SAB Q2 2024 Results

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PUBLIC

Sirish Patel: Thank you. Hello, and welcome to our results call for the second 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 an update on the second quarter performance. And as always, Lama will focus in on some of the key stories and themes, before proceeding to guidance and Q&A.

I will now hand you over to Tony to start the presentation.

Tony Cripps: Great. Sirish, thank you very much, and welcome, everybody. I will just start by talking briefly about the macro assumptions that we are working with, which have not really changed despite the fact that there has been some market volatility. This is, I think, more to do with deleveraging as a result of higher Japanese interest rates and the carry trade being unwound. More so that probably than a recalibration of the market's outlook for growth.

So therefore, the soft landing scenario in our view still is the highest probability. And our assumptions around interest rates are in line with the Fed's own soft landing forecasts.

So with that in mind, the Saudi economy is doing well and should continue to do well with rate cuts from central banks coming through next year gradually. And that is built into our assumptions. And the Ministry of Finance published its Q2 update and showed a small deficit.

The oil price sits roughly in the ranges that we built in between $80 and $90. Inflation is low, employment is strong, and the investment from the government in Giga projects remains on track, although there has been much discussion about recalibration. And that is not at all surprising, giving additional project demands coming through from Expo, potentially the World Cup and maybe other events as well.

So the sector saw positive loan growth and positive and strong deposit growth as well. The Bank's aggregate profits also grew and low double digit growth for the first half. Moving in for us, we had a very good first half, which Lama will talk in detail about, stronger than market growth, leading profit growth, leading loan growth. And so we're quite pleased with momentum.

In more detail, we delivered 6% loan growth in the second quarter. Corporate originations were the highest level on record. And as per the previous quarter, we have been across a number of sectors, and therefore not overly concentrated in any particular sector.

As I said, Giga project growth is still there and we have a strong corporate ability to support with our international connectivity with the HSBC Group giving us very strong capability in construction and dealing with international EPC contractors.

Now we grew our retail book also very strongly by 5% during the quarter. As per the strategy, this is focused on the mortgage portfolio, which, at a sector level, did slow down mainly or partly due to seasonality, but perhaps something to do with slightly higher rates. But it is very pleasing. We still took significant market share during the quarter, and that

took total year-on-year retail growth to 25%, which is between 4 and 5 times the level of the market.

So in aggregate, we grew the loan portfolio 6% in the second quarter, 12% year-to-date, which is leading. From an off-balance sheet perspective, we further consolidated leadership with 9% growth in our trade assets, which means we cover nearly a quarter of the market now.

We continue to grow revenue, hitting SAR3.5 billion in the second quarter. Growing revenues when rates have essentially peaked can be or has been historically, for SAB, a challenge which is much less so now given our NIM sensitivity is much lower to rates by design, but our volume growth is more than offsetting our higher cost of funding pressures and therefore allowing us to grow our profits.

We are capturing much more fee income, with 8% quarter-on-quarter growth, supported by our trade business, our capital markets business and increased loan originations. Also very strong FX in relation to customer growth.

The Q2 cost of risk increased marginally. But in the grand scheme of things, cost of risk remains low and within our range. We continued cost control as guided. And all of the above meant that our first half RoTE grew to 16.4%.

And lastly, as all of you know, we have a healthy balance sheet and healthy levels of capital, liquidity and funding. Our balance sheet has been positioned for a falling rate environment for the past 12 months. And that expectation is growing into Q4 and into Q1 and into 2025. So the market now is expecting more cuts than previously, although that varies quarter-on-quarter depending on market volatility.

Our sensitivity has not changed from the guidance we have given before. So NIMs sensitivity is between 1 to 3 basis points. As I said, we are seeing very good volume growth in our portfolio. And this is allowing us to grow profits.

So with that in mind, I will now hand you over to Lama to go over more detail on the financial results and then into Q&A. Thank you.

Lama Ghazzaoui: Thank you, Tony, and welcome, everyone. As usual, I will take you through the key financials and then we can move to the guidance and Q&A.

On headline numbers, we generated SAR4.1 billion of net income for the first half, up 23% on the first half of last year. And this is driven by 10% higher revenue, together with 48% lower impairments. These factors were partly offset by a 6% increase in operating expenses, which is in line with expected cost growth. Obviously, really pleased that we are still seeing over 20% year-on-year growth in profits and earnings per share.

On a quarterly basis, we generated SAR2 billion of net income, which was up 30% on the second quarter of last year. And this is driven by 14% higher revenues, partly offset by 8% higher costs.

Compared with the trailing quarter, net income was marginally down quarter-on-quarter, as during this quarter, the net income of SAR2 billion was driven by revenues of SAR3.5 billion, with costs of SAR1.1 billion and impairments of SAR100 million. Revenues increased again sequentially to SAR3.5 billion, a new record. And this is very pleasing as we have seen our

volume growth more than offset cost of fund pressures, which led to sequential growth in net special commission income. And on top of this, we have seen a healthy increase in fee income and exchange income. And we look into more details on the revenue slide.

Because of the strong revenue performance, we have elected to bring forward some costs, which meant a resilient but minor 2% increase in the cost base. So pre-provision profits have also sequentially grown quarter-on-quarter.

Another quarter of solid financials has resulted in a RoTE of 16.4% on a post AT1 coupon basis for the half. Cost efficiency ratio further improved, reflecting the higher revenue together with strong cost control. And common equity tier one ratio of 16.3% and a total capital ratio of 19.6% reflects our position as a well capitalised bank.

Onto balance sheet. We had a brilliant start to the year with 6% loan growth in the first quarter, and this has continued, as Tony highlighted, with another 6% in the second quarter, bringing year-to-date loan growth to 12%, significantly ahead of the sector.

Deposits have grown 5% during the second quarter and pleasing to see demand deposit growth of 3% during the quarter, and our investment portfolio remains steady at SAR92 billion.

Onto slide five, which shows our quarterly revenue build up. At a total level, we hit SAR3.5 billion of revenue in the second quarter. Our corporate and retail businesses saw good growth in sequential revenues. Core Treasury revenues also grew, but total revenue from Treasury business fell as the first quarter benefited from some significant trading gains, which can be fairly volatile quarter by quarter.

Also good to see that current revenues are nearly 75% higher than our quarterly revenue at the start of 2021, again, a fantastic achievement.

Onto slide six, and for a further dive into the dynamics of revenue for the second quarter. We show the normal quarterly buildup of net special commission income, average interest earning assets, NIMs, yields and cost of funds. The second quarter to-date, net special commission income grew sequentially, and this was driven by asset growth, partly offset by NIM compression. And NIM compression was purely reflective of higher cost of funds as we grew our time deposits, but positive to see yields also remaining stable.

Year-to-date, NIM was 2.9%, so at midpoint of our full year guidance. Second quarter NIM clearly is at the lower end of the full year guidance, and despite more confidence in near-term rate cuts, we do not expect a sharp, instantaneous reversal in the NIBs ratio. And given our growth plans, we do intend to grow NIBs balances in the second half of the year. But time deposits are also likely to grow faster, and we'll come to the guidance at the end of the presentation. But we are expecting second half NIMs to come down a little further from the second quarter level.

Non-funds income were strong in the second quarter, in part supported by higher origination fees from lending activities, but also our trade business performs well and our capital arm, SAB Invest, continues to grow its contribution to bank level revenue. Fee income in total grew 8% quarter-on-quarter. And in this slide, we have broken out the proportion of revenue related to our trade business.

Exchange income also grew 8% quarter-on-quarter from increased customer activity. And other income was also strong at SAR102 million for the second quarter. But this was lower than the first quarter as the first quarter benefited, as we said, from significant trading income, which can be volatile at times. However, to reiterate, delivering over SAR100 million in a quarter remains ahead of our internal plan.

On slide seven, we show our cost build. Our costs are within expectations and up on the first quarter. Cost efficiency ratio for the first half was 30.6% and remains fairly stable in the second quarter.

On slide eight, impairments for the second quarter came in lower than what we had originally expected, and this is a combination of lower charges, mainly as a result of renegotiated positions, with a handful of clients and another handful of recoveries.

Cost of risk for the quarter was 19 basis points, and year-to-date remains below guidance range at 16 basis points. Our NPL ratio at a total level fell to 3% and at 1.5% when we exclude the POCI portfolio; coverage remains high at 166%.

Onto balance sheet on slide nine. The momentum of loan growth has clearly continued for the Bank into the second quarter. At an aggregate level, we grew balances at a further 6%, taking year-to-date growth, as we said, to 12%, and year-on-year growth remains above 20%. We remain the fastest growing bank in the Kingdom.

Corporate originations grew in the second quarter. Much of this was as expected, although a small amount was originally planned for the third quarter, and therefore has been pulled forward. However, despite this, we still expect and plan to grow ahead of the market for the remainder of the year.

Retail lending also remains strong, with 5% growth in the quarter. Mortgage originations have slowed during the quarter at the sector level, reflecting the seasonality, of course, but our market share of originations still remains strong, with nearly 14% for the first half of the year, which is still an increase on the market share achieved in 2023.

And we have noted the increasing competition in the second quarter, as some of our competitors are now live with their own products for some of the more recent subsidy changes. However, our first half origination market share is still well over 2 times our market share for the stock. So very pleasing.

Trade balances grew 9%, and we did solidify our leading position here with a quarter of the market.

On to slide ten. For funding and liquidity, which remain strong. Our NIBs spot balances grew in the second quarter, which in itself is a challenging achievement in the current high rate environment. We have grown the interest-bearing portion of deposits as the funding source for the accelerated growth in our loan portfolio, and 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, but remains our biggest headwind to expanding absolute net special commission income.

Moving on to returns. We generated 16.4% RoTE for the first half, and this is after payment of the AT1 coupon payment. This keeps us above our full year RoTE guidance, and we are very pleased with the buildup of returns. CET1 of 16.3% has decreased during the quarter as

we made the 2023 final dividend payment, and this, together with the growth in the balance sheet, has driven the reduction. But during the quarter, we made further improvements with our capital optimisation programme, which benefited the quarterly movement by 30 basis points on top of the 70 basis points during Q1, meaning, we nearly achieved 1 full percentage point of CET1 optimisation.

Capital levels are very strong, with total tier one ratio of 17.6% and total capital ratio of 19.6%.

On to guidance. We make several updates, but let me walk you through each metric to discuss the risks and opportunities.

Loan growth has been particularly strong and we expect to continue growing ahead of the market. The sector year-to-date growth stands at 7%, and year-on-year growth is at 12% for all the banks together. We take the view that sector growth for the full year improves a little to 12% to 14% mark. But despite taking advantage of our pipeline and pulling some originations early, we still feel confident that we can grow ahead of the market for the remainder of the year, and therefore, we upgrade our guidance to mid to high teens for loan growth for 2024.

Year-to-date, NIM is a few basis points behind plan, and this is driven by the higher proportion of time deposits during the quarter and the year-to-date. As mentioned in the previous point, our plans for loan growth are on track and we will fund this through sensible deposit growth. We are growing our NIBs balances, but clearly time deposits are growing at a faster pace. But we feel the drops we have seen in our NIBs ratio so far this year should lessen for the remainder of the year, and we expect this to translate into further NIM contraction in the second half, but the pace of the decline will lessen. So we expect to be at the lower end of the original guidance. Therefore no change to the overall NIM guidance.

We are factoring two to three cuts in the second half of the year, but we feel this is likely to have a limited impact on 2024 outlook. Temporary, there is the possibility that we get an improvement in NIM in the second half from timing dynamic of deposit repricing faster than loans, but we have not included this in our current 2024 outlook, given all the various moving parts.

And finally, on this point, we still expect to expand absolute net special commission income for Q3 and Q4. However, the quarter-on-quarter increases are likely to stabilise over the short term.

Cost efficiency is ahead of guidance, but for the time being, we will stick to the annual guidance of below 32% in order to give us some flexibility on further investing. But upside risk definitely exists here.

We have upgraded cost of risk guidance for 2024 from 30 to 45 basis points to be 25 to 40 basis points. As we have said on many times before, because of the profile of our portfolio, we can be hit with lumpy charges. But given the better than expected Q2 ECL print and the outlook for the second half, we are confident that we will be in the lower end of the guidance.

And finally, we maintain our RoTE guidance. There is potential for upside to RoTE, given the strong first half performance. Once we have completed Q3, we will probably be in a much better position to advise on this.

With that, I will hand you back to the operator for Q&A. Thank you.

Q&A

Shabbir Malik (EFG Hermes): Hi, thank you very much for this. You mentioned you had this rate cut sensitivity, every 25 basis points is 1 to 3 basis points. I just wanted to understand what are the factors you think that could lead to a different sensitivity or what other factors should we also consider? Like changes in balance sheet structure or competition, which could mean that the actual sensitivity is different from this one. So if you can maybe talk us through that, it would be very useful.

And secondly, in terms of loan growth, we've seen very good loan growth. I am sure the pricing on these loans is pretty tight. I just want to understand how the whole economics of this relationship works out. Is there any other features like maybe payroll or non-funded income that also comes in with these new lending so that maybe there is - or maybe from a credit risk perspective, it is much lower than your existing book. So how do you justify maybe the tight spreads on these loans? So those two questions, please. Thank you.

Tony Cripps: Thanks, Shabbir. On the sensitivity, we have previously said and we continue to build the fixed rate proportion of the balance sheet, which is lowered our NIM to rate movements up or down. But we have also previously said we have an investment book above 90 billion of fixed rate, almost all fixed rate maturities with an average of five years or a bit longer.

Now, building the interest rate sensitivity scenarios does not completely reflect the possibilities around this effective hedge position, if you like. But we know that the large position is there within the Treasury book. Not all of it is classified in a way that would allow us to realise P&L if we thought interest rates had gone low enough, for instance. But there is that capacity. We are not forecasting including that, but that is a way in which our NIM sensitivities are able to be further reduced, essentially depending on the decisions we make around the investment book. So that is something that we do not price. So I guess I am comfortable that as rates fall, our profits historically would not repeat what they did in the past is the point.

We have the capacity, providing our volume forecasts are accurate, that you will see volume growth at what we guided, which is at or above market, or we expect to be above market. And on that basis, our profit growth will also be there roughly in line. So we have got some levers that we can pull. I think that is what is making me feel comfortable.

Sorry, Shabbir, can you repeat the second question?

Shabbir Malik: Yes. So we have seen good loan growth for the bank above market. So I am assuming, the pricing on these can be pretty competitive and tight. Is there other avenues which maybe the relationship in terms of loan pricing is quite tight. But maybe there are other features, like for example, payroll or cross-selling opportunities, or maybe the credit risk profile is much lower. So how are you justifying this? And in terms of the return on equity, is this new lending RoE accretive or RoE neutral? That is what I want to understand.

Tony Cripps: Yes, our yields are stable. And we have, I think, a leading advantage in cross-sell with our international connectivity and the types of clients we are lending to for these

giga projects. So our capability to enhance low yields on pure financing with ancillary business, I think is stronger than anyone. And so that is how we are maintaining our yields even though there has been margin compression.

You saw excellent results around the growth in our fees, FX as an example, where we saw significant market share gains in FX capture. So yes, I think we are able to withstand some compression in yields on lending because we have the capacity to capture more ancillary than most. But there are deals that we do not participate in. To your point, where it is not accretive, we would not participate. We measure client relationships in total return. And we have thresholds that we do not go below unless there is very important strategic reasons to do so. So we are happy with the way things are going.

Gabor Kemeny (Autonomous Research): A few questions from me. First one is a follow up on your NIM sensitivity. Can you elaborate a little bit on these levers you might have to pull? Shall we think about terming out your securities book, investing additional liquidity into securities or derivatives or something else?

The second will be on loan growth, where your guidance, I think, implies some slowdown in the second half, and I understand that you are expecting to grow more than the market, but this mid to high teens I think implies maybe half of the level what we have seen in the first half. So how much conservatism has been built into that.

And my final question will be on the initiatives. Given that you have more of a buffer to spend and invest, can you talk about what potential initiatives do you have in mind? Thank you.

Tony Cripps: On the first question, as I mentioned to Shabbir, we have levers within the investment book that we do not build into forecasts, but a fair amount of the 90 billion that we have in the investment book, which is fixed rate, we have capacity to manage different scenarios. And on lower rate scenarios, the capital gains on those investments will obviously be higher. We have the capacity to realise those capital gains through the P&L if we choose to, or we can maintain much higher NII from those fixed rate investments, and we could hedge them through derivatives, and therefore lock in those higher NII returns.

So yes, we have these levers, not so much through derivatives, but just the investments in our sovereign bonds that we have been building up over the last 18 months. So we are quite pleased that we have those levers in place.

Lama Ghazzaoui: Your second question on the loan guidance for the second half, you are asking how much conservatism we have baked into this. Is this what I get, Gabor?

Gabor Kemeny: Yes.

Lama Ghazzaoui: Yes. So yes, we did have good growth in the first two quarters. We have outperformed the market. And we are confident that we will continue this in the second half. Again, I did mention that we brought forward some of these exposures from the second half into the second quarter. But we do assure that our pipeline is strong and we expect to continue to grow.

The pipeline, we review it very frequently. And whatever level of prudence that we put into the guidance for the second half will still achieve us above market growth. But we have to also always remind everyone that we have a unique skew in our corporate portfolio to large

corporates, the institutional, the multinationals and the likes. So when we see good potential for this growth to continue, it does come in more of a lumpy manner than maybe other peers.

Your third question is on initiatives in investments. You mean in IT and systems?

Gabor Kemeny: Yes. I suppose, yes. I mean, you mentioned more room to spend and given the revenue trajectory. So any colour there.

Tony Cripps: Yes. We have guided that going into an environment where interest rates start falling, revenue growth becomes less than it has been as interest rates were rising and our NIM sensitivity was 10. That is obvious. So we focused specifically on efficiency in our strategy refresh, which is making sure that we are getting, first of all, we have good cost discipline, which we are demonstrating. And secondly, the value of our investments is in the right place. We did a lot of investing in the previous three years on client facing systems and revenue growth. And what we are focused on now that we have got these systems in place in the institutional business, in the retail business, and in our SME strategy, we have got the capacity to direct more investment into efficiency. And that would be automation in finance, automation in our ops.

And this not only makes us more productive, it also de-risks the bank when you start moving away from manual processes. So hopefully that answers your question. But we will maintain a fairly strong cost discipline going in. It means we are spending more, but we are spending it in the right places.

Jon Peace (UBS): My first question is just in terms of funding the high lending growth rates. Are you still confident you will be able to manage the capital ratios to keep a 50% cash dividend through the course of your next three-year plan?

And my second question is just on the cost of risk. I wondered if there was potential further upside to come in even below the low end of the new guidance. I think some of your peers have talked about the potential for some exceptional recoveries in the second half of the year.

And if I may ask, a quick third one. Sorry if I missed it in the presentation, but do you have the balance of outstanding mortgages as opposed to new origination? Thanks.

Lama Ghazzaoui: Hi, Jon. For your last question, it is around SAR32 billion, the stock of mortgage currently. On your first question, funding the high lending growth, and how much are we confident that we will keep the stable? Yes. How much can we keep the capital levels to maintain dividend distribution, right? This is your first question.

Jon Peace: Correct. Yes.

Lama Ghazzaoui: So we focus on capital preservation and capital availability for growth in a very strict manner. We ensure the availability of capital, not just for the short term, but definitely medium and longer term. And we have created a lot of initiatives, as I said, around 1 percentage point of capital optimisation just from internal initiatives without going externally. That coupled with any capital enhancement, let us say, a tool will definitely continue to support the lending growth but also sustain the dividend levels.

The levels of dividend that we had announced of 45% to 55% distribution, for now, they still hold, again with the planning that we do for the short term and the medium term, we still

foresee that we will continue with this dividend distribution level. Then again, we continue to say all things equal and just put a caveat to that.

Your second question on cost of risk. Again, this is a corporate bank. So the profile of the portfolio is usually lumpy and also the charges could be lumpy as well as the recovery. But what we look at is to continue to be at the lower end of the updated guidance for now.

Naresh Bilandani (JP Morgan Chase Bank): Just three questions, please. One, just going back to asset quality. It would be very helpful if you can please share, what is actually leading to a low gross impairment charge that we have seen in the first half? I think the run rate and movement of provisioning, when I take a look at the gross charge, it is roughly about 26 bps annualised compared to 45 bps in the first half of last year. So while rates remain elevated, just keen to understand what is helping you in the portfolio overall to maintain a low charge at this stage? That is first.

Second is contrary to what we have seen in the peers in the first half, your RWA density has also continued to drop. Could you please throw some light on how you are achieving this despite the strong credit growth?

And my third and final question is, while you mentioned the investment book as one of the levers for locking in elevated rates, the investment book is actually still flat over the quarter and negative year-to-date and year-on-year. So could you please explain why this is happening and how should we model the mix of investments within the balance sheet over the next year or so. Thank you so much.

Lama Ghazzaoui: Hi, Naresh. Thank you. On your first question for asset quality, why the low charges? We negotiated a couple of positions with a small number of clients. And also we had another handful of recoveries. It is a combination of both which led to the low cost of risk in the first half. We are looking also at a number of historic challenged corporate accounts. And we hope also to gain some earlier than expected recoveries. And therefore, we are signalling towards a lower guidance.

We have always said we have a dedicated team, the special asset management team who look at each and every account, regardless of whether it is legacy or regardless of the vintage. And they make sure that we get the best returns out of it. But we always have to assure that there is no underlying, of course, asset quality concerns. And we continue to operate within this range.

Your second question on RWA density. As I said, we have been going through a significant piece of work to optimise our capital and our RWAs associated with this. This work is ongoing. And during the year, as I said, we have achieved 1 full percentage point of capital optimisation. And we look at how much the regulation and the Basel rules can give us the flexibility so we can benefit from those.

So this is just a continuation of the efforts that we have started late last year.

Third question. Tony?

Tony Cripps: Yes. Hi, Naresh. I will take the last one. So the strategy of the investment book was to build the fixed rate book to nearly to our internal cap. We set an internal cap of around 30%. And so we got close to that when the portfolio got to about 95 billion. It has come back a little bit. And again, we are maintaining a ratio near our cap.

I mean, the volatility in rates has been enormous. You have gone from 5% to 3.5% back again and now back down again. So there is a fairly significant mark-to-market variance in the book. And it runs at about US$10 million a basis point. So we feel that the size of the book in that range of 90 to 95 billion is more than enough to provide us a buffer, if rates should go to 3%. You do the maths yourself, that is 10 million per basis point. So US$1 billion for every 1%. That is a large position. And it is a position that we have set within our internal caps. And we did not want to change or increase our internal caps because we are relatively conservative.

And the market at one point was saying rates would not fall anymore. And that was only three months ago. So it is the right size position. And yes, as I said, we have these internal caps and we are a primary dealer, so we have commitments to take on more of the issuance. So we just leave ourselves with that capacity.

But believe me, the position is more than big enough to give us this hedge on the way down.

Murad Ansari (GTN Middle East): Just a follow up question on the investment book. I think you mentioned during the call that you have increased the duration of the investment book to roughly about five years or more, if I heard that correctly. And it is largely fixed rate. So just confirming that, the investment book yield should continue to sustain around where we see today on what the existing book is for the next year or so.

And also, I think there is a slight shift in the composition of the investment books. So until mid-last year or third quarter last year, there was a bigger proportion in the amortised cost book and a relatively small proportion in the AFS book. And that has shifted. So given what you highlighted in terms of rate sensitivity, that should mean that this should be fairly positive on mark to market gains as interest rate cycle reverses and should be supportive for your capital. Is that read correct? Thank you.

Tony Cripps: Yes, that is absolutely correct. And that was the message I was trying to convey. We have deliberately structured the book to give us a lot of flexibility when rates fall. As I said, the sensitivity of the book is over US$10 million per basis point. I mean, you do the math. If you think rates are going to fall 1%, that is great.

So yes, we designed this. We designed the book for this exact purpose. The timing of the move down from the peak in rates is never a science. And so we started to build the book 18 months ago. But we kept investing and getting the yield up to where we are happy with it. So you are exactly spot on. You have read our behaviour exactly right.

Murad Ansari: All right. Thank you. A couple of follow up questions also on loan growth and asset quality. So on loan growth, you mentioned given the nature of the bank corporate focus, growth can be lumpy in one quarter. The second quarter growth that we have seen incremental, would it be fair to assume that this is largely project-driven drawdowns on committed lines that is coming through? And how do you see that evolving, given how lumpy this has been in this first half and also in context that the fact that banks generally in Saudi tend to see first half to be stronger in terms of loan growth, third quarter being slightly dull and then again activity picking up in fourth quarter. Just your thoughts on how you see loan growth behaving over the maybe third quarter and fourth quarter.

And lastly on your stage-wise provisioning. So just wanted to understand this. Because I was looking at the numbers, it seems that you have had a very strong quarter in terms of growth across all segments. But when I look at, your Stage 1 loans have risen. It is not a material number, but I just wanted to understand how this works. So you have actually Stage 1 provisions have slightly come off from where they were in the previous quarter. Stage 3 can be explainable by the improvement or as you were talking about negotiations and recoveries. But Stage 2 has increased. So I just wanted to understand. My thought was that as you put on every dollar of loan on the book, there is a charge that goes in, and that for good quality assets that would all show up in Stage 1 provisions. So just your thoughts on those two areas. Thank you.

Tony Cripps: On the loan growth, yes, the seasonal trend is typically stronger in the first half. The third quarter is often a bit softer because of the summer break. And then things pick up in the fourth quarter. So that is why our forecast for the second half are a bit slower than the first half.

On sector concentration, I mentioned that we are not overly increasing any specific sector. Construction is obviously one of the biggest and is strongly related to bigger projects, but also property. And our concentration in construction specifically has not increased. So that means we are well diversified across many sectors and we are seeing pretty consistent growth across all of the sectors actually. So that is pleasing.

I will hand over to Lama for the next question.

Lama Ghazzaoui: Yes, for the staging provisions. Of course, we follow IFRS 9 and our model outputs and we allocate the provisions whatever the model spills out. And we ensure that we maintain our coverage ratios at the levels planned. We have also managed our NPL ratios with and without POCI in a very efficient manner. And the cost of risk for the first half or for the first six months has also been around the levels that we intended to be.

So Stage 1 is usually when the loan is booked, and this almost goes in line with the growth in the lending book. But Stage 2 and Stage 3 are dependent on customer by customer allocation and provisioning decisions.

Sirish Patel: Sorry, just to add to that, in our Stage 2 proportion, following the merger of our loan book was about 16%. It is now half that. It is closer to 8% or 9%. So since the merger, we have been on quite a journey. But things like Stage 2 proportion, NPL ratio, cost of risk are all coming down.

Murad Ansari: Sure. Thank you. And how often do you revisit these assumptions driving your IFRS 9 provisioning model is? And when was the last time you made any changes to those?

Lama Ghazzaoui: So we go through this exercise when we do the model validation, when we perform the model validation, which is a yearly exercise. And the inputs into the model. So the inputs in the model are usually frequently looked at. So at least on a yearly basis.

Tony Cripps: Thank you all very much for joining the call. As I said in the beginning, it has been a very pleasing first half. And aside from financial growth, we are very pleased with the other initiatives, the other areas of focus. ESG has been a particular focus for SAB over the

last few years, and we are working hand in glove with the government around sector capability, which we are very pleased with our digital transformation accelerated.

Our specific focus on innovation and support of the visions focus on fintech, as an example. We have done some significant work around that. Our support of the SME sector. Again, our growth, it is off a low base. We have guided that before, but it is very pleasing to see all of that happening as well as our financial results.

So with that, I will thank you again for joining the call. We look forward to talking to you again next quarter.

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