by growth in call accounts, which attract costs, but nevertheless continue to be advantageous in containing cost of fund. In line with the rise in interest rates, time and other deposits grew almost 20% year to date, noting it has a ratio 73%, still at a very healthy level. Looking forward, we continue to expect cost bearing deposit to be the main source of funding growth, [inaudible], SNB's liquidity position remains very strong.

Moving to profitability. Net come reached SAR 15 billion, increasing 9% year on year. Net operating income improved 4% as financing growth boosted NSCI and fee and other income continued to grow, driven by the international business. Partly offsetting this, operating expenses grew by 6%, mainly due to high international inflation pressures in Turkey, while domestic OPEX was basically stable year on year. The risk cost dropped materially in corporate recoveries and fair value re-measurements, while underlying credit quality remained stable. Within other non-operating income, we booked hyperinflationary impact adjustments for the international business, reaching around SAR 380 million for the year, which is approximately SAR 200 million higher than the previous year.

Let's focus next on the individual components, starting with NSCI and margin. NSCI grew 3% year on year to SAR 20 billion from ten domestic growth, supported by an 8% increase in average earnings, partially offset by a 24% contraction in international. Looking at the NIM, the margin decreased six basis points year on year to 3.07%. The key drivers of this were as follows. Similar to what we mentioned last quarter, international was affected, mainly the regulatory restrictions' unlimited margin expansion in the first half. During our last call, we saw 11 basis points pressure from international on the first-half margin. As of September, this has improved to seven basis points. Excluding [unclear], domestic NIM was flat year on year, as improvement in earning assets was mostly offset by a higher funding mix due to higher rates and shifting deposit mix toward cost-bearing deposits.

On a sequential basis, the margin expanded three basis points from 2.9 in Q2 to 3.01% this quarter, supported by a pick-up in the international NIM. For the rest of the year, we expect the three-month NIM for Q4 to be flat or slightly improved, and the full-year NIM to remain within the guidance of 3.2%. A potential caveat to this would be additional unforeseen volatility in Turkey and or a greater-than-expected shift in the deposit mix. Considering the current portfolio composition, margin sensitivity to rates stands at a neutral position.

Next, fees and other income increased 9% year on year to SAR 5.8 million. Similar to last quarter, this was boosted by international, partly offset by domestic. Looking in more detail at fees from banking services. This grew 14%, supported by continued strong activity in international, as advised last quarter. As a reminder, international fees from banking services were up over SAR 500 million year on year, driven mainly by front-loaded sales of fee packages to TFKB corporate customers. This benefit to international banking services fees was opportunistic in nature and as expected is still positive but trending lower in the coming quarter. Of course, excluding consideration of additional foreign currency translation impact to SAR.

Partly offsetting this was a 5% lower brokerage and asset management in line with market activity and lower financing and cards. Turning to other income. International and other income is up almost SAR 400 million year on year, similar to what we discussed last quarter. This is mainly from higher FX spread and gains from trading income, driven primarily by higher demand and changes in the overnight index swap curve in Turkey. Also worth mentioning, as highlighted by the CEO, transaction banking performed well, with trade finance income up 5% and cash management fees boosting other fees from banking services by 24%. In addition, other operating expenses, which mainly include retail sales and after-sales-related expenses, increased year on year on sales volume expansion and one-off cost optimisation benefits included in the previous year.

Next, overall operating expenses increased by 6% year on year to SAR 7.2 billion, driven by a 54% increase in international costs due to inflation pressures at TFKB. When we exclude international, we see a very different picture. Domestic OPEX increased only slightly by 1%. Continued benefits from synergy realisation and cost optimisation efforts helped contain costs but were nevertheless offset by higher G&A expenses, driven by higher technology and marketing costs. This picture is the same on a sequential basis, where OPEX was 6% higher. As a result of the pick-up in international, the group Cost to Income Ratio increased by 47 basis points year on year to 2.7%. Worth highlighting that the domestic Cost to Income improved by around 40 basis points to reach 26.2%. Because of the international inflation pressure, we have, therefore, revisited our four-year guidance from below 27 to below 28.5.

Next page. Cost of Risk declined 28 bps year on year to 12 bps, driven by innovative corporate recoveries, mainly from the legacy portfolio, as well as fair value re-measurement. While recoveries are difficult to predict, nevertheless, we expect the Q4 Cost of Risk to be normalised. It is worth highlighting that without considering the one-offs, the Cost of Risk would have been around 34 bps. Retail impairments rose 34% year on year, largely tracking origination growth over the last few years. International impairments declined by 26% year on year, impacted by currency depreciation, with the local currency charge broadly stable year on year. As a result of the high recoveries as mentioned, our Cost of Risk guidance is upgraded to 10 to 30 bps for 2023.

Moving to credit quality on page 16. The NPL ratio remains healthy at 1.37 for the group, a decline of 25 bps during the first nine months of the year, resulting from higher corporate write-offs. Stage-wise coverages remain healthy across the board, with stage three coverage at 78%, stage two at circa 12.3%, and stage one at 35 bps, all showing either stable or improving trends. Moving to capital and liquidity. Total regulatory capital increased by 1% to SAR 134 billion. The factors that impacted this movement, on the positive side was net income generation of SAR 15 billion boosted capitalisation. This was offset by SAR 13.7 billion decline mainly from SAR 7.8 billion from the final dividend of 2022 and interim dividend of 2023.

The negative market-to-market reserves, mainly from CS on foreign currency reserves arising from further Turkey Lira depreciation. Against the 1% increase in the regulatory capital base, RDMA rose by a similar amount year to date, leading to stable CAR and the T1 ratios at 19.1 and 18.4, respectively. Moving to liquidity, this remains strong and stable with all ratios comfortably within potential thresholds. The SAMA LDR of 78 at the end of the quarter continues to provide ample room for lending relative to the 90% ceiling. That concludes the financial discussions. I will now hand it back to our CEO for closing remarks.

Talal Alkhereiji Thank you. I'll wrap up today's commentary by reiterating some important points. First and foremost, we remain focused on executing our strategic priorities in our home market. These priorities include growing domestic financing and CASA across our corporate and retail franchises, optimising our cost and funding, capturing the full value of our wholesale relationships, and continuing to fortify our digital leadership position. Second, SNB is ideally positioned to take advantage of the long runway of growth in the Kingdom and the opportunities afforded by Vision 2030. At the same time, our optimised funding model enables us to successfully navigate the dynamic rate environment.

When we consider all these key factors in unison, including our efficiency, scale, breadth and market position, they set up the ideal environment to successfully drive incremental returns for our shareholders even further. Thank you for your continued support and trust in SNB. It will be a pleasure to open up the discussion now for your questions. Please go ahead.

Operator Ladies and gentlemen, we will now start the Q&A session. If you wish to ask a question, please raise your hand through the webcast here on Webex so we can unmute you. Alternatively, please submit written questions using the Q&A button found on your Webex screen. Thank you for not exceeding one or two questions per caller. Please stand by until we have our first question. Our first question today is from the line of Waleed Mohsin of Goldman Sacks. Waleed, please go ahead, your line is open.

Waleed Mohsin Yes, thank you very much. Good afternoon and thank you for the presentation and congratulations on a solid set of results. Two questions please from my side. Firstly, I mean, if I look at this quarter's net income, there are a number of moving parts. Recoveries, hyperinflation charge, and seemingly some regulatory changes on fee. What I wanted to understand is what management views as clean net income for the quarter. In other words, what do you see is the recurring net income number for this quarter and how do you arrive at that, or how do you reconcile versus the 5 billion net income number that you reported? My second question is on Cost of Risk.

Waleed Mohsin Hello, can you hear me?

Talal Alkhereiji Yes, Waleed, please continue.

Waleed Mohsin Yes, sorry. My second question is on Cost of Risk. If you could talk about which sectors are driving the recoveries. And I wanted to understand your relatively broad guidance range which still stands for 2023, which is 10 bps to 30 bps. If I look at the lower end of the range, it implies a further recovery in the fourth quarter. Whereas if I look at the upper end of the range, it implies an elevated charge for the fourth quarter. I just wanted to understand the revision of the range which is still pretty broad and leads to a variety of outcomes at the lower end, the upper end. Thank you.

Ahmad Aldhabi Thank you, Waleed, for your questions. For the normalised net income, you know there were a lot of moving parts as you've mentioned, but on an overall basis maybe 100 million lower than the 5 billion would assume a fair net income for the quarter. And related to the recovery, we have two parts of the recovery. One from a very legacy portfolio as mentioned. It used to be very old written-off portfolios that we recovered during last quarter. This quarter we have some, but we have some fair value re-measurement for the POCI, okay, during. Because when

we did the merger, there were a lot of really different situations, different circumstances. Things have improved. Some collateral has been perfected, so the net carrying value required some re-measurement and changes, and that impacted in Q3.

For Q4 Cost of Risk, as you know, we cannot really predict if there are any more recoveries during the quarter, that's why we're keeping. There might be some improvement in recovery because this is a main focus for us during this year. And it was really a strategic priority for us to really collect as much as we can from our legacy portfolio, so we expect some, but we cannot predict.

Waleed Mohsin Got it. And on your first answer, you said $100 million, so around 4.9 billion is what you are referring to as the recurring. I just want to understand, how would you get to that number? Is it mainly adding back, adjusting for the recoveries and then taking out the hyperinflation charge and normalising the costs? I just want to understand.

Ahmed Aldhabi Yes, you're right. We're adding back the recoveries, and we are normalising for the hyperinflation impact.

Waleed Mohsin Got it. And just one last follow-up on this. On the cost side, obviously, you mentioned that the inflationary pressures in Turkey have led to that. Is there enough flex available other than Turkey in the cost base for this cost base to start moving lower in the coming quarters?

Ahmad Aldhabi It should be coming lower. We have a lot of initiatives to maintain and contain our costs. Partially, it will be offset by investing in technology. But on a net basis, we should expect a lower cost base.

Waleed Mohsin Got it. And then, this question, could you come down to the levels that you were expecting previously? It's more Turkey which has led you to being above that cost income. Other than that, you would have been within that range.

Ahmad Aldhabi That's a fair assumption.

Waleed Mohsin Thank you very much.

Talal Alkhereiji Maybe just to add from my part, Waleed. The cost optimisation exercise this year is one of the great successes and it looks like it has further legs to go well into next year, with huge potential, so you're spot on. I think without the impact of Turkey, we would have been clearly there. But there's further room to go, as we've identified more opportunities. And, clearly, good investments in technology will get us there. Thank you.

Waleed Mohsin Perfect. Thank you so much.

Operator Our next question today is from the line of Chiro Gosh of SICO Bahrain. Chiro, your line will be open if you'd like to unmute locally and proceed.

Chiro Gosh I have two questions. The first one is, as per my calculation, your Turkey exposure is not a huge one. It's a very small part of it. If you can please tell us what is your net exposure right now to Turkey. Because if

it is impacting your cost part as well as your margin part, I would like to get a sense. And more importantly, the outlook of Turkey going ahead. That's my first question. Second one is, even your retail loan growth has been quite good. Of course, your corporate is definitely quite good. At this kind of interest rate, are you looking at a very high interest rate, I mean, at a fixed rate? So, once the interest rate comes down, can we expect some margin expansion or a solid margin expansion for that matter relative to the retail business? These are my two questions.

Ahmad Aldhabi Thank you for the questions related. First one, maybe I would refer you to disclosure…

Ahmad Aldhabi Can you hear me?

Chiro Gosh Yes, I can hear you.

Ahmed Aldhabi Thank you. I would refer you to disclosure number 15. You can really identify each component of each P&L item related to Turkey or internationally. Though it is inflating line by line the P&L, the contribution to the net income is very minimal and negligible, less than 3% or 2%, but it is impacting the ratios because of the inflation of each line item. The second question, our strategy is very clear. We're enjoying a diversified balance sheet, with the expectation of interest rate to go down. Of course, we are changing our position more towards fixed instruments, either in retail or in investments, to enjoy or at least to really retain the current NIM level that we are having.

Chiro Gosh Okay, that's all from my side. Thank you very much.

Operator Thank you. Our next question today is from the line of Edmond Christou of Bloomberg Intelligence. Edmond, your line will be open now if you'd like to unmute locally and proceed with your question.

Edmond Christou Ask about the pass-through, given the interest rate level we are now and your comment that going forward wholesale lending probably will be the main driver for growth in the Kingdom. Where do you see the pass-through? Are we passing 70, 80% on the spread? I think some colour in terms of the competition within the corporates into next year. And also, your simple LDR, which is quite low compared to the industry, around 95%, so you still have some room also to optimise and keep your loss of funding contained. But going into next year, it's a clear indication from other banks that shifting CASA could remain with us for a while now. How do you see the spread and the margin outlook if rates remain where it is, let's say, next year?

And even if it's being cut next year and the second half of this year, I don't think this will impact the margin next year. It will be more into 2025. And last question is, we hear about the need for banks to assume more debt and diversify funding, etc., which we've seen a pick-up in the last year or so, but still more needs to be done in terms of vision and the pipeline for the project. What key banks are on pause or on hold to ensure more? Is it more certainty in terms of the trajectory of the Fed? I just want to understand how this dynamic works because the issuer is usually taking the forward rate. And the forward rate, if its pricing cut in the second half of next year, so they should be able to get a better rate than six months ago.

Are they waiting for another six months to get more rate cuts rising to the forward curve? I just want to understand your thinking behind it. Thank you.

Talal Alkhereiji Perhaps I'll take the second part of the question real quick before I hand it over to the CFO. Our wholesale funding strategy remains intact. Obviously, this year we've had a great run in terms of our internal generation of liquidity and CASA, as you can see by the numbers. We've had the ability to fund and fund effectively, and I think we have one if not the best Cost of Funds in the market now, as confirmed by the Q3 numbers. However, our wholesale funding where we issue EMTN in Islamic or ESG-compliant formats remains intact. We're just waiting for the right opportunity in the right currency, in the right jurisdiction, to be advantageous to us.

Having said that, our intention is to be a normal, regular issuer, so something might be coming up soon. We're just contemplating which. And our programme is flexible enough to accommodate any kind of strategy that we think about in the future. Abu Faisal.

Ahmad Aldhabi Thank you, Abu Ahmed. For the first question, maybe I will explain our sensitivity to rates today because we don't see the interest rate for certain segments in our balance sheet, be it across the floating position in assets. At the same time, how much we have as floating, cost-bearing liabilities? Our position in terms of net floating, as I mentioned, is neutral to rates. When rates are going down, yes, corporate yield will go down because mostly floating. But at the same time, cost-bearing costs will go at the same time. We are not impacted as such in terms of really rates are going down. Either we might get positive NIM enhancement in the future. For the LDR, SNB, of course, has ample headroom for growth, but please keep in mind the large and high-quality investment book which provides an additional liquidity reserve and value. And we don't anticipate needing to increase our LDR levels near the regulatory levels, except if it's adding value.

Operator Thank you. Our next question today is from the line of Gabor Kemeny of Autonomous. Gabor, your line is open if you'd like to unmute locally and proceed.

Gabor Kemeny Hello. Can you hear me, please?

Operator Yes, you are coming through now, Gabor.

Gabor Kemeny Excellent. Thank you. A couple of questions, please. First one is on the terming out of deposits. I think you mentioned that you expect NIM to be slightly up in Q4. Under certain assumptions on terming out, perhaps could you expand a bit on that and share your thoughts on how you think about depositors moving towards time deposits and the pace of that. The other question I had was on the retail origination fees. If you could please help us quantify the impact from the regulatory change and share your thoughts on the outlook. Thank you.

Ahmed Aldhabi The terming out of deposits, yes, we mentioned the majority of the growth will be cost-bearing liabilities, considering the rate environment and, of course, this will impact the CASA ratio. But mind you and reiterate what we've been saying in every call that SNB, as a big bank, enjoy core sticky deposits in both retail and corporate. Also, we are really a station of the transitory institutional deposits. We have this competitive advantage to maintain as much as we can current account. CASA ratio with the current rate environment, of course, with the growth of assets, will continue to be moderated, but we don't expect to be further severely moderated. For retail origination fees, there is an impact, but it is still a negligible impact that we see in our financials.

We have to wait and see to real balance between the fees and yield to make sure that we have the final value proposition for the retail. We are now living in a very high interest rate environment, so we are trying to really strike a balance between the volume and value in both retail and corporate. We see this in a comprehensive view, not line by line.

Gabor Kenemy Very clear. Thank you.

Ahmad Aldhabi Welcome.

Operator Thank you. Our next question today is from the line of Naresh Bilandani from JP Morgan. Naresh, your line is open if you'd like to unmute locally and proceed, please.

Naresh Bilandani Yes, hi. Can you hear me?

Ahmad Aldhabi Yes, Naresh. Please go ahead.

Naresh Bilandani Thank you very much for the presentation and congrats on the good set of results. Three quick questions, please. One was, well, I was planning to ask on the outlook for the NIM next year, but I think you've given some expectations with regard to your sensitivity. I'm just keen to understand somewhat better, and I know you're may be refining your guidance, but any early thoughts you can provide on how you see the trends emerging on loan growth going into the next year, given the fact that the broad consensus is the rates will stay elevated and the near term outlook still remains that they will remain unchanged. Do you expect the robust loan growth momentum to continue and what would be your early thoughts on how should we see the overall volume growth in the franchise next year?

My second question is, one of your peers has been affected on the retail fees, following the regulatory change that required them to stop collecting some fees, given the new consumer protection regulations. Have you had a similar impact? If yes, can you please quantify the same? That's the second question. Third, if you can please confirm that the higher Zakat and tax rate is mainly coming from Turkey, following the increase in the tax rate there or is there any other reason that we should consider? Thank you.

Ahmed Aldhabi Thank you, Naresh, for the questions. For the market loan growth. One second, please, Naresh.

Operator Apologies, we're just getting some feedback from Naresh's line, but I've just muted that.

Ahmad Aldhabi For the market loan growth, in Saudi we are now living really different environment than the world. But at the same time, we have to be within the monetary global system. Having said that, the opportunity is there. We're very optimistic about opportunity in the long growth. It might reach a high single digit of next year. However, I think the key question is who is really striking the right balance between the value and volume? Because we are living in a high interest rate, so we want to be balanced in a way that we are not chasing only volume, without having sufficient and the right value. Yet we are really still doing our strategy workshop, and we will come by year-end to really give our proposition or the value proposition of next year.

Retail fees, yet we don't have much of this impact on our financials in Q3. There is an impact, but I think now with this high interest rate, people want to look at high yield, but at the same time giving some waivers as a competitive advantage on the sales tools, but nothing much that we see in our financials. We expect some impact, and we will update you if we have any material things with the Q4 calls. For Zakat, maybe what is different about us and some others, we do have Turkey and Turkey has a different tax rate. When you convert this into a ratio, maybe we look different than others, but for domestic Zakat, we are paying the minimum.

Talal Alkhereiji Operator, when you're ready, we can take the next question.

Operator Thank you. Our next question is from the line of Mohamed Al-Rasheed of Ashmore. Mohamed, your line is open, please proceed.

Mohamed Al-Rasheed As-salamu alaykum. This is Mohamed Al-Rasheed from Ashmore. I have a couple of questions from my side. My first question I just want to confirm my understanding. Your POCI during Q3 has increased by around 400 million, so this is related to the point that you mentioned that's a reassessment of the fair value, so this 400 million was netted out against the ACL, right? It was like a net reversal to your Cost of Risk.

Ahmad Aldhabi That's correct.

Mohamed Al-Rasheed Okay, that's clear. My second point is regarding the spread on your corporate book. Naturally, as the rates go higher, the pass-through would be lower than 100%. But I would like to know your view on the case of rate cuts. Shall we expect that the slower spread will continue with us even in the case of rate cuts, at least in the short term, let's say, one to two years horizon? Another way to say the question, what is the percentage of your corporate loan book where the agreement does not exceed, or the maturity does not exceed two to three years?

My third question is regarding your RWA density. If I look at the credit risk percentage for interest-bearing assets, it continues to go down. I understand that part of it is because of Basal IV, but even quarter-over-quarter basis there is a drop of around 150 bps, despite the very strong growth in corporate. Can you please shed some light on that? Are your growth in the corporates at a much higher quality compared to fourth or what are the reasons behind this continuous decline in RWA intensity? Thank you.

Salman Syed Let me take, Mohamed, the last question about RWA. RWA density is definitely falling, and it is a function of two or three things. The main thing is basically the collateral that has been utilised to offset the impact of the RWA. That is why, you see, throughout this year, we have been dropping the RWA density, which currently stands at around 68 or 69%, if I am not wrong.

Ahmad Aldhabi For the second question, the majority of the corporate book has two to three years of maturity, except for some project finance. And related to the spread, we did not see compression in the spread during this period or even before. Actually, we are improving our return on corporate by having more ancillary revenue. I don't expect any because it's becoming really pre-defined per segment, the margin that you can come up from corporate segments. Maybe there are some cuts here and there from others. Again, here we are focusing on the balance of value and volume, so we don't really get a severe cut in the margins.

Mohamed Al-Rasheed Okay, that's clear. Just a follow-up on the collateral. This collateral is not only related to mortgages. My understanding, even the corporate exposure now if you have shares that are pledged as collateral, that will impact the RWA as well. Has that also contributed to the drop in the density?

Salman Sayed Yes, it is.

Mohamed Al-Rasheed Okay, that's very clear. Thank you.

Operator Thank you. For our next question, we have some written questions submitted. The first is as follows. Can you talk about the asset yield progression and Cost of Fund dynamics as we remain in a higher-for-longer environment over the next few quarters?

Ahmad Aldhabi We are expecting, of course, an improvement in our yields from floating portfolios, in addition to refreshing our fixed portfolios, both in investments and retail. The expectation on a quarterly basis, we will have to see improvement between three to five basis points in the following quarters. However, from the Cost of Fund dynamic, as mentioned, given the higher-for-longer environment, we expect continued pressure on our Cost of Fund to be partially or fully mitigating the improving in our assets yield, resulting in more or less flattish NIM.

Operator Great. Thank you and there are two follow-up questions here. First being, how can you ensure international business is not a drag-volatile impact on earnings in 2024? And the third is, can you explain the changes in fee-related regulation in Q3?

Ahmad Aldhabi I think the last one we have already answered. For the second question, it is very hard to predict how the international business will contribute. But considering the small size that 100 million, 150, which was really a severe change, I think, during the quarter's profitability to the group, still yet to know, but we are a bit optimistic. Management there have taken it very seriously and they want to make sure that we have either a minimum or no impact to the group.

Operator Ladies and gentlemen, I'd like to remind you if you have any questions, please use the raise hand button on the webcast platform. Our next question today is from the line of Olga Veselova of BofA Securities. Olga, your line is open, please proceed.

Olga Veselova Hello. Can you hear me?

Operator Yes, we hear you, Olga.

Olga Veselova Okay, thank you. Thank you for taking my questions. This is Olga Veselova from Bank of America. My first question is, again, about your impressive CASA levels. What really enables the CASA ratio to remain so resilient in a high interest rate environment? Which instruments do you use to make customers not fly away from CASA, and not fly away from SNB to other banks? This is my first question. The second question I think during the Q&A you mentioned the preliminary outlook for sector long growth for the next year by a single digit. Do you think that changes, so more giga-related project lending can be upside to this number, or do you think there is a downside, given

that interest rates stay high for longer? How would you think about these upside and downside risks for a long growth outlook for 2024? Thank you.

Ahmad Aldhabi Thank you for the question. Maybe I will talk a bit about our proposition for really customer service in the CASA. We have resilient CASA. We have a diversified business model, with around 30% market share in retail and around 21% market share in corporate financing. Of course, this core element of CASA, a large retail customer base, including high net worth affluent upper mass, giving us really a competitive advantage to have more sticky deposits than others. Our customer coverage model, digital customer services to retain current account. That's definitely our core competitive advantage that we have as SNB. We have regained a lot of parallel acquisitions. Of course, this is sticky and giving us an organic growth in our customer base and definitely more core deposits.

Mind you, we do have a lot of current accounts, but we have also call account within the CASA, which is doubt that it has caused, but it is very advantageous compared to other cost-bearing form. For the long growth, though if we go with the expectation of the market outlook for the upcoming three years, there is tremendous growth in lending, including giga projects. We cannot predict how much and how big, but they are a big opportunity. The expectation of this is it has maybe little of the giga projects for 2024, but beyond 24, we are expecting a sizeable amount to the system in terms of mega lending.

Olga Veselova That’s great. On the first question, I am grateful you mentioned call accounts within CASA. Can you share with us what is the share of call accounts inside CASA and what's the cost of this account? I understand it's very low, but perhaps if you give us an average number.

Ahmad Aldhabi Yes, it is volatile, okay, because it's a daily rate attract cost call account. But they are between five to 10% of total customer deposits. And they're going up and down depending on the need for liquidity.

Olga Veselova And what’s the price?

Ahmad Aldhabi The price is always attracting overnight price. Sometimes with some discount from some customers.

Olga Veselova Sorry, do you mean interbank overnight or which overnight?

Ahmad Aldhabi Yes, interbank overnight.

Olga Veselova Yes, thank you very much.

Ahmad Aldhabi You are welcome.

Operator Thank you. And our next question today is from the line of Yazeed AlJammaz of AlJammaz Group. Yazeed, your line is open if you’d like to unmute locally and proceed.

Yazeed AlJammaz I just want to understand on the CASA. Do you see CASA staying above 70% next year. That's my first question. The second question is on the investment portfolio. What part of it is at fixed rates and what is the

overall expected at higher yield as debt securities mature, assuming that rates will be held where they are by the Fed during most of 2024? What kind of effect on the NIM next year this will have? Thank you.

Ahmad Aldhabi We don’t provide CASA guidance because it depends on the dynamic that it will go from the asset growth, but we are happy with 70%, plus or minus, during next year. But again, it depends on the appetite for growing our assets. If we are going for high growth, and as mentioned it will be more majority coming from cost-bearing, of course, this will impact the CASA ratio. However, if it doesn't make value for us, definitely we will revisit our appetite in the assets growth. Investments, around 30% is fitting. The reinvestments that we are doing, of course, it is in positive to our NIM. Because this is a period, when you look fixed instruments in high yield, and we are already now reaching more or less the stretch of the yield or the peak so, of course, the opportunity is there.

But unfortunately, this is not to be disclosed. The rollover rates and depending on the market dynamic and when and how we are going to do it.

Yazeed AlJammaz Do you see any positive impacts on the NIM next year from that?

Ahmed Aldhabi Of course, it is part of our sensitivity. As mentioned, we are neutral today. And it’s part of really mitigating the NIM and making it flattish for next year.

Yazeed AlJammaz Thank you so much.

Operator I’m afraid we have no further time for any questions today. I’d like to hand back to Mr Iyad Ghulam for any conclusion.

Iyad Ghulam SNB Capital would like to thank SNB management for taking the time to conduct this call. We would like also to thank all the participants for attending. We wish you a pleasant day. Thank you.