Alinma Bank Q3-24 Earnings Conference Webcast Transcript **Monday, 04 November 2024**

Operator Hello, everyone, and welcome to today's Alinma Bank 2024 earnings call. My name is Seb, and I'll be the operator for your call today. If you would like to ask a question at the end of the presentation, please press star one on your telephone keypad. If you would like to withdraw your question, please press star two. I will now hand the floor over to Naresh Bilandani at JPMorgan to begin the call. Please go ahead.

Naresh Bilandani Thanks, Seb. Good day, everyone. It's Naresh Bilandani from JPMorgan, and I would like to welcome you all to the Third Quarter 2024 Results Call for Alinma Bank that JPMorgan is very pleased to host. We have with us today Mr. Abdullah Al Khalifa, the CEO, Mr. Adel Abalkhail, the CFO, Mr. Saleh Al Zumaie, Deputy CEO and Head of Retail and Digital, Mr. Jameel Alhamdan, Chief Corporate Banking Officer, and Miss Arwa Alshehri, the Head of Investor Relations. I'll pass the call to the Alinma Bank team to commence their presentation now. Thank you.

Abdullah Al Khalifa Hi, everyone. Thank you again for taking the time to dial in for our earning call. I'll take you, as usual, with Adel, the CFO, through a quick presentation so we can allow more time for Q&A. So I'll start my presentation on page six, on the high-level financial performance.

We continue our strong growth in loans. Year-to-date growth is 13%. Total assets followed similar growth rates, 13%. Our operating income increased 14% year on year. And as a result, our net income increased by 22% compared to the same period last year. Our NPL ratio is stable since Q2 at 78 basis points. Our coverage ratio is 245%.

Customer deposits increased by 11% year to date. However, more importantly is the growth on CASA. If you recall, in the first half, we had experienced of 15% year-to-date growth. Now that's increased to 19% growth, year to date. As a result, our CASA as a percentage of total customer deposits increased to 51.4%. Our cost-to-income ratio, 31%. And net profit margin, compared to the same period last year, we lost nine basis points. It stands at 372 as of September. And the nine-month ROE improved year to date by 163 basis points to reach 18.6%.

And on page eight, a quick reminder of our strategy. As most of you recall, we basically aspire to be the fastest and most convenient bank in the country. We want to be number one in Net Promoter Score and number one employer of choice. And to focus segment-wise, we want to be known as the most digitally advanced and fastest and most convenient retail bank in the country. We want to be the corporate bank with the best customer experience as well as quickest turnaround time and the most innovative Shariah-compliant treasury.

On the next page, page nine, to zoom in more on to the segments, we have mainly three pillars in retail. We want to focus on building and developing our affluent and high-net-worth customer franchise, want to focus on attracting youth segments and offer the best customer experience.

For corporates, we want to be the core bank not only to large corporates and project finance, but also mid-corporates. We want to develop a high-quality SME franchise and as well as to grow our cash and trade business. Treasury, we want to be the core partner for our client needs in terms of hedging or investments, want to grow our FI business and maintain high-quality ALM.

To do that, obviously, from the bank-wide, we have to build a digital factory and continue to expand it and foster data-driven decision-making through advanced analytics and cultural transformation, to not only attract but also retain the best talent in the country.

On the next page, some of the initiatives that we've completed, and some of the activities we've completed in Q3. We continue to offer more products like, for example, the non-Zakat paying assets linked to the savings accounts, expanded E-signatures on auto loans. We continue our journey of installing TCRs and closing or merging branches. We merged eight branches in Q3. We still have two more to go. And that will be fully completed before the year-end.

In corporate, we've gone through a strong growth in assets and total corporate assets, 16% year on year, 14% growth in non-funded and 90% year-on-year growth in mid-corporates, as well as 27% growth in Kafalah SME loans. In treasury, we completed another three-year bilateral loan for US $100 million.

We've increased our profit rate swaps, or the Shariah-compliant version of the IRSes, by 5.4 billion, as well as grown our forward FX. On the next page. And basically, as of Q3, before we continue to move to the next page, as of Q3, we finished 69 initiatives by end of Q3 and even finished one more before this earning call. So we have 70 out of the 86 already closed.

Some of the initiatives we continue to work on, on the next page, page 11, we still have, technically speaking we say 17, but we still have 16 to go because we just finished one. But we continue our journey of digitizing the customer mortgage journey. We want to continue to enhance the family account ecosystem, want to continue to offer more products to promote liabilities within corporates and deliver, hopefully soon, on the E-Trade new platform that we're building.

And then we continue our efforts to develop long-term financing or funding, and obviously we continue our journey of cross-selling products from between treasury to corporate, retail to corporate, corporate to retail. That cross-sell culture is significantly helping us in terms of acquiring and growing our CASA balances. With that, I give the floor to Adel to take you through a detailed presentation of the financials.

Adel Abalkhail Thank you. A very good afternoon to you all, and welcome again to our earning call for Q3 results of 2024. As usual, I'll be running you through the financial performance, and that will be followed by our guidance and outlook for the remaining of the year. And also, we'll open up at the end for the Q&A.

Starting with slide number 13 on the overall balance sheet trend, we have seen a YTD growth of 13% in the total assets. This was mainly driven by 13% growth in financing, and we'll have details later on, and also 9% growth in the investment portfolio, combined with 22% growth in the interbank. Looking into the total liabilities, 12% year-on-year growth in the total liabilities, again, mainly driven by the overall customer deposit growth of 11%, combined by 14% growth YTD on the interbank.

We move to slide number 14 on the overall P&L. As mentioned before, net income for the nine months has grown, year on year, 22%. And this was basically 14% growth in the funded income, 12% in the non-funded income, and also, this was offset by 11% growth in the operating expenses, impairment charges year on year, 18% lower than what we had charged same period last year.

And the overall composition of operating income at the end of September, 79%. That's the funded income. Obviously, 15% was mainly in the fees from banking services, and investment and exchange income was 3% each.

Moving to slide number 15, a bit of detail on the financing. So on a sequential basis, we have seen the overall financing portfolio growth of 3% and also the YTD growth as gross financing by 12%. We have seen 13% growth in corporate portfolio, and also, we have seen 11% growth in retail.

In the top right-hand graph, you can see the composition of the overall SAR 200 billion financing portfolio Alinma had. As end of September, 66% is related to the large corporate and project financing. We have 5% each for SME and also mid-corporate, and also 12% each for home financing and personal financing and other retail projects.

We move to slide number 16, the next slide, on the deposits. As mentioned by the CEO, we have seen a very strong growth YTD in CASA. The growth was in the first half, you recall, 15%. Now it stands at 19% growth in CASA. As an absolute amount, that's SAR 17 billion.

Also, we have seen moderate growth on time deposits, 4% YTD, and this has driven the CASA as a percentage of total deposits, as you can see in the graph in the center of the slide, reaching 51.4% from where we were in June, 50.6%. So slight improvement in the CASA as a percentage of time deposits, of the total deposits.

Next slide is number 17, on the overall NIMs and the income from financing and investments. We continue to see the growth in amount, 6% on a sequential basis, which brought the total funded income as the gross movement year on year at 26%, 26% as a percentage from financing, 24% growth in the funded income from the investment portfolio.

On the net profit margin, as mentioned by the CEO before, we lost nine basis points. As you can see in the bottom left graph, we have seen an improvement, 5 bps on the investment as investment yield, and also financing yield, 48 basis points. And this was offset by 61 basis points, increasing the cost of funding in the nine months. So the YTD net profit margin stands, at the end of September, at 3.72%, which is basically nine basis points from where we were, same period, and also if we compare it with the full NIMs for 2023, which was the same number, 3.81.

Moving into the next slide, slide number 18 on the non-yield income, non-interest income, fee and other income, we have seen flat growth on the non-yield income from Q2 versus what we have seen, the big jump by 8% between Q1 and Q2. So overall, this brings the year-on-year growth of the non-yield income standing at 12% growth, as you can see in the graph in the top right-hand on the slide, 9% of the fee from banking services, and we have also 8% growth in exchange income, 44% growth in investment gains and dividends.

At the bottom left graph, this is the composition of the fee from banking services. Fund management remains the highest, 36%. 20% card business represents the overall SAR 1.2 billion fees from banking services, 13% relates to the trade financing services, and brokerage is 11%. 20% is from other services.

On the next slide, slide number 19 on the operating expenses, we have seen an SAR 18 million increase in total operating expenses on a sequential basis from Q2, which represents that 2%, which brings the year-on-year increase on operating expenses by 11%. This was mainly driven, as you can see, from personnel cost that has increased by 14% and depreciation and amortization at 10%, and 8% as the single-digit growth in the Other G&A.

This brings the 4.2 points per 1,000 positive jaws that we have seen during the period, resulting in 1.2 points per 1,000 reduction in the cost-to-income. So if you recall, cost-to-income ratio was standing at 31.4% in June. We are exactly at 31% cost-to-income as end of September.

On the next slide, slide number 20 on the impairments, a lower impairment charge, you can see in the top right-hand, 17%, where the impairment charge was SAR 798 million for the nine months this year versus SAR 964 million in the same period last year. So the overall composition of the impairment allowance as end of September is 83% in corporate. 17% relates to retail portfolio. So this has brought down the cost of risk, standing at 56 basis points as end of September. Again, if you recall, cost of risk in June was 63 basis points.

We move to the next slide, slide number 21 on the NPL and NPL coverage ratio. We have seen the reduction since Q2 in NPLs overall. We still have the same NPL ratio, 78 basis points, as we were in Q2, and this reflects positively on the NPL coverage ratio, which we have seen it very healthy since Q2, where it was 240% and now it stands at 245%.

On the stage-wise coverage in the graph at the center of the slide, again, we have seen also Stage One coverage still remains with the historical trends that we have seen since Q3 last year, where we see Stage One as 50 basis points. We have a very slight drop in the Stage Two coverage, but it is the same that we have seen in Q1 and also Q4 last year and Q3.

And as we mentioned in the last earning call for Q2, we are aiming to improve the coverage for Stage Three, which has improved now, from where have seen the Stage Three coverage was 48.8%, now standing at end of September at 53.2%.

Next slide, which is slide number 22 on the capitalization and liquidity. Capital adequacy, Pillar One, we are at 8.2% at the end of September. In the ROE, we have seen continuous improvement in the ROE, that we had seen the ROE at June was 18%, and we are standing now at end of September with 18.6% return on equity. Also, return on assets was 2.2% even in June. We have seen that improving as well, by end of September to reach 2.3%. At the bottom of this slide is mainly the liquidity measures and the Prudential's, LCR, all of the liquidity measures as well. LCR stands at 132%, which is well above the regulatory minimum of 100%. We have the regulatory LDR standing, as end of September, at 81.5%, which is well below the regulatory maximum. And also, NSFR stands at 109.2%, in line with what we had seen in the previous quarter, which is well above the regulatory minimum.

And the next section is the outlook and the guidance for the remaining of the year. As we mentioned, we have seen YTD growth as end of September in the financing, 13%. So the guidance is kept unchanged for the remainder of the year at high-teens. Net profit margin stands at 3.72%. We are revising the guidance from previously plus five to minus five. And as we have seen that trend may be going toward the lower end of the guidance, we are revising the NIMs guidance to be zero to minus ten basis points by end of this year.

Cost-to-income ratio, we are exactly at 31%, and the guidance did not change, as it stands as below 31% guidance for cost-to-income. Return on equity, 18.6%. The guidance remains above 18%. And the cost of risk, as we have seen the cost of risk going down, especially between Q2 and Q3, we are revising the cost-of-risk guidance from previously 70 to 60 basis points to be 60 to 50 basis points by year-end. CAR Pillar One, 18.2%. Still, the guidance remains at 18% to 19% for the year-end. Return on equity targets for 2025 still unchanged at above 18%.

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

Operator Thank you. If you would like to ask a question, please press star one on your telephone keypad. If you would like to withdraw your question, please press star two. Our first question today comes from Nida Iqbal from Morgan Stanley. Please go ahead. Hi, Nida, we can't hear you. Can you just check if your line is on mute? Unfortunately, we can't hear any audio from Nida's line.

Nida Iqbal Are you able to hear me now?

Operator Yes, we can hear you.

Nida Iqbal Oh, okay. Thank you. Thank you for the presentation. Just wanted to start off on the margins. You have downgraded your guidance for margins. Are you able to comment on what surprised negatively versus your initial expectations? And I ask this because actually the growth in your CASA balances is quite impressive. The CASA ratio mix keeps increasing.

And just on that point, on margins, the second bit of the question was, firstly, as rate cuts start to come through, do you expect margins to expand from here as deposits reprice faster versus assets? And if so, how many quarters could that last?

And then going back to the CASA mix, if you can just talk about the drivers of the increasing CASA ratio, how sustainable you think this trend is and if there are any early signs that you are seeing in terms of a shift into CASA, given the rate-cutting cycle? Thank you.

Abdullah Al Khalifa Thank you. Yes. Obviously, as Adel mentioned, obviously, before the earning call, as usual, we do our forecast. And we saw that we'll stay in plus-minus five basis points, but our latest forecast is towards the lower end of the guidance. We could have kept it, but we felt it's better that it gives you much more clarity, and that's why we said zero to ten basis points. So it's much better clarity for you guys in terms of the guidance.

In terms of CASA, obviously, we've been extremely focused on growing our CASA through, as I mentioned before, customer acquisition in the whole retail group, whether it's affluent, private, mass, youth and so on, but as well as the corporate segments, SME, mid-corporates, large corporates, project finance. So that's one aspect. Customer acquisition is really important.

Second leg of that journey was obviously the focus of cross-selling, especially cash and trade. That generates good growth in CASA. Things like payroll, when you obviously sign with a corporate, you get a better average balance from that corporate, but in addition to that, you get the employees of that corporate opening an account with us in order to avoid the cost of remittance business or remittance costs for the company itself.

So that trend will continue to be focused on. We'll continue to... And of course, I forgot to mention the government and quasi government and that our, also, team is doing a fantastic job in obtaining new agreements and new accounts open and have better average balances with us.

Now, in terms of CASA, obviously our effort is going to be continuing to focus on growing CASA. I guess we can also get a little bit help when the interest rate goes down, because typically you've seen migration. I wouldn't say it's a strong migration now, but you've seen some migration. Even the growth, I think, in the industry is good growth, in demand deposits, for example. But as we expect, next year, rates to be cut further, that should improve further the migration back to CASA.

Nida Iqbal Thank you very much. And then just going back to the other part of the question about margin expansion, could we see margins expand as rates come down for a few quarters?

Abdullah Al Khalifa Well, this is the case for banks in Saudi who have a large corporate portfolio linked to the variable rates. Typically, liability is a shorter term when we talk about time deposits. So time deposits, during that reduction rate, you would see positive impact on them, until the rate stabilizes. Then, no further liability repricing. On the other hand, also, which is not really that clear to us, how much migration back to CASA? How much can we grow CASA from time deposits? Because that will help also in terms of cost of funding.

So during that decline in interest rates, I would think it could be positive until it a little bit stabilizes. Then, no further reduction on the cost of liability, but hopefully more migration to CASA that can support this. Obviously, we're finalizing our 2025 business plan soon. So following Q4, we'll give guidance of the NIMs outlook for us next year.

Nida Iqbal Thank you very much.

Operator Our next question comes from Jon Peace at UBS. Please go ahead.

Jon Peace Yes, thank you. Could I ask a NIM question, just following on from the previous question and your answer? Would you be able to update us, please, on your NIM sensitivity to 25-basis-point lower rates? And is that something that we can use when we're thinking about 2025 NIM guidance and where that might land? Or does the timing issue affect that?

And then my second question, please, is on the dividend. You paid a bit more than expected. Do you expect to be able to continue to pay a quarterly cash dividend of this magnitude? Or to preserve capital, given your very high growth, do you think there's a possibility of another scrip dividend? Thank you.

Abdullah Al Khalifa Thank you. I'll take the second part, and the first part can be addressed by Adel. In terms of dividends, yes, our intention is to continue to pay on a quarterly basis. We did not introduce this last year just to be a one-off. It's something that we intend to continue on with.

The question, with strong growth and the need to support our capital to continue that growth, is obviously on the payout ratio. I think for this year to date, it's 46 payout ratio. And obviously, as our profit goes and the need required goes up, the need required for additional capital, we may consider a lower payout ratio. But the idea of a quarterly payout, that's something that we intend to maintain. And Adel, first part?

Adel Abalkhail Yes, and then maybe in the sensitivity, if you recall, we've been communicating the sensitivity, which we always calculate, and it sometimes goes up and down. The latest we have for September, taking the September position, will be the one and a half to two basis points for every 25 bps. But again, this is something that we always really qualify that this will be with a 12-month outlook, keeping everything equal.

So back to maybe your point, when it comes to how you will look into the NIMs going into 2025, as mentioned by the CEO, we are in the middle of finalizing the business plan. And obviously, we'll always take the latest yield curve, and we will apply the latest yield curve on the asset growth, the assets that will be repriced and also the new assets that will be disbursed during the year, and, of course, with the assumptions of the CASA growth as well, and also assuming there is no big change in the customers' behaviors.

We will only honestly be able to provide the guidance on the NIMs for 2025 following Q4 results, our conference call for Q4, where, by that time, we'll be able to see our position and how the NIMs will look like by end of 2025.

Just one point that you mentioned is that the trend that we are seeing now could be something that we'll continue to see. I would believe that what we have seen, also based on which we have revised the guidance, is something that could be temporary and might not be really the overall trend for 2025.

Jon Peace Got it. Thank you.

Operator Our next question is from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik Hi. Thank you very much. I know you probably wait for the end of the year to give guidance for loan growth expected for next year. But just in terms of general thinking, how are you thinking about loan growth next year for both corporate and retail, given that potentially interest rates are going to come down? How do you see that changing loan growth next year versus this year? That's number one.

Secondly, if I look at your cost of risk, you've revised it to 50 to 60 basis points from 60 to 70 basis points. It's still relatively high compared to the sector. And looking at your NPL coverage, which is at a historical high, do you see cost of risk for 2025 potentially being at the same level or potentially lower? So if you can shed some light on that.

And finally, on the margins once more. So if we assume that there are another two rate cuts, so bringing cumulative rate cuts of about 100 basis points, would it be fair to say that your NIMs would land to around 3.6%? Around those three questions, please. Thank you.

Abdullah Al Khalifa Thank you. As far as right now, I'm talking not specifically about the bank, because as I said, we haven't finalized our business plan, but I think it's quite expected that strong growth in corporates next year is expected. Not only next year, but at least three to five years, there’s going to be strong growth in corporate loans because of what's happening in the country, 2030 and the amounts of projects that come into the pipeline.

And retail also, the interest rates is going to certainly help the affordability and mortgage and the appetite for consumers to come for consumer loans and so on, coupled with the fact that unemployment is declining, so means more bankable customers. So I would still expect good growth, very healthy growth in retail and strong growth in corporate.

Cost of risk for the industry, again, my expectation is with strong loan growth, fantastic economic activities happening in the country, all sectors, all segments, I wouldn't expect the cost of risk to be higher. I would expect it to be lower for the industry. We'll give obviously our guidance. And margin, as I mentioned, we will definitely give the guidance based on the latest forecast. That's following our business plan. This is something we'll do maybe in late February or something, early February. Okay.

Shabbir Malik Yes, that's very helpful. Maybe on the retail side, have you noticed any changes in retail ex-mortgage appetite? Because it's been a bit slow this year. Has there been any change recently in that, and do you see that picking up now?

Saleh Al Zumaie Yes, this is Saleh. No, we have seen a pick-up in the mortgage, especially with the new government projects, off-plan, which are affordable to the clients, plus the programs. The Minister of Finance and the real estate fund and the SRC, Saudi Real Estate Company, are offering different programs for subsidies. So there is a pick-up. And we have seen a lot of unique projects going on in the country, especially in Riyadh and Jeddah, main cities, and the customer appetite and the booking of some of those projects has almost reached 100%.

Shabbir Malik In terms of personal financing, anything of note over there?

Saleh Al Zumaie The personal financing, we continue growing it in a very conservative way. So we are very selective. And now, we are using part of this personal financing as a down payment for the mortgage. So it is growing in a steady and healthy way. But the big increases are on mortgage business.

Shabbir Malik Got it. Thank you.

Operator Our next question is from Chiro Ghosh at SICO. Please go ahead.

Chiro Ghosh Yes, hi. This is Chiro Ghosh from SICO Bahrain. I have two very quick questions. The first one is, I observed that your loan-to-deposit ratio is on an upward trend. So last year, 2023, it was in that 76% to 79% zone, and it has gone to 82% now. So I just want to get a sense of maybe how long will you still...? How much are you planning to raise it, or at least aim to raise it? I believe that this would be supportive of the NIM. So that's my first question.

And second one, I want to get a sense about the ground reality of the SME sector. So despite having a reasonable SME exposure, your default rate has been quite low. So if you can give some clarity on the ground reality of the SME sector.

Abdullah Al Khalifa Sorry, if you can repeat the second part of your question, because the sound quality wasn't clear.

Chiro Ghosh Yes, I'm sorry. My apologies. I want to get your view on the SME sector, basically. So are you seeing more defaults happening in those sectors? And especially the mid-corporate level, SMEs and mid-corporate level, are you seeing pickup in defaults? I'm just trying to get a sense on those. Because that's where I believe the risk lies. I just want to get your sense.

Adel Abalkhail Yes. So I'll get the LDR question, and then my colleague, Jameel, will be getting the SME question. The LDR, you're right, we've seen an increase. If you see the LDR, where we were same period last year, we were at 79.8%. We are now at 81.5%. But honestly, this is not really a big jump, as we have been always communicating about the efficiency and keeping the LDR at a level that will be around the 85%, which will keep a 5% caution below the regulatory maximum of 90%.

So yes, it has been increasing, but it's still, I think, in a level that may be lower than what we have been communicating before, that we always wanted to be within an average of 85% LDR, weighted LDR or regulatory LDR. On the SME side question.

Jameel Alhamdan Yes. This is Jameel. See, there is nothing to worry about when it comes to default percentage in SME in general, due to the nature of business and the conservative approach, which is either designing the products, tailor made for clients for their needs, plus the Kafalah guarantee support that we have that even supports our financing for this segment, but still within the norm, nothing to worry about.

Chiro Ghosh But can you share what per cent of your SME loan was the Kafalah-backed?

Adel Abalkhail SME loans as a percentage of the overall financing?

Chiro Ghosh Yes.

Adel Abalkhail Is that the question? Yes, it's at 4%.

Chiro Ghosh Yes, right, and the Kafalah. Okay. That's all from my side. Thank you.

Operator Our next question is from Aybek Islamov at HSBC. Please go ahead.

Aybek Islamov Yes, thank you for the conference call and all your answers so far. Very useful. I just wanted to cross-check a few things with you. One is on your net interest margin guidance that you revised lower by a little bit. It still implies that your margin will pick up sequentially in the fourth quarter of this year. So I would like to really hear your views, what can drive that sequential improvement in your NIM in the fourth quarter.

And I think, secondly, I think linking up to margin, when I look at your cost of funds and your CASA deposit ratios, obviously, CASA deposit ratios improved quite a lot, but I personally don't see that flowing into your cost of funds. Your cost of funds kept rising, for several quarters now. What are your thoughts on the cost of funds?

I know you talked about, it's difficult to predict the CASA deposit behavior, the customer behavior in CASA deposits. But would you agree that there's a scenario that your funding costs may be quite sticky, going to the next year, despite the rate cuts? And that's maybe because the marginal cost of funds is still quite above your average cost of funds in the country. So that's my question about the margin.

And I think, otherwise, on your capital ratios, I've heard you talk about the dividend payouts. We can see that your risk-weighted assets to asset ratio is steadily increasing. And mostly, that's because of your credit risk-weighted assets growing faster than your total assets. So what's driving that growth in credit risk-related assets? What segments of your asset portfolio are contributing to that increasing risk density of your asset base?

And on your payouts, we see your payout ratio today, but looking at your CET1 ratio, which is quickly approaching 13, could be lower, I think I'll repeat this question that was asked during previous quarterly calls. How do you envisage your payout ratios? Are you flexible about managing your payout ratio, such that you target your CET1 at a comfortable level? Thank you.

Abdullah Al Khalifa Thank you. On the margins, as I said, the latest forecast that we've done is toward the lower end of the previous guidance. So we just made it more clarity or better clarity in terms of the investors and analysts. We are expecting a little bit of improvement, some improvement in Q4. But because it’s one quarter of the full year, it's not going to have a significant impact on the full year of margin.

The cost of funds, naturally, Aybek, as you know, we're growing, and we're growing fast. We're growing at higher than the industry average in terms of loans. And that’s required funding. So yes, we’re successfully growing our CASA balances, but that additional growth, this fast growth in corporate and retail requires financing. And that comes typically in the form of term deposits. So that's the main reason for it.

We're working very hard to diversify our funding. As you know, last year, this year actually, in February, we issued Tier One, $1 billion. We just mentioned on the earning call that we closed another bilateral loan. We've done repo to maturity. We're looking at different ways to finance our growth. Yes, if we slow down, I assure you, our cost of funding will be lower, because the percentage of CASA will be higher than the current ratio. In terms of the other parts?

Adel Abalkhail Yes, Aybek, on the risk-weighted assets, on the risk density of the balance sheet, yes, it has been high, at least if you compare it to the overall sector. But given the fact that if you look in the recent history and the strong growth that we have seen in project financing, especially in corporate, of course that will have maybe a higher risk weighting than maybe versus maybe other types of lending.

But this is not really to change the views that we have been saying before, since the Basel III reforms banks have started to implement early 2023, because we haven't seen really the big shift. It's just the nature of the financing we do. But it's not to a level that we're worrying about, and I don't think we'll see a significant increase from here, at least from the levels we are seeing now.

Aybek Islamov Thank you. And the last question was about your dividend payouts. Would you manage your payout ratio such that you maintain your comfortable CET1 ratio? And if you can talk about your comfortable minimum CET1 again, that would be great. Yes, thank you.

Abdullah Al Khalifa Yes, Aybek, as you know, Saudi banks are subject to minimum CAR by the central bank. And it's actually based on the total capital divided by Pillar One/Pillar Two. We don't disclose, obviously, the actual ratio. So we don't have two limits, one for Tier One and then for total capital adequacy. We have a total limit. We managed to support the Tier One through the issuance of Sukuk this year, and I believe we can be repeating, we could have another repeating issue.

And as far as the payout ratio, if you recall this, we're proactively forecasting our capital adequacy needs. And based on that, we decided on the payout ratio as well as the issuance of Tier One or Tier Two instruments. If you recall, last year, for example, we issued in the fourth quarter some bonus shares and we didn't pay dividends. So that reduced the payout ratio. But as our profit continues to grow, and if we may be targeting a lower payout ratio, then we can continue to support our Common Equity Tier One.

Aybek Islamov Thank you.

Operator The next question comes from Murad Ansari from GTN Middle East. Please go ahead.

Murad Ansari Yes, hi. Good evening. Two questions on loan growth and deposits. So firstly, on consumer loan growth, this has been a good quarter. We've seen some pickup in lending. Is that linked to some campaigns or active push by the bank, or are you seeing this trend really picking up and strengthening into next year as rate cuts continue to come through?

And linked to that is a question on mortgages. So the rate on mortgages, SRC is largely driven by long-term rates. Do you see that changing significantly? Just your thoughts on how does that impact mortgage growth into next year.

Then, CASA deposit growth has been quite impressive for you. So just maybe a high-level view of how much is that driven by retail/new customers, new-to-bank customers, or is there an institutional element that has picked up in this particular quarter? And lastly, your thoughts on the interbank rate. SAIBOR has dropped post-rate cuts, and we've seen a slight increase, about ten basis points, since that low. So just your thoughts on what's driven that. Thank you so much.

Abdullah Al Khalifa I'll probably take the last part. On the SAIBOR, SAIBOR now, there's new methodology. It's been there for, I think, two years, almost two years. It takes into account the transaction not only with banks, but also with customer deposits.

And obviously, you've seen the whole industry has grown very fast in loans. I think if you look at the year-on-year growth in loans for the whole industry, it's more than 12%. And that obviously leads to maybe the funding needs for all these banks, and there could be a little bit of competition. That competition can technically drive SAIBOR.

The other part on deposits, I'm not sure I fully understand. But deposits, we mentioned that our customer acquisition is an important element of that. So that is new to the bank, whether it's individuals or corporates or even government agencies and so on. There are two questions about consumer loans and mortgage, Saleh.

Saleh Al Zumaie Yes, on the mortgage, we do some tactical campaigns for a very short period of time to be in line with the market. For example, if there is a Cityscape, we have to do some promotions for a very limited time, and a limited number of deals.

In terms of pricing, of course, we have to follow the cost of fund and also the interest rate outlook, and we need to be in the competition. But we never go on a market price or pricing war with other banks. We do have our own segment that we focus on. And our portfolio, maybe unlike other banks, is not more than 50% for non-RDF or non-subsidy customers. So we do have some segments that we still continue good margins on granting them mortgage loans.

Abdullah Al Khalifa If I may add also, our philosophy in growing our retail loans, both consumer and mortgage, is not on the pricing. We're not aggressive on pricing. We really focus on quality of service, turnaround time. And that allows us to grow our market share on both products.

Murad Ansari Thank you so much. If I could just follow up on one broader sector question. We've seen this year, if you look at the deposit split of the sector for, I think, 22-23, there was a significant portion of deposit inflow that was coming in from government institutions. This year, we've seen private sector deposit flow increase substantially. Any thoughts around what's changed this year versus last year, where we've seen private sector flows improve significantly?

Abdullah Al Khalifa Yes, I think, look, obviously as more economic activity is happening in the country, you've seen PIF investing more into the domestic market. You'll find some large corporates tapping the international market, as well as banks, by the way. And that continuously improves liquidity. And I think that helps liquidity.

But if you look at the growth on claims on private sector versus deposits or even M3, you find that loan growth is faster, actually, than the growth on liquidity. But at the moment, it's not something stressful. It's just a healthy level of liquidity.

Government deposits, HEIs, they were introduced back in Q4 2022. That's really helped liquidity. I think there's also potential for growing that level of deposit. And by the way, also, unemployment is driving total liquidity, because there's more Saudis taking over jobs, which means less remittance going out, leaving the system, and more money in the system.

Murad Ansari Sure. Thank you.

Operator Our next question comes from Adnan Farooq at Jadwa Investment. Please go ahead.

Adnan Farooq As-salamu alaykum. Hi. Thank you for the call and the presentation. I have two questions. One is related to the asset yields. See, SAIBOR in the first half was relatively flattish. It declined in the third quarter. But we saw your asset yields improving in this quarter as against being flattish in the year to date in the first half. Can you highlight the reason for the improvement in asset yields during this quarter? And we saw that not just for Alinma, but for some of the other banks as well. So I was wondering what drove these asset yields.

And my second question is around the recent announcement by Ministry of Finance related to a resolution of loans related to Binladin Group. If you could highlight your opinion on the same. How does that impact the bank going forward, the provisioning, as well as the loan growth opportunity that arises from the resolution of problems of these large contractors?

Abdullah Al Khalifa Yes. Obviously, on the asset yields, we continue to focus on growing our SMEs, our mid-corporates, which, generally speaking, actually attracts better rates than, say, large corporates, normal large corporate loans. We're also growing our retail, which gives us good yields on this. And also, our investing selectively is helping us on the yield. That's all I guess I can say on this one.

On the SBG side, obviously it's an absolutely positive move that the Ministry of Finance have done this to reduce this problem in the banking system. The government is quite keen to have the major contractors helping on this huge development happening in the country. So I think it's a positive move to the economy, because SBG has been obviously a large contractor, and the country is in need for more contractors and large contractors.

So that capability is important. I think it's also positive for the banking system. Now, as far as cost of risk, I would imagine that at least going forward, now we have release of that provision in the banking industry, it may lead to lower need for provision, so next year, or Q4, even.

Adnan Farooq That's really helpful. Just to confirm one thing. There was no major profit in suspense that came back this quarter which helped you. It was all organic.

Abdullah Al Khalifa No, not for us. There's no one-offs at all.

Adnan Farooq Thank you.

Operator The next question comes from Edmond Christou at Bloomberg Intelligence. Please go ahead.

Edmond Christou Hello, hi. Thanks for the call. Just a quick follow-up. You say that the increase in the asset yield is mainly coming from business mix, which I do understand. But do you expect, or have you seen any sign of, improvement in pricing, especially on the corporates? You would assume, next year, given where the interest rate cut is happening, banks will be forced to improve some of their pricing to offset some of the rate cuts. I just want to understand if we start to see the sign of improvement in pricing, or yet to come.

If I understand correctly, you are optimistic about margin at least into June next year. What else could improve margin, apart from cost of funding? Do you see more opportunity in terms of the product mix improvement into next year? And a follow-up on this is what percentage of your new loans this year that have been written on the corporate side are project finance?

And the last one, if I may, is I do understand that the NIM has been flat sequentially, but the cost of funding has increased. And if I look at your cost of interest-bearing deposit, it has increased. So it seems that the interest-bearing deposit costs you more, sequentially, than before.

So is this a factor of NSFR, a change in the maturity of this deposit, or it's a factor of the dollar or different non-resident account deposits? I just want to understand if this is related to maturity change, that it becomes more expensive to acquire this deposit, because your NIMs stay the same. Thank you.

Abdullah Al Khalifa Thank you. That's a short list of questions. Look, as far as the spread and what can improve it, obviously segment mix can help, for sure. The more we grow in mid-corporate and SME, and obviously in retail loans, it's better yield, as I mentioned, compared to large corporates.

The migration in terms of from time to current accounts, that can also improve the NIMs. And the other aspect is, historically, we've seen throughout rate cycles in the past, when rate is very low, typically the spread is higher, in corporate generally, and when rate is low, typically that's usually lower spread. That's it.

What will it take to see significant improvement in spreads? Not to the level that I expected, I guess, next year, but next year can... And the growth in loans is significant, which means the need for strong competition on pricing is not going to be there next year, in my opinion. And that can also help. And the other point about write-off, project finance, we haven't had.

Adel Abalkhail I think the question, correct me if I'm wrong, is how much of the new sales done during this year was project finance. Is that the question?

Edmond Christou Yes.

Adel Abalkhail Yes, okay. Yes. So if you look at the overall financing portfolio growth for the bank from December until the end of Q3, we have an overall net financing growth of around 22 billion as an absolute amount. Around 10 billion to 11 billion of that was the net growth in the project financing portfolio itself.

Edmond Christou Okay, this is clear. And in terms of the cost of interest-bearing deposit, is it a factor of change in the maturity? Is it longer to support your NSFR, net stable funding issues?

Adel Abalkhail Yes, just, yes, then the question. Of course, the NSFR is very important. And if you have seen the trend, where the bank was, they've been always giving a caution about the regulatory minimum there. It's the fact that it's part of how we closely monitor the NSFR. It's not all because of these deposits.

Sometimes, we really get forced to get some longer-term deposits just for an enhancement of NSFR, even though the loan-to-deposit ratio may be in a comfortable level. So deposits is a mix of how much we need as part of the LDR, but also the liquidity ratio, including the NSFR, Edmond.

Abdullah Al Khalifa And from this point of view, in the sense that you need to have asset-liability mismatch, you need also long-term funding, stable funding in order to offset this asset-liability mismatch.

Edmond Christou Okay, and this explains the trend. Okay, last one, I promise, is just to understand non-subsidized mortgages, the 50%. You decide the pricing for this, or this is decided by SRC, which they publish as a non-subsidized government program?

Abdullah Al Khalifa No, we decide.

Edmond Christou Just, I want to see if you are able to be competitive. You decide? So you actually can price a 100-, 200-basis-point cut quickly into it, without permission from SRC, or looking at their benchmark, right?

Abdullah Al Khalifa That's correct.

Edmond Christou Okay, thank you. Cheers.

Operator We have no further questions on the call at this time, so I'll hand the floor back to the management to conclude.

Naresh Bilandani All right. Okay. Seb, thank you, and looks like, I think, that was a very comprehensive set of Q&A. So thanks a lot to the Alinma Bank management for their very helpful insights and their valuable time today. I'd really like to thank all the participants for dialing in. Have a good day ahead. Thanks a lot.

Abdullah Al Khalifa Thank you.

Operator This concludes today's conference call. Thank you all very much for joining. You may now disconnect.