Operator: Good afternoon, everyone, and welcome to the Alinma Bank, Q1 2024 Earnings call. My name is Chatch, and I'll be your moderator today. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. I would now like to pass the conference over to your host, Naresh Bilandani from J.P. Morgan to begin. Naresh, please go ahead.

Naresh Bilandani: Thank you. Good day, everyone. Welcome to the First Quarter 2024 Results of Alinma Bank, which J.P. Morgan is very pleased to host. I'm Naresh Bilandani, your MENA Financials Analyst and the Head of MENA Equity Research at J.P. Morgan. We're very pleased to have with us today Mr. Abdullah AlKhalifa, the Group CEO of Alinma Bank, Mr. Adel Abalkhail, the Group CFO, Mr. Saleh AlZumaie, Head of Retail and Digital Banking, Mr. Jameel AlHamdan, Head of Corporate Banking, and Mr. Ibrahim AlKhudair, the acting Head of Investor Relations. I will pass the call now to the Alinma Bank management team to commence the presentation. Thank you.

Abdullah AlKhalifa: Thank you, Naresh. Good evening, everyone. Welcome to our earnings call for the first quarter of 2024. As usual, I'll take you through a quick presentation covering high level financial performance, as well as the strategy and the progress on implementing the strategy. Then I'll give the floor to our CFO to take you through a detailed presentation on the financial performance. So, I start my presentation on page 6, where our financing increased to 180.7 billion. That's 4% year to date and 18% versus last year's same period. Total assets increased by 14.6 year on year, and that's 3% year to date. Our first quarter operating income increased by 17.7 to reach 2565.

Our net income increased by a higher level, by 36%, to reach 1.3 billion. Our NPL ratio improved, down from 211 same period last year to 128. Our coverage ratio also improved from 121.5 last year to 181.1 this year. Growth on customer deposits is only 1%, but more importantly is the growth on CASA. We successfully increased CASA, year to date, by 6%. One of the reasons for lower growth of deposits is, if you recall, we issued a billion dollars of Tier 1 sukuk, which, according to SAMA regulations, actually calculated part of the LDR and actually weighted, carrying a weight of 170.

CASA as a percentage of total deposits reached almost 51%. Cost/income ratio improved to 32.5, and first quarter net profit margin, or NIMS, reached 3.69. We've obviously lost some margins, some dips, compared to previous year, and we'll come to that. First quarter ROE reached 17.5%.

On page 8, just a quick reminder for our strategy, the three main headlines remain. We want to be recognised as the fastest and most convenient bank in the country. Want to be number one in net promoter score, NPS, and number one as employer of choice. The next page, page 9, gives you more details on our segment level. So retail, the three main pillars, is to focus on growing our affluent and high-net worth business. We want to focus on attracting more youth segments, as well as providing the best customer service. That's the NBS part of it.

In corporate, we want to be the core bank, not only for larger and projects, but also for mid-corporates. We want to develop our high quality SME business, as well as focus on growing and cross-selling our cash and trade products. Treasury wants to be the core partner for corporates, not only for deposits, but also for hedging our investments, as well as growing our FI business and maintaining a high-quality function. On page 10, some of the progress that we've done in the first quarter 2024, we already delivered, completed 62 initiatives out of 77. If you look at Bank-wide, we launched our new graduate program. 45 ladies joined that program. We conducted three leadership programmes, four executive roles. Our Saudi ratio reached 96%. 23% of that is women. And we conducted five townhalls around the country.

In retail, we launched a mortgage refinance product. We also, in our effort towards paperless, we've launched phase two of OTB to, basically, replace paper signatures and paper forms. We installed another 54 TCR machines, bringing the total to 162, and we have merged to nine more female branches and two male branches. The total merged branches now reach 69 out of 85.

In corporate, we had a very good growth in all segments, total corporate increase by 21%. But if you look at The non-funded, it's increased by 129%. There is a typo, sorry, on the on the box about the assets under mid-corporate. The 33% is actually year to date. Year on year is 115% growth in mid-corporate. So we apologise for that. It’s not year on year. It's actually year to date. Year on year is 115%. And we had strong growth also on programme-based lending and SME. And Treasury, as I'm sure you've heard, we launched $1 billion dollar, first-time tapping international markets. It was quite successful because it is our first time we tapped international markets, and the price was also attractive because of the high demand that we received.

We've managed to increase our PRSs or profit rate swap by 5 billion, and we added three more for corresponding banks. On page 11, the things that we're going to be working on, we have, still, 15 more initiatives that we're working on, including building or finalising the retail credit scoring. We want to digitise our mortgage journey and enhance the family account ecosystem and complete all branches mergers or female mergers, so by the end of the year, we have no single standalone female branches. They will all be merged by the end of this year, as well as completing our TCR installation for all branches and corporates.

We're going to launch, hopefully this quarter, very soon, the new portal for all corporate segments. We've already done one part, which covers the SMEs. Now we're going to complete it this quarter. Sorry, the portal will be going this year, this quarter, but I was referring, sorry, to loan origination system. We launched phase one to cover SMEs, and soon we going to launch phase two to cover all segments. And we'll continue to drive cross-selling all derivatives and Treasury. And with that, I give the floor to our CFO to take us through a detailed presentation on the financials.

Adel Abalkhail : Thank you. A very good afternoon to you all, and welcome again to our conference call for the Q1 2024 results. I'll be walking you through the financial performance for the quarter, and that will be followed by the outlook and the guidance for the remains of the year.

Starting on Slide number 13, on the balance sheet trend, we have seen YTD growth 3% on the total assets. That was driven by 4% growth in the financing and 5% growth in the investment portfolio, and was offset by 5% lower cash in interbank. On the liability side, the liability has grown 2%. As mentioned, this is driven by the customer deposits, 1% YTD, and also the 16% increase in the due to SAMA and interbank.

On the next slide, slide number 14, on the overall P&L trend, we have seen a solid 36% growth year on year. This is, as you can see, in the top right hand. This was driven by 16% growth in the funded income year on year. Non-funded income also picked up 24%. And also, we have seen, in the other hand, the 10% growth year on year on the operating expenses provision. Impairment charge is 23% lower than the same quarter last year. So, net income standing at, by end of the quarter, 1,315 million. In the operating income composition, so 79% in the funded income, 15% in the fees from banking services, and then 3% on the investment income, another 3% of the overall operating income is foreign exchange income.

On the next slide, slide number 15, zooming in on the financing, YTD growth of 4% on a sequential basis, but year on year, it’s 18%. As you can see in the top-right graph, the composition of the financial portfolio by end of Q1 is basically 67% on the large corporates and project financing. Mid-corporates represent 5%, and also, we have seen a pickup on the SMEs. Used to be 3%, now 4% composition as part of the overall financing. 12% in the home financing, and also same 12% on the personal financing and other retail projects. So the overall financing growth that we have seen, 4% was coming, 5% in the corporate, and 1% was from retail business.

Next slide, and this slide number 16, on the deposits. Overall, customer deposits has moved by 1% from December, but as mentioned by the CEO, More importantly was the CASA growth that has increased by 6%. Time deposits has dropped by the end of the quarter by 4% in light of the latest sukuk that were issued during the quarter late in February. So, as you can see from the graph in the centre of the slide, CASA, as a percentage of total deposits, has slightly improved. We were 49.9% in Q4 last year. It's now standing at 50.7%.

On the next slide, slide number 17, zooming in on the NIMs, as you can see in the top-right graph as well, we have seen the growth commission, income and financing has increased by 37% from year on year, and also 34% increase in the gross yield for investment year on year. As you can see on the graph at the bottom left, on the net profit margin and the NIMS movement, there were nine basis points’ increase in the investment yield income. 78 basis points also was in the financial yield. And unfortunately, the cost of funding has increased, year on year, 98 basis points.

So, looking at the NIMS, as mentioned earlier by the CEO, there was a contraction of 11 basis points from December, where it was, basically, on the cost of funding that has increased from Q4 to Q1 by 14 basis points. And this was mainly on the cost of funding that has increased for some deposits that were taken in Q4 and spilled over into the early in Q1.

Next slides slide number 18 on the fee and fee income, of non-yield income, we have seen a growth of 24% year on year. This was driven by 28% growth in the fees from banking services. We have seen a drop, 10% in the exchange income if we compare that year on year, but also, we have seen 61%, around 60%, both in the investment and dividend income and also the other income. The fees composition, 33% as of March on the fund management, 21% on the card services, 13% in the trade financing business, 12% on the brokerage and the remaining for other fees.

On the next slide, slide number 19 on the operating expenses, it's at 10% year on year. We have seen, on a sequential basis, 8% growth in operating expenses. This is, the majority of this came from personal cost. As we can see, personal cost has grown 13%. We have seen 20% growth in depreciation amortisation during the year. And then other G&A is only 5% growth year on year. And based on that, if you can see in the graph in the centre of the slide, cost/income ratio has slightly increased from where we were in December, but of course, an improvement year on year. We were, in December, 31.7%. We are standing at 32.5% cost/income ratio, as end of March.

And the next slide, which is on the impairment. The impairment charge, as you can see in the top-right graph, 21% lower impairment charge taken during Q1 versus what was taken as an impairment charge in Q1 last year. Even on a sequential basis, the impairment for financing has dropped 14%, and this is in light of the settlement that we have talked about that was executed during Q1 this year. This actually resulted in a lower cost of risk. Cost of risk as at end of March is standing at 59 basis points. The cost of risk was 88 basis points as at same quarter last year. We talk about the impairment allowance composition as at end of March. We see corporate has taken 77% of the overall 4.3 billion overall impairment allowance, and 23% would relate to the retail business.

On the next slide, slide 21, This is on the NPL and NPL coverage. So we have seen, also, a drop on the NPL standing. NPL where, in December, 2.9 we have seen 17% drop in NPL non-performing loans on a sequential basis, 17% standing at 2.4 billion. And this is, again, in light of the settlement that I mentioned earlier. This brought down the NPL ratio, as you can see in the top-right graph on the slide, standing at 1.28% by end of Q1, where we were in Q4 at 1.61%. Also, this has further improved our coverage ratio, moving from almost 150% in December last year, being at 181.1% as coverage ratio by end of March.

Stage one coverage slightly declined year on year due to the acquisition of higher-quality credit. If we look at stage two coverage year on year, fell from 19.4 to 17.7 as some of the accounts were moved from Stage 1 to stage 2 that were carrying lower provision and lower coverage.

On the next slide, slide number 22, on the capitalisation and liquidity, as end of Q1, the capital is standing at 19.1. This is increasing from where we were in December, typically, from the Sukuk that were issued late-February, $1 billion dollar in Tier 1 Sukuk. Looking into the ROE, we have moved the ROE. If you recall, ROE, in

December, we were at 17.21% ROE, as end of March, standing at 17.5%. Also, ROA stands at 2.2% by end of March. If we look at the regulatory and liquidity ratios at the bottom of the slide, slide 22, LCR stands at 133%, which is well above the regulatory minimum of 100%. And also, LDR stands at 81.2% by end of March, which is well below the regulatory maximum. And also NSFR almost flat with December at 108.5%, which is, again, well above the regulatory minimum, 100%.

On the next section, I'll be going through the guidance for the remaining of the year. We have achieved 18% growth year on year on financing. We kept the guidance as mid-teens, mid-teens, unchanged for the financing growth. Net profit margin year on year, we have a contraction of 11 basis points. And as we see the forecasts, as we look at them at March, we are still keeping the guidance to be flattish for the year between plus five basis points and minus five basis points for the remaining of the year. Cost/income stands at 32.5%. We are still keeping the guidance at around 30% for cost/income for the remaining of the year.

Return on equity has improved, as I mentioned, from December, standing at 17.5%. Also, we are keeping the guidance unchanged for above 18%. Cost of risk, much lower than the range, but being broadened, and also to be always sure we are above 150% when it comes to coverage, we are keeping the guidance unchanged, which is 75 to 65 basis points as cost of risk. Capital CAR Pillar 1 stands at 19.1, and we are keeping, also, the guidance unchanged, which is 19% to 20% for the remaining of the year. Just a reminder on the 2025 communicated ROA before, above 18, and that's also remained unchanged. 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, followed by one on your telephone keypad now. If you change your mind, please press star, followed by two. When preparing to ask your question, please ensure your device is unmuted locally. For those of you that have joined online, you can register a written question in the Q&A box, but if you would prefer to ask the verbal question, please dial into the conference and press star, followed by one on your telephone keypad. So our first question today comes from Nida Iqbal Siddiqi from Morgan Stanley. Please go ahead.

Nida Iqbal Siddiqi: Hi. Thank you very much for the presentation. I have a few questions. Firstly, on the margin side of things, NIMs contracted both sequentially and year on year, and we calculate, both that asset sales were down sequentially, and the cost of funding was higher. So, just wanted to understand a bit better on the asset yield dynamics and what's causing the compression here. Is it competition, or were there any one-offs involved? And then on the cost of funding side, it does feel like liquidity conditions in the sector have improved. We've seen, Alinma's had some term deposits as well, and demand deposits have increased. How do you see cost of funding evolving from here, particularly in a higher-for-longer rate environment? So that's one on margins.

And secondly, my question was on loans. Just wanted to get a better sense on the loan growth outlook on the retail side. We've seen some of your peers, this quarter, talk about a pickup in auto financing, credit cards, etc., so what's Alinma's view here? Do you see a pickup in retail in coming quarters as well? Thank you.

Abdullah AlKhalifa: Thank you. I'll address the NIMs. I think, in our presentation, we maybe have not fully explained it, but we had, if you recall, Q4 was the peak of cyber. Cyber was in the range of 630, 631 in October, November and December. There is a significant amount of deposits either taken, new taken, or refinanced, repriced during that quarter. And it spilled over to Q1, even though Q1, when you look at average, cyber has gone down by 9 to 8 basis point easily, but because of the deposit taken in Q4, with, obviously, maturity beyond the year end, it had had a negative impact on our cost of funding.

And that's the main reason. I think the chart that Adel mentioned on the NIMS explained that, how much increase and the cost of funding. The other questions you had about, going forward, how is the cost of funding going to look, I think liquidity has improved in the market, but what we notice that, year on year, we start seeing more and more banks hitting the double-digit growth in loans. The number of banks doing double-digit growth in loans was lower last year, so I presume that will drive more competition on deposits.

But nonetheless, we've already managed to issue $1 billion dollar. That also helps us on liquidity. On loan/deposit ratios, it's weighted. So 1 billion is equivalent to $1.7 billion, and that can ease off the pressure on liquidity and for the loan growth in retail, Saleh?

Saleh AlZumaie: Yes, hi, everyone. We believe we are growing our customer base now, as probably mentioned, by CEO in this presentation. We are the third largest bank and customer base in terms of retail, so we have a lot of opportunity there. Also, the CEO mentioned that we have already introduced some mortgage refinancing products this year, and this will give us some space to grow our mortgage business again. We have one of our strategies that we forecast in the affluent and private customers. We have a full-suitfinance programme for this, backed by assets or by shares, and there is there is a huge opportunity to grow here.

Credit card, yes, we are still seeing a double-digit growth in our credit card business, and this is very profitable business, as you know, and we have a very ambitious target for this year. We have a lot of value proposition in credit card, so we will maintain this double-digit growth this year, inshallah.

Nida Iqbal Siddiqi: Thank you very much. That's very helpful. Can I just follow up on the first part of my question, which was also about asset yields declining sequentially? This is something that we've seen for a few banks this quarter. So just trying to understand if this is competitive pressures.

Abdullah AlKhalifa: Obviously, I think I mentioned this maybe a few times before, when rate goes high level, we've seen this historically, when rate goes to the 5% plus, typically, the spreads that you charge on corporates is lower than when interest rate is very low. This is a market practice. You have to compete in the market, and, yes, there have been slips. But, however, the repricing of the assets, I think, in the slides on NIMS shows an increase on the gross income on assets.

Nida Iqbal Siddiqi: Thank you.

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

Shabbir Malik: All right. Thank you very much. I have a couple of questions. So, we saw strong growth in CASA deposits for you and for the sector generally. What is your sense in terms of the stickiness of these deposits? Do you think these are transitory, or do you think these can potentially continue growing in the coming quarters? Secondly, in terms of dividend, in the fourth quarter, if I remember correctly, I think you decided not to go for a cash dividend. I think you went for a bonus dividend. You've moved again to an interim dividend in the first quarter. Is this because you feel more comfortable about capitalisation, given that you've done your AT1 issuance?

And just, maybe if you can comment generally on the practice now going forward in terms of your dividends? And thirdly, in terms of your cost of risk guidance, considering that first quarter cost of risk is below the range that you've indicated, NPL coverage is also, I think, pretty robust now, what's the reason for keeping the cost of risk guidance intact at 65 to 75 basis Points? Thank you.

Abdullah AlKhalifa: Thank you. Now, back to CASA, as I mentioned multiple times, we're really focused on customer acquisition, whether it's in private, whether it's in affluent, mid-corporates, SMEs, large corporates, project finance. And the more customers you acquire... And you heard Saleh mention, obviously, we became the third largest bank in terms of retail customers. This acquisition, by default, do attract CASA. We also focus on cross-selling cash and trade. Trade also generates margins and so on. That's CASA. And obviously, the more payroll services that we do, the more point-of-sale that we do with our clients, the more e-commerce and so on, all this generates more in terms of CASA, and we're going to continue our drive there.

On the dividends, yes, on Q4, the Board decided to issue bonus shares, and we felt there was no need for Q4 dividends at that time, because other than that, we're given a bonus shares in Q1. That was our intention to continue our quarterly dividend payout. I think they want the amount that we that we announced was 47% payout. Will we keep that? It depends on, going forward, how the outlook... There is on a potential upside risk on the guidance of loans. It could see higher growth, and that would mean we may have to reduce, a little bit, the payout ratio, but we're going to continue to pay dividends on a quarterly basis.

Cost of risk. Your question about cost of risk is, you recall, on Q4 earning, we said we were expecting settlement to take place in Q4. Unfortunately, we'll sign the last day of the quarter, which means it has to be accounted for in Q1 because of some additional requirements, and that's the reason the cost of risk has gone down below our guidance. But going forward, we expect it to be within the guidance that we gave. The coverage ratio, we try not to be to go below 150, but obviously, we don't lose sleep if it goes higher than that.

Shabbir Malik: Got it. Thank you.

Operator: Thank you. The next question is from Aybek Islamov from HSBC. Please go ahead.

Aybek Islamov: Yes, thank you for the conference call, and thank you for all the answers so far. I think, what I wanted to check with you is the asset yields, just to follow up on the previous discussion that you had there. How sustainable are the asset yields, and how easy is it right now to improve your asset yields, lending stress in particular? How intense is the competition, in your view, and what do you think are the factors, which will lead to better pricing discipline, in particular, in the corporate segment?

Abdullah AlKhalifa: Thanks Aybek. If I, maybe, redirect you to page 17, where we say that financing yield has improved by 78 basis points compared to the same period last year. But the growth on... Because obviously, we had to finance this, more time deposits, but the price has been increasing and peaked in Q4. That has a negative impact on cost of funding. But the assets is growing. Obviously, the competition is, again, different in terms of project, in terms of customers that we deal with. You've seen our strong, very strong, growth in mid-corporates, strong growth in SMEs. That tend to be much better yield or spread than large corporates.

Project finance is also attractive spread, because, obviously, a number of competitors are lower. But other corporates, yes, I think we are facing competition, but we don't go very aggressive on pricing yet. We obviously do a good job in relationship and turnaround time, so the quality of service that our customer gets allows us to continue growth without being very aggressive. We have to compete, but we're not very aggressive on pricing.

Aybek Islamov: Thank you, and just to follow up, you mentioned, during the call, with regards to your Stage 1 coverage, which has reduced a little bit, and you said that that's because the underlying quality of the loan book has improved. So you cut your Stage 1 coverage a bit. Does that affect your loan yields in any way? Is this lending to better-quality customers, which is also affecting your blended yields on the corporate book?

Adel Abalkhail: Yes, Aybek, when I say, this may be referring to Slide 21, when we talk about the Stage 1, the commentary that I mentioned about the slight decline, I was comparing year on year. So, it just had been a ten-basis point drop in the coverage for Stage 1. As we grow the new business, both retail and corporate, and obviously as the IFRS 9 model is usually the initial good-quality financing that you do finance usually triggers lower PDs. And of course, this will be based on the overall rate model, rating from the model for each corporate client. So this is just a slight drop in the coverage. I'm talking year on year, but if you see, it did not change from the previous quarter, which is Q4. So basically, it's a slight drop, but just because of the good quality of newly dispersed financing during the quarter.

Aybek Islamov: Thank you.

Operator: The next question is from Olga Veselova from Bank of America Merrill Lynch. Please go ahead.

Olga Veselova: Thank you very much. I have three questions. One is, again, on NPL coverage. I hear you, that you don't necessarily target 150%, but given it's now well above 150, do you see signs of risks? And you want to leave it there for now, or would you be willing to bring it back a little bit closer to sector average? So, anything that makes you believe that it should be that much higher than sector average?

The second question is on Tier 1 issuance, AT1 issuance. How shall we think about potential room to keep issuing AT1 to replenish capital? So, in other words, can we know your maximum capacity for AT1, maybe as a percentage of risk-weighted assets for the next several years? And my third question is actually on the regulation. What do you hear from SAMA, or if you hear from SAMA, about any new regulatory initiatives? Any new measure is expected in consumer protection segment, which you possibly know? Thank you.

Abdullah AlKhalifa: Thank you. And obviously, in the coverage ratio, we need to be prudent. We need to build. We're growing very fast, and the proper approach, from our point of view, is to have enough cushion. We continue to build cushion. We’re growing very fast. You never know, bad cases of some of these loans, for whatever reasons, it could happen. That's the nature of the banking business. So, I wouldn't really worry about the coverage ratio going 180 or more. We're not saying they're going to go crazy coverage, but I think 180 is quite reasonable.

On Tier 1, I think the challenge was on first time tapping the markets, international markets. I think now we've gone, physically, and met quite a number of investors, and we generated over $4.5 billion of demand. And this is our first time in the market. I think, theoretically at least, that makes it easier next time to do that. In terms of capacity, we go, and we're not really worried about capacity. We're actually looking ahead and planning, being proactive, in terms of allowing us to continue to grow without getting excessive capital. The 1 billion, for example, we could have done 1.5, but we didn't feel it's our need in the next, easily, 12 to 18 months. So, yes, we can go back, and we may go back. I'm not saying we will not, or not saying, also confirming that we are. But theoretically, it makes it easier when it goes to next time.

In terms of regulations, we haven't heard any specific drafted new regulations on consumer or retail business. There obviously, the draft on the loan provisioning, which been going on for a while. I don't think it's yet finalised in terms of actual implementation. But that was just additional reserve. If you have lower provision per central bank recalculation versus your IFRS calculation, if you have lower provision, then you create additional reserve within equity. It's not that P&L impact has no impact on profitability, it's just that set-aside additional provision. Thank you.

Olga Veselova: Thank you. Can I clarify the answer for the second question?

Olga Veselova: Thank you The next question is from Mohammed Al-Rasheed from Ashmore Capital. Please go ahead.

Mohammad Al-Rasheed: Assalamu alaikum. Am I audible?

Abdullah AlKhalifa: Alaikum assalam.

Mohammad Al-Rasheed Okay. Thank you, Gentlemen. I have just one question from my side. So, it’s regarding the recent amendment to a regulation concerning the suspension of government services for individuals in cases, such as the defaulted retail borrower. So my understanding is that these new amendments came in force, starting first last Ramadan. My question is whether you have observed any material change to defaulted consumer behaviour since then, and how do you see that impacting your recoveries in the retail segment and cost of risk overall going forward? Thank you.

Saleh AlZumaie: Hi. The recent release of this regulation does not impact the consumer loans granted by banks. This is only for a commercial dispute with other entities. It’s not related to the banks, no. So there is no impact.

Mohammad Al-Rasheed: Okay, so the suspension on the government service, when it comes to the personal guarantee, nothing has changed over that?

Saleh AlZumaie: Yes.

Mohammad Al-Rasheed: Okay, thank you for your clarification.

Operator: Thank you. The next question is from Jon Peace from UBS. Please go ahead.

Jon Peace: Thank you. So, my first question is just to clarify something you said a little earlier, where you mentioned there could be some potential upside in lending. And I just wondered, is that coming from retail accelerating as rates start to decline, or could it be even stronger corporate lending? And then my second question is just on costs. Was there anything lumpy in the first quarter, maybe some lumpy investment spending? Just thinking about how the cost/income ratio comes back in line with the target. Is it maybe lower absolute costs as a run rate or just higher revenues through the rest of the year? Thank you.

Abdullah AlKhalifa: Thank you. The point that I had mentioned, that there could be a potential upside risk on the guidance on loan growth, is because of the early discussion we have started, been engaged with all the clients, some of the projects that potentially can materialise this year. It's too early for us to look at this early discussion and say that we need to amend our guidance, but as time goes by, as we finish this Q2, we may have a better clarity on these potential deals.

Adel Abalkhail: Yes, on the other part of the question on the expenses, so as I mentioned earlier, we have seen this 8% growth on a sequential basis in OpEx. But if you look at the slide number 19, where we really see the growth versus the Q4 on a sequential basis, it was coming from the personnel cost. And as you know, the Q1 usually would reflect all the adjustments that happen to the personnel when it comes to the to the adjustments in the personnel costs, and also what relates to that when it comes to the increase on the end-of-service benefits that is backdated impact when promotions and increments take place. And also, if you see, year on year, even if it's a small amount, as we were always mentioning, the depreciation and amortisation is not really expected to decrease, even though it's a small amount.

But this would reflect the earlier investment the bank did in the early days of the strategy execution. But in the other side, also, if we're controlling the G&A, we're also not seeing, or expecting, the same movement that you used to see on high-double-digit or high-teens growth in the OpEx in the first two years of 21 and 22, as most of the investments. We will continue to invest, of course. As mentioned by the CEO earlier, there are still some initiatives, and the strategy wasn't completed yet, and that would trigger some strategic investments. But we are we are comfortable with the guidance that we kept unchanged for the remainder of the year. And the cost/income for now is 30%. Thank you.

Jon Peace: Thank you.

Operator: Thank you. The next question is from Adnan Farooq from Jadwa Investment. Please go ahead.

Adnan Farooq: Assalamu alaikum. Thank you for the call. I have two questions. One is a follow-up on the operating expenses. You mentioned first quarter included some personnel charges, which were adjustments to the salary, as well as increase in end-of-service benefits. I would assume the end-of -service benefits part would not repeat. Can you highlight how much is that and what would be a fair run rate on OpEx going forward? And the second question is on the investment book. If you could share what is the yield on the investment book? And would it be fair to assume that the marginal growth in the investment book is gross yield dilutive?

Adel Abalkhail: Sorry, Adnan, on the second part of the question, on the investment?

Adnan Farooq: The investment book, I wanted to understand if the marginal increase in the investment book during the quarter, the new investments that you are making, they would be overall asset yield-dilutive.

Abdullah AlKhalifa: Well, let's put it this way, Adnan. The previous investments, which, as you know, mainly Saudi Government, sukuk, that was purchased a year ago, two years ago, three years ago, and so on. They, they used to have a lower rate than the current rate in the market. The new issuance that we purchased during the second half of 2023 or the first quarter, actually it's better yield than the average portfolio yield that we had before. So it's supportive. Naturally, it's not going to give you the same yield as corporate loans, for sure. So if that's what you mean. The other part...

Adel Abalkhail: Yes, on the other part I on the, on the expenses side and what was mentioned about the sequential growth in the personal finance, on the personal cost, was, of course, as you rightly said, it would be mostly a one-off. There will still be a cost on the expansion and also the hiring, to continue on the initiatives of the strategy. That would continue. But I can put it this way, that we kept the cost/income guidance unchanged of around 30%. And that will involve both, of course, the expected growth in income, but also our expectation and how the OpEx will move toward the year end.

Adnan Farooq: That's helpful. Thank you so much.

Operator: Thank you. As a reminder, if you'd like to ask a question, please press star, one on your telephone keypad, or type up your question in the Q&A box. So we do have a question... Sorry. Go ahead.

Naresh Bilandani: Sorry, Chach. It's Naresh here from J.P. Morgan. While we have more questions being registered, Mr Abdullah, if I can just, please, pose to you one, is, if I take a look at your disclosure on the derivatives book, you started engaging in profit rate swaps for hedging purposes from this quarter. Can you, please, explain if the intention to hedge, this programme, is going to be a lot more active in the future? And is there any percentage level of cover that you are targeting to hedge the rate risk, given that we are close to pay rate levels in the current environment? That's one.

And second is, if I take a look at your note 4.5, which discloses some of the associates in the JVs. There's a new JV with regards to International Water Distribution Co., TAWZEA, which has been commenced from the first quarter of 2024. Could you, please, add some more colour on this? Where did this originate from? Thank you.

Abdullah AlKhalifa: Thank you, Naresh. Well, the cashflow hedge, yes, we started this quarter, and we have it almost 1.2 billion and done a little bit more during Q2. It's one of the tools, Naresh, that we are trying to hedge ourselves, in terms of rate reduction. We're not going very aggressive. We look at the market, the pricing. We continuously assess this. We've actually been doing this assessment, maybe from the second half of last year. We've been doing this on a regular basis, and we felt, in Q1, there was good opportunity to do it. We've done some part of it, 1.2, and we're going to continue to assess. Don't forget, previously, we had no access to such a tool. Now, we do.

In terms of TAWZEA, that's easy. It's actually public information. The supplement that we've done, the one that we said, signed literally on the last day of December, that could not be accounted for in Q4, it was involving taking an asset from the client. And that asset is actually ownership in this small company. The idea is not to have this continuously. The idea is, we take an asset, and we're look them for potential buyers. This is not our core business.

Naresh Bilandani: Understood. Thank you for the clarification. Chach, back to you, please.

Operator: Thank you, Naresh. So, we do have a question from Nauman Khan from SNB Capital. Please go ahead.

Nauman Khan: Thank you for this opportunity. Just a couple of things. One thing that I wanted to ask is, you may have alluded to it earlier, but I may have missed out on the CASA deposits in Q1, the nature of the growth you see, and do you think this will continue over the year? Second thing I wanted to ask was about cost of risk, which was 0.59 for Q1. But you're still guiding for 65 basis points for the year. Given that your overall coverage ratio, and particularly safety coverage, is about 70%, what do you think is the rationale for a higher cost of risk in the coming years?

Lastly, coming back to this past question about net profit margins, you are increasing price five-plus basis points last year. What are the levers that you're looking for that could potentially increase the margins going forward from 3.69 currently? So, these are my three questions.

Adel Abalkhail: Thank you, Nauman. Just to cover, I think, on the first question, on the CASA and the deposits performance, especially CASA, 6% growth YTD, as mentioned earlier, by CEO, this is result of many initiatives as part of the bank's strategy, how we are focusing on the customer acquisition. I think the Deputy CEO has also mentioned the level the bank has reached when it comes to number of retail customers. So, this is, in part, adding to the CASA growth. But also on the other side, it was mentioned earlier on the cash management and how this also further enhances the deposit growth, especially CASA. So, this is on the first part. On the second part, I think the question was on the...

Nauman Khan: Cost of risk.

Adel Abalkhail: That was the third part. I think there was the second-part question after the deposit growth. Right, so we are guiding to 75, 65. And as we mentioned, also, that what happened in Q1, as a result of the settlement that has taken place, which we've been talking about since Q4, that's reduced the cost of risk for the quarter and also improved the coverage ratio. We are being prudent, and also, we didn't want, for the remainder of the year, at least, to be at 150% coverage ratio. As CEO mentioned, we don't lose sleep if it goes higher than that. That's why we are keeping that guidance unchanged, even though it's standing at 59 basis points by end of the quarter.

And the third question, I believe, was on the NIMs, and I think we have also touched upon this before, which is, basically, was the impact on the cost of funding for the deposits that were taken during Q4, where the average three-month cyber was higher than what we have seen as an average three-month cyber during Q1. And, of course, a portion of these deposits will logically spill over the Q1. But on the guidance, unchanged, we have seen an improvement. I think we've seen improvement in March itself, but I think we have seen, March, as a month, is better than the whole quarter. So that's also part of why we are giving the guidance, even though we have a contraction of 11 bps.

Nauman Khan: Fine, thank you very much, and this is all from our side. Thank you.

Operator: Thank you. We do have a follow up question from Olga Veselova from Bank of America Merrill Lynch.

Olga Veselova: Well, thank you very much. Remind us, please, the sensitivity to rate cuts?

Adel Abalkhail: So, Olga, on the commercial sensitivity, again, we've maybe mentioned this before, and this remains radical, really. You see how the NIMs moved during Q1, for example, versus the sensitivity position, as of December. And all I can say is, this is really theoretical, and I think if we go back to our published financials, you'll see the sensitivity commission then, which hasn't moved really much, which is 2 to 3 basis points for every 25 basis point movement. And this, again, subject to many things, as we usually qualify this for a full-year impact, and also the CASA growth behaviour that we could see for the remaining of the year, but that's the current sensitivity.

Olga Veselova: Thank you so much.

Operator: Thank you. We do have a written question from JIRA Investment. Hi. Thank you for the presentation. There are two questions. First question, you have talked about keeping LDR closure to 85%. Are you comfortable with the current LDR? And the second question is, decline in NPL ratio, can you throw some light on the reasons for the continuous and sizeable decline?

Abdullah AlKhalifa: Thank you. Obviously, we've been trying to be very efficient in liquidity, and previously, we tried to manage the LDR, to be between 85 and 86, to be much more efficient. However, if you recall, following Q3, where we saw a slight dip in on our in NSFR, we want to lower in terms of LDR, in order to maintain the proper level of NSFR ratio. That hasn't changed.

The other question was about... Anybody remember? NPL ratio, yes. Obviously, we already talked about the settlement that we had recorded in Q1. That settlement means, obviously, a lower NPLs because of the write off. And we've done, I think, some of the share write-off. And, of course, our overall loan increase, which means it dilutes, also, the NPL. Even if the level is still the same, it's diluted. So it's a combination. We had settlement, some additional write-offs, as well as growth on our loan portfolio.

Operator: Thank you. The next question is a text question, and there are two questions as well. What is the settlement you mentioned that caused a drop in non-performing loans in Q1 versus Q4? Can you, please, elaborate more on this? Question two, your target of flattish NI in coming quarters, will it be coming from improvement of cost of funding or much higher increase in yield on assets or mix of both?

Abdullah AlKhalifa: Yes, obviously, the difference or reduction in NPLs is already covered in the previous question. Just to repeat, for reference, we had a settlement. We had some additional write-off, as well as growth in gross loans, and that has been diverted the NPL ratio. The other questions about why we are confident that this guidance on NIMs plus/minus five basis points, i.e., flattish, is, as Adel mentioned, we had higher cost of funding as a result of significant amount of time deposits being taken in Q4 when the rate was higher.

And we've seen the rate now is 9 to 10, almost 8 to 10 basis points lower than what we see in Q4. And that is why, in addition to issuing the $1 billion dollar sukuk, which has a weighting of 4.7 billion, we see in the NIMs, for the month alone of March, better than what we saw as an average. We also run, we reforecast based on the latest forward yield curve that we take from market, and we run our exercise, and that's why we kept the NIMs as is.

Operator: Thank you. So, this is all the questions we have planned for today. So I'd like to hand back to Naresh.

Naresh Bilandani: Okay. It looks like we have reached the end of the scheduled time for the call. So, thanks again to the entire Alinma Management team for taking time out to speak with us today, and thanks to all the participants for dialling in, and have a good day ahead, everyone. Thanks a lot.

Abdullah AlKhalifa: Thank you all. Appreciate it.

Operator: This does conclude today's call. Thank you for joining. You may now disconnect your lines.