SAB 1Q24 Earnings call transcript

Monday, 13th May 2024

Operator: Welcome to the Saudi Awwal Bank First Quarter 2024 Results Webcast and Strategy Update call. With us today, we have the CEO and Managing Director, Tony Cripps, Chief Financial Officer, Lama Ghazzaoui, and the Head of Investor Relations, Sirish Patel. At this time, all participants are in listen only mode. After the speakers' presentation, there will be the question-and-answer session. To ask a question during the session, you need to press star one on your telephone keypad. You will then hear an automated message advising your hand is raised. Please be advised that today's conference is being recorded. I will now hand you over to Sirish. Please go ahead.

Sirish Patel: Hello and welcome to our results call for the first quarter of 2024. As mentioned by the phone operator, we have our CEO and Managing Director, Tony Cripps, and our CFO, Lama Ghazzaoui, with us on the call today. Tony will provide a brief intro on the start of the year, and Lama will focus in on some of the key stories and themes. I will now hand you over to Tony to start the presentation.

Tony Cripps: Great. Thanks, Sirish. Well, as you can see, it has been a good start for us. first quarter demand for credit has been pretty strong across the sector, and the commitments to long-term projects remains. Although, as I am sure you are aware, there's been reprioritization that has been announced, but we still view the macro environment as very positive. The Ministry of Finance published the Q1 update, which showed a deficit. And much of this can be placed on the volume of oil production, as opposed to any significant deterioration in the price, which sits in the range of $80 to $85. Non-oil revenues were up close to 10% in the first quarter. So all in all, we think it is going to be another solid year of growth for the finance sector and the economy.

Moving on to our specific results, the growth strategy that we have been talking about is delivering with market share gains. And we had a strong quarter. 6% growth in loans, obviously faster than the market which grew at 4%, and in line with our 2024 guidance of growing faster than the market. Both key businesses drove this with corporate and institutional growth of 5% and retail growth very strong at 9%; our mortgage portfolio grew 10% quarter on quarter. 30% year on year or thereabouts and stands at 31 billion, which starts to get us back to where we want to be in terms of market share; we captured around 16% of originations.

We support the REDF programs in conjunction with the home ownership targets for the Vision 2030. And we rank number three when it comes to our REDF sales compared with number seven last year. We also saw sustained growth in off-balance commitments, with 6% growth in acceptances, guarantees and letters of credit, much of it associated with construction projects. And we are the number one bank in trade finance, with a 24% market share and investing in technology to maintain that position. So after a successful year, we have continued growth, growing revenues and generated the highest quarterly revenue in our history, with a first quarter print of SAR 3.4 billion. Underlying NIMs have come down marginally since the fourth quarter. And this was driven by our funding mix using time deposits to fund our above plan growth. Q1 asset quality remains strong. And we posted a fairly low cost-of-risk in the first quarter.

So with all of the above and strong cost control, our first quarter net income of SAR 2 billion grew by 16% year-on-year. And this leads our ROTE to reach 16.5%. Our profit growth roughly grew in line with our volume growth. And again, this was our guidance coming into the year. The momentum in Q2 continues on the back of Q1, and I am sure you'll ask the same questions, but we will look to revise guidance at the mid-year once we see the final trends in place.

So lastly, just with the interest rate outlook, which we have maintained no change to in terms of rate cut potential, and obviously that swings in different directions. But we have maintained the idea that there's possibly two or three rate cuts towards the end of the year, which won't impact our plans very much at all. Our NIM sensitivity is between 1 to 3 basis points. So higher for longer helps a little bit. But really, as we have guided, we have protected the downside as the cycle ultimately turns at the end of this year and into 2025. So with that, I'd like to hand over to Lama, and she'll go through a few points on the financials before we move to Q&A. Thank you.

Lama Ghazzaoui: Thank you, Tony, and good afternoon to everyone. I shall step through the financial slides quickly so we can allow more time for the Q&A. Firstly, on slide four, there's a summary of our key salient financials. We generated 2 billion riyals of net income during the first quarter, which was 16% higher than the first quarter of 2023 and 10% higher than the trailing quarter.

Compared with the first quarter of last year, net income was higher because of higher net special commission income, together with increased fees and FX income. Impairments were significantly lower, but as you know, these can be fairly lumpy for SAB. Costs were higher by 4%, but in line of course with our plan.

At the bottom left of the slide, you can see this as a walk. And we are very pleased with the results so far and would highlight again that the first quarter net income is another new record for the bank.

Compared with the trailing quarter, net income was higher also because of higher revenue, notably in trading and fee income. And net special commission income was marginally higher as we saw a minor drop in NIM, albeit in line with expectations and the faster than the market loan growth compensated for the slight NIM contraction. And we will talk about this more on the next couple of slides. The solid financials have resulted in a ROTE of 17.1%, or 16.5%, on a post-AT1 coupon basis for the quarter. Cost efficiency ratio further improved, reflecting the higher revenue together with strong cost control. Common equity tier one ratio increased to 16.6%, an increase of approximately 30 basis points, and our total capital ratio stands at 20%. As you might be well aware, we are a very well capitalized bank.

Onto balance sheet. We had a brilliant start to the year with 6% loan growth year-to-date, and this trend has largely continued into the start of the second quarter. And the second quarter includes, of course, the month of Ramadan, together with the Hajj season and two Eid breaks. Despite this, we will still expect to grow faster than the market. And this takes into account the lumpiness in our portfolio. Deposits have grown 4% during the same period, and we saw a slight fall in demand deposits, but have captured our other deposits to fund our growth strategy. Our investment portfolio fell from maturities but stands at very healthy 92 billion riyals.

Onto slide five. This shows our quarterly revenue build up. We hit 3.4 billion riyals of revenue, again, a record for the bank.

Our businesses have all performed well with an increase in our corporate and retail businesses, largely from fee income and from trading income from our treasury business. To reiterate the strategy to reduce our sensitivity, we have shifted the balance sheet to have a greater fixed portion over the last two years. This means we should be able to largely protect current revenue levels, and as rates decrease with NIM contraction more than offset by loan growth.

Onto slide six. On the left-hand side, you see the normal quarterly buildup of net special commission income, average-interest-earning-assets, NIMs, yields and cost of funds. The first quarter of this year, net special commission income was marginally higher than the fourth quarter as headline NIM contracted offset by asset growth. As a reminder, we did call out this last quarter, but the fourth quarter included a one-off related to some suspended interest of approximately 50 million riyals. So the underlying fall in NIM actually was less, and in line with expectations of roughly two basis points. Cost-of-funds have increased 8 basis points, and this was due to the continued shift in deposit mix over time. NIBs balances remain healthy and are largely stable in riyals terms for the last few quarters.

On the right-hand side, you see the high-level breakdown of non-funds income. Fee income increased 7% in the first quarter from higher lending fees and increased trade-related income given our strength in this business, of course. Exchange income grew at a healthy 3% from increased customer activity and other income was mainly Treasury led and mainly from trading income.

On slide seven, we show our cost build our; costs are within the expectations and marginally down on the fourth quarter of last year., Cost efficiency ratio for the first quarter stood at 30.5%.

On slide eight, we have the quarterly cost-of-risk which remains very low at 14 basis points. And our NPL ratio at a total level falls to 3.2% and remains steady at 1.7% when excluding the POCI portfolio. And our coverage remains high at 158%.

Onto the balance sheet on slide nine. We have had a great start to the year with 6% loan growth, 5% growth in our corporate portfolio, and 9% growth in our retail portfolio. This translates into 19% year-on-year growth, which continues the very strong trend from 2023. And we are the fastest growing Saudi bank based on the first quarter numbers. Mortgage originations increased significantly to 3.6 billion, which was a 50% increase compared to the fourth quarter. Understanding that the second quarter is likely to have less working days than the first, we took advantage of our capacity and pushed ahead with the mortgage origination. SAB typically operates in higher income brackets, and therefore our average ticket sizes are usually higher than the market average. We offer a comprehensive set of mortgage products, have strong engagement with REDF and National Housing Company, incorporating the various initiatives and subsidy programs.

Our Q1 originations translate to 16% market share in total market originations. And as Tony mentioned, we are now ranked number three when it comes to REDF sales. But also still, at the same time, we are managing to maintain a healthy level of private mortgage sales. Corporate originations also grew in the first quarter, and we are seeing strong activity across a number of sectors. For example, NEOM-related activity continues with our support on the NEOM home village construction. Other sectors include real estate, energy and aviation. It has been good to see that the growth hasn't been concentrated purely on Giga projects, but it is across the board. Trade-related off-balance sheet commitments also grew 6%, and we maintained the number one position in the market.

On slide ten for funding and liquidity. They both remained robust. Our NIBs balances remained stable since the middle of last year, but we have grown the interest-bearing portion of the deposits as the funding source for the accelerated growth in our lending portfolio. Therefore, our NIBs ratio has fallen further. This, as we have always pointed out, remains a challenge for the entire sector given the high-rate environment. And with the recent sentiment on higher-for-even-longer for the rates outlook could potentially result in further pressure for the remainder of the year.

Moving on to returns, we generated 16.5% ROTE for the first quarter. And this after the payment of 77 million riyals of AT1 coupon payment. This does incorporate a relatively low cost-of-risk, which we expect to be within our guidance range by the end of the year. Again, we are very pleased with the buildup of the returns so far. Our CET1 of 16.6% has grown primarily from Q1 profits, partly offset by mark-to-market losses on the investment portfolio, which is in the other reserves, as the longer-term outlook for rates has shifted.

Onto slide 12 for the guidance. There is no change currently to guidance given it is the first quarter, but results have been strong and not shifting guidance should not detract from the strength of the first quarter results, which are either in line or ahead of the guidance. We will walk down the main guidance metrics, and we will try to highlight where we feel there is upside risk.

Loan growth is strong. We expect to continue growing ahead of the market. Our pipeline remains strong. Performance in the second quarter has continued, and we hope to be able to provide an update on guidance at the second quarter results. And our current view of market growth remains to be between 12 and 13% mark. And we feel that a couple more months of data will point to whether we can upgrade our loan growth guidance and potentially provide a numerical range. Our NIM in the first quarter is in line with the plan, and at the top end of the guidance, and given the current trend on cost-of-funds, we would expect this to come down further, but currently feel that the guidance should remain. Our cost efficiency is ahead of guidance, and we will stick to the annual guidance of below 32%. Again, we will hopefully be able to update you all on this metric at the second quarter. No change to cost-of-risk guidance. And finally, on ROTE, given there is no change to the other guidance, we maintain our full year ROTE guidance of 15 to 16% for the time being. We will hand you back to the operator for Q&A.

Q&A

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question over the phone, please press star one one on your telephone keypad and wait for your name to be announced. To withdraw your question, please press star one one again. Please standby, as we compile the Q&A roster. This will take a few moments. And now we are going to take our first question. And it comes from line of Shabbir Malik from EFG-Hermes. Your line is open. Please ask your question.

Shabbir Malik (EFG-Hermes): Hi. Thank you. Can you hear me?

Lama Ghazzaoui: Yes, Shabbir.

Shabbir Malik (EFG-Hermes): Yes. Okay. So my first question is around your asset yield. It seems like asset yield has been lower versus the fourth quarter. What is the reason for this decline, considering that the SAIBOR has been broadly stable versus the fourth quarter? That is my first question. Secondly, we have seen very strong growth of deposits in the system. This has helped liquidity. What do you think has driven this? Have you been a beneficiary of these deposits? And do you think these deposits are going to be sticky? Thirdly, we have seen some news around government considering downsizing certain mega projects. Do you expect any slowdown as a result of this in terms of your loan growth appetite? Thank you.

Lama Ghazzaoui: Thank you, Shabbir. So on your first question for the yields on our internal data on yields would suggest that they've been stable quarter-on-quarter. Actually, SAIBOR did come down around ten basis points between the fourth quarter and the first quarter. But internal yield calculation shows we are fairly stable. On your second question on the deposits. So our deposits have grown 4% during the quarter versus 6% for the sector. The sector did see a big increase, notably in March in demand deposits. We were not impacted by this but have witnessed temporary fluctuations, to be honest, in our NIBs even during quarter two, which were largely transitory. So we expect that these NIBs in the quarter one to be also transitory in nature. And we have seen the cost-of-funds for the other banks and for the sector, the cost of funds have not been positively impacted so far. It is something that we will track over the next few months before we can maybe give another judgement on that.

On your third question, see, in our review, as Tony said, it is more of a reprioritization rather than a downsizing. For example, NEOM would have always started as a smaller development before progressing further. So it is a sensible approach, and we are not expecting a slowdown. And the pipeline remains healthy from what we see. We are still expecting the corporate sector to grow faster in 2024 than it did last year. We will still see some quarterly fluctuations because of seasonality. But of course, we have our innate lumpiness, but overall, we are not changing our overall assumptions or our view of the growth.

Operator: Thank you. Now we are going to take our next question. Just give us a moment. And the next question comes from the line of Rahul Bajaj from Citi. Your line is open. Please ask your question.

Rahul Bajaj (Citi): Hi. Thanks. This Doug[?] is Rahul from Citi. Thank you, Tony, Lama, Sirish. I have three questions. One is a follow up of the previous question on deposit inflow. So you mentioned that a lot of growth, a large part of the growth in deposits that happened for Saudi Awwal in 1Q came on the back of time deposits, whereas the sector growth has been driven by demand deposits. I just wanted to understand is SAB not able to or SAB was not positioned in that client base where the demand deposits came which is why we had to look for time deposits. So why SAB didn't get those demand deposits, which a number of banks actually ended up getting in 1Q, and particularly in March. So that is my first question. The second one is on the lumpiness of the sizeable jump in the retail book that we see in 1Q. Do you think is this kind of the normal run rate of growth that we should think going forward for the retail book, especially as some of the other large retail banks are struggling to grow their retail portfolios, or because of the higher level of interest rates? What is SAB doing differently which is able to help them grow the retail book faster than some of the large banks in the retail space. So that is my second question. And my third and final, if I may please is on the investment portfolio. We see a 5% drop sequentially in the investment portfolio of SAB. Whereas for most of the banks in the system, we saw that that part of the balance sheet growth on a sequential basis especially as banks are locking in higher interest rates with the investment portfolio. So why that change in case of SAB? Why has your investment portfolio dropped whereas the sector is going up? Thank you. Those are my three questions.

Tony Cripps: Hi. Thanks for the questions. On the NIBs growth in the first quarter, most of it was we think happened in March towards the end of the quarter. And the main concentration of it was with two banks. Some of the other banks got allocations. I think one bank described the allocation as transitory. And so we weren't the beneficiary of those deposits. And our NIBs were basically flat in Q1. So without that extraordinary large transitory flow, I think most people would have been the same. There wasn't any reason to think suddenly clients would not want to be looking at the previous trends of about half the client base being paid and the other half being CASA accounts. So the trend remained steady in our view. I think that is a bit of a one-off and not a trend. Our own strategy in transaction banking remains core to our attracting NIBs. Our NIBs are 50% corporate and a lot of it associated with large projects' capital accounts for projects, et cetera.

On the retail growth, specifically our own year-on-year growth was very strong. We built capacity and technology to be able to dial up volume, to capture market share where we had lagged. And we will continue to aim to capture market share. As I said, momentum both on the corporate and the retail side has been maintained in Q2 so far. But we will wait a month or two before giving revised guidance. Also, as Lama mentioned, our retail demand comes from a more affluent base which are less sensitive to rates at this point. So we maintain a positive view on the investment book. I think we previously have guided that our internal cap around the investment book is 30% of total assets. And we were very close to that limit. So we had some maturities which we haven't renewed. And the book is still positioned for a drop in rates as it comes through later in the year and into next year.

Rahul Bajaj (Citi): That is very useful, Tony. Thank you. Thank you so much.

Operator: Thank you. Now we are going to take our next question. And the question comes from the line of Olga Veselova from Bank of America. Your line is open. Please ask your question.

Olga Veselova (Bank of America): Thank you very much and good afternoon. My first question is on provisioning. Once again, why cost-of-risk was so low in the first quarter again. And also, how long do you think it will take for the cost-of-risk to normalize? Are we talking about quarters or years? My second question is on fees. There was a very nice pick up. What were the drivers for fee income in the first quarter, if there were any one-offs? And the third question is probably long-term question. You really show ability to outgrow the market because of your good low loan-to-deposit ratio which is advantage now. And in the long run, do you think it will continue to be a sustainable advantage or at some point, you think you will be at the market level and this ability to outgrow because of the better leverage, because of the better liquidity position will gradually fade away? I know it is a very long-term question, but just wanted to hear your thoughts. Thank you.

Lama Ghazzaoui: Thank you. On your first question provisioning. So yes, we did have another quarter of low ECL and the cost-of-risk was 14 basis points. It is largely driven by higher recoveries rather than lower charges. We charge whatever comes through or as outputs from the models or whatever is needed to be charged. But the higher recovery on the SAB-originated portfolio during the quarter resulted in lower net charge, as we mentioned earlier. We still maintain our 30 to 45 basis points of guidance for this year so you can take this into consideration. Your next question fees, fee income was higher. There were no one-offs. The short answer, was it was mainly driven by loan growth and the fees associated with trade business were also higher, but there were no one-offs in the first quarter.

On your third question, on LDR being lower, yes, it is an advantage for SAB has always been and this means we always have ample room to continue to grow. But not just maintain a certain ratio but also the quality of the lending is always the priority as well as the very efficient cost-of-funding on the deposit side. So although the ratio ends up being lower than market, we take care of the numerator as well as the denominator at the same time.

Olga Veselova (Bank of America): Thank you, Lama. Can I clarify answer to the first question? Would you say that the recoveries are running at above peers' pace and why?

Lama Ghazzaoui: You see, the composition of the portfolio drives the recoveries usually. So it is not a very fair comparison with other peers. Don't forget, we have taken large provisions in earlier years. We have written down during the merger and because of the merger accounting, we have written down a lot of the some of the assets basically that were borderline. We have written them down to fair value and now we are recovering on those as well as on the, on the previous NPLs. And hence you can see our NPL ratio is decreasing. Our coverage, of course, keeps increasing and hence our recoveries also are higher. It is because of the previous provisions that we have taken and the active management of and curing of these accounts where we have a very dedicated team for that, the special asset management team who is day in, day out ensuring we cure the accounts, recover, and ensure that they don't fall back.

Olga Veselova (Bank of America): Thank you very much.

Operator: Thank you. Dear participants, as a reminder, if you wish to ask a question over the phone, please press star one one on your telephone keypad. Now we are going to take our next question. And it comes from line of Mohammed Al-Rasheed from Ashmore. Your line is open. Please ask your question.

Mohammed Al-Rasheed (Ashmore): Hi. Am I audible?

Tony Cripps: Yeah, we can hear you loud and clear.

Mohammed Al-Rasheed (Ashmore): Okay. So, my first question is a follow up regarding the provisioning. I noticed that the net remeasurement of loss allowance or the loss provisions came at 110 million during the first quarter. This the lowest level in the last six quarters, and it was entirely driven by the POCI book. While stage three and stage two actually witnessed a net reversal of around 100 million. So can you please clarify what were the drivers behind the net reversal in stage three and stage two? gross provisions? And how do you see that going forward? my second question is regarding your, the calculation of your average interest bearing assets. I understand that it is calculated based on daily numbers, but it is always higher than the average pending reporting date by around 8 to 10%. So is this because of a high inter-quarter movement or very high daily movement compared to the end of period? Or are you including some items in the calculations that might not be interest bearing, such as reserve requirements or cash? So just a clarification the methodology of calculating your understanding assets would be very helpful. Thank you.

Lama Ghazzaoui: Back to your first question. Specifically, on stage two, the question why is stage two provisioning? Can you please repeat the question?

Mohammed Al-Rasheed (Ashmore): Yes. So the gross provision of the net remeasurement plus allowance for stage two and stage three was a net reversal or basically a negative by around 100 million, while all or most of your provision was towards POCI 195 million. So basically, what was the driver behind having a net reversal in the first quarter. I understand last year, the year before, there was some updates to the macroeconomic variable. But in this particular quarter, especially such a huge net reversal, I just want to understand the reasons behind it.

Lama Ghazzaoui: Yes, it is a combination of high recoveries as well as adjustments of some macroeconomic assumptions. So it is a combination of both. But largely, it is recovery.

Mohammed Al-Rasheed (Ashmore): Okay, but help me understand it, please. Shouldn't the gross provision not be impacted by recoveries? Or it is basically the high level of current recovery is impacting your expected loss given default? So that is the reason because I am talking about gross not the net.

Lama Ghazzaoui: Yeah, but when you recover on an account and it is taken out of the books, let's say, or settled, then the quality of the remaining book does not drive a higher provision.

Mohammed Al-Rasheed (Ashmore): Okay, so basically, you revise your estimate of loss given default and increasing your recovery rate?

Lama Ghazzaoui: Yes.

Mohammed Al-Rasheed (Ashmore): Okay, clear.

Lama Ghazzaoui: And your second question, this on the calculation of the average interest-bearing assets being the closing balance. Is this your question? Higher than the average?

Mohammed Al-Rasheed (Ashmore): Yes. So basically, your reported number is higher by 8 to 10% compared to if we take the beginning and end of period average balances. So is there a huge percent?

Sirish Patel: Mohammed, sorry, just looking at the numbers in the first quarter, our average interest earning assets were 366 billion and our closing total assets were 369 billion. So you can use total assets as a proxy for our average interest earning assets, but the difference isn't 8%.

Mohammed Al-Rasheed (Ashmore): Yeah, but the total assets will include items that are non-interest bearing such as reserve requirements, current accounts, etc . So basically, you are including these items in your interest-bearing assets calculation.

Sirish Patel: No, the interest earning assets calculation will include your loans, your lending to other banks and other interest-bearing assets. But you know you can use total assets to proxy if that is what you are using to model forward. If you look at a trend over the last two or three years, they follow each other quite in a synchronized fashion.

Mohammed Al-Rasheed (Ashmore): Yeah, that is clear to me. The difference around 15 to 20 billion seems to be arising from including items that are not interest bearing, such as reserve requirements or cash, et cetera. So, if you just can next time share the definition of your interest-bearing assets, that would be very helpful.

Sirish Patel: We can catch up on a call, Mohammed, offline.

Mohammed Al-Rasheed (Ashmore): Sure. Thank you.

Operator: Thank you. Now we are going to take our next question. And the question comes the line of Shabbir Malik from EFG-Hermes. Your line is open. Please ask your question.

Shabbir Malik (EFG-Hermes): Yes. I had a question around costs. So costs have been well controlled, at least relative to the sector, I think 4% year on year. Where with your plans, your strategic plans, do you see this cost growth increasing as you invest in that plan? Or do you think this this kind of cost escalation has more of a medium-term level or medium-term growth level for the bank?

Tony Cripps: Yeah. Hi. A good question. We came into the year with a specific plan, having invested in the prior two years. post-merger in technology, people training, our cost growth was, I think prior year was around 10%, 11%, 12%. So we decided this year in the plan that our growth would be based on a lower cost spend below 5%. And we had built the platform that gave us the ability to increase our volumes. We'd already done that. And so the first quarter is evidence that that investment last year is paying off. And we don't need to keep investing at that pace. One of the core planks of our strategy refresh is efficiency. Very focused on automation risk mitigation and better productivity essentially. So we don't need to keep growing our cost base and we are quite happy where it is.

Shabbir Malik (EFG-Hermes): Great. Thank you very much.

Operator: Thank you. Now we are going to take our next question. And the question comes the line of Hasan Alajmi from Johns Hopkins Aramco Healthcare, your line is open. Please ask your question.

Hasan Alajmi (Johns Hopkins Aramco Healthcare): Hello. Good evening. I have a question regarding the non-performing loans to total loans ratio, and the numbers that we have right now is basically Saudi Awwal Bank is about 3.2%, which is the highest among all other banks in Saudi Arabia. But when it comes to the provisions that were given for this quarter, it is about the lowest, just like a very low number. So what measures exactly have you taken to make that dramatic change from going at the highest non-performing loans to the lowest provisions for this quarter?

Lama Ghazzaoui: Yes, thank you very much. So if you if you had followed on SAB since the merger time where our NPL ratio including the POCI, which we took over when the merger happened, and we wrote them down to fair value. The NPL ratio was almost 5.6% at certain times, especially at the beginning of the strategy in 2021. So right after the merger completion, since then, we have worked in a very focused manner on curing the accounts on restructuring, rescheduling, whatever it takes to actually maintain the current NPL ratio of 3.2%, which you see is including the POCI. So this almost half of where we were three years ago. So the NPL ratio of SAB including POCI is not a very fair comparison to the rest of the banking industry. Look at the NPL ratio excluding POCI, which is at 1.7%, which is closer to the market average as we speak. So 1.7% excluding POCI, which gives you more of an indication of the actual quality of the book, excluding the POCI from the merger.

So the provisions we took in Q1, as we mentioned, were low because of higher recoveries that took place. These recoveries take months and sometimes years in the making. And when they materialize and we book them, it is definitely in a period completely different. And the way from when these discussions and when the restructuring or when the curing started and hence the level of recoveries in the first quarter. So we continue with this with these activities of trying to maintain a low NPL ratio. We were in the previous periods much more conservative in writing off loans off the books where we understand, especially on the corporate side. And our book is largely corporate. We were very conservative and slow in writing off lending loans or exposures when they become NPLs. And hence we did maintain a higher NPL ratio versus the average. Now we are more in line with the market average.

Hasan Alajmi (Johns Hopkins Aramco Healthcare): Thank you so much for the elaboration. I really appreciate it. Thank you.

Operator: Thank you. Now we are going to take our next question. Just give us a moment. And the question comes the line of Naresh Bilandani from JP Morgan Bank, your line is open. Please ask your question.

Naresh Bilandani (JP Morgan): Thank you very much. Hi, it is Naresh from JP Morgan. Just one question, please, and thanks a lot for the presentation and congrats on the results. We have seen a decline in the RWA density and even while you have had a very strong volume growth in this quarter, we have actually not seen much of a movement in the credit RWAs. Could you please explain the reason for that? That is one. And how should we think of the RWA density going forward? That is one. And second is from the strong mortgage originations that you've had in the first quarter could you please explain the sustainability of that? Because the mortgage rates are rising in the system. And if you can, please just elaborate on how much of these originations were REDF versus non-REDF. That would be extremely helpful. Thanks a lot.

Lama Ghazzaoui: Thank you. Naresh, on your first question we have been, and we did allude to that in previous calls. We have been going through a significant piece of work. And we always do to look at optimizing our capital and the RWAs associated. This ongoing work, but particularly this quarter, we have identified a number of avenues where we did optimize some RWAs. And this has offset the growth in the RWAs from the new loans. So for the first quarter, this was approximately 70 basis points of CET1. Hence, you see that there was no major pickup in our credit RWAs. This ongoing work. We will continue to, of course, 100% compliant with all the rules and regulations. But we continue to look through to maintain as efficient capital as we can.

On your second question, on the mortgage growth, sustainability, of course, a challenge on cost-of-funds is not just for SAB, but across we are still maintaining a very healthy outlook for mortgage. We can see the pipeline and we know that quarter two has once we went into quarter two, we have seen this momentum continuing. So hence, we continue to guide towards a similar growth in mortgage for the remainder of the year. And for your question on REDF versus non-REDF, it is around 50/50 of origination.

Naresh Bilandani (JP Morgan): Thank you. That is very clear. just as a quick follow up, would you please be able to share some thoughts on the level of competition pricing that you've seen in the non-mortgage retail products across the system? Any comments you can share on that? That would be super helpful. Thanks.

Lama Ghazzaoui: So on the non-retail products, which is primarily personal finance, we don't do auto loans. It is the competition is heavy it is driven by demand basically. And we understand sometimes we take two in one, for example, or most of the times, our personal finance growth is associated with, with the mortgage product. So it is net, of course, we always make sure that we are, of course, generating the right levels of returns, but as we speak, cost of fund is I think is the biggest challenge, regardless of whether it is a mortgage product or none. It is it is overshadowing the activities. But we are still the lowest in terms of cost-of-funds. So this gives us still some more room to compete.

Naresh Bilandani (JP Morgan): Thank you, Lama. We appreciate it.

Operator: Thank you. Now we are going to take our next question. Just give us a moment. And the next question comes the line of Jon Peace from UBS. Your line is open. Please ask your question.

Jon Peace (UBS): Yeah. Hi. Thank you. Could I just ask a quick follow up on non-funds income? I appreciate the other income line can be quite volatile from quarter to quarter. But there was a big sequential quarter step up in the first line of fee income. And I just I take on board your comments that there was nothing exceptional in there, but does that mean that we can consider a number well, north of 300 as a sustainable run rate? I just wanted to get a bit more color on what was driving the quarterly trend there. Thank you.

Lama Ghazzaoui: Yes. Thank you. So the first quarter, fee income was roughly around 350 million. And as we said, it is largely a clean number. It has been helped by a stellar loan growth we have seen in the first quarter. And, yes, we would expect that fee income could marginally moderate for the remainder of the year. But on average the 300 to 350 is the range that we expect in the following quarters.

John Pierce (UBS): Perfect. Thank you.

Operator: Thank you. Now we are going to take our next question. And the question comes the line of Waruna Kamaraj from Sicobank. Your line is open. Please ask your question.

Waruna Kamaraj (Sicobank): Hi. Good afternoon. Thank you for the presentation and the call. I have a question the net interest margins. Lama, you mentioned that the NIM pressure is mainly coming from the funding side especially I mean, coming from the funding mix because of time deposits. And you mentioned that this liquidity situation might result in this pressure continuing for the near future. So I want to understand how much do you expect a significant downtrend from here or is it going to be minor? And secondly, I want to understand the NIM sensitivity guidance that you are giving, which is one to three basis point for every 25 basis points cut. So how should we look at this? Should we think of this as sensitivity for like a very significant decline interest rates because it doesn't seem to be really reflecting in the numbers right now. So this NIM sensitive, will it result in later in the cycle when the Fed starts cutting this? That is my other question.

Lama Ghazzaoui: Yes. Thank you. So on your first question. Yes, there is pressure from the current rate environment and on the cost-of-funds level. But we did in the last two years expand our fixed rate assets levels to minimize the impact of further pressure. But we keep saying again, all things equal. So at the current level of NIBs that we maintain and with every 25 basis points. Yes, it is one to two basis points sensitivity. So we have managed to stabilize our NIM so we again, at current levels of non-interest bearing deposits we do expect similar levels of NIM with less sensitivity. On your second question, could you help, please repeat that?

Varuna Kamaraj (Citgo): Probably just a follow up I mean, this one to three basis point, because what I am looking at is based on the type of movement during the quarter, it didn't really correspond to the NIM movement in that you reported, which is far deeper, which I think is mostly related to cost-of-funding. But what I am saying is when can we see, like a more normalized movement of these NIMs?

Lama Ghazzaoui: So the SAIBOR moved around, what, ten basis points between the beginning of the year and the end of quarter one? So, yes, it has not corresponded because it is not a big shift. And also, our NIM has, has only moved excluding the one-off of 50 million in quarter four, which we talked about the suspended interest. Our NIM has only moved by two basis points, which is in line with the guidance and with the expectation.

Varuna Kamaraj (Citgo): Okay. Right. Thank you very much.

Operator: Thank you. Now we are going to take our next question. And the question comes from the line of Olga Veselova from Bank of America. Your line is open. Please ask your question.

Olga Veselova (Bank of America): Thank you. It is a small follow up. Historically, SAB was relatively small in SME lending. What is your risk appetite in this segment now? And how severe do you think the price competition is there? Thank you.

Tony Cripps: Thanks, Olga. It was part of the original strategy announced three years ago that we would be focusing on SME. We put in place new technology so we could scale up. It is a very small part of our book overall. Starting out from a base of around 1%, if you look at on the lending side, we were just to get it in perspective. We were onboarding about 100 SME customers a year ago, we are now onboarding 500. And we are a strong participant in Kafalah. We work closely with the SME bank, and so we'd expect to at least triple the size of the business. Possibly longer term, up to 5% of our portfolio would be SME. And we are making really good progress. We have invested not just in technology, but also in people. And it is very much part of the growth in the non-oil part of the economy is obviously partly going to be driven by SME.

Olga Veselova (Bank of America): Thank you. Tony, can I ask what is the level of interest rates in SME segment now?

Tony Cripps: It depends. We don't look at an average and we have different segments. We have micro, mid and upper. So it depends on the segment. So yeah, obviously the margins are depending on credit are different, but it is a healthier set of margins in general. And also, SME books mostly tend to be liability driven as well. So it provides us with good funding support.

Operator: Thank you. Dear participants, as a last reminder, if you wish to ask a question or just some to do some kind of comment, please press star one one on your telephone keypad. There are no further questions. I would now like to hand the conference over to Tony Cripps for any closing remarks.

Tony Cripps: Great. Thank you and thanks for everyone attending the call. We are obviously pleased with the momentum continuing from 2023 as we deliver the plan over five years, and we are confident that the momentum will be maintained and the guidance we have given will be upgraded again at mid-year. Overall, the macro environment we are always aware of, of risks, geopolitics and shifting macro environment. But in general, we are expecting rate cuts to happen later in the year, which will be supportive for the economy, the non-oil sector in particular. And so, that is partly why we maintain confidence. And of course, Saudi's own inflation challenges are much lower than elsewhere. So with that, thank you very much for the call. Look forward to speaking to you again mid-year. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now all disconnect. Have a nice day.