alinma bank

Operator: Good day, ladies and gentlemen. We are ready to begin. For your information, today's conference is being recorded. I would now like to hand you over to Waleed Mohsin to open the call. Please go ahead, sir.

Waleed Mohsin: Hi. Good day, everyone. Thank you very much for joining us for Alinma Bank's First Quarter 2023 Earnings Call hosted by Goldman Sachs. On this call, it's my pleasure to welcome the Alinma management team represented by Mr. Abdullah Ali Al Khalifa, Chief Executive Officer. Mr. Saleh Alzumaie, Deputy CEO, Head of Retail and Digital Banking, and Mr. Adel Saleh Abalkhail, the Chief Financial Officer. Please note this call is being recorded and is intended for investors and analysts only. Any media who is on the call must dial off at this moment. So without any further delays, I would pass on the call to Mr. Abdullah Khalifa, CEO, Alinma Bank.

Abdullah Ali Al Khalifa: Thank you, Waleed. Hi, everyone. Thank you for allocating the time to attend our earnings call for Q1 2023. And as usual, we will take you through a quick presentation first by me on the overall financial performance as well as a reminder and also a progress report on the implementation of our 2025 strategy. Then I will hand the mic to our CFO who will take you through detailed presentation of financial statements. We try to be as brief as possible in order to allow for longer time for your questions.

On slide – I'll take you to the slide I believe you all have a copy of it, so slide four shows you some overview, but start with slide six, which talks about the high level on the financial performance. In Q1 2023, our financing reached 153 billion. That's a 4.5% increase over Q4 and almost 19%, 18.8% year on year. In terms of total assets, again, a strong growth, 6.6% year to date or 19.1% year on year. Our operating income in Q1 increased by 20.6%. Our net income increased by 17.6%. We have a slight increase in NPLs to reach 2.11% and a drop in our coverage ratio to reach 121.5% on that. By the way, on the coverage ratio, we're fairly confident that by year-end we will be in excess of 150% our normal targets. We're expecting some recoveries, some settlements during the year. Some of them are sizable and that will help us to – plus, obviously, our guidance on the cost of risk will help us to take the coverage ratio above that.

First quarter in terms of customer deposits, we have a year-on-year increase of almost 25% and 10.12% quarter on quarter. CASA, we managed to increase it by almost 3% compared to the beginning of the year. That as you might appreciate, it's a very hard achievement considering the high interest rate now. So the ability, as we mentioned before, we will continue to focus on growing our overall CASA amount. However, in terms of percentage of total customer deposits, we got a strong loan growth naturally should dilute and that you can see it there in one of the boxes. You can see that our CASA percentage of total deposit reached 53% compared to, I think the highest we had in 71% in June 2022.

In terms of cost to income ratio, reached 34.8%. Net profit margin, we picked up 18 basis points. When you compare against the full NIM and for 2022, which is I recall 362 bps compared to Q4, we actually picked up ten basis points compared to Q4. In terms of CAR, we are standing at 19.1%. Just a quick reminder, I will not go for a long time on the strategy. But just a reminder, in case there's new investors and a refresh for the existing ones. Basically, our strategy call for us to be the fastest and the most convenient bank in the country, to be the best provider of quality of service through being number one net promoter score, and of course being number one in employer of choice.

If you look at page nine, which gives you more details in terms of business and in terms of the bank overall, in order to really advance in terms of speed and quality of service, we needed to set up a digital factory. We need to drive our decision based on analytics and advanced analytics, and we need the ability to have a culture transformation not only to attract the right talent but also to retain them.

In retail, one of the main pillars in our strategy is to focus and build on our affluent franchise. And also second pillar is to focus on attracting the youth segments. As I mentioned multiple times, the youths are the future basically of the bank business, not necessarily a very profitable segment immediately. But certainly, with those graduates when these college students take a job, they'll be able to develop our business with them and offer them multiple products and of course, offer the best customer experience.

In corporate, we want to be the main bank not only for larger used to be, but also on project finance, but also for mid-corporates. We want to develop high quality SME business and grow our cash and trade. No longer just focused on financing. We want to develop and cross-sell multiple products. In treasury, we want to be the main bank for our customer needs, whether it's hedging or investments, as well as growing our RFI and maintain a higher quality ALM function.

Now, on page ten, it talks about some of the activities that was done during Q1. However, overall we have 77 initiatives. We added one more in Q1 this year. We already have delivered on 55 out of the 77 and some of the activities that took place this quarter we introduced chatbot services for our Internet banking. We launched an inbound mobile, a new mobile application with better features or better technology. Our female colleagues increased to 19.52% of total workforce delivered two more advanced analytics and implemented an artificial intelligence anti-fraud system.

For retail, we continue to focus on enriching our mix of products. So we launched new off-plan commodity-based products as well as commodity-based equity released products. We also introduced a new personal finance against the shares of portfolio. We also delivered on merging ten branches and that's I think, very important initiative. We may not have talked about it before, but we decided we get the board support to merge some of the branches this year and that should give us a much better efficiency in terms of manpower for each branch. So we already delivered ten branches around the country and we're going to continue to focus on merging more branches come in a few months. We've also delivered and implemented a new revamp, a new loyalty programme called Actor.

In terms of corporates, we continue our success in mid-corporates. We grew our loan portfolio by 49%, our non-funding by 44%. Again, the growth in SMEs continued to accelerate. We had 13% Kafalah, but 53% on programme-based lending. We developed Murabaha overdraft products. In terms of treasury, we expanded our FI network by adding six more correspondents. We've increased the size of profit rate swaps we've done already to 7.8 bn. We also worked on the funding side in terms of our green repos or profit rate caps and floor products.

For this year, we're focusing on or working on remaining 22 initiatives out of the 77. We're going to continue to focus on expanding the products and services that digital factory will cover. We're going to continue on automating our procedures, our processes through either robotics or other ways of automation. In terms of retail, we're going to continue to design and improve our affluent network. We already opened a private bank centre in Western province. We already delivered on the central province and soon to have the Western Province Centre opened also. We're going to focus on enhancing family accounts, ecosystem, digitise our mortgage journey, as well as other that is mentioned in the presentation.

In corporate, we're in the process of implementing a new loan origination system for corporate as well as a new portal for all corporate segments. We're going to focus on driving liabilities through cross-selling and through introducing further products. In treasury, we're going to focus on delivering on structured deposits, improving the cross-sell, and shifting more towards longer-term financing. And with that, I give the floor to our CFO.

Adel Saleh Abalkhail: Thank you. Very good afternoon to you all. And I'm happy to walk you through the financial performance of Q1, followed by our guidance as usual and as mentioned by our CEO, I'll try to run this quickly to allow more time for the Q&A session at the end. In Slide number 13 on the balance sheet trend, we have seen 7% growth in the overall total assets driven by 5% growth in financing and also 4% growth in our investments, 1.4 billion, and also interbank 47% growth from December. And also in the total liabilities, 7% from December growth. This was driven by, as you can see in slide number 13 from 10% to growth in the customers' deposits, which is 14.8 billion.

On the next slide, slide number 14 on the P&L trend, we have seen a total operating income growth for 21%, while expenses have grown to 18%. The net income year on year, we have seen an 18% growth. This growth, as you can see in the top right graph, the growth came actually from funded income, which has grown year on year 32%. Non-unfunded income, we have seen a 10% lower year on year, but this was mainly on the other income whereby there was one-off income and the other income same quarter last year that was booked, as we will see later in the fee slide, actually fees from banking services has grown 14%. Exchange income was 19%. We have seen also impairments year on year has increased 41%.

On next slide, slide number 15, a bit further dive on the financing portfolio. As mentioned, we have seen the growth 4.5% growth on a gross financing. Year on year, that's an 18%. As of March, the overall financing book, 74% is corporate and 26% is retail financing. As you can see in the bottom left graph, the growth of 4% from December in the financing was driven by 5% growth in mortgage, home financing, personal financing, and other retail financing, which include the newly launched products of Auto-Lease. And also the credit cards has grown 11%. Corporates, which include the mid-corporate, has grown 3% and also solid growth 6% from December on the SME business.

On the next slide, slide number 16, we have seen a strong growth in deposits, as you can see in the top right graph, 10% growth from December in deposits of which 3% growth was in CASA and obviously more time deposit, 20% growth in the time deposits, which has increased from December by 12.6 billion. And obviously, as you can see on the graph in the centre, as mentioned earlier by the CEO, we're continually growing CASA, but as much as time deposits has grown, the CASA as a percentage of time deposits – of total deposits is diluting. It's standing at 53% now. As mentioned earlier, the peak was end of June of 71% and also Q1 last year, this percentage was 68.7%.

On the next slide, slide number 17, which is more in the yield and the commission income. The yield income, we have seen a very strong growth 89% on the gross yield income, 48% growth was coming from the investment portfolio with the majority 96% was a growth from the financing income. So as we can see in the bottom of this same slide, net profit margin stands as end of March at 3.8%. As mentioned earlier, also the full-year NIMs last year ended as at 3.62%. That's an 18 basis points expansion from the full year last year.

And also looking into quarter versus quarter, we have also from Q4 ten basis points expansion as end of March. And you can see in the left graph also as we stand, we were 3.31% in the same quarter last year. That's 49 basis points improvement. 17 basis points were from investment yield, but the majority of the improvement was on the financing, 2.21% and this was offset by 187 basis points increase in the cost of funding.

In the next slide, slide number 18 on the fees, as I mentioned earlier, as you can see in the top right graph, it's lower on the non-funded income, lower by 10% year on year. But this is evidenced by the other income. As you see, this is lower by 53 million, which is around 91% drop. However, the main business, the fee is from banking services, 14% and also exchange income has grown 19%. And we have lower mark to market and also some dividends, which is lower than last year's by 52%.

Still in the composition for fees from banking services, fund management is representing 32%. Card services, 25%. As of March, trade finance services represents 12% of the 308 million overall non-funded income for the first quarter. Brokerage also 9% and 22% composition is related to other income.

In the next slide in the operating expenses, operating expenses has increased year on year 18%. As you can see, salaries and employees related expenses has increased,14%, depreciation 10% and other G&A 26%. This 18% that you have seen year on year on a sequential basis is actually only 1% of growth. And that in one way or the other shows that the bank is moving or heading toward the end of the overall investment cycle that we have been mentioning in previous calls. So cost income ratio, as in of March, stands at 34.8%. This is almost flat from December, but it's actually lower than where we were in the same quarter last year.

In the next slide, slide number 20 on the impairment. We all remember we have had 436 million net charge during Q4 last year. This quarter is 23% lower than the net charge for financing 337 million. If you can see in the right, this 40% growth, we have a 40% growth in the environment for financing for March if you compare it to the same quarter last year. So the environment at as end of March is a composition, 22% of the impairment allowance is relating to retail business, 78% is corporate. So you can see in the centre of the graph also the cost of risk has picked up and reaching now 88 basis points.

On slide number 21 on the NPL and NPL coverage. NPL has picked up from Q4 reaching now 2.11%. And also you have seen an increase in the NPL's non-performing loans from December by 13%. Coverage now is 121.5%, and the stage coverage stage one remains flat with 50 basis points around 19.4% for stage two and also lower stage three coverage at 52.2%. Some of the write offs has been done during the quarter, which was carrying more provisions.

On the last slide on the performance, the capitalization and liquidity our ratios remain healthy. We have seen a drop on the CAR ratio, obviously, with the growth in the financing that we are seeing and also the growth in the balance sheet standing at 19.1%, which used to be 22.7% Q1 2022. Also for improvement in ROE, ROE stands at 14.1% from December ROE, 13. 7%. And also an improvement from Q1 where ROE was only 12.6%. The lower ratios, all healthy LCR well above the regulatory minimum at 134%. LDR also well below the regulatory maximum where it stands 79.9%, almost 80% there. NSFR also we continue to see the improvement in liquidity and 107% as end of the quarter versus 110%, that was in last quarter, which was 106% by December.

On the next section on the outlook and the guidance, we've given the guidance in December, and as you can see, none of the guidances have been changed. The financing growth, we have seen 19% growth year on year and we are still keeping the mid-teens guidance unchanged. And also the net profit margin, the NIMs are 3.8% we've had from quarter to quarter 10 bps and also year on year 49 bps. Also from the full year, we have seen an 18 basis points improvement. We are still keeping the guidance and change to an expansion of 35 to 45 basis points.

Cost income ratio stands at 34.8%. We are expecting this to reduce as we expect the higher income at 34.8% to flat of December expecting this too and the guidance remains unchanged below 32% as previously we guided in the beginning of the year. For the return on equity 14.1%, we start at end of March, end of the quarter and the guidance remains unchanged at above 17%. Cost of risk, 88 basis points and yet we're comfortable, as mentioned by the CEO previously, we are still keeping the guidance of 60 to 70 basis points unchanged for the full year. CAR pillar one, 19.1% as mentioned earlier, with expected growth, as we're not changing our guidance in the financing, we are keeping the guidance unchanged for 17% to 18%. And just a reminder, the ten equity long-term targets, 2025 capped above 18%. So with that, I'll hand over back for the Q&A.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, you may press star one to ask a question and we'll pause for just a moment to allow everyone an opportunity to signal.

Waleed Mohsin: While we wait for questions, maybe a couple of questions from my side quickly. First very strong growth on the deposit side, as you rightly noted, and now your regulatory is well below the cap. And linked to this, if I look at your net interest margin guidance, it implies that for the next three quarters you will be around 4% net interest margin. So how do you intend to get there? Is there room in terms of the LDR where you can optimise the deposit base and achieve cost of funding improvement, which will mainly drive your net interest margin? That's the first one. And then secondly, on asset quality, the increase in NPL and cost of risk, which sectors is driving the increase and is this a legacy loan, which is impacting the sector or is this more of a recent loan specific to Alinma?

Abdullah Ali Al Khalifa: Thank you, Waleed. Now, if you probably on the liquidity side, I think you can see that LDR was in line with our target. Initially, I communicated this multiple times, that we're trying to be efficient in liquidity and we were targeting LDR to be in the range of 85% to 86%. And of course, there's always a last-minute unexpected transaction deposit, withdrawal that may take it a little bit out of that range. And if you associate that with the NSFR, I think we've shown 103% in Q3 last year. So we had obviously – we had to take more deposits and improve – the NSFR is also important to us. So we don't want to be efficient to the extent that we may get closer to the regulatory limit of 100%. So we had to sort of relax this LDR efficiency in order to maintain strong NSFR. So that's the reason. You can really connect the two for higher deposits taken.

The NIMs, obviously, as we mentioned in our presentation, we already picked up 18 basis points compared to – the guidance we give year on year. The full year 22023 versus the full year 2022. Year 2022 full year was 362bps and now with 380bps. So we picked up 18 basis points. We are not surprised that cost of funding increased in Q1 versus Q4. And the reason for this is, again, further repricing that took place.

If you going forward, if you look at the expectation for interest rate is not going to shift much. Since Q1, it should be slower growth and cost of funding while we have sizable assets that's coming for repricing or maturity that will be replaced with something with current rates plus the growth on the loans. And we're confident that this guidance, 35 to 45 basis point will be achieved.

Now back to your second point on asset quality. It's actually a combination of legacy plus new. The legacy is, I think on the manufacturing side, I think there's some migration or some movement from stage two to stage three in Q1 this year. Rest of corporate loans, we're not seeing much deterioration on the existing loans. We expect that this is – nobody can obviously have absolute assurance, but we don't see much of downgrading to stage three from now till the end of the year for corporate.

The new side of the growth and bill has been some recent. We opened the products for non-salary assigned consumer loans. And to be honest with you, we had experienced some higher default than expected. Obviously, the pricing is higher than normal salary assigned loans, but we'll be beefing up our collections, we're beefing up our capability to improve this. So it's a combination of both, I would say.

Waleed Mohsin: Got it. Thank you much, as always. Thank you.

Operator: We'll move to our first question over the phone from Nida Iqbal with Morgan Stanley. Please go ahead.

Nida Iqbal: Thank you very much for the presentation. I just have a follow-up on the margins question asked earlier. If I look at your NIM trajectory so far, comparing it to the first quarter of last year, the NIM expansion at Alinma has been lower than some of the peers, despite having fairly high sensitivity to rates. So just wanted to understand what's driving that. Do you expect your margins to continue to expand? Is there part of the book where asset yields have not repriced fully yet? So it would be great to get some further colour on the margin trajectory from here, please.

And then secondly, on the loan growth dynamics they're quite interesting this quarter with the unsecured and the consumer loans growing faster than corporate. If you can just shed some light on your expectations going forward from here. Do you expect this trend to continue? And then on the corporate side, are you seeing a pickup in terms of Giga project link financing? Some colour there on the sector driving the corporate loan growth would be great, please. Thank you.

Abdullah Ali Al Khalifa: Thank you. Now, as far as the – I think you mentioned that we may not have stronger NIMs expansion compared to some of our competitors. I know one competitor has much higher CASA and that's certainly helped because we've seen a significant increase in the cost of funding. If you recall at the beginning of the year, we were like very low. Now we closed the year at 550. So that's a significant increase in rates and of course, when you have time deposits, it tends to be short-term and reprice very quickly. But as I mentioned to you, already picked up 18 basis points in our NIMs in Q1.

Our guidance is 35 to 45 bps. We're expecting better price pick up on the interest rates, on the assets. However, the cost of funding, the rate itself is not expecting significant change from now to the rest of the year. There could be some basis point increase, but certainly, it will be less than the basis point increase and the cost of funding that we see in Q1. By the way, on consumer loans, the expansion is not all [inaudible]. It's a small portion of size to make up for the expectations on consumer loans.

Adel Saleh Abalkhail: Yeah. Still our consumer loans portfolio over than 90% salary assigned. And we open a new segment quarter one, 43% of the new segment, which is totally collateralized, and we could reprice every three months. So the mix is now much better and we could reprice almost 33% of the new sales every three months, which gives us an opportunity to enhance the rate.

Abdullah Ali Al Khalifa: I think you had a question about project finance. I think if you look at – we had already witnessed strong growth, 4%, almost 4% in project finance in Q1 only compared to the end of the year last year. So we picked up 4% growth in consumer loans and that's in line with our expectation. And that will continue because I think we still continue to see significant demand coming from the project finance side.

Nida Iqbal: Thank you very much.

Operator: We'll move to our next question from Naresh Bilandani with JP Morgan. Please go ahead.

Naresh Bilandani: Hi, Good evening. It's Naresh Bilandani from JP Morgan. Thanks a lot for the presentation. I have two sets of questions. One is coming back to funding and I'm sorry to tear apart on this one. Could you please throw some light on what has been the source of these deposits? Because we've seen a pretty significant pace of deposits come through, not just in Alinma, but in some of the other peer banks also. So could you please shed some light on what has been the origination, what point has been the origination of these deposits and what is the average tenor of this liquidity? I'm just trying to take a guess on how long will this liquidity stay on the balance sheet. And if this has to be rolled forward, what could be the pricing impact at this stage?

On similar lines given that you had two-quarters of 10% quarter-on-quarter growth in deposits, do you intend to see this pace of deposit gathering continue in the second quarter as we have seen in Q4 and Q1 or this is it? This was the liquidity build that you had to do and from this point on it will just be deployed towards growth. So that's the first set of questions. That's the average tenor of liquidity, the source of liquidity and the pace of this liquidity.

And the second one is just trying to understand if the current liquidity gathering was factored into your estimates at the start of the year or not completely. I'm just trying to think if there could be any upside to your credit growth guidance given that you have significant liquidity on the balance sheet now, can this translate into higher than projected growth as we go forth into Q2 and Q3 from this point on? Thank you.

Abdullah Ali Al Khalifa: Thank you, Naresh. Let's see if I fully understood your questions. I think the source of deposits we had almost 3% growth in CASA. That's one source of deposits that we managed to grow. In terms of time, we had the government deposits that came in through the central bank to all the Saudi banks. And we had further increase coming in, I think in Q1. I don't recall exactly how much was it more that came in. And of course, the quasi-government, the large depositors, the likes of its well-known depositors that either PIF, GOSI, SABIC, ARAMCO, you name it. This is the usual names that you hear all the time as [inaudible] depositors.

As I mentioned in the previous question, we talked about the level of LDR being below 80, almost 79.9%, and that's usually not very efficient. The reason was just to be much more comfortable on NSFR. I think we reached a good level of ratio in NSFR. There could be a volume growth. But yes, but I don't think it's going to be significant because I think we need to build the LDR higher, a little bit higher. So that means we can basically afford to grow our assets without having to take time deposits again up to a certain level.

Then I think there's a question of financing. Oh, the fact that LDR is lower, that means we're going to accelerate more than – when we do look what was the demand and what is our risk appetite in terms of providing financing for these companies, you have strong growth in multiple sectors, by the way. I mentioned the 4% came quarter on quarter from project finance, but we have even stronger growth came from retail side. Stronger growth came from mid-corporates. So it's a multi – even SME had a very strong growth in Q4. So it's a multi – it's not like one sector or one industry that's really driving the growth. But obviously, in terms of size, mid-corporate and SME is small, they're growing fast, but their impact on the portfolio is less obviously than the impact on, say, large corporates or project finance. I hope I answered your question.

Naresh Bilandani: You did. Indeed. Indeed. Thank you very much for this. Just follow up on this one. I think one point that I also was keen to know, what is the average tenor of the liquidity of the deposits that you have been able to garner? And just perhaps just checking on one point, maybe on the flip side, as I mentioned to you – as I earlier asked you if this could offer an upside risk to the credit growth guidance. As we can see, half of your loan growth actually came from retail. Now, with the slowdown coming in mortgages, do you believe that this actually offers some downside risk to growth from this point on? And is retail growing as fast as it was in the first quarter or have you seen some slowdown? Thank you very much.

Abdullah Ali Al Khalifa: To take the first part and leave the second part for retail to Saleh. In terms of deposits, in Saudi market in general is not surprising. The tenor tend to be very short-term. We try to push for longer duration. The problem is if you go for one-year deposits, for example, from customers, very few institutional depositors do offer one year. So it's not that our intention, we only take short-term deposits. The demand of the institutional deposit always tend to be short-term. We get sometimes institutional deposits asking for a rate for even like three-week deposits or one-month deposits, not necessarily even three months.

So we're trying to do this. We worked on the banking side to get a longer-term funding, but that's not customer deposit, but it's part of the funding strategy of the bank. We continue to push, as I mentioned in our efforts to introduce maybe structured deposits that may incentivize customers to go for a longer duration but floating so they can get the recent rates but allows us to have longer maturity deposits. And as you know, we have a potential on the table, we can go and issue also internationally some sukuk that will provide also longer duration. On the retail side, I leave it to Saleh.

Adel Saleh Abalkhail: Yeah, as mentioned by the CEO at the beginning that we introduced more products this year and we'll start seeing the result of those products. Also, we are focusing in the new segment, as I mentioned, that it will be fully collateralised funding and re-priceable. And as I said, it's 43% of the sales in Q1 come from this segment. We'll continue to focus on our credit card and building the portfolio. This is a very sound portfolio and we have got awards from Visa International that have the highest growth in our credit card in Saudi last year. And we're still seeing this growth happening this year.

Also the new product, for example, the Auto-Lease, we came from zero to hero and maybe this will increase the target for us this year because we achieved the full-year target in Q1. Better quality of service and enhancing [inaudible], as you mentioned. We'll continue to acquire more customers and focus on the new profitable segments. We think our collection team, we introduced more incentive for the collection team. We had more people to help us collecting on the right time and be on top of things before things go not unexpected.

Abdullah Ali Al Khalifa: But also in terms of, I may add, in terms of non-salary assigned loans that we offered and we have seen some migration to tier threes. Disclosure is one aspect, but the other aspect is our tightness of the lending criteria. So it's a lesson learnt. We continue to improve on how do we lend to the segments and that will give better results going forward.

Naresh Bilandani: Okay. Thank you very much.

Operator: We'll move to our next question from Shabbir Malik with EFG Hermes. Please go ahead.

Shabbir Malik: Thank you very much. Just wanted a few clarifications. So I think you mentioned in the earlier part of this call that you were aiming to increase NPL coverage to 150%. Is that – did I hear that correct? And is your cost of risk guidance factoring in taking into account that target? Second question is on the cost of funding side. Again, a clarification just with the improvement in liquidity and maybe a moderate increase in interest rates, do you expect cost of funds to be relatively stable going forward for the bank? And thirdly, do you expect any risk of repayments on the corporate lending side, especially because of higher interest rates going forward? Thank you.

Abdullah Ali Al Khalifa: Thank you, Shabbir. Now, on the NPL, we said that we're fairly confident that our coverage ratio will be above 150%. And I mentioned, I think during my presentation that we are in the process of finalising some settlements, some recoveries. We're fairly confident in certain cases as well as the guidance in our cost of risk will all lead to higher provision, higher coverage ratio above 150%.

Your other point about potential repayment, we're actually – when we looked at our corporate portfolio, we looked at the ones that are subject to one year SAIBOR. And we start working very closely with the clients through the ability to reduce pricing on the spread and plus potentially maybe additional financing for the good clients in order to incentivise them to move to a three-month rate and we had some success story there that in our efforts to improve the repricing.

So the NIMs, yeah, the guidance we're fairly confident with it. We have not seen significant repayments. We had repayment last year, if you recall when I said there was intense competition on pricing and we lost some deals because of the very low price that was offered by some of our competitors.

Shabbir Malik: Thanks. And just maybe on the funding side, so we've seen good growth in deposits and it seems to be a sector-wide trend. But specific to you, what has been your success in terms of targeting some of the non-traditional sectors, not just government, but let's say the private sector, retail? What has been your success on that front?

Abdullah Ali Al Khalifa: Well, as I think in the early days, when we talk about our strategy we said, look we were very good in giving financing, but not much in terms of capturing salary businesses. That completely changed. Over the last two years we've been focusing on, yes, we're still going to be – obviously, our core business is to finance. But when we finance corporates, we try as much as possible to win more business with them in terms of cash whether they have – if they have outlets, we have point of sale businesses with us. If they have online payments, we want to e-commerce payments with us. If they have, obviously, they have payroll, they have employees who want to have the payroll, they operate account with us.

We're also putting a bit significant efforts in attracting new segments in the corporate side. What are the SMEs, what are the mid-corporates, what are the new project we're financing? Even the idea of having the hedging instrument or hedging derivatives now in our treasury has allowed us to improve the financing, project finance to not only be the financing side but also the hedging side. That's why we beefed up our derivatives and we expect that to continue to increase. So yes, it's efforts from acquiring new customers in all segments, including retail and affluent and private or affluent or private are the main provider of non-interest spend deposits. But as well as cross-selling and acquiring new customer acquisition in all segments within core.

Shabbir Malik: Great. Thank you.

Operator: As a reminder, if you would like to ask a question and join the queue, you may press star one on your telephone keypad now. If you find that your question has been answered, you may remove yourself from the queue by pressing star two. For our next question, we'll move to Rahul Bajaj with Citi. Please go ahead.

Rahul Bajaj: Hi. Thanks for taking my question. This is Rahul Bajaj from Citi. Thanks for the presentation. Two quick questions from my side. The first one is on OPEX costs. So I think you mentioned that you closed ten branches during the quarter in first quarter. Just want to understand, is the impact of those closure kind of baked in in the first quarter numbers? And you mentioned there are more branches to be closed soon. So just wanted to understand what is the kind of size of branch closure we are talking about here and over what period will these be closed. And could there be kind of restructuring or one-off charges for closing of these branches or those kind of one-off charges are pretty limited? So that's kind of my first question.

The second question is on the time deposit growth. I'm sorry to go back to that point. You mentioned that a large part of the time deposit growth came in towards the end of the quarter. So is it fair to assume that the cost of funding increase coming from those time deposits will be felt primarily in the second quarter and it is not reflected in the first quarter numbers? Or are they already there in the first quarter numbers? Thank you.

Abdullah Ali Al Khalifa: Let me address the second point because I think we're not very clear about the question. We had – if you look at, I think page what – page 20 or something where liquidity, you can see that how LDR dropped from starting, I think Q4 and Q1 this year. So we declined the LDR – reduced the LDR in order to have a better also improvement in on NSFR as I mentioned, and you can see NSFR dipped to 103% and that's why we actually relaxed these efficiency rules on liquidity and taking more deposits in Q4 as well as Q1. So the growth of deposit not only came in Q1 but also some came in Q4.

In terms of growth on the cost of funding, I already talked about it. Most of our liability is pretty much close to the current rates and we're not expecting significant repricing in the quarters to come. There could be some potential volume impact, but if we had another strong quarter of growth in lending, we may need to relax this or improve this LDR efficiency and that will allow us to grow without having taken deposit. But the growth is faster. We can obviously – we have to have to take time deposit as well as our efforts to improve CASA.

So time deposits is the last resort. Efficiency, the growth in CASA, and then you have to make it up from time deposit. And cost – by the way, closure, I think the misunderstanding when I say merging branches, I don't mean two branches being merged. I meant what I maybe I didn't explain it before. Currently, typically we have male – in one branch, we have a male section and then say a second floor or first floor, we have a female section. So we have typically, I would say, [inaudible] has ten men plus five ladies, 15 typically.

What we did is now we made it a mixed environment where we still have ten people mixed, ladies and men. It's no longer separated. And that automatically released four to five maybe, let's say, be conservative four head counts. Those four head counts will be used for the branches that we are opening or used in other areas of business without having to hire new people. For the cost, I leave it to Saleh.

Adel Saleh Abalkhail: The first point in the OPEX in the question you're linking this with the merger, of course, there will be some cost impact there as a saving on the OPEX. But overall, if you see on slide, as I mentioned in slide number 19, the growth quarter to quarter was 18%. But if you look at on a sequential basis, the overall OPEX has only – has grown by 1%. And looking into this 1%, if you compare it to the fact that this 1% actually is lower than the average growth sequentially in the last four quarters, which used to be on average 5% or more.

So from Q4, we are seeing expenses. Of course, there will be some expenses remaining that is normally associated with the maintenance and the growth of business. But as you mentioned, this sequential growth that you start to see from Q1 in one way or the other tells that the bank is heading toward maybe the end of the investment cycle that we have been talking about throughout last year.

But sequentially we see the growth in OPEX between Q2 and Q3 last year was 7%, 6% was from Q3 to Q4. And then now we're talking about almost 1% on a sequential basis growth. So that just hopefully answering the question on the overall OPEX and then back to the merger that you mentioned.

Rahul Bajaj: Thank you. Thank you so much.

Operator: We'll move to our next question from Chandra Ghosh[?] with Seco. Please go ahead.

Chandra Ghosh: Hi. This is Chandra Ghosh from Seco. Two quick questions. The first one is when we are speaking to one of your peer banks, they witness some kind of asset quality deterioration in the SME sector. So this remains to be one of your focus areas. So are you also witnessing deterioration asset quality in SME sector? And what exactly is this programme-based lending? So I understand what is Kafalah. Please pardon my ignorance, but if you can please explain what exactly does this programme-based lending comprise of?

Abdullah Ali Al Khalifa: Yeah. The programme-based lending is basically a lending similar to retail. Retail, typically consumer loans or mortgage, there are conditions need to be met in order to have the loan. So you have to be clean in [inaudible]. You have to have capacity for the payment of the monthly instalments and so on. So there's certain conditions you have to be employed, you have to transfer your salary, whatever reason. And once you tick all the boxes, you get the loan. That's exactly what we're doing.

Chandra Ghosh: Sorry, is there any kind of government backing, which will lead to lower default or there is nothing like that?

Abdullah Ali Al Khalifa: Oh, yeah, we can. Theoretically, we can give programme-based lending and we felt we can go to ask – and apply for Kafalah. We can do that. But the idea of programme-based lending. Let me give you an example based on your average or point of sale financing. So based on your average sales volume over the last six months, we can – and your network with us, your point of sale with us, then we can give you a percentage of that automatically for loans and then one programme for payroll payments and so on. So it's a criteria based lending. When we say programme based, it's a criteria. You tick all the boxes, you get the loan. I think you had a point about deterioration on SME, which I don't know why you mentioned this based on what.

Chandra Ghosh: I'm asking, because when we – there was conference call by peer bank, so they were witnessing SME defaults. So are you also witnessing something or is it some specific ones, which they witnessed?

Adel Saleh Abalkhail: And this SME, you are hearing this deterioration from another peer bank. We are not at Alinma seeing a significant deterioration on the SME portfolio.

Chandra Ghosh: Okay. Okay. Okay. That's all for me. Thank you. Thank you very much.

Operator: Our next question comes from Nauman Khan with SNB Capital. Please go ahead.

Nauman Khan: Thank you very much. Majority of my questions have been answered. Just a couple of questions. One, coming back to the margin expectations, you're talking about 35 to 45 basis point increase year on year. So does this assumption includes any rate cut towards the end of the year or it doesn't. This is one part of my question. The other is about the cost. Again, you talked about the cost. There was 18% and 1% sequential increase quarter on quarter as well. Was there any one-off? Because you're talking about less than 32% cost to income by the end of the year as well, currently standing at 34.8%. So do you think there was any one-off in Q1, which we need to adjust, or is just a factor of increase operating income? That's why 32% coming down cost to income ratio.

Abdullah Ali Al Khalifa: Okay. Thank you. As you know, we will and we continue to commit to fully review the guidance every quarter. And we felt as a management, we see it differently. We will report it differently. At the moment, our current forecast is in line with our guidance based on second-quarter results. We reassess all these guidance and if we felt there is something changed or something better than expected or lower than expected, that will lead to us amending the guidance, we will do that. I do it every – we do it every quarter. We don't communicate guidance and ignore it for the rest of the year. We do assess it every quarter.

I think on the cost to income ratio, we have to realise, as you see in the growth in operating expenses quarter one versus quarter four, only 1% and we've been saying that we've already done bulk of our investments already done. And we should see a much slower growth of expenses compared to what we've seen over the last couple of years. At the same time, we should expect to see a faster growth on our top line. So with time, you're going to see faster growth in the top line versus the operating expenses, which will lead to continuous improvement. And we believe our guidance on cost to income below 32% is still balanced.

Nauman Khan: Thank you. Just one question that I asked earlier about is there – in the margins, are you assuming any rate cut towards the end of the year or doesn't include that?

Abdullah Ali Al Khalifa: Now, whenever we forecast, we take the forward yield curve as the market see it on the last time when we – the day we actually forecast. So in the market there's different views, somebody is saying, can hear some analysts saying potentially another 25 basis points. You see the message from central bank not likely any cuts or much rate increase. It's all depending on the CPI numbers that will continue to come and if there is under control, the number of new jobs created seems strong supporting further increase if there is a need for further action to control the CPI. I think the CPI later recently just came 4.9%. So that's a bit of a good news that declining maybe should expected. I don't know the market expectation, but we always look at the yield curve as the market as we take it from like systems of Bloomberg and Reuters.

Nauman Khan: Thank you. Thanks.

Operator: Our next question comes from [inaudible] with HSBC. Your line is now open.

Speaker: Yeah. Thank you. I'll be very quick. So first question. Can you remind us what's happening with the introduction of the Open Banking Directive in Saudi Arabia? That's the first question. And how is it going to help Alinma Bank specifically, what are your thoughts here? And the second question is AT1 funding. Are you planning to issue AT1 funding this year? Obviously, your deposits have increased quite a bit in the first quarter. So what are the thoughts about additional tier one funding and is it going to be in dollars or in Saudi riyal if you can comment? Thank you.

Abdullah Ali Al Khalifa: Thank you, [inaudible]. Now, in terms of open banking, we're fully in line to be fully compliant with that. We already have our efforts. Even our open banking strategy has being finalised. Whether it's opportunity or risk, it depends how you look at it. For us, I think it presents both. I think there is good opportunities if you can do a good job and based on our strategy we may also have better value in terms of the business that we can do. If you're not investing or not have the right strategy, it could be also a risk.

For the AT1 we don't plan tier one instruments this year. We still have it on the table at the time if we need it. If we do issue, maybe potentially, let's say for the sake of argument, the strong growth of loans continue. And we wanted, as I mentioned, to also continue to get the opportunities of this loan growth as well as continue to pay dividends. If we see a need, it's always on the table.

I can imagine if we do a tier one in order to improve even liquidity in the market, it's better to go international. And we have not been very active. Saudi banks collectively have not been very active in tapping the international markets. If we go locally, it means basically some [inaudible] being converted into investment in sukuk, and that's not always ideal. So we may go international if needed. We do have senior programme that we can go to international levels. If we feel the need, if we see more liquidity, better spread, better pricing. Yeah, we consider. It's always on the table these instruments whether tier one, tier two or senior.

Speaker: Thank you. That's all. Thank you.

Operator: Our next question comes from Olga Veselova with Bank of America. Please go ahead.

Olga Veselova: Thank you and good afternoon. Thank you for the comprehensive call. I have two questions today. One is, again about the deposit inflow in the first quarter, which was very impressive. So we noticed a spike of monetary base M3 in March. And this echoes well with your solid inflow of deposits and you mentioned during this Q&A that these were driven by the government funds. Can you share more light on that? Was there some tactical change in government behaviour on allocation of state funds? How these deposits are allocated, are they going into the banking system on auction basis or not? And if not, then how exactly the government decides, which portion of deposits each bank gets?

So this is my first question on M3 on monetary base. And second question is on Shareek. There were some additional news regarding Shareek programme announced in the first quarter. Can you share your thoughts on potential implications of announced details for Saudi banks, including Alinma? Any colour would be helpful. Thank you.

Abdullah Ali Al Khalifa: Thank you. I think in deposits, I think the question that I was given, like main sources of deposit I mentioned as one source is the government deposit that came in. But I mentioned also the institutional deposits, like the names that I mentioned, the growth in CASA. All these helped in terms of getting deposits. So it's not just one source. I hope I'm not misunderstood that the deposits only came from the government.

However, central bank do also act as a bank for the government and they do manage the government funds. They place a lot of that money overseas as then their role if they see a need for more liquidity in the market. And it's no secret, it's been with a strong loan growth. And of course, the some of the liquidity been a bit squeezed, I would say. Not an issue of finding deposits. It's always just translation of the cost of deposits.

So when competition is high, you tend to pay a lot more typically than when liquidity is ample. You end up taking deposits below SAIBOR. You may get it SAIBOR even lower, but if it's tight, you end up having to compete on these deposits and you end up paying like 30 basis points or more to get the deposit. So on these others, they can place that money in banks and I guess they allocate that I don't talk on their behalf, but I would imagine they look based on the size of the bank they allocate that money based on the size of the bank.

In terms of Shareek. Shareek is obviously – what is Shareek? Shareek is an investment commitment by some of the private sector company, large corporates. We, as a banks don't have direct commitment in Shareek. However, when any corporate is committed to invest a certain amount in the next few years that amount of investment will certainly require financing. And this is where we benefit as banks by supporting this programme, we actually benefited from seeing more demand on credit. And that is where it's a win-win. They get the financing. We also get more demand and credit.

Olga Veselova: Right. Thank you. Thank you for colour.

Waleed Mohsin: Thank you much. Given that we've come to the end of the time for the call, I would like to thank the Alinma Bank management team for their insights and their time on the call. And we'd also like to thank all the participants for dialling in and for their questions. This concludes today's call. Thank you very much for joining. Have a good day ahead.

Abdullah Ali Al Khalifa: Thank you all.

Operator: This concludes today's call. Thank you again for your participation. You may now disconnect and have a great day.