مصرف الإنماء
alinma bank

Operator: Good day, and welcome to today's call. Today's conference is being recorded. At this time, I would like to turn the conference over to Waleed Mohsin from Goldman Sachs. Please go ahead, sir.

Waleed Mohsin: Thank you, Melissa. Good day, everyone and welcome to Alinma Bank's third quarter, 23 earnings call, hosted by Goldman Sachs. It is my pleasure to welcome Alinma Bank Management on today's call, Mr. Abdullah Ali AlKhalifa, Chief Executive Officer, Mr. Saleh Alzumaie, deputy CEO, Head of Retail and Digital Banking, Mr. Adel Abalkhail, Chief Financial Officer and Mr. Ahmed Sager, Head of Investor Relations. Please note that today's call is being recorded and is intended for analysts and investors only and any media personnel should disconnect immediately. So without any further delays, let me pass on the call to Alinma Bank CEO, Mr. Abdullah Alkhalifa.

Abdullah Ali AlKhalifa: Hi everyone. Thank you for taking the time to attend our earning call for Q3 2023. As we used to, I'll take you through high level presentation on the financials where later on our CFO will take you through detailed discussion on the financials. I will then also touch on our current strategy as a reminder and our progress in implementing that strategy. So I start on slide 10 which shows the high level of financial performance. We have experienced strong credit growth. Loans grew by 15% year to date. And it's not really driven by one sector. All sectors are having double digit growth, whether it's in the corporate segments or on the retail segments, all experiencing strong growth. Our total assets also went up by 16% to reach to 232.6. Our operating income increase by 23% year on year and driven mainly by the yield income as well as fees and FX. Net income increased by 28% to reach 3.5 billion. Our NPL ratio reduced from 1.89% last quarter to 1.69%, while our coverage ratio improved from 130% in Q2 to now 150.8%. And I've always mentioned our commitment to bring it up to at least 150%. So we managed to do that in Q3. Our customer deposits increase by 24% year to date and our CASA also, which is really a significant improvement.

We managed to increase CASA year to date by 9% despite the challenge of high interest rates. Improved also our cost-to-income ratio. Last year, it was 34.7%. Now, we're 31.7%. Our net profit margin or NIM improved by 22 basis point year on year to reach 3.81%. CASA as a percentage of deposits reduced to almost 50% because obviously with a strong loan growth, we obviously had to fund this through more time deposits and that was diluting the CASA, even though CASA as an absolute amount has increased by 9%. Our CAR in Q3 reached 17.5%. I will now take you through a quick reminder of our current strategy, we call 2025 strategy, which basically starts on page eight on the presentation. We aim to be the fastest and the most convenient bank in the country. We want to be the best service provider, quality of service through being number one and net promoter score, as will be employer of choice among the Saudi banks. For more details about business, I will take it to page nine. So in retail, we want to build and grow our affluent and high net worth individual franchise. Want to focus on young customers and offer the best customer service. In corporate, we want to be the core bank, not only for large and project finance, but all segments within our portfolio. We want to also develop high quality SME business and grow our cash and trade finance. In treasury, become also main partner for our clients needs, whether it's hedging or investing.

Bank wide, to do this, we have to build digital factory to scale up the digital transformation. We want to foster data-driven decision making, so our advanced analytics and usage of technology to improve our data and use that data to make business decision is important. And of course, the cultural transformation in order for us not only to attract, but also retain the best talent in the country. How did we progress so far on that implementation of the strategy? Obviously, the strategy translates into 77 initiatives, of which as of today, we finished 60 out of those 77. Some of the things that we worked on in Q3 included obviously the youth app. We've already launched the youth app, but in a sandbox environment, still waiting for the final approval from our regulator to go public. We also launched a marketplace through our app. We got full licensing or certification for open banking Saudi standards. We also implemented an advanced analytics anti-fraud system. Our female participation in the workforce reached 21%. In retail, we implemented digital execution or digital application for credit card and personal finance. We launched expats lending we installed also 18 TCR machines, bringing the total to 84. And we were one of the three banks that was selected for the REDF price subsidization program. For corporate, we launched the first phase of LOS, loan origination system. And we've had a significant growth in mid-corporate, 101% growth in mid-corporate followed by also 110% growth in non-funded for mid-corporates. 20% increase in Kafalah financing and 85% increase in program based lending. We've achieved high volume in treasury.

For FX business, we reached 28 billion. For profit rate swaps, we reached 26.6 and we continue to develop further derivatives to offer our clients. On page 11, we still have 17 initiatives to work on before we complete our full initiatives. Some of the things that we're going to continue to work on is obviously expanding the digital factory and the digital capability that we going to continue to invest in. Also, continue our journey of using RPAs. This month we will launch our OHI, organizational health index. We're already working on different initiatives to improve that. As you recall, one of our strategy goals is to become employer of choice, so it's very important for us. We're also working on a new retail credit scoring system, especially for non-salary assign. On retail, we're working to enhance our family account ecosystem. We continued our journey to digitize our mortgage journey and continue to implement male and female branch merging, a merger that we started this year. We're going to continue to expand on that. In corporates, we want to continue obviously delivering on the second phase of LOS, loan origination system. We're also building a new integrated portal for all corporate segments. And for treasury, we're going to continue to enhance structured deposits, look for different ways to improve our long-term funding and basically deepen the cross-sell culture in the bank through the cross-selling treasury products. This, in a quick way, summarizes our strategy and our progress on the implementation of that. And with that, I give the floor to the CFO to take you through detailed presentation of the financials.

Adel Saleh Abalkhail: Thank you. Good afternoon and welcome you again to our earning call for Q3 results. I'll be walking you through the financial performance and that will be followed by a quick overview on the outlook and the guidance for the remaining of the year. Starting with slide number 13. On the balance sheet trend, we have seen total assets growth 16%. Obviously, this was mainly driven by 15% growth in financing and also coupled with

6% growth in the investment portfolio. Total liabilities growth, YTD, also 18% and this is again driven by the growth in customer deposits. This is 24% growth from December. On the next slide, slide number 14, on the P&L trend, another good quarter bringing the nine months net profit to 3.5 billion. This is 28% growth year on year. And this is mainly driven by the non-funded income, as mentioned by the CEO. The growth is 27% growth in funded income, 10% growth in the non-funded income. This was offset by 13% year-on-year growth in OpEx and we'll have detailed presentation slides on that and also year-on-year 30% in growth in impairment charges. In the next slide, slide number 15, on the financing, the overall financing growth, YTD is 15% and this was driven by 16% growth in the corporate financing and 13% growth in the retail portfolio. If we see the graph in the bottom left charts, we have the 15% growth YTD. This was mainly driven home financing, was growing 10%, personal financing 17%, large corporate and project financing together 13% growth, almost doubling up year on year, the mid corporate portfolio and also 24% growth in the SMEs. In the top right hand graph, you can see the composition of the portfolio, where the large corporates and project financing represent 69% of the overall financing. Mid corporate remains small, 3%. SMEs, it's 4%. Home financing represents 12% of the overall financing book and the remaining 12% for personal financing. On the next slide, slide number 16, on the deposits.

Despite the challenges in growing CASA in the markets fee, we managed to grow CASA 9% YTD and of course, to fund the 15% growth in the assets, also time deposit has increased 44%. And this is mentioned earlier, brought up the CASA as a percentage of time deposits, around 50%. We recall in Q2, CASA as a percentage of total deposits was 49%. So we have seen 1% growth- improvement in CASA as a percentage of our total deposits as end of September. On slide number 17, on the income from investment and financing. On the gross income, we've seen an overall 83% growth. That's before cost of funding, of course. 50% was from the growth in the investment income and 89% was the growth in the financing income relating to financing portfolio. If you see in the bottom left chart in the net profit margin movement, we have seen year-on-year 22 basis points expansion. And if you look at this on gross yield, we have seen an expansion of 223 basis points, but this was offset by 200 basis points increase on the cost of funding around 2%. So on the bottom right chart in the net profit margin, you can see a trend whereby the 22 basis points improvement in net profit margin was in line with the improvement with the gross yield reaching 6.45%, but this was also combined with the increase of cost of funding 2.64%. So this limited the expansion, as we will see later. On the slide number 18 on the fee, and other income, we realized this on a sequential basis, 7% decrease in Q3, if we compare it to Q2, but this is the sequential drop. It's not really in the core non-funded income, it's mainly on the other income. So as last year, there was one off in the other income. But if we look in the top right charts, fees from banking services and this is according to non-funded income, 26%. We've seen exchange income, also growth of 22% year on year.

If you look at the next slide, which is basically slide number 19, in the operating expenses, again, looking into the expenses on a sequential basis, we have hardly a flat growth since Q4. So looking into Q4 versus Q1 this year, just lower 1%. We have seen a little bit of a spike in Q3 in operating expenses, but this is in line with the normal business growth. This is still within our expectation. So looking at the graph at the center of the slide where cost-to-income ratio has reached 31.7%. We recall end of last June, cost-to-income ratio was 32.6. So this is a trending being lower and reaching 31.7% by September. The slide number 20, which is on the impairment for financing, we have 8% lower provisioning charge in Q3 on a sequential basis. However, this is as total charge year-on-year 26%. So this, with the improvement in the NPLs as we will see in the next slide, also reduced the cost of risk reaching as of end of September to 79 basis points. Again, just to remind ourselves, the cost of risk YTD as end of June was 84 basis points. So the impairment allowance composition of 4.4 billion as end of September, 77% of it is for corporate portfolio and 23% of it relates to the retail portfolio. And the next slide, slide number 21, on the NPL and NPL coverage ratio, we have seen a sequential basis from Q2, 200 million lower NPL and this brought the NPL ratio lower to reach 1.69%, as you can see in the top right chart, 1.69% NPL ratio versus in Q2 1.89%. And the bottom left chart on the NPL coverage ratio, again as mentioned by the CEO earlier, we managed to increase that and bring it back to the to the 150% levels, which we're comfortable with.

The graph in the center stage one coverage remains stable year-on-year at 50 basis points. Stage two coverage is decreased while the stage three coverage has increased. But the reason behind that is due to movements of some of the stage two accounts that was carrying higher coverage when it was moved to stage three. In the last slide, on the performance on the capitalization, slide number 22 and liquidity as well, pillar one capital as of September 17.5%. This is lower from where we were in June 18.2%. And obviously, this is mainly for the continuous growth in the assets that you have seen during Q3. On the profitability, ROE standing at 17% as of September, up from 16% ROE when we were in the first six months this year. On the regulatory and liquidity ratios on the LCR on the bottom left chart, LCR well above the regulatory minimum, talking about 165%, LDR around 80%. And this is again, well below the regulatory minimum. And NSFR stands at a 107%. And again, that is well above the regulatory minimum of a 100%. That's very much it on the financial performance. I'll be moving into next section which is basically in the outlook and also our guidance for the remaining of the year. If you recall, our guidance remains for financing, we have seen 15% growth YTD on financing and hence the guidance for the full year remains a high teens.

On the net profit margin, as we have seen year-on-year 22 basis points expansion so far. We are revising the guidance from previously being 30 to 40 basis points by 10 basis points lower to be 20 to 30 basis points. And as we see, the expected growth that we were forecasting on the at least CASA growth, we have been managing to grow this 9%, but also the lower growth that we have initially anticipated, along with the continuous increase in the benchmark rates lead to the revision of the guidance for the full year to be between 20 to 30 basis points. Cost-to-income ratio 31.7%. So the guidance remains below 32%. Return on equity 17% and the guidance remains unchanged to be above 17%. On the cost of risk, 79 basis points for the first nine months YTD. We are giving the guidance unchanged at 65 to 75 basis points. On the CAR pillar one, as I mentioned earlier, it stands at 17.5% and we're still keeping the guidance on the range 17% to 18% for 2023. With that, I will hand over back for the Q&A session.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal. And our first question will come from Nida Iqbal with Morgan Stanley.

Nida Iqbal: Hi, thank you for the presentation. I've got two questions, firstly on the funding side of things. So after few quarters of an increasing trend in terms of time deposit share, this quarter time deposits were actually down one percentage points quarter on quarter. Can you maybe talk about how you're growing CASA and what are your expectations in terms of time deposit share looking forward? On the same topic, it would be great to get some thoughts on your expectations of funding costs from here. Should we expect stabilization, assuming flat rates, or do you expect funding costs to increase? And on the asset yields as well, has most of the asset repricing related to rate hikes already been reflected? My second question is a little bit longer term regarding your ROE for 2025. You guide to about 17% ROE this year and target above 18% for 2025. Assuming lower rates by 2025 and therefore lower margins for Alinma, what do you expect to be the key levers that will drive up returns despite the lower margins? And how should we think about leverage levels for Alinma by 2025? What sort of levels would you be comfortable with? Thank you.

Adel Saleh Abalkhail: Just taking the second question first on the 2025 guidance on the ROE that we stands, as we mentioned just now above 18% and again, we'll be updating the guidance as we see it. As you know, the ROE guidance for this year is above 17%. And of course, we'll be giving the guidance following Q4 results on the on 2024. And of course, any review to the ROE longer term definitely be communicated then. On the cost of funding, we have seen a strong growth and during the nine months, as you can see, 15% almost across all segments. And of course, the CASA growth, which we hope to see- yes, still, we have a 9%, even though we are seeing demand deposits is a flat in the markets in the nine months. The cost of funding that again, would depend on the level of continuous growth that we would see in the last quarter for CASA. As maybe before about the NIM sensitivities and the movements there, which of course, you can see maybe even from the NIM guidance, that the CASA growth that we really hope to see during nine months maybe didn't come to deliver that we have seen and also, the increase in average benchmark rate, as I mentioned earlier. So all of these will impact the cost of funding by year-end. That's why as I mentioned just now, we are revising the guidance for the full year to be the 20 to 30 BPS expansion.

Abdullah Ali AlKhalifa: If I may add to that also, just you mentioned something about liability. We're expecting higher repricing. If you look at Q3 average three month SAIBOR, which was 6.08. In October, it's been hovering around 6.30. So we should expect to see at least 20 plus basis point increase on the cost of funding. And that's one of the reasons why we have to reduce our guidance on the NIMs expansion as well as what the CFO mentioned about, we had very ambitious targets to grow our CASA. We were successful in getting 9% year to date, but our aim was by end of Q2 at that time, we were hoping for more growth in CASA. I think you mentioned that our time deposits reduced quarter on quarter. Yes. We had also compensated that by more CASA. I think by Q2 we had 6% year-to-date growth and so we had 3% increase in Q3 versus Q2 and that helped us to sort of reduce the volume in time deposits. Hope we answer your questions because I think that cover all of it.

Nida Iqbal: Thank you very much.

Operator: If you find that your question has been answered, you may remove yourself from the queue by pressing star two. And we'll go to our next question from Naresh Bilandani with JP Morgan.

Naresh Bilandani: Hi, thank you. It's Naresh Bilandani from JP Morgan. Thanks a lot for the presentation. Congrats on the good set of results. A few questions please. One is, it would be very helpful if you can share some broad insights into how should we expect to see your NIM and loan growth trend next year. And I completely understand, as you mentioned earlier, this may still be in the planning phase, but any broad thoughts that you can provide assuming on the trends, if we assume that the rates stay on hold, that will be very helpful for the future part of the stock at this stage here. So that's first. The second is, in your earlier calls you had talked about a scope for a sizable recovery, which I think is also somewhat baked into your guidance for the cost of risk this year, which is at 65bp to 75bp at the nine-month level at 79bp. So could you please share where do we stand on that and what is your expectation of achieving this recovery going into the year end? I'm just trying to get some refinement on how do we think of the cost of risk as we go into the year-end. And my third question is, if I take a look at your CET1 ratio, that has dropped a few decimal points below 14.0% and you continue to remain the fastest growing bank in the system and I wish you the best for staying so, but can you please just share some thoughts on how comfortable you are with the current CET1 and if there is any plan to enhance this further from a dividend's perspective or from some other capital management programs, that will be extremely helpful. Thanks a lot.

Abdullah Ali AlKhalifa: Thank you, Naresh. On the NIM, obviously we're still working on 2024. Some indicative numbers suggest that it is going to be a good story again next year. We still have to finalize the numbers and the recovery is, yes, by the way, the significant recovery. We had already materialized in Q3 but the same time we wanted to have our coverage ratio improved to over 150. That's why the we've taken that provision, but actually did materialize. I may also make just comment on that recovery by saying, initially I think the estimation was full recovery. It wasn't full, but was very good recovery. And so we've obviously wanted to improve our coverage ratio. On CET1, Naresh, as you know, the regulator SAMA actually has given a limit on total capital adequacy ratio including pillar one tier one and tier two. So we don't have specific targets for tier one. I think I did mention maybe previously in our earning call in Q2, we are proactively planning to prepare ourselves for the continuous growth and credit demand next year, as well as the ability to continue to pay dividends. That's why we probably will do something in the first half next year in terms of improving most likely tier one through sukuk issuance. Yes, I think that covers all the questions.

Naresh Bilandani: Got it. Alright, thank you very much. That's clear. Just maybe one small follow up. If the next year's NIMs are still in a planning phase, but you kind of sound optimistic, would you kindly be able to share some light on, based on the balance sheet structures of Q3, how is the sensitivity kind of working? What's the sensitivity the NIM for every 25 BPS change? So that kind of gives us some planning material for the NIMs going into 24.

Abdullah Ali AlKhalifa: As you know me well, Naresh, I never actually commented on the exact sensitivity.

Adel Saleh Abalkhail: I think just Naresh, maybe I've said this before, it just when you look at where we will be in December and the fact that most of the corporate book or whatever floating exposures there would've been repriced already. But again, whatever you see in the yield curve and of course, if you see maybe any reduction in the second half, again, that's- as we have seen this already this year, is that whatever impact usually hits on the cost of funding first and the upside, you'll get that first and the cost of funding again. If rates goes down, you might get a bit quicker given the shorter term nature of the time deposits versus whatever the assets is being priced for. So again, the sensitivities, I mean, if you recall again, I mentioned that earlier in the year, but really all the changes has happened in liquidity. The transition from CASA to time deposits, the challenges also that you have seen in the market itself, but also the CASA growth that we would hope to see is really hard to give sensitivity, especially in the nine months now, because also lots of the things have changed since we communicated back in January. But we'll hope by year-end giving a full year plan to see at least a bit of sensitivity that we could communicate by then.

Naresh Bilandani: Got it. Alright. Once again, congrats on the great set of results and thanks for the call.

Operator: We'll take our next question from Shabbir Malik with EFG Hermes.

Shabbir Malik: Alright, thank you very much. Just a follow-up question on the NIMs. Would it be possible to give like a repricing lag of your cost of funds or your deposits, or what is the kind of lag between the changes in interest rates and its effect on your cost of funds? And similarly on the asset yield side, what is the kind of lag between changes in interest rates and your asset yield? A second question. You've talked about maybe some comments on credit quality. You know, we've seen your provisioning trends, but what are your sense on the general credit quality in the system? Because of high interest rates, has there been any pressures, particularly in the mid-tier corporate segment and the corporate segment? And given that your guidance implies that decline in provisioning in the fourth quarter, you've already realized some recoveries, what do you think is going to lead to lower provisioning in the fourth quarter? And finally, the dividend policy that you've kind of pursued over the past two quarters of quarterly dividends, that's pretty unique. So is this going to be more of a sustainable long-term policy? Or is that something that is constantly going to be reviewed given your growth aspirations and your capital requirements? Thank you.

Abdullah Ali AlKhalifa: Thank you. Shabbir. Obviously, in terms of repricing, it's well known in the country here that lack of long-term liability or significant liability, Saudi banks tend to rely obviously on the positive side, rely on higher percentage of CASA typically than maybe compared to other markets around the world, but unfortunately, we also rely on very short term liability. Statistically, they're growing, but at the end of the day, they repriced much quicker than our assets. As you mentioned, we have assets that repriced in three months. We have assets linked to six months LIBOR. We even have some clients that have also linked to 12-month LIBOR. Let me just comment again on the NIMs guidance and the reasons for this. Maybe just I forgot to mention one factor also. So as I mentioned to you, the quarter average of SAIBOR has been 6.08 in Q3 and most of October has been around 6.30. So I would expect to see, as I mentioned, at least 20 basis points in Q4 compared to Q3, which means higher cost of funding. We were really targeting very ambitious growth, strong growth on CASA. We managed to get nine, but we could have- I mean, planned at that time, we were hopeful for higher growth, but obviously with interest rate, I think 9% is significant success. The other factor that I forgot to mention, that's why I want to comment again, is the when interest rate in Saudi has been gone up above 5%, we can see that banks have reduced the spreads. We've seen it in multiple cases. We've seen in last year, in the first half last year, the aggressive pricing, which obviously ease off, but we had to compete and we had obviously to also offer lower spread when compared to what we used to charge in maybe 21 and before that. So those are three reasons for the reduction in NIM expansion. I think you had a question on- sorry I forgot.

Shabbir Malik: Yes, on credit quality your provisioning, provisioning. I think your guidance indicates lower provisioning going into the year-end. You've already realized a recovery. So what is your expectation there? And maybe if you can talk broadly on the sector as well, in terms of credit quality, is there anything that you're worried about, particularly in the mid-tier corporate segment or SMEs, et cetera?

Abdullah Ali AlKhalifa: Honestly, I couldn't think of any segment or sector within the economy that is suffering nowadays. I mean, there was obviously a period of Corona and certain segments, airlines and hospitality business in Mecca-Medina and so on. They did suffer major difficulties. Steel manufacturer for a couple of years ago or more. They used to have some lack of demand, but now the big economic activity in the country. And that also leads all the way to retail where unemployment is declining very fast. That's why our guidance is actually 10 basis point lower in cost of risk compared to the year before. So I think that will be industry wide. I don't think it's unique to Alinma. I think the other question about, have we experienced some of our clients facing difficulties with higher interest rates? We haven't really seen significant signs of that where most of the corporates actually able to pass that cost to their ultimate clients. Project finance, I commented on it before that the new projects are taken into consideration the current interest rates in their bidding process as well as the old ones, the one that was granted before. Most of the co-sponsor of these projects do mandate these fixing the interest rates. So they've done hedges and that those projects are not subject to this.

Shabbir Malik: Yes. And finally, on dividends, so this quarterly dividend policy, is that something of a permanent- going to be a permanent thing for Alinma, or it's going to be reviewed looking at your growth aspirations?

Abdullah Ali AlKhalifa: No, I think it's something that we did not introduce it for a temporary period. That was our plan to continue to do this. You probably notice that I think we announced the dividends for Q3 and with the results, you can see that I think payout is 45%, it's lower than the 50% that we used to do. So that was intentional by us. That's something because of the strong growth we wanted to have. Continue to pay dividends, but maybe not to the same level at 50%. It depends also on our efforts next year for raising small capital or especially tier one capital, that will help us to maintain both growing our credit- our loans as well as pay dividends.

Shabbir Malik: Thank you.

Operator: And we'll go to our next question from Chiro Ghosh with SICO.

Chiro Ghosh: Hi, this is Chiro Ghosh from SICO. Can you hear me?

Speaker: Yes.

Chiro Ghosh: Yeah. Perfect. So my first question is, so I see that your equity position is quite good. Your LDR is still quite less. Can we expect more leverage going forward? I mean, your LDR is still less than 80%, your cash position or the liquid asset portion is quite strong. So can we expect more leverage happening in the fourth quarter and going ahead into the next year? That's my first one. Second is the asset quality side. So you told a few of your second stage two loans were moved to stage three. If you can shed some light on the sector where it's contributing to and are you expecting more such transition to happen going forward? And yes, I think these two.

Adel Saleh Abalkhail: Yes, on the first point, on the first question actually around the leverage, are we expecting any leverages before year end? I think this was again, touched upon by the CEO earlier, which is looking into the growth, the pipeline that we are seeing especially with the guidance that we are keeping unchanged for the 15% of YTD and also the high teen growth that we are guiding for, for this year. Of course, we need the capital still to support the growth that we have, but as mentioned also by the CEO is continuing paying dividend as we go on. But I was really talking about this before December. This is mostly unlikely, but of course, it's part of the planning for 2024. On the stage two and stage three movements, it's just the normal movement, nothing really exceptional there. We cannot really say that this is really unique to certain sector or a certain group of customers, just normal migrations between stage two and three. And of course, in the meantime, also you would see as per the model, some reverse migrations from stage three to two. But it's not a trend that I would assume that we will see again in Q4, just part of the normal monthly staging within the corporate portfolio.

Chiro Ghosh: Just one quick question on- just a follow-up question. So the previous analyst, he asked, and you explained that the spread is now lower, basically maybe over the interbank rate. So one, so if my understanding is correct, if say 2024 end or 2025, once the interest rate comes down, your margin would be less than what it is to be in 2020 or 2021. Is my understanding correct?

Adel Saleh Abalkhail: Yes, I mean, the point was before just usual and historically, the margins goes up sorry goes down with rates- when the benchmarks rates really reach very high levels. Again, we would expect margins not to continue low when benchmark rates goes low, is to go to the normal margin levels. So just maybe exceptional to what we are seeing currently on the higher benchmark rates environment is as commented by CEO before is that usually you see the margins given for certain corporate customers to be lower than what you would see in the normal environment.

Chiro Ghosh: So these are for the new loans or even the existing customer come and renegotiate a thin spread because the rate has gone up, just to get an understanding of the market.

Adel Saleh Abalkhail: That would be for limited number of the existing clients.

Chiro Ghosh: Okay. That's all from my side. Thank you.

Operator: And our next question will come from Olga Veselova with Bank of America.

Olga Veselova: Thank you and good afternoon. Several questions from my side, please. One is on growth in financing. You keep surprising the market by the speed of loan growth versus the average versus the peers. And I understand your argument that in the corporate segment, you have your niche where you compete very well, project finance, but outside of corporate, you have been growing very well in SME in personal financing. So what helps you to keep growing so much better versus the street? This is my first question. My second question is, I noticed that you have been cutting your interbank funding year-to-date massively. What's the logic there? So it was funding from interbank and SAMA. So if you could shed a bit more light on that. And my third question is again, on the dividends and your CET1 ratio. In future, could you consider paying dividends in form of bonus share issuance? Or that's not your philosophy, that's not part of your DNA. Nothing imminent, but longer term, is it possible or not? Thank you.

Abdullah Ali AlKhalifa: Well, obviously, we started working hard on our strategy as well as making sure we have the right team in place. So I would say the first two years we've done a heavy investments in terms of attracting the right talent. So you mentioned, for example, in retail we have very strong retail team led by Mr. Saleh. He's already been in this business for over 30 years. He made sure to bring the right talents to run this, whether it's product specialists, whether it's sales specialists, whether it's the clear KPIs, whether it's the monitoring, whether it's the incentives that we introduce and obviously turnaround time and quality of the product and online application for the product. So that is actually showing strong growth in retail and all products within retail is a sentiment of the quality and of the team that's running this business. Also, the same thing applies for wholesale. Yes, we've been traditionally very strong in project finance and very large corporates. We didn't have anybody in commercial banking in the mid corporate. We have no program based lending on SME. It was case by case, like new corporate lending. That's not the way to grow SME business, has to be volumes. And so we introduced about eight program based lending for SME that really help to accelerate the speed of growth in SME. And as well as we are creating a whole team in the country for all the three main regions to attract mid corporate and we've grown very fast. So we have the right team in place, we have the right policies, we have the right procedures, we have the right quality of service systems and so on. We continue to invest in this. So naturally, I think what you see as a strong growth in all segments is that none of the segments and even the products within retail has experienced single digit growth. All of them, double digit growth. It's basically the result of the hard work done over the last two years in terms of having the right team and policies and procedures and turnaround time and quality. And you can go through a long list of that. That's the reason why we're growing very fast. I think other question about the dividends.

Adel Saleh Abalkhail: Bonus share.

Abdullah Ali AlKhalifa: Bonus share. Yes, I mean, that option is basically not completely off the table, but it's the time where the board think that this is something that will be useful. We will consider it at the moment. My understanding is it's quite favorable to retail investors, not to international and institutional investors. I'm actually surprised I hear this from- but it's possible. What else was the other question?

Adel Saleh Abalkhail: The third question on the interbank funding. I might check that because you are right. We've seen a 39% lower SAMA and interbank bank on the funding side. This is basically, it's now we are completely closing this option. It's basically two parts. One is really the due to banks doesn't really help that much when it comes to the [inaudible] requirements. But I think the main other reason is also the deposits that the bank has been receiving since last year as an AGIs from the central bank. It's basically classified as time deposits. Even though it's funding from central bank, but it's been placed with banks on behalf of other government agencies. And as far as the classification, it's being classified under the customer deposits. So this, in a way, you'll see the time deposits growth versus the funding on the interbank side is getting lower.

Olga Veselova: Interesting. So funding from SAMA can be included in customer deposits. Did I get you correctly?

Adel Saleh Abalkhail: Not every funding, specifically those anonymous government investments that SAMA deposits with banks on behalf of other government agencies. These are classified as customer deposits. Any other dealing with SAMA will definitely be within the due to SAMA line.

Olga Veselova: I see. Yes. Thank you. That's great. And on the first question, if I can just follow up. So you mentioned that in large corporates, you also see pretty decent growth. Do you start seeing more competition from non-Saudi banks or that is not happening in your niches?

Abdullah Ali AlKhalifa: No, competition obviously for all products are there. I mentioned this multiple times before and when it comes to project finance, you'll find the number of players or number of banks that have teams and that business tend to be less than, say, bilateral normal corporate lending. You'll find competition is more. So project finance, yes, there is some competition, but the number of players are certainly lower than the total number of Saudi banks.

Olga Veselova: My question was from non-Saudi banks. Do you see that or not?

Abdullah Ali AlKhalifa: Yes, I mean, the competition is very- I mean, I mentioned to you the fact that we for certain maybe some small existing number of customer as well as for new lending, we had to reduce- we had to compete in terms of this lower spread than the time we used to charge when interest rate was 70 basis points. That's because of strong competition. So competition is there. It's less maybe on project finance, but competition is very healthy and I think for all segments it's there. It's just we manage the differentiate our self better because as I said, we have done the right investment and the right focus.

Olga Veselova: Thank you so much for answers. Thank you.

Operator: And our next question comes from Farid Aliani with SNB Capital.

Farid Aliani: Hello, am I audible?

Operator: Yes, we can hear you loud.

Farid Aliani: So I have a couple of questions. The first one is on the liquidity situation in the market. How would you classify it in terms of relatively in the third quarter versus the second quarter? And now do you see it improving? Do you see it worsening? And any color on that would be helpful. Any role of the regulatory in there or the GRE support, if you're seeing that, any color on that would be really helpful. And that's the first one. The second one is on your NSFR ratio. I think this is of the three liquidity ratio. This is the one, which is the closest to the regulatory's minimum at 107%. So just some your thoughts on that. If it's a level that you're comfortable with, would you like to improve this? Because it became a point of conversation about a couple of quarters ago and you did some massive liquidity raising because your NSFR was closer to the borderline. And what drivers feed into that ratio as opposed to the LDR ratio and the LCR ratio? So these are a couple of questions.

Abdullah Ali AlKhalifa: Well, obviously let me cover the NSFR first. Excessive liquidity is expensive. We were- last year, I think up to Q3, we were, as I mentioned before, we were really focused to be really efficient in liquidity by targeting 85 to 86 range with for LDR. But unfortunately, we noticed a drop in NSFR to 103 in September of last year. So, you know, this is something we don't want to be close to a hundred. So we had to, to take more and more time deposit in order to support this. The current level is very comfortable for us. We're, you know, getting NSFR to the range of a 115, 120, is not going to be profitable business for us. We want to have enough cushion. So I think the level 107 is very comfortable. If it dips to 106 or goes to 108, that's the level that is really ideal. It indicates no excessive liquidity. Other result, obviously, LDR will be I think 78, 79 in September. And this is after the change in methodology by SAMA for the given- weighting for capital instruments. On liquidity level, I think, you know, it's really healthy. We don't see major issue in liquidity. The AGI, as I mentioned, is still continue to come. We really want to see more maybe international lenders coming to the market, more higher FDI that will really add incremental liquidity to the market. Overall, I think liquidity level is good. Is it sufficient today to cover the next- I mean, that level of liquidity to continue support strong growth in loans in the next few years? Possibly not. Obviously, loans do create deposits, but it would be definitely better to see more liquidity, especially international fresh money coming to the market.

Farid Aliani: Great. That's very helpful. Thank you so much.

Operator: And heading into our next question from Nauman Khan with SNB Capital.

Nauman Khan: Hello. Can you hear me?

Operator: Yes, we can.

Nauman Khan: I think majority of my questions have been answered. Just a couple of things as well. We do realize that I think that the loan growth have largely been squeezed towards corporate as well. If you can highlight which are the sectors within the corporate that are showing a loan growth coming in, I think that would be one. The second thing is given- and it is just a reflection of mega projects that have been going in the system as well. So talking about- that's a clarity that we needed to know. Secondly, on the funding side, I just wanted to understand because a lot of other banks are also now wrapping into saving deposits as well. Do you have any plans for that and what mechanisms of pricing of those saving deposits as well? These are my two questions. Thank you.

Adel Saleh Abalkhail: On the first point talking about where the growth comes is mentioned earlier also on the slide I presented before. It's the growth across all the segments. I mean, looking into the home financing and retail personal, but also corporate, both in the project financing and also the large corporate. Also as I mentioned, we've seen- we are doubling up the mid corporate as well and also the SME portfolio growth that you have seen 26%.

It's across all the business segments. As also mentioned by the CEO earlier, we don't have a specific segment that is being focused where we are seeing the growth in the other segment. It's all the segments within the business units experienced the growth in the nine months. Maybe on the other question, on the saving deposits, of course, saving deposits will be of course more preferable to the bank given the cost but I may leave this to Saleh Alzumaie.

Saleh Alzumaie: Yes. We're offering this, you know, the experience we're offering saving is through our digital platforms. And this leads to a growth year-on-year almost 30% on saving. We've seen the trend that customers seems to save more nowadays, especially with the growth of interest rate. And we offer this as other banks offer it. But I think we are unique in the experience. So the subscription and redemption is seamless at the client. And we also do benchmarking the pricing and we try to offer the customer best [inaudible].

Nauman Khan: I just want to have more clarity of how the saving are priced at as well. Like how sensitive are they to interest rate movement as well. We do understand the time deposits do price according to SAIBOR. So what's the basic pricing for saving deposit, if you can shed some light on that?

Saleh Alzumaie: Normally, saving is SAIBOR minus some BPS. And as I mentioned, we monitor competition and we monitor movement of our clients. So we try to maintain our clients through saving deposit. And we keep changing the policy of minimum amount the customer could hold within the saving. But it is definitely better than the time deposit. And sometimes it's 200 basis point below SAIBOR for the saving. Normally, this is the price.

Nauman Khan: And how quickly it can be repriced, for example, if the interest rate starts coming down next year?

Saleh Alzumaie: On a daily basis.

Nauman Khan: Okay. Thank you. This is all from my side. Thank you.

Waleed Mohsin: Perfect. Thank you much. As we are approaching the hour, at this time, I would like to hand over the call to the Alinma bank management team for any final remarks.

Abdullah Ali AlKhalifa: Well, thank all the participants and I do give my sincere apology. I just recovered from colds, so has been coughing and had to be less active than usual, but thank you. Thank you all. Appreciate it.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.